

Financial Reporting of ING Bank Śląski for the year 2005

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PROFIT AND LOSS ACCOUNT

		end of 2005	end of 2004
	Note	period from 01 January 2005 to 31 December 2005	period from 01 January 2004 to 31 December 2004
<i>Interest income</i>		1 870 269	1 686 170
<i>Interest expenses</i>		1 155 628	864 467
Net interest income	2	714 641	821 703
<i>Commission income</i>		524 701	551 566
<i>Commission expenses</i>		55 510	78 899
Net commission income	3	469 191	472 667
Dividend income	4	41 611	5 735
Net income on instruments at fair value through profit or loss	5	211 766	72 298
Net income on investment financial assets	6	3 674	2 961
Net income from a subsidiary sold		1 838	1 501
Exchange gains or losses	7	160 121	201 978
Other operating income	8	20 094	16 110
Other operating expenses	9	30 153	42 117
Result on basic activities		1 592 783	1 552 836
General and administrative expenses	10	959 529	883 886
Depreciation and amortisation	11	120 430	116 076
Net income on disposal of assets other than held for sale		120	272
Impairment losses and provisions for off-balance sheet liabilities	12	-120 207	160 338
Net income on available-for-sale assets and assets held for sale		3 632	0
Profit (loss) before tax		636 783	392 808
Income tax	13	129 999	62 703
Net result for the current year		506 784	330 105
Net profit (loss) (annualised)		506 784	330 105
Weighted average number of ordinary shares		13 010 000	13 010 000
Earnings per ordinary share (PLN)	14	38,95	25,37
Diluted weighted average number of ordinary shares		13 010 000	13 010 000
Diluted earnings per ordinary share (PLN)		38,95	25,37

BALANCE SHEET	Note	end of 2005	end of 2004
ASSETS			
- Cash in hand and balances with the Central Bank	16	1 176 436	895 324
- Deposit accounts in other banks as well as loans and advances to other banks	17	12 626 500	11 155 605
- Financial assets at fair value through profit or loss	18	6 165 686	5 133 327
- Investment financial assets	19	10 952 027	6 565 207
- Loans and advances to customers	20, 21	10 026 137	10 519 540
- Investments in controlled entities	22	126 910	140 865
- Property, plant and equipment	24	443 093	460 365
- Intangible assets	25	317 800	301 745
- Property, plant and equipment held for sale	26	5 969	0
- Current tax asset		49 109	62 060
- Deferred tax asset	27	71 645	76 035
- Other assets	28	122 720	125 296
Total assets		42 084 032	35 435 369
EQUITY AND LIABILITIES			
LIABILITIES			
- Liabilities due to the Central Bank		464 000	0
- Liabilities due to other banks	30	877 038	2 512 824
- Financial liabilities at fair value through profit or loss	31	3 685 789	1 270 042
- Liabilities due to customers	32	32 878 020	27 676 402
- Provisions	33	79 490	321 588
- Current income tax liabilities		0	0
- Deferred tax provision	27	0	0
- Other liabilities	34	634 506	593 496
Total liabilities		38 618 843	32 374 352
EQUITY			
- Share capital	36	130 100	130 100
- Supplementary capital - issuance of shares over nominal value		993 750	993 750
- Revaluation reserve from measurement of available-for-sale financial assets	37	85 796	64 127
- Revaluation reserve from measurement of property, plant and equipment	37	31 725	32 967
- Retained earnings	38	2 223 818	1 840 073
Total equity		3 465 189	3 061 017
TOTAL EQUITY AND LIABILITIES		42 084 032	35 435 369
Solvency ratio		17,96%	15,19%
Book value		3 465 189	3 061 017
Number of shares		13 010 000	13 010 000
Book value per share (PLN)		266,35	235,28

OFF-BALANCE SHEET ITEMS		end of 2005	end of 2004
- Contingent liabilities granted	40	9 689 063	11 503 688
- Contingent liabilities received		10 544 625	12 082 078
- Off-balance sheet financial instruments	41	108 825 349	91 434 947
Total off-balance sheet items		129 059 037	115 020 713

STATEMENT OF CHANGES IN EQUITY

end of 2005

period from 01 January 2005 to 31 December 2005

	Share capital	Supplementary capital - issuance of shares over nominal value	Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of property, plant and equipment	Retained earnings
Closing balance of equity at the end of the previous period	130 100	993 750	64 127	32 967	1 840 073
- changes in adopted accounting principles	-	-	3 865	-	141 697
Opening balance of equity	130 100	993 750	67 992	32 967	1 981 770
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-	-	19 744	-	-
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-	-	-1 940	-	-
- disposal of property, plant and equipment	-	-	-	-1 309	1 969
- remeasurement of property, plant and equipment	-	-	-	67	-
- dividends paid	-	-	-	-	-266 705
- net result for the current period	-	-	-	-	506 784
Total equity (closing balance)	130 100	993 750	85 796	31 725	2 223 818

end of 2004

period from 01 January 2004 to 31 December 2004

	Share capital	Supplementary capital - issuance of shares over nominal value	Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of property, plant and equipment	Retained earnings
Closing balance of equity at the end of the previous period	130 100	993 750	-7 173	29 620	1 562 515
- changes in adopted accounting principles	-	-	-320	4 207	-42 999
Opening balance of equity	130 100	993 750	-7 493	33 827	1 519 516
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-	-	66 179	-	-
- disposal of property, plant and equipment	-	-	-	-860	860
- hedge accounting	-	-	5 441	-	-
- dividends paid	-	-	-	-	-10 408
- net result for the current period	-	-	-	-	330 105
Total equity (closing balance)	130 100	993 750	64 127	32 967	1 840 073

CASH FLOW STATEMENT

- indirect method

Note

end of 2005

end of 2004

period
from 01 January 2005 to 31 December 2005

period
from 01 January 2004 to 31 December 2004

OPERATING ACTIVITIES

Net profit (loss)	506 784	330 105
Adjustments	-541 002	372 341
- Unrealised exchange gains (losses)	-4 148	-15 964
- Depreciation and amortisation	120 430	116 076
- Interest accrued (from the profit and loss account)	717 966	577 554
- Interest received/paid	-648 043	-494 729
- Dividends received	-41 611	-5 735
- Gains (losses) on investment activities	-5 005	-2 195
- Income tax (from the profit and loss account)	129 999	62 703
- Income tax paid	-113 607	123 481
- Change in provisions	-25 027	70 071
- Change in deposits in other banks and in loans and advances to other banks	-2 187 146	-3 158 948
- Change in financial assets at fair value through profit or loss	-1 029 356	-265 812
- Change in investment financial assets	-4 570 725	-5 773 014
- Change in loans and advances to customers	457 517	2 956 875
- Change in other assets	-3 559	-43 865
- Change in liabilities due to other banks	-1 206 191	431 038
- Change in liabilities at fair value through profit or loss	2 415 747	1 013 680
- Change in liabilities due to customers	5 256 627	4 781 207
- Change in other liabilities	195 130	-82
Net cash flow from operating activities	-34 218	702 446

INVESTMENT ACTIVITIES

- Purchase of property plant and equipment	-98 653	-47 074
- Disposal of property, plant and equipment	1 262	3 194
- Purchase of intangible assets	-27 282	-14 353
- Disposal of intangible assets	0	0
- Purchase of shares in controlled entities	0	-13 950
- Disposal of shares in controlled entities	16 000	46 500
- Purchase of fixed assets/liabilities held for sale	0	0
- Disposal of fixed assets/liabilities held for sale	9 313	0
- Dividends received	41 611	5 735
Net cash flow from investment activities	-57 749	-19 948

FINANCIAL ACTIVITIES

- Long-term loans repaid	-55 616	-36 279
- Interest on long-term loans repaid	-2 995	-4 395
- Dividends paid	-266 705	-10 408
Net cash flow from financial activities	-325 316	-51 082

Effect of exchange rate changes on cash and cash equivalents	-36 341	-702 996
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Net increase/decrease in cash and cash equivalents	-417 283	631 416
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Opening balance of cash and cash equivalents	5 387 362	4 755 946
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Closing balance of cash and cash equivalents	4 970 079	5 387 362
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Information on the Bank

ING Bank Śląski S.A. is a bank domiciled in Poland: 40-086 Katowice, ul. Sokolska 34
NIP 634-013-54-75, REGON 271514909.

Pursuant to the decision of the District Court in Katowice, Business Department, of 9 April 2001, Bank Śląski S.A. in Katowice was entered in the National Court Register under KRS-5459 number.

The share capital of ING Bank Śląski S.A. is PLN 130,100,000 and is divided into 13,010,000 ordinary bearer shares with a par value of PLN 10.00 each.

ING Bank Śląski S.A. is a subsidiary of ING Bank NV which holds a 75% share in the issued capital of ING Bank Śląski and 75% of shares in the total number of votes at the General Meeting of Shareholders.

The principal activities of ING Bank Śląski according to the Polish Classification of Activity 65.12 A. The principal activities of the Bank include:

- opening and operating bank accounts
- accepting savings deposits and term deposits
- issuing the Group's own securities, including bonds and certificates and trading in such securities, performing commissioned operations related to the issue or financial service of securities, and performing operations of the purchase and sales of securities on a proprietary basis and on account of the order giver
- granting and taking loans and advances, intermediation and cooperation at the obtaining of loans
- conducting trade in foreign currencies
- conducting financial service of foreign trade
- conducting cash settlements, bills operations and accepting and granting sureties and bank guarantees as well as accepting other liabilities
- performing collection operations
- entering into and performing agreements with enterprises on acquisition of payments to bank accounts and for the purchase of goods and services in Poland
- making payments under interbank agreements and arrangements
- financial and operating participation in international projects and undertakings
- accepting and opening deposits in domestic and foreign banks
- accepting in deposit objects, documents and securities, and granting access to safe deposit boxes
- performing trust operations
- performing on commission of other banks specific banking operations within the scope of activity of commissioning banks
- other cooperation with domestic, foreign and international banks and financial institutions
- conducting operations related to privatisation of State-owned entities on commission of the Ministry of Privatisation
- accepting State Treasury shares for management
- providing lease, factoring, forfeiting, and underwriting services
- conducting brokerage activity, including the operation of securities accounts, and also accepting orders for purchase and redemption of units of trust funds, investment funds and for purchase and buyout of investment certificates
- operating a building society
- issuing payment cards and performing operations with their use
- intermediation in insurance and acquisition operations for the benefit of open-end pension funds
- operations on warrants
- other types of activity stipulated in the memorandum and articles of association of the Bank

The financial statements for 2004 were approved by the General Meeting of Shareholders on 9 June 2005.

Selected financial data from the Financial Statements

Item	PLN '000		EUR '000	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Interest received	1,870,269	1,686,170	464,859	373,195
Fees and commission received	524,701	551,566	130,416	122,076
Result on core activity	1,592,783	1,552,836	395,890	343,685
Profit (loss) before tax	636,783	392,808	158,274	86,939
Profit (loss) after tax	506,784	330,105	125,962	73,061
Net cash flows	-417 283	631 416	- 103 717	139 749
Profit (loss) per 1 ordinary share (in PLN/EUR)	38.95	25.37	9.68	5.62
Profitability ratio (%)	27.4	18.3	X	x
Return on assets (%)	1.2	0.9	X	x
Return on equity (%)	17.1	12.1	X	x
Total assets	42,084,032	35,435,369	10,903,164	8,687,269
Equity	3,465,189	3,061,017	897,764	750,433
Issued capital	130,100	130,100	33,706	31,895
Number of shares	13,010,000	13,010,000	X	X
Book value per 1 share (in PLN/EUR)	266.35	235.28	69.01	57.68
Capital adequacy ratio (%)	17.96	15.19	X	X

Profitability ratio – profit before tax to total expenses.

Cost/income ratio (C/I) – total cost to operating profit (loss) on analytical basis.

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

Return on equity (ROE) – calculated as the ratio of net profit to equity and own funds.

Capital adequacy ratio – reflecting the ratio of net equity and own funds to risk-weighted off-balance sheet assets and liabilities.

For the purposes of determining the basic values in EURO, the following foreign exchange rates have been used:

- for balance sheet items – PLN 3.8598 - NBP rate of 31.12.2005, PLN 4.0790 - NBP rate of 31.12.2004,
- for items of the income statement as of 31.12.2005– PLN 4.0233 – the foreign exchange rate calculated as the mean of NBP rates in force as of the last day of each month of 2005, PLN 4.5182 – the rate calculated as the mean of NBP rates in force as of the last day of each month of 2004.

Significant accounting Policies

(a) Statement of compliance

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union, and with International Financial Reporting Standard 1, describing the requirements related to financial statements prepared under IFRS for the first time. This report contains the complete financial statements.

These financial statements have been prepared in accordance with International Financial Reporting Standards, adopted by the European Union in force as at the reporting date of 31 December 2005 and with and with respect to matters not regulated by the above standards, in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and the respective laws and in accordance with the Decree of the Council of Ministers dated 21 March 2005 on current and periodical information provided by issuers of securities (Official Journal from 2005, No. 209, item 1744)

These financial statements represent the complete set of financial statements, prepared in accordance requirements of IFRS 1. The date of adoption of IFRS is the date of opening balance sheet, i.e 1st January 2004.

Until 31 December 2004, the financial statements of the Bank were prepared under the Polish Accounting Principles in compliance with the Accounting Act dated 29 September 1994, which is different in some areas from IFRS, adopted by the European Union. In accordance with the principles of IFRS 1 that set out the process of adoption for IFRS, the accounting principles applied as at the balance sheet date, are also be applicable to the date of the opening balance sheet and comparative data.

The Bank applied the same accounting policies in preparing the opening balance sheet according to IFRS for 1 January 2004, and throughout all presented periods. Accounting policies applied are compliant with provisions of each IFRS in force as at 31 December 2005, i.e. on the reporting date, apart from the exemptions allowed by IFRS. Detailed information of the impact which the adoption of the IFRS had on individual items of the Bank's financial statements is presented in the Note 55 "Explanation related to IFRS implementation/ transition into IFRS"

Any changes of accounting policies were introduced retrospectively, except for exclusions allowed by the IFRS, mentioned hereinafter, which the Bank decided to apply:

1. Business combination (IFRS 1.15, Appendix B).

The Bank has taken advantage of the exception related to business combination.. Therefore, the Bank did not apply IAS 22 in relation to business units combinations implemented before the date of moving to IFRS, i.e. by January 1st, 2004

2. Fair value or re-valuation as deemed cost (IFRS 1.19)

The Bank has decided to use as deemed cost the revaluation of tangible fixed assets undertaken previously in accordance with Polish GAAP accounting standards.

3. Designation of previously recognized financial instruments (IFRS 1.25A)

The Bank performed the designation of financial instruments as assets or financial liabilities reported at fair value through profit and loss account or as available for sale for the date of adoption of IFRS, i.e. in the case of IAS 39 – for January 1, 2005.

Additionally, according to IFRS 1 par.1.36A the Bank decided to use the exemption from the requirement to present/restate comparative data regarding accounting policies regulated by IAS 39 and IAS 32 (the valuation at amortized cost using effective interest rate and the impairment of financial assets carried at amortized cost using effective interest rate. For these standards, the date of transition/migration to IFRS is 1st January 2004. Comparatives pertaining to those standards are prepared using previously applied accounting policies.

(b) (Earlier) Adoption of Standards which are not in force as at the Balance Sheet Date

The Bank has not opted for the possibility of an earlier application of new Standards and Interpretations which had already been published and approved by the European Community and which would come into force after the balance sheet date, with the exception Changes to IAS 39 "the Fair Value Option".

Moreover, as at the balance sheet date the Bank has not completed the process of estimating the impact of new Standards and Interpretations, which are to come into force after the balance sheet date, on the consolidated financial statement of the Bank for the period in which they will be applied for the first time.

Standards and Interpretations approved or to be approved:	Effective Date
Amendment to IAS 1 Disclosure related to equity	1 January 2007
IFRS 7 Financial instruments: disclosures	1 January 2007

IAS 39 and IFRS 4	1 January 2006
<ul style="list-style-type: none"> • Later amendments to IAS 39 and to IFRS 4: Insurance Contract” • Financial Instruments: recognition and measurement – Cash Flow Hedge Accounting for anticipated inter group transactions 	
IFRS 6	1 January 2006
<ul style="list-style-type: none"> • IFRS 6 Exploration for and Evaluation of Mineral Resources (incorporating Amendments to IFRS 1, IAS 16 and to IAS 38) and • Later amendment to IFRS 6 Exploration for and Evaluation of Mineral Resources and to do IFRS 1 First-time Adoption of International Financial Reporting Standards 	
Amendment to IAS 19 Employee Benefits – Actuarial gains and losses, Actuarial Gains and Losses, Group Plans and Disclosures incorporating Amendments to IAS 1, IAS 24 and IFRS 1)	1 January 2006
IFRIC 4 Determining whether an Arrangement contains a Lease incorporating an Amendment to IFRS 1)	1 January 2006
IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds incorporating an Amendment to IAS 39	1 January 2006
IFRIC 6 Liabilities resulting from participation in a specific market – decommissioned electronic and electric equipment	1 December 2005

The Bank has not made earlier adoption IFRS 7, as according to the Management Board, there are no significant differences between disclosures under IFRS 7 and those currently required under IAS 32 and IAS 39.

The Management Board of the Bank is currently estimating the impact of amendments to IAS 39 and IFRS 4 as well as IFRIC 4 on activity of the Bank.

Other standards, amendments to currently effective and IFRIC interpretations recently approved or to be approved by the European Commission, are not applicable to the Bank’s financial statement or would not have any significant impact on these financial statements.

(c) Basis for preparation of financial statements

The financial statements are presented in PLN, and all amounts, unless indicated otherwise, are stated in thousands (PLN ‘000).

In the financial statements, the Bank has adopted valuation at the fair value for financial assets and liabilities valued at fair value, including derivative instruments, and financial assets classified as available for sale, other than those whose fair value cannot be reliably determined.

Other items of financial assets and liabilities (including loans and receivables) are presented at amortized cost less impairment charges or at purchase price less impairment charges.

Components of tangible fixed assets or non current assets held for sale are recognized at the lower of carrying value and fair value less costs to sell.

The preparation of financial statements in accordance with IFRS requires from the Bank the use of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto.

Type and size of the change in estimation values is disclosed only when the results of the change occur in the current period or in the future periods.

Estimations and assumptions applied to the presentation of value of assets, liabilities, revenues and costs, are made on basis of historical data available and other factors considered to be relevant in given circumstances.

Applied assumptions related to the future and available data sources are the base for making estimations regarding carrying value of assets and liabilities, which cannot be determined

explicitly on basis of other sources.

The actual results may differ from those estimates.

The estimations and assumptions are currently reviewed. Adjustments to estimates are recognized in the period when the estimation was changed, provided that the adjustment applies to this period alone, or in the period when the estimation was changed and in the following periods, should the adjustment impact both the current and future periods.

(d) Accounting Estimates

Major accounting estimations adopted by the Bank as at the date of transition into IFRS, and for each balance sheet date, is as follows:

Impairment of loans

For each balance sheet date, the Bank assesses, whether there is objective evidence of impairment of a given financial asset or of a group of such assets. Impairment of a financial asset or of a group of financial assets was incurred only if there is objective evidence for the impairment due to one or many events. The occurrence of such event or group of such events affects the estimation of expected cash flows regarding these assets.

The estimates may take into account any observable indications pointing at the occurrence of an unfavourable change in the solvency position of debtors belonging to any particular group or in the economic situation of a given country or part of a country, which is associated with the problems appearing in that group of assets

Historical parameters of recoveries are adjusted on the basis of the data coming from current observations, so as to take into consideration the influence of current conditions and to exclude the influencing factors in the historical period, that are not presently valid.

In order to estimate impairment or its recovery, it is necessary to estimate the present value of the expected cash flows. If there is objective evidence that an impairment loss on loans and receivables or carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed either by adjusting an carrying amount of the financial asset. The amount of the reversal shall be recognised in profit or loss.

The methodology and the assumptions, on the basis of which the estimated cash flow and their anticipated timing, are regularly reviewed and updated. Moreover, the tests on historical data are carried out in order to compare actual results with estimations of impairment.

Impairment of other non- current assets

For each balance sheet date, the Bank assesses the existence of premises indicating impairment of a non-current asset. If such premises exist, the Bank performs an estimation of recoverable value. Estimation of value-in-use of a non-current asset requires assumptions to be adopted, regarding, among others, amounts and timing of future cash flows, which the Bank may obtain from the given non-current asset (or cash generating unit). Adoption of different measurement assumption could affect the carrying value of some of the non – current assets.

The Bank performs an estimation of the fair value less costs to sell on the basis of available market data regarding this subject or estimations made by external bodies, which are also based on estimations.

Measurement of financial instruments that do not have a quoted market price

The fair value of financial instruments not quoted on active markets is measured using valuation models. For non-optional derivatives and debentures available for sale, the Bank uses valuation models based on discounted cash flows. Options are valued using option valuation models.

Valuation models used by the Bank, are verified by independent bodies before/prior their usage.

Where possible, in models the Bank uses observable data from active markets. However, the Bank also adopts probability assumptions (as credit risk, variables and market correlations). Any change in these assumptions may affect the fair value of some financial instruments.

Retirement and sick pension severance payments provision

Retirement and sick pension severance payments provision is calculated using an actuarial method by an independent actuary as the present value of future liabilities of the Bank due to employees according employment and remuneration at the updating date. The estimation of the provision is made on the basis of several assumptions both about macroeconomic environment and employee turnover, mortality risk and other. The estimated provision is updated annually. Additionally, adjustments relating to the balance of the provision are made based on quarterly updated assumptions.

Provision for bonuses granted to directors and key management personnel

The provision for bonuses granted to directors and key management personnel is estimated by the Management Board, who calculates the amount of benefits as at the balance sheet date. The final amount of bonuses granted is established by the Supervisory Board.

(e) Consolidation policies

(i) Subsidiaries

Subsidiaries are any entities controlled by the Bank. The control exists, when the Bank has direct or indirect influence on the financial and operating policies of an entity so as to obtain benefits from its activities.

Control is presumed to exist when the parent owns more than half of the voting power of an entity and when there is:

- a) power over more than half of the voting rights by virtue of an agreement with other investors;
- b) power to govern the financial and operating policies of the entity under a statute or an agreement;
- c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
- d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

The financial statements of subsidiaries are included in the consolidated financial statements from the date of acquisition until the date on which the parent ceases to control the subsidiary, if applicable.

(ii) Purchase method

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

(iii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The consolidated financial statements include the Group's share in profits and losses of associates according to its

share in net assets of associates, from the date of obtaining significant influence until the date, the significant influence ceases.

Investments in associates are initially accounted at purchase price and then accounted for by using the equity method. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The share of the Group in the profits (losses) of associates since the date of acquisition is recognised in the profit and loss, whereas its share in changes in other reserves since the date of acquisition – in other reserves. The carrying amount of the investment is adjusted by the total changes of different items of equity after the date of their acquisition.

When the share of the Group in the losses of an associate becomes equal or greater than the share of the Group in that associate, the Group discontinues the recognition of any further losses or creates provision only to such amount, it has assumed obligations or has settled payments on behalf of the respective associate.

(iv) Transactions eliminated in consolidation process

Intragroup balances and unrealized gains and losses or revenues and costs resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

(f) Foreign currency

(i) The functional currency and the presentation's currency

The items contained in presentations of the Bank are priced in the currency of the basic economic environment in which the Bank operates ("the functional currency"). The financial report is presented in Polish Zloty, which is the functional currency and the presentation currency of the Bank.

(ii) Transactions and balances in foreign currency

Transactions expressed in foreign currency are translated into the functional currency by applying the exchange rate at the date of the transaction. Exchange rate profits and losses due to settlements of these transactions and to the balance sheet valuation of assets and monetary commitments expressed in foreign currency are accounted for in the profit and loss account.

Exchange rate differences due to items, as financial assets designated for fair value valuation through the profit and loss account, are accounted for together with changes in the fair value of the profit and loss account. Exchange rate differences due to items, such as equity instruments classified to financial assets available for sale, are included in the revaluation reserve update.

(iii) Financial statements of investments in a foreign operation

The Bank does not have any investments a foreign operation.

(g) Financial assets and liabilities

(i) Classification

The Bank classifies financial instruments to the following categories: financial assets and liabilities valued at fair value through the profit and loss; loans and receivables; investments held to maturity; available for sale financial assets.

(a) Financial assets and liabilities valued at fair value through the profit and loss;

These are financial assets or financial liabilities that meet either of the following conditions.

- Are classified as held for trading. A financial asset or financial liability is classified as held for trading if it is: acquired or incurred principally for the purpose of selling or repurchasing it in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also classified as held for trading (other than those that are designated and effective hedging instruments).
- Upon initial recognition it is designated by the Group as at fair value through profit or loss. Such designation can be made only if (i) the designated financial asset or financial liability is a hybrid

instrument containing one or many embedded derivatives, which qualify for separate recognition and embedded derivatives cannot change significantly the cash flows resulting from the host contract or separation of embedded derivative is forbidden; (ii) usage of such classification of financial asset or liability eliminates or decreases significantly the inconsistency of measurement or recognition (so called accounting difference due to various methods of assets and liabilities valuation or various recognition of gains and losses attributable to them); (iii) the group of financial assets and liabilities or both categories is managed properly, and its results are measured using fair value, in accordance with documented risk management principles or the Bank's investment strategy.

(b) Investment held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. In case of sale or reclassification of more than an insignificant amount of held-to-maturity investments in relation to the total held-to-maturity investments before maturity all the assets of this category are reclassified to the available sale category.

The Bank is not allowed to classify any financial assets as held to maturity during the current financial year or during the two preceding financial years.

(c) Loans and advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

This category contains loans and advances granted to other banks and customers, including purchased receivables.

(d) Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

(e) Other financial liability

A financial liability is a contractual obligation to deliver cash or other financial asset to another entity not valued at fair value through the profit and loss, being a deposit or loan received.

(ii) Recognition

The Bank recognizes financial assets or liabilities on the balance sheet when, and only when it becomes a party to the contractual provisions of the instrument. Purchase and sale transactions of financial assets valued at fair value through the profit and loss, held-to-maturity and available for sale are recognized, in accordance with bookkeeping methods applied to all transactions of a certain type, at the settlement date, the date on which the assets is delivered to an entity or by an entity. Loans and receivables are recognized on distribution of the cash to borrower.

(iii) Derecognition

The Bank derecognises a financial asset when, and only when: the contractual rights to the cash flows from the financial asset expire; or the Bank transfers the contractual right to receipt of the cash flow from the financial asset. On transferring a financial asset, the Bank evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. Accordingly, where the Bank:

- transfers substantially all the risks and rewards of ownership of the financial asset, it derecognises the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.
- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the financial asset.

- neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it determines whether it has retained control of the financial asset. In this case if the Bank has retained control, it continues to recognise the financial asset, and if the Bank has not retained control, it derecognises the financial asset to the extent of its continuing involvement in the financial asset.

The Bank removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.

Particularly, the Bank derecognizes loans and receivables or its part from its balance sheet, if rights pertaining to the credit agreement expire, the Bank waives such rights, or sells the loan.

Most often, the Bank writes off receivables against impairment charges on financial assets, when the Bank considers the receivable to be unrecoverable, by example, under the following situations

- discontinuation of execution proceeding,
- death of borrower,
- conclusion of bankruptcy procedures,
- unconditional cancellation of a part of the loan.
-

(iv) Measurement

When a financial asset or financial liability is recognised initially, the Bank measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank measures financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity investments are measured at amortised cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which are measured at cost.

After initial recognition, the Bank measures all financial liabilities at amortised cost using the effective interest method, except for: financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which are measured at cost.

(v) Gains and losses resulting from subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship is recognised, as follows.

- A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss;
- A gain or loss on an available-for-sale financial asset is recognized directly in equity;
- Interest calculated using the effective interest method is recognised in profit or loss;
- Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established;
- Foreign exchange gains and losses arising from a change in the fair value of a non monetary financial asset available for sale denominated in foreign currency are recognized directly in equity;
- Foreign exchange gains and losses arising from monetary financial assets (e.i debt securities) denominated in foreign currency are recognized directly in the profit and loss account.

At the moment of derecognition of financial assets from the balance sheet, cumulated gains and losses recognized previously in equity, are transferred to the profit and loss account. If any objective evidence that a financial asset or group of financial assets is impaired exists, the Group recognizes impairment in accordance at the point of impairment of financial assets.

The fair value of financial assets quoted on active markets are based on current bid prices. If the market for a financial instrument is not active, the Bank estimates its fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, discounted cash flow analysis and option pricing models and other techniques used by market members.

(h) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

In order to mitigate credit risk, the Bank concludes special master agreements with contracting parties, with whom the Bank conclude transactions of significant volume. These special master agreements do not enable the offsetting financial assets and liabilities, because they are generally settled gross.

(i) Sell–buy–back, buy–sell–back transactions

The Bank presents financial assets with the repurchase clauses (sell–buy–back transactions) in its balance sheet, by simultaneously recognizing a financial liability with the repurchase clause. This is in order to reflect the risks and benefits arising on this asset that are retained by the Bank after the transfer. When the Bank purchases securities with a repurchase clause (BSB, SBB), the financial assets are presented as receivables arising from repurchase clause.

Repo and reverse repo transactions are measured at amortized cost, and securities which are the subject of repo/reverse repo transactions are removed from balance sheet and are measured in accordance with principles applicable for particular securities portfolio.

The difference between sale and repurchase price is treated as interest income and cost, respectively and is accrued over the period of the agreement by application of an effective interest rate.

The Group designates sell-buy-back and buy-sell-back transactions to be valued at fair value through the profit and loss. The change in fair value of financial assets and liabilities are recognized in profit and loss account in the caption "Result on other financial instruments valued at fair value through profit and loss".

(j) Derivatives instruments

Derivative instruments are valued at fair value without cost of transactions, which are to be incurred at the moment of its sale. The base of initial fair value measurement of derivative instruments is value at cost, e.i. fair value of received or paid amount.

The Bank separates and recognizes in the balance sheet derivative instruments being a component of hybrid instruments. A hybrid (combined) instrument includes a non-derivative host contract and derivative instrument, which causes that some or all of the cash flows arising from the host contract is modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable.

The Bank separates embedded derivatives from the host contract and accounted for them as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and host contract is not valued at fair value through profit and loss.

An embedded derivative is valued at fair value, and its changes are recognized in profit and loss.

The Bank uses derivative instruments in order to hedge against FX and interest rate risk, arising from operating, investing and financing activity of the Group. Derivative instruments that are not subject to hedge accounting are classified as financial instruments held for trading and are valued at fair value.

(i) *Derivative instruments not qualifying as hedging instruments*

The changes in fair value of derivative instruments that do not meet hedge accounting criteria are recognized in the profit and loss for the current period.

(ii) *Hedge Accounting*

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

The Bank designates certain derivative instruments as fair value hedge or cash flow hedge. The Bank uses hedge accounting, if the following conditions are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
- The hedging instrument and hedged instrument are similar, especially nominal value, maturity date, and volatility for interest rate and foreign exchange changes.
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
- The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Fair value hedge

Fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the profit or loss.

A fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) are recognised in profit or loss; the gain or loss on the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognised in profit or loss. This applies if the hedged item is otherwise measured at cost.

Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset.

In 2005 the Bank has not used fair value hedge accounting.

Cash flow hedge

Cash flow hedge: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.

A cash flow hedge is accounted for as follows: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity through the statement of changes in equity; and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability,

The associated gains or losses that were recognised directly in equity (effective hedge), at the moment of recognition of a financial asset and liability being a result of planned future transaction, are transferred into profit or loss in the same period or periods during which the asset acquired or liability assumed affects the profit or loss.

In case of a hedge of non-financial asset or a non-financial liability, the associated gains and losses recognized directly in equity as an effective hedge, are transferred successively into the profit or loss account in the same period or periods during which the asset acquired or liability assumed affects the profit or loss account (such as in the periods that depreciation expense is recognised); or it is the result of a one-off transfer as an adjustment to the initial purchase price or carrying amount of a hedged item. In 2005 the Bank has not used cash flow hedge accounting.

(k) Impairment

Assets valued at amortized cost

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- a) significant financial difficulty of the issuer or obligor;
- b) a breach of contract, such as a default or delinquency in interest or principal payments above 90 days;
- c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- e) the disappearance of an active market for that financial asset because of financial difficulties; or
- f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. The Bank classifies credit receivables by size of engagement, into the individual and group portfolios. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. In a group portfolio, groups of similar credit risk characteristics are identified, which are then assessed collectively for the impairment.

If there is any objective evidence of impairment of loans and receivables, or investments held-to-maturity, then the amount of the impairment is the difference between the carrying amount of an asset and the current value of estimated future cash flows, discounted using an original effective interest rate established with the initial recognition of a given financial asset.

If there is any objective evidence of lack of expected future cash flows arising from these financial assets, then the amount of impairment is equal to their carrying amount.

Future cash flows concerning groups of financial assets assessed collectively in terms of their possible impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The Bank regularly verifies the methodology and assumptions adopted to estimate future cash flows in order to mitigate the differences between estimated and actual losses.

For the purposes of the calculation of the provision against balance sheet exposures analysed collectively, the probability of default (PD) method has been applied. Modification of the PD parameter takes into account characteristics of specific products and emerging periods for losses on those products. Such an approach is to facilitate the identification of 1) incurred losses 2) and incurred not reported losses.

The impairment is presented as a reduction of the carrying amount of the asset either through use of an allowance account and the amount of the loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is recognised in the profit or loss account.

Financial assets available for sale

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity are removed from equity and recognised in the profit or loss account even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in the profit and loss account for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Financial assets valued at amortized cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset). Such impairment losses are not reversed.

(I) Tangible fixed assets

(i) Own tangible fixed assets

Tangible fixed assets are the controlled fixed assets and outlays made to build such assets. Tangible fixed assets include fixed assets with an expected period of use above one year, maintained to be used to serve the Bank's needs or to be transferred to other entities, based on the lease contract or for administrative purposes.

Tangible fixed assets, with the exception of land and buildings are recorded at historical costs reduced by depreciation/amortization and any impairment write-downs. The historical costs are made up of the purchase price/cost of creation, and costs directly related to the purchase of assets.

Each component part of property, plant and equipment items, whose purchasing price or generation cost is material in comparison with the purchase price or generation cost of the entire item, is

depreciated separately. The Bank allocates the initial value of the property, plant and equipment into its significant parts.

Lands and buildings are carried in accordance with the revaluation model, after initial recognition at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date

(ii) Subsequent Costs

Costs of modernization of property, plant and equipment increase their carrying value or are recognized as a separate item of property, plant and equipment only when it is probable that such expenditures will ensue with an inflow of economic benefits to the Bank, and the cost of such expenses can be reliably measured. Costs of repairs and maintenance of property, plant and equipment are charged to the profit and loss account in the reporting period in which they were incurred.

(m) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets are deemed to include assets which fulfill the following requirements:

- they can be separated from an economic entity and sold, transferred, licensed or granted for use for a fee to third parties, both separately, and together with their accompanying contracts, assets or liabilities, or
- arise from contractual titles or other legal titles, irrespective of whether those are transferable or separable from the business entity or other rights and obligations.

(i) Goodwill

Goodwill on acquisition of a business entity is initially recognized at cost, which is the surplus of the costs of merger of business entities over the share of the acquiring entity in the net fair value of identifiable assets, liabilities, and contingent liabilities. After the initial recognition, goodwill is presented at cost less all accumulated impairment write-offs. The test for impairment is conducted at the balance sheet date.

Impairment is established by estimating residual value of cash generating units, to which goodwill is allocated. If the residual value of the cash generating unit is lower than the carrying value, the impairment is made.

(ii) Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. Expenses attached to the development or maintenance of computer software are expensed when incurred.

(iii) Other intangible assets

Other intangible assets purchased by the Group, are recognized at cost less accumulated amortization and accumulated impairment write – offs.

(iv) Subsequent Costs

Subsequent costs incurred after initial recognition of acquired intangible asset are capitalised when it is probable that such expenditures will ensue with an inflow of economic benefits to the Group. In other cases, costs are charged to the profit and loss in the reporting period in which they were incurred.

(n) Depreciation and amortization charges

The depreciation charge of tangible and intangible fixed assets is applied using the straight line method, using defined depreciation rates throughout the period of their useful lives. The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. The useful life, amortization/ depreciation rates and residual values of tangible and intangible assets are reviewed annually. Conclusions of the review may lead to a change of depreciation periods recognized

prospectively from the date of application (the effect of this change is in accordance with IAS 8 charged to profit and loss)

In case of buildings valued at fair value, the accumulated depreciation balance at the revaluation date is removed from the carrying value gross, and the net carrying value adjusted to the revalued value.

Depreciation and amortization charges are recognized in the profit and loss account. At each balance sheet date goodwill and other intangible assets with indefinite useful life are regularly tested for impairment. The depreciation periods are as follows:

- | | |
|------------------------------------|------------------------------------|
| • lands and buildings | 50 years |
| • leaseholding improvements | period of the lease, hire purchase |
| • vehicles and others | 3 - 5 years |
| • equipment | 5 years |
| • costs of development of software | 3 years |
| • software licenses, copyrights | 3 years |

(o) Leasing contracts

(i) The Bank as lessor

The Bank is a party to lease contracts, on the basis of which it grants for paid use or benefit of non-current assets or intangible assets for an agreed period of time.

In the case of lease contracts, which result in transferring substantially all the risks and rewards incident to ownership of the asset under lease, the subject of lease is derecognized. A receivable amount is recognized, however, in an amount equal to the present value of minimum lease payments. Lease payments are divided into financial income and reduction of the balance of receivables in such a way as to enable reaching a fixed rate of return from the outstanding receivables.

Lease payments for contracts which do not fulfill qualifications of a finance lease are recognized as income in the profit and loss account, using the straight-line method, throughout the period of the lease.

(ii) The Bank as lessee

The Bank is also a party to lease contracts, under which it takes for paid use or drawing benefits another party's non-current assets or intangible assets for an agreed period.

In the case of lease contracts, under which essentially all risks and rewards incident to ownership of the lease are transferred, the subject of lease is recognized in assets as a non-current asset, and a liability is recognized in the amount equal to the present value of minimum lease payments as of the date of commencement of the lease. Lease payments are divided into financial costs and reduction of the balance of the liability in such way as to enable obtaining a fixed rate of interest on the outstanding liability. Financial costs are recognized directly in the profit and loss account.

Fixed assets which are the basis of the finance lease contract are depreciated in the manner defined for the Bank's non-current assets. However, if it is uncertain whether the ownership of the subject of the contract has been transferred, then non-current assets used pursuant to finance lease contracts are depreciated over the shorter of: the expected useful life or the period of lease.

Lease payments for contracts which do not fulfill qualifications of a finance lease agreement are recognized as costs in the profit and loss account in a straight-line method throughout the period of the lease.

(p) Other balance sheet items

(i) Other trading receivables and other receivables

Trading receivables and other receivables are recognized carried at original invoice amount less an allowance.

(ii) Liabilities

Liabilities, other than financial liabilities held for trading are recognized at original invoice.

(iii) Non current assets held for sale and discontinued operation

The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable, i.e. the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated.

Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non current assets held for sale are priced at the lower of: its carrying value or fair value less cost to sell. Assets classified in this category are not depreciated.

When criteria for classification to non current assets held for sale are not met, the Bank ceases to classify the assets as held for sale and reclassify them into appropriate category of assets. The Bank measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

Discontinued operations is a component of the Bank that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

The classification to this category takes place at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously.

Operations held for sale, which are to be no longer used, can be also classified as a discontinued operation.

(iv) Cash and cash equivalents

Cash and cash equivalents in the Cash Flow statement include: Cash in hand and cash held at the Central Bank and cash equivalents as balances at current accounts and overnights held in other banks.

(q) Impairment of other non- financial assets

For each balance sheet date, the Bank assesses the existence of premises indicating impairment of a non-current asset. If such premises exist, the Bank performs an estimation of the recoverable value. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount.

If such premises exist, the Bank performs an estimation of recoverable value. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount.

If there are indications of impairment of common property, i.e. assets which do not generate cash independently from other assets or groups of assets, and the recoverable value of the individual asset included among common property cannot be determined, the Bank determines the recoverable value at the level of the cash generating unit, to which the given asset belongs.

An impairment charge is recognized, if the book value of the asset or cash generating unit exceeds its recoverable amount. The impairment charge is recognized in the profit and loss account.

In case of a cash generating unit (group), impairment charges in the first place reduce goodwill attributable to cash generating units, and then reduce proportionally the book value of other assets of this cash generating unit (groups)

Measuring Recoverable Amount

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

In order to measure the value in use, estimated future cash flows are discounted to their present value by using a discount rate before taxation, which considers the current market assessment, time value of money and specific risk attributable to the underlying asset.

Reversing of impairment loss

Goodwill impairment loss is not recoverable.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount.

An impairment loss can be reversed only to the amount, where the book value of impaired asset does not exceed its book value, which decreased by depreciation charge, would be established, if any impairment loss would not be recognized.

(r) Equity

Equity is comprised of the share capital, share premium, revaluation reserve and retained earnings.

All balances of capital and funds are recognized at nominal value.

Share capital

Share capital is presented at nominal value, in accordance with the Articles of Association (the Charter) and the entry in the Register of Companies.

(i) Own shares

If the entity acquires its own shares, then the paid amount together with the costs directly attributed to such purchase is recognized as a change in the Equity. Acquired own shares are treated as own shares and disclosed as reduction of the Equity.

(ii) Dividends

Dividends for the financial year which have been approved by the General Shareholders' Meeting, but not approved as of the balance sheet day are disclosed under the „Other Liabilities” in the balance sheet caption.

Dividends for the given year, which have been approved by the General Shareholders Meeting but not distributed at the balance sheet, are disclosed under liabilities payable in the caption “Other liabilities”

Share premium

Share premium is formed from agio obtained from the issue of shares reduced by the the attached direct costs incurred with that issue.

Revaluation reserve

Revaluation reserve is formed as a result of:

- revaluation of financial instruments classified as available for sale,
- revaluation of cash flow hedge financial instruments,
- revaluation of tangible fixed assets carried at fair value,

Value of deferred tax resulting from above mentioned revaluation is included in revaluation reserve. Revaluation reserve is not subjected to profit distribution.

Retained earnings

Retained earnings are created with charges against profit and are allocated for purposes specified in the Articles of Association (the company's Charter) or other legal regulations. Retained earnings comprise of:

- - other supplementary capital,

- - other reserve capital,
- - general banking risk fund,
- - undistributed result from previous years,
- - net result of current year.

Other supplementary capital, other reserve capital and general banking risk fund are created with charges against profit and are allocated for purposes specified in the Articles of Association (the company's Charter) or other legal regulations.

General banking risk fund is created in accordance with the Banking Act dated 29 August 1997 with subsequent amendments, from profit after tax.

Net result of the current year represents profit net of corporate income tax. Losses attributed to minority shareholders and exceeding the value of minority interests are charged to the Group's equity.

(s) Prepayments and deferred income

Prepayments

Prepayments comprise of particular expenses which will be settled against the profit and loss as being accrued over the future reporting periods. This caption includes the annual fee for perpetual usufruct of land settled in time. Prepayments are presented in the balance sheet in 'Other assets' caption.

Deferred income

This caption comprises mainly fees amortized on a straight-line basis and other types of income collected in advance which will be settled against profit and loss account in future reporting periods. Accruals comprise of provisions for costs resulting from services provided to the Bank by counterparties, which will be accrued over future periods and settlements resulting from employee benefits. Accruals and deferred income are presented in 'Other liabilities' balance sheet caption.

(t) Employee benefits

(i) Defined contribution plans

Liabilities resulting from contributions for defined contribution plans are recognized as an expense in the profit and loss account.

(ii) Short-term employee benefits

Short-term employee benefits of the Bank (other than termination benefits) comprise of wages, salaries, paid annual leave and social security contributions.

The Bank recognizes the anticipated, undiscounted value of short-term employee benefits as an expense of an accounting period when an employee has rendered service (regardless of payment date) in correspondence with other on-balance liabilities.

The amount of short-term employee benefits on the unused holidays to which Bank employees are entitled is calculated as the sum of unused holidays to which particular Bank employees are entitled.

(iii) Long-term employee benefits

The Bank's obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The provisions for retirement bonus payment granted within the framework of benefits assigned basis of the regulations arising from the Labour Code are estimated on the basis of an actuarial valuation. The provision arising from actuarial valuation is recognised and updated on an annual basis. In addition, the provisions are revalued quarterly on the basis of the estimations made.

The Group participates in the long-term incentive system, launched by ING Groep NV. The said system stimulates employees of ING Group members by correlating their financial results with the ones recorded by ING Groep NV. The system is addressed to Bank Management Board members, managerial staff and high level experts. Under the long-term incentive system two instruments are offered:

- Share option
- Performance shares

Share options have a 10-year maturity period and can be exercised after three years, provided that the option holder is an employee of the Bank (or another entity of ING Group) or is a retiree. The option exercise price is the difference between the original price and the price of option exercise determined by Euronext Amsterdam on the exercise day during the so-called open period after the general meeting of shareholders of ING Groep NV.

Performance shares are granted conditionally. The number of received performance shares is conditioned by the results recorded by ING Groep NV at the end of the three-year period. The so-called Total Shareholder Return (TSR) is determined for that purpose for each three-year period as compared to the ratio computed for the group of financial institutions similar to ING. Depending on the position of ING in the ranking, the number of shares possible to exercise can be from 200% for the ranking of 1-3 and 0% for the ranking of 18-20. The exercise price is determined as for share options.

A payment transaction in the form of shares settled in cash and derivative obligations are measured at fair value of the obligation and changes to the fair value are carried through the profit or loss. Payments of funds due to exercise of the rights deriving from the options assigned by employees encumber the income statement.

(u) Provisions

Provisions, including provisions for off-balance sheet commitments, are recognized in the balance sheet when the Bank has a legal or constructive obligation (common law) as a result of past events, as well as when it is probable that an outflow of resources will be required to settle the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability. The following rule is also applied for the recognition of provisions for risk-bearing off-balance sheet commitments including guarantees, letters of credit, and irrevocable unused credit lines.

(x) Net interest income

Interest income and expense on all financial instruments are recognized in the profit and loss account. Interest income on financial assets classified as available for sale, loans and advances and financial assets held to maturity are recognized in the profit and loss at amortized cost using the effective interest rate.

Interest income/expense on derivatives classified as trading derivatives is recognized under 'Result on financial instruments at fair value through profit and loss'. Interest income on debt securities classified to trading portfolio or designated as at fair value through profit and loss are recognized under the caption 'Interest income'.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an estimate of cash flows is made considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and commissions paid or received (external) between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income comprises interest and commissions (received or due) included in the calculation of the effective interest rate on: scheduled loans, interbank deposits and securities

In case impairment is recognized for a financial asset or group of similar financial assets, interest income is accrued based on the carrying amount of receivable (this is the value reduced by revaluation charge) with the use of the interest rate according to which future cash flows were discounted for impairment valuation.

(y) Net commission income

Fee and commission income arises on providing financial services by the Bank and comprise of fees and commissions on loan granting, pledge to grant a loan, issue of cards, cash management services, brokerage services and asset management services.

Fees and commissions (both income and expense) directly attributed to initial recognition of financial assets with repayment schedule are recognized in profit and loss account as effective interest rate component and are part of interest income. Other attributed to initial recognition of financial assets without repayment schedule are amortized using a straight-line method through the expected life of the financial instrument. Fees and commissions on pledge to grant a loan, which is probable to be drawn, are deferred and since initial recognition of financial assets are amortized as component of effective interest rate or using straight-line method based on above mentioned criteria.

Other fees and commissions resulting from financial services provided by the Bank, like cash management services, brokerage services and asset management services are recognized in profit and loss account at the time of performance of the respective services.

(z) Result on financial instruments at fair value through profit and loss

Result on financial instruments at fair value through profit and loss includes gains and losses arising from disposal and change of fair value of assets and liabilities held for trading and designated at initial recognition at fair value through profit and loss.

Result from accrued interest and settlement of discount or premium on debt securities held for trading or designated at fair value through profit and loss is recognized as interest income.

(aa) Result on investments

Result on financial investments comprises of realized gains and losses arising from disposal of financial assets classified as available for sale.

(bb) Dividend income

Dividend income is recognized in the profit and loss account when the shareholders' right to receive payment is established.

(cc) Other operating income and expense

Other operating income and expense comprise of expense and income not attributed directly with Group's banking and brokerage activity.

In particular, this is a result of sale and liquidation of fixed assets, income from sale of other services, received and paid damages, provision charges for litigations and claims and donations made.

(dd) Income tax

Income tax is recognized as current and deferred tax. Current income tax is recognized in the profit and loss account. Deferred income tax is recognized in profit and loss or equity depending on type of temporary differences.

Current tax is a liability calculated based on taxable income at the binding tax rate at the balance sheet date including adjustments of prior year tax liability.

(ee) Deferred income tax

The Bank forms a provision for the temporary difference on account of deferred corporate income tax arising due to the discrepancy between the timing of recognition of income as earned and of costs as incurred according to accounting regulations and according to legal regulations concerning corporate income taxation. A positive net difference is recognized in liabilities as "Provisions for deferred income tax". A negative net difference is recognized under "Deferred income tax assets".

The provision for deferred tax is created by using the balance sheet method for all positive temporary differences as of the balance sheet date arising between tax value of assets and liabilities and their carrying value disclosed in the financial report, except for situations where deferred tax provision arises from:

- initial recognition of goodwill;
- goodwill, which amortization has no taxable expense;
- initial recognition of an asset or liability with a transaction which does not constitute a merger of economic entities and which on its origination has no impact on the net financial profit or taxable income or loss

Deferred income tax assets are recognized with respect to all negative timing differences as of the balance sheet date between the tax value of assets and liabilities and their carrying value disclosed in the financial statement and unused tax losses. Deferred income tax assets are recognized in such amount in which taxable income is likely to be achieved allowing to set off negative timing differences, except for the situations when the component of deferred tax assets arises from the initial recognition of an asset or liability with a transaction which does not constitute a merger of economic entities and on its origination have no impact on the net financial profit or taxable income or loss.

The carrying value of a deferred income tax asset shall be verified for each balance sheet date and reduced if it is no longer likely to achieve taxable income sufficient for a partial or full realization of the deferred income tax component.

Deferred income tax assets and provisions for deferred tax are estimated with the use of the tax rates which are expected to be in force when the asset is realized or provision eliminated, assuming the tax rates (and tax provisions) legally or factually in force as of the balance sheet date.

Income tax pertaining to items directly presented in equity is presented in equity.

Deferred tax assets and provisions are recognized by the Group in balance sheet after offsetting at level of each entity included in consolidation. The Group offsets deferred tax assets and deferred tax provisions, where it has legal title to effect such offsetting, and the deferred assets and provisions pertain to the same taxpayer.

(ff) Other taxes

Incomes, costs, and assets are recognized and reduced by the amount of VAT, tax on civil law acts, and other taxes on sales, except where the tax on sale, paid upon purchase of goods and services, is not recoverable from the tax authorities; in that case, the sales tax is recognized accordingly as a part of the cost of acquisition of an asset, or as part of a cost item.

The net amount of sales tax recoverable from or payable to the tax authorities is recognized on the face of the balance sheet as a part of receivables or liability.

Notes to the financial statements

1. Segment reporting

Segment information is presented in respect of the business and geographical segments. The primary reporting format is business segments. This arises from the management structure and internal reporting structure functioning.

Measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy notes.

Measurements of internal and external interest income and costs for individual segments are conducted with the use of the transfer pricing system. The transfer prices are calculated on the basis of one profitability curve for the given currency, common for active and passive products. The transfer price designated for active and passive products with the same location on the profitability curve is identical. Modifications of the baseline transfer price obtained from valuation of the product on the profitability curve are possible, and the factors correcting the transfer price may be the premium for acquisition of long-term liquidity, matching of the Bank's positions, the cost of hedging in the case of complicated products and pricing policy. Then profitability curves are built using mathematical equations, on the basis of quotations available in information services.

Segment revenues and costs, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Business segments

The basic classification used in the Bank is business segment classification. The management of ING Bank Śląski is conducted through breaking down the operations into the following business segments:

- retail banking,
- corporate banking,
- financial markets, ALCO.

Within the framework of retail banking, the Bank provides services for individual customers (segments of mass customers and wealthy customers) and small enterprises.

This activity is analysed by the following products: credit products (overdraft on the savings and settlement account - ROR, loans related to cards, hire purchase loans, housing loans, mortgage loans), contract loans granted by the Building Society, mortgage loans granted by Śląski Bank Hipoteczny, deposit products (current accounts, term deposits, savings accounts), ING fund units, brokerage services provided by ING Securities SA, and bank cards.

Corporate banking comprises the services for institutional customers consisting of the following segments: strategic customers, large enterprises, and medium-sized enterprises.

For corporate banking, the Bank conducts reporting broken down by credit products (working loans, investment loans), deposit products (current accounts, term deposits and negotiated deposits, savings accounts), trust services, capital market operations conducted by the parent and by ING Securities, and operations of intermediation in lease services.

Financial markets encompass operations performed in money and capital markets, conducted both on a proprietary basis as well as for the customers' benefit.

Within the framework of this activity, currency, money and derivative instrument market products and securities operations (Treasury securities, shares and notes) are specified. The item *Financial markets - total segment income* presents the income from proprietary trading. The income from the sale of

financial market products for the corporate banking and retail banking segments are disclosed in the income of these segments.

ALCO comprises above all investing funds originating from own funds and funding some assets of the Bank. The main element of core business income ALCO is income from investing proprietary funds (book capital). This income is then adjusted by the interest calculated on the economic capital required by individual business lines (retail banking segment, corporate banking segment, financial markets). Interest on economic capital is allocated from the ALCO line to individual business lines in the manner corresponding to their demand for economic capital.

The basis for separation of the corporate and retail banking segments is the segment breakdown defined in the internal regulations of the Bank. As of 01.01.2005, ING Bank Śląski conducted resegmentation of its customers within the framework of the branch segments separated. In view of the above, 4,606 customers with PLN 159 million worth of deposits were moved from the corporate segment to the retail segment.

Segment reporting – continued

PLN thousand

PLN thousand	2005					2004				
	Retail customers segment	Corporate customers segment	Proprietary trading	ALCO	TOTAL	Retail customers segment	Corporate customers segment	Proprietary trading	ALCO	TOTAL
Revenue total	797 707	594 625	116 103	98 159	1 606 594	805 559	595 398	125 934	40 787	1 567 678
Core business	764 129	428 944	235 684	177 837	1 606 594	776 790	429 686	233 635	127 567	1 567 678
Income on lending	209 116	169 581			378 697	224 933	128 576			353 508
<i>Interest income external</i>	<i>303 115</i>	<i>471 044</i>				<i>347 247</i>	<i>395 777</i>			
<i>Interest cost internal</i>	<i>-125 033</i>	<i>-355 746</i>				<i>-167 163</i>	<i>-320 356</i>			
<i>Income on fees/ other income</i>	<i>31 034</i>	<i>54 283</i>				<i>44 848</i>	<i>53 154</i>			
Income on deposits	531 990	232 717			764 707	521 102	264 753			785 855
<i>Interest costs external</i>	<i>-642 935</i>	<i>-393 797</i>				<i>-412 422</i>	<i>-340 747</i>			
<i>Interest income internal</i>	<i>954 932</i>	<i>508 767</i>				<i>692 661</i>	<i>479 134</i>			
<i>Income on fees/ other income</i>	<i>219 993</i>	<i>117 747</i>				<i>240 863</i>	<i>126 366</i>			
Other income on core activity	23 023	26 646	235 684	177 837	463 190	30 755	36 358	233 635	127 567	428 315
FM products sales	6 183	123 095	-129 278		0	3 955	114 384	-118 339		0
Result on economic capital	27 395	42 586	9 697	-79 678	0	24 814	51 328	10 638	-86 781	0
Expenses total	709 056	335 569	32 428	12 965	1 090 018	652 139	340 790	27 588	5 453	1 025 969
Operational costs	698 840	335 208	32 233	12 856	1 079 137	650 404	316 452	27 588	3 326	997 769
<i>including depreciation</i>	<i>95 007</i>	<i>19 642</i>	<i>5 781</i>		<i>120 430</i>	<i>91 572</i>	<i>18 932</i>	<i>5 572</i>		<i>116 076</i>
Other operational costs (operational risk)	10 216	362	195	108	10 881	1 735	24 338	0	2 127	28 200
Result before risk	88 651	259 055	83 675	85 195	516 576	153 419	254 609	98 347	35 334	541 709
Risk cost	-52 680	-67 527	0	0	-120 207	74 940	73 961	0	0	148 901
Result before tax	141 332	326 582	83 675	85 195	636 783	78 479	180 648	98 347	35 334	392 808
CIT					129 999					62 703
Result after tax					506 784					330 105

It should be noted that the accounting principles applied for 2004 were made comparable with the principles applied for 2005, excepts for the standards no. 18 and 39 concerning the effective interest rate and impairment losses on loan receivables. In relation to the above, in an attempt to bring the profits or losses on loan operations for 2004 and 2005 to comparability, the presented income on loans in 2004 should be increased by the income on invested provisions disclosed in the item “Other core business income” by PLN 21,068,000 for the segment of retail customers and by PLN 53,627,000 for the segment of corporate customers.

Transformed item	31.12.2005					31.12.2004				
	Business segment				TOTAL	Business segment				TOTAL
	Retail banking	Corporate banking	Financial markets	ALCO		Retail banking	Corporate banking	Financial markets	ALCO	
Assets and liabilities										
Assets of the segment	2 743 000	7 430 000	28 619 920	575 000	39 367 920	2 818 000	7 665 000	21 063 000	529 327	32 075 327
Segment investments in subordinates				75 080	75 080				53 673	53 673
Other assets (not allocated to segments)					2 641 032					3 306 369
Total assets					42 084 032					35 435 369
Segment liabilities	19 987 000	11 510 000	5 558 000		37 055 000	15 513 000	11 684 000	2 832 000		30 029 000
Other liabilities (not allocated to segments)					1 563 843					2 345 352
Equity					3 465 189					3 061 017
Total liabilities					42 084 032					35 435 369
Other										
Capital expenditure	105 750	50 046	4 730	1 668	162 194	85 945	44 572	3 519	645	134 681
Depreciation	95 007	19 642	5 781		120 430	91 572	18 932	5 572		116 076
Net cash flow from operating activity	4 866 716	597 688	-3 094 879	85 195	2 454 720	2 959 846	6 277 993	-4 921 227	35 334	4 351 946
Net cash flow from investing activity	-15 876	-49 196	-29 385	36 708	-57 749	-8 304	-36 540	-2 695	27 590	-19 949
Net cash flow from financial activity	-23 119	-35 492	0	-266 705	-325 316	-9 347	-31 327	0	-10 408	-51 082

Geographical segments

Geographical segments reflect the organisational structure of ING Bank Śląski into 13 regions and the Bank's Head Office. The range of products offered for customers in all geographical segments is the same; it includes the products listed in the part concerning individual business segments.

The Bank recognises the following geographical segments:

- Bielsko-Biała (comprises part of the Śląskie and Małopolskie Provinces),
- Bytom (comprises part of the Śląskie Province),
- Częstochowa (comprises part of the Śląskie Province),
- Gdańsk (comprises part of the Pomorskie, Warmińsko-Mazurskie and Kujawsko-Pomorskie Provinces),
- Katowice (comprises part of the Śląskie Province),
- Kielce (comprises part of the Świętokrzyskie, Mazowieckie and Lubelskie Provinces),
- Kraków (comprises part of the Małopolskie and Podkarpackie Provinces),
- Łódź (comprises part of the Łódzkie Province),
- Opole (comprises part of the Opolskie Province),
- Poznań (comprises part of the Wielkopolskie Province),
- Szczecin (comprises part of the Zachodnio-Pomorskie Province),
- Warszawa (comprises part of the Mazowieckie and Podlaskie Provinces),
- Wrocław (comprises part of the Dolnośląskie Province),
- Head Office of the Bank – located in Katowice and in Warsaw.

Geographical segment	Segment income*		Segment assets		Capital expenditure	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Bielsko-Biała	155 716	161 347	771 629	782 618	6 749	2 490
Bytom	97 987	94 726	403 218	359 032	3 540	3 470
Częstochowa	141 521	142 039	667 566	622 187	4 145	3 297
Gdańsk	45 514	35 705	299 509	256 970	3 068	591
Katowice	165 506	159 627	576 337	582 619	5 800	1 329
Kielce	41 103	36 017	187 548	176 502	1 332	578
Kraków	92 915	75 075	476 958	406 285	4 293	2 379
Łódź	35 570	31 270	321 904	312 448	2 113	314
Opole	56 963	51 214	365 843	367 082	2 639	1 599
Poznań	54 799	46 034	547 257	595 455	3 469	884
Szczecin	21 687	17 268	156 211	157 153	841	174
Warszawa	120 028	100 777	651 224	678 049	5 730	1 460
Wrocław	55 971	46 866	453 278	447 770	2 455	387
Head Office	521 314	569 712	36 205 549	29 691 199	116 020	115 729
TOTAL	1 606 594	1 567 678	42 084 032	35 435 369	162 194	134 681

* The segment income comprises the total income presented in the management information reports.

The Bank operates in Poland. In presenting information on the basis of geographical segments, receivables from customers and public sector as well as liabilities to customers and public sector are allocated on the basis of the location of the Bank units.

The Bank's exposures by geographical segments - receivables from customers and public sector (gross loans):

Province	PLN '000	
	31.12.2005	31.12.2004

Dolnośląskie	362,988	520,429
Kujawsko-pomorskie	75,183	69,728
Lubelskie	17,202	16,763
Łódzkie	283,900	198,780
Małopolskie	298,972	417,337
Mazowieckie	364,871	650,302
Opolskie	315,169	377,066
Podkarpackie	79,212	35,663
Podlaskie	101,916	68,461
Pomorskie and Warmińsko-mazurskie	169,696	199,935
Śląskie	2,532,578	2,288,603
Świętokrzyskie	127,332	108,657
Wielkopolskie and Lubuskie	519,064	610,393
Zachodnio-pomorskie	116,435	130,435
Head Office	5,462,794	5,617,237
Total	10,827,312	11,309,789

The Bank's exposures by geographical segments - liabilities to customers and public sector
PLN '000

Province	31.12.2005	31.12.2004
Dolnośląskie	1,048,069	792,101
Kujawsko-pomorskie	323,844	202,982
Lubelskie	489,752	109,554
Łódzkie	865,559	678,104
Małopolskie	1,563,840	1,527,101
Mazowieckie	2,741,895	2,479,783
Opolskie	1,245,941	993,050
Podkarpackie	610,182	166,860
Podlaskie	617,246	138,198
Pomorskie and Warmińsko-mazurskie	613,708	386,643
Śląskie	12,897,997	10,735,326
Świętokrzyskie	694,868	696,000
Wielkopolskie and Lubuskie	1,014,206	800,966
Zachodnio-pomorskie	382,576	269,139
Head Office	5,912,750	6,638,351
Total	31,022,433	26,614,158

2. Net interest income

	end of 2005	end of 2004
Interest and similar income		
- Loans and advances to banks	421 686	452 527
- Loans and advances to customers	765 773	874 600
- Interest on debt securities held for trading	158 643	169 894
- Interest on available-for-sale debt securities	524 167	187 191
- Interest on held-to-maturity debt securities	0	0
- Reverse repos	0	96
- Other	0	1 862
	1 870 269	1 686 170

In regard to interest revenue for 2005, the amount of PLN 25,332,000 represents revenue from financial assets for which impairment loss was recognised. Interest income in respect of financial assets is calculated using the net exposure amounts; i.e. the amounts including effective impairment losses.

Pursuant to paragraph 36A of MSSF 1 the Bank decided to apply exemption from the obligation of presentation of comparable data pertaining to the accounting principles regulated by IAS 39 as to interest income in respect of financial assets shown at the amortised costs considering the effective interest rate, also including the financial assets whose impairment was recognised.

Interest expense and similar charges		
- Deposits from banks	-122 320	-112 500
- Deposits from customers	-1 008 670	-727 482
- Loans and advances received	-2 998	-4 220
- Financial liabilities held for trading	0	0
- Repos	-21 640	-20 265
- Other liabilities evidenced by paper	0	0
- Subordinated liabilities	0	0
	-1 155 628	-864 467

Net interest income	714 641	821 703
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3. Net commission income

	end of 2005	end of 2004
Commission income		
- Brokerage fees	365	657
- Fiduciary and custodian fees	19 499	12 993
- Foreign commercial business	17 947	14 455
- Commission for transfers, cash payments and other payment transactions	104 014	122 391
- Commission and fees for payment and credit cards	87 486	74 013
- Commission for loans and advances	79 148	103 687
- Commission and fee related to keeping accounts	148 212	165 562
- Commission and fees related to electronic banking systems	11 523	13 632
- Commission and fees for guarantees, sureties and letters of credit	16 391	16 754
- Commission and fees due to distribution of participation units	27 560	19 369
- Other	12 556	8 053
	524 701	551 566

Commission and fee expense		
- Brokerage fees	0	0
- Other commission, including:	-55 510	-78 899
- costs of the Bank Guarantee Fund (BFG)	-3 422	-5 688
- costs of the National Clearing House (KIR)	-4 244	-4 934
- commission paid related to securities trading	-5 372	-4 765
- commission paid on the VISA card system	-23 785	-20 079
	-55 510	-78 899

Net commission income	469 191	472 667
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4. Dividend income

	end of 2005	end of 2004
- Securities held for trading	0	0
- Available-for-sale securities	41 611	5 735
	41 611	5 735

5. Net income on instruments at fair value through profit or loss

	end of 2005	end of 2004
<i>Net income on financial assets and liabilities held for trading</i>	205 090	72 298
- Net income on equity instruments	0	0
- Net income on debt instruments	20 857	6 308
- Net income on derivatives	184 233	65 990
<i>equity derivatives</i>	0	0
<i>foreign exchange derivatives</i>	139 637	36 237
<i>interest rate derivatives</i>	44 429	29 753
<i>derivatives related to securities</i>	167	0
<i>Net income on financial assets and liabilities at fair value through profit or loss upon initial recognition</i>	6 676	0
net income on debt instruments	6 676	0
Net income on instruments at fair value through profit or loss	211 766	72 298

Net income on equity instruments includes net result on trading equities.

Net income on debt instruments includes net income on trading treasury securities, commercial debt instruments and money market instruments (treasury bills). Net income on derivatives includes net income on trading interest rate derivatives (FRA, IRS/CIRS), foreign exchange derivatives (swap, options) and stock exchange index options. Interest net income on debt securities is presented in interest margin.

6. Net income on investment assets

	end of 2005	end of 2004
- Equity instruments	2 432	2 851
- Debt instruments	1 242	110
	3 674	2 961

7. Exchange gains or losses

	end of 2005	end of 2004
Exchange gains or losses		
- result on revaluation derivatives (fair value is recognised in exchange gains or losses)	-579 954	-119 083
- result on other financial instruments at fair value through profit or loss according to IAS 39	0	0
- result on other instruments	740 075	321 061
Exchange gains or loss total	160 121	201 978

8. Other operating income

	end of 2005	end of 2004
- Due to recovered unrecoverable receivables	5 449	775
- Received damages, penalties and fines	226	245
- Refunded court fees	164	1 908
- Grants received	0	0
- Due to rental of an investment real estate	0	0
- Income from sales of other services	2 937	2 941
- Other	11 318	10 241
	20 094	16 110

9. Other operating expenses

	end of 2005	end of 2004
- Damages, penalties and fines paid	1 037	925
- Due to court fees paid	936	3 068
- Donations made	2 391	1 334
- Other operating expenses due to disputed claims	14 329	28 180
- Other	11 460	8 610
	30 153	42 117

Other operating expenses due to disputed claims include expenses concerning disputes related to the improper performance of agreements, cases of criminal nature and cases pertaining to claims made by former employees.

10. General and administrative expenses

	end of 2005	end of 2004
- Personnel expenses:	511 896	454 080
<i>wages and salaries</i>	427 042	380 079
<i>employee benefits, including:</i>	84 854	74 001
<i>retirement benefits</i>	3 179	2 861
<i>holiday accrual</i>	-1 512	2 247
<i>training costs</i>	12 484	8 364
- General and administrative expenses:	447 633	429 806
<i>on property, plant and equipment</i>	76 558	64 227
<i>taxes and charges (including PFRON)</i>	6 727	6 518
<i>maintenance and rental of buildings</i>	140 146	140 923
<i>communication services</i>	57 575	62 059
<i>leasing services</i>	9 272	7 398
<i>refurbishment services</i>	29 075	30 628
<i>licences and patents</i>	13 299	11 630
<i>other external services</i>	114 981	106 423
	959 529	883 886

Cost of restructuring

Title	Item in note	end of 2005	end of 2004
- Costs of headcount restructuring	Personnel expenses	10 298	0
- Costs of training	Personnel expenses	760	0
- Rent related to the released space	General and administrative expenses	194	0
- Impairment loss related to the released space	Other operating expenses - other	1 001	0
Total		12 253	0

11. Depreciation and amortisation

	end of 2005	end of 2004
- On property, plant and equipment	92 364	94 765
- On intangible assets	28 066	21 311
	120 430	116 076

12. Impairment losses and provisions for off-balance sheet liabilities

	end of 2005	end of 2004
- Impairment losses on loans and advances	386 223	2 422 577
- Reversed impairment losses on loans and advances	-493 075	-2 263 194
Net impairment losses on loans and advances	-106 852	159 383
<i>including:</i>		
- losses on loans and advances at risk of impairment	-99 959	-
- IBNR	-6 893	-
- Impairment losses on available-for-sale financial assets:	0	4 468
- securities	0	1 069
- shares in subsidiaries, co-subsiidiaries and associated entities, as well as minority interests	0	3 399
- Reversed impairment losses on available-for-sale financial assets:	-16	-603
- securities	0	-603
- shares in subsidiaries, co-subsiidiaries and associated entities, as well as minority interests	-16	0
Net impairment losses on available-for-sale financial assets:	-16	3 865
- securities	0	466
- shares in subsidiaries, co-subsiidiaries and associated entities, as well as minority interests	-16	3 399
- Impairment losses on property, plant and equipment	4 531	2 310
- Impairment losses on other assets	7 909	29 091
- Reversed impairment losses on property, plant and equipment	-1 580	-77
- Reversed impairment losses on other assets	-1 686	-18 302
Net impairment losses on other assets and property, plant and equipment:	9 174	13 022
- property, plant and equipment	2 951	2 233
- other assets	6 223	10 789
- Recognised provisions for off-balance sheet liabilities	18 223	67 698
- Reversed provision for off-balance sheet liabilities	-40 736	-83 630
Net provisions for off-balance sheet liabilities recognised	-22 513	-15 932
<i>including:</i>		
- on the portfolio at risk of impairment	-25 009	-
- IBNR	2 496	-
Total impairment losses	416 886	2 526 144
Total reversed impairment losses	-537 093	-2 365 806
Net impairment losses and provisions for off-balance sheet liabilities	-120 207	160 338

The methodology used by the Bank in 2004 for recognising and reversing specific provisions for receivables taking into account tax aspects results in a technical increase in expenses and income related to updating the level of provisions.

In accordance with § 36A of IFRS 1, the Bank decided to utilise exemption from the duty to disclose comparative figures related to accounting principles regulated by IAS in respect to impairment losses on financial assets at amortised cost based on effective interest rate.

13. Income tax

	end of 2005	end of 2004
<i>Recognised in the profit and loss account</i>		
- Current portion		
Current year	130 994	18 552
Adjustment of last-year tax settlement	-5 126	-
	125 868	18 552
- Deferred tax		
Recognised and reversed temporary differences	1 864	63 184
Benefits resulting from tax loss	-1 021	-1 849
	843	61 335
- Increases/decreases of the receivables due to 8% relief related to provisions for receivables	3 288	-17 184
Total income tax recognised in the profit and loss account	129 999	62 703

Effective tax rate calculation

- Profit before tax	636 783	392 808
- 19% income tax	120 989	74 634
- Increases – non-deductible expenses	17 817	9 234
- provision for expected losses	2 880	4 697
- PFRON	813	712
- provisions/impairment in a part not covered by deferred tax	4 001	1 768
- representation and advertising expenses over the statutory limit	1 401	128
- expenses due to foreign payments	544	884
- expenses due to loan and non-loan receivables written off	5 915	0
- other	2 263	1 045
- Decreases – tax exempt income	-12 095	-3 981
- income exempt due to the entity	-796	-753
- dividend income	-7 906	-1 452
- reversed provisions for expected losses	-1 690	0
- other	-1 703	-1 775
- 19% income tax +/- increases +/- decreases	126 711	79 887
- increases/decreases of the receivables due to 8% relief related to provisions for receivables	3 288	-17 184
Income tax from profit and loss account	129 999	62 703
Effective tax rate	20,41%	15,96%

Deferred tax recognised directly under equity

- Measurement of available-for-sale securities	3 330	15 044
- Measurement of property, plant and equipment	238	7 203
	3 568	22 247

14. Earnings per share

Basic earnings per share

Calculation of basic earnings per share as of 31 December 2005 was based on annualised net profit (for the last 12 months) in the amount of PLN 506,784,000 (31 December 2004: PLN 330,105,000) and weighted average number of ordinary shares in the similar period equal 13,010,000 (31 December 2004: 13,010,000).

	end of 2005	end of 2004
- Profit for 12 months	506 784	330 105
- Weighted average number of ordinary shares	13 010 000	13 010 000
Earnings per share (PLN)	38,95	25,37

Diluted earnings per share

During 2005 as well as during 2004, the number of shares making up the share capital of ING Bank Śląski S.A. did not change. During the analysed period, the Bank issued neither convertible bonds nor share options. The whole share capital is divided into ordinary shares (there are no preference shares). Due to the above, diluted earnings per share is the same as basic earnings per share.

15. Dividends paid/proposed

On 9 June 2005, the General Meeting approved payment of dividend for 2004 in the amount of PLN 20.50 gross per share, which amount to PLN 266,705,000. The dividend was paid on 11 July 2005.

The Management Board of ING Bank Śląski S.A. proposed payment of the dividend for 2005 in the amount of PLN 27.50 per share. As all shares of ING Bank Śląski are ordinary shares, no liabilities due to accumulated dividend on preference shares occurred.

16. Cash in hand and balances with the Central Bank

	end of 2005	end of 2004
- Cash in hand	313 829	340 617
- Balances with the Central Bank	862 607	554 707
	1 176 436	895 324

The Bank maintains an obligatory provision with the National Bank of Poland accounting for 3.5% of deposits obtained by the Bank. The amount of the provision accrued is reduced by an equivalent of EUR 500,000. The arithmetic mean of obligatory provision for the period from 30 November 2005 to 01 January 2006 equalled PLN 1,070,549,000. The mean for the similar period of the previous year was PLN 861,841,000.

The Bank may utilise the debt limit with the National Bank of Poland for the amount of PLN 9,256,658,000 i.e. 0.8 of the face value of Treasury papers pledged.

17. Deposit accounts in other banks as well as loans and advances to other banks

	end of 2005	end of 2004
- Nostro accounts	156 026	257 655
- interbank deposits	12 332 697	10 403 669
- other receivables	108 769	482 830
- <i>loans and advances</i>	107 671	133 153
- <i>repo transactions</i>	0	341 617
- <i>other receivables</i>	1 098	8 060
- accrued interest	29 307	11 451
Total (gross)	12 626 799	11 155 605
Impairment losses, including:	-299	-
- <i>individual impairment losses</i>	0	-
- <i>portfolio impairment losses</i>	-299	-
Total (net)	12 626 500	11 155 605

Deposit accounts in other banks as well as loans and advances to other banks by maturity

- Maturing:	12 597 492	11 144 154
- up to 1 month	12 125 956	9 787 672
- over 1 month and up to 3 months	21 673	964 133
- over 3 months and up to 1 year	438 448	312 183
- over 1 year and up to 5 years	11 415	80 166
- over 5 years	-	-
- after maturity	-	-
- Accrued interest	29 307	11 451
TOTAL	12 626 799	11 155 605

18. Financial assets at fair value through profit or loss

	end of 2005	end of 2004
- Financial assets held for trading	5 920 785	5 133 327
- Financial assets designated as at fair value upon initial recognition	244 901	0
Total	6 165 686	5 133 327

Financial assets held for trading

	end of 2005	end of 2004
- <u>Debt instruments</u>		
Bonds and bills issued by:	4 962 993	3 551 330
<i>State Treasury</i>	3 949 452	2 478 840
<i>NATIONAL BANK OF POLAND (NBP)</i>	1 001 714	914 230
<i>Non financial sector</i>	11 827	158 260
	4 962 993	3 551 330
<i>Listed instruments</i>	3 751 869	3 247 209
<i>Unlisted instruments</i>	1 211 124	304 121
- <u>Equity instruments</u>	0	0
<i>Listed instruments</i>	-	-
<i>Unlisted instruments</i>	-	-
- <u>Derivative financial instruments</u>	957 792	1 581 997
	5 920 785	5 133 327

Financial assets designated as at fair value upon initial recognition

	end of 2005	end of 2004
<u>Debt instruments</u>	147 852	0
- Bonds and bills issued by:	147 852	0
<i>Non financial sector</i>	147 852	0
<u>Repo transactions</u>	97 049	0
	244 901	0

The Bank designated the following components of financial assets and liabilities for fair value measurement based on the profit and loss statement: debt securities in the form of bonds issued by one of non-financial entity and all buy-sell-back and sell-buy-back transactions.

Designation of above bonds for fair value measurement based on the profit and loss statement allows to obtain more useful information due to the elimination of „accounting mismatch“. "Mismatch" would involve inconsistencies in regard to the recognition of the effects of measurement of an investment item in the form of above mentioned bonds and IRS transactions, measured as fair value through the financial result, securing the interest rate risk from the transaction.

The group of sell-buy-back and buy-sell-back transactions was designated for fair value measurement on the basis of the profit and loss statement due to their classification to the portfolio managed by Financial Markets. According to the principles of risk management and the investment strategy in force at the Bank, the items of financial assets and liabilities as part of this portfolio are measured and managed on the basis of fair value. The measurement of financial liabilities designated for fair value measurement on the basis of the profit and loss statement, as of the balance sheet date, did not include the value of liabilities to be attributed to the changes of credit risk the source of which is the Bank as borrower. In the opinion of the Bank, the whole amount of the change of value of financial liabilities results from the changes of market conditions giving rise to market risk.

Financial assets at fair value through profit or loss by maturity

	end of 2005	end of 2004
- up to 1 month	1 171 693	1 564 919
- over 1 month and up to 3 months	129 363	611 716
- over 3 months and up to 1 year	610 137	954 344
- over 1 year and up to 5 years	2 106 932	1 759 320
- over 5 years	2 147 561	243 028
TOTAL	6 165 686	5 133 327

Movements in financial assets at fair value through profit or loss

	end of 2005	end of 2004
Opening balance	5 133 327	4 461 272
Increases	642 657 435	187 694 435
- purchase of debt securities	642 454 501	186 357 877
- increase in the value of securities	186 234	186 813
- measurement of off-balance sheet derivative instruments	16 700	1 149 745
Decreases	-641 625 076	-187 022 380
- sales of debt securities	-580 851 791	-165 089 296
- repurchase of debt securities	-59 953 595	-21 872 781
- drop in the value of securities	-178 785	-60 303
- measurement of off-balance sheet derivative instruments	-640 905	-
Closing balance	6 165 686	5 133 327

Interest income from debt instruments is recognised under interest income.

Income from equity instruments is recognised under dividend income.

Gains and losses on transactions related to derivative financial instruments and due to movements in fair value of other instruments held for trading are recognised under "net income on instruments at fair value through profit or loss".

As of 31 December 2005, the nominal value of securities subject to repo transactions amounted to PLN 2,601,288,000. Adjustment due to measurement of these transaction at fair value equalled PLN 532,000.

19. Investment financial assets

Available-for-sale financial assets

	end of 2005	end of 2004
- <u>Fixed rate debt instruments</u>	9 275 809	5 268 652
<i>Treasury bonds</i>	8 215 159	3 059 286
<i>Treasury bills</i>	1 060 650	2 134 764
<i>Other</i>	-	74 602
- <u>Floating rate debt instruments</u>	1 674 176	1 280 662
<i>Treasury bonds</i>	1 118 041	728 429
<i>NBP bonds</i>	525 367	522 042
<i>Other</i>	30 768	30 191
Total debt instruments	10 949 985	6 549 314
<i>Listed instruments</i>	9 333 200	6 444 521
<i>Unlisted instruments</i>	1 616 785	104 793
- <u>Equity instruments</u>		
<i>Equity instruments at cost</i>	5 395	30 196
<i>Impairment</i>	-3 353	-14 303
Equity instruments – carrying value	2 042	15 893
<i>Listed instruments</i>	-	-
<i>Unlisted instruments</i>	2 042	15 893
	10 952 027	6 565 207

Available-for-sale assets constituted collateral of own liabilities:

as of 31 December 2005:

- treasury bills with nominal value of PLN 17,190,000 constituted a collateral of the loan received from BFG

- treasury bills with nominal value of PLN 60,900,000 constituted a collateral to BFG

as of 31 December 2004:

- treasury bills with nominal value of PLN 25,340,000 constituted a collateral of the loan received from BFG

- treasury bills with nominal value of PLN 59,210,000 constituted a collateral to BFG

Change in investment financial assets

	end of 2005	end of 2004
Opening balance	6 565 207	854 784
Increases	7 174 365	6 106 074
- purchase of debt securities	6 621 224	5 833 210
- increase in the value of securities	545 638	268 897
- purchase of shares	4 598	3 383
- reversed provision for shares	2 905	584
Decreases	-2 787 545	-395 651
- sales of debt securities	-595 844	-9 360
- repurchase of debt securities	-1 858 391	-306 874
- drop in the value of securities	-234 071	-50 342
- sales of shares	-21 344	-11 126
- recognised provision for shares	-	-17 949
- reclassification to loans and advances to customers	-77 895	-
Closing balance	10 952 027	6 565 207

In 2005, the Bank sold shares and stakes in 3 companies whose value in the Bank's books totalled PLN 21,344,000.

In 2004, the Bank sold shares of one company whose value in the Bank's books totalled PLN 11,126,000.

20. Loans and advances to customers

	end of 2005	end of 2004
- loans and advances	10 561 377	11 042 598
- repo transactions	0	2 859
- other receivables	228 132	40 594
- accrued interest	37 803	226 597
Loans and advances to customers – gross	10 827 312	11 312 648
Impairment losses	-801 175	-793 108
Loans and advances to customers – net	10 026 137	10 519 540

Quality of portfolio of loans and advances to customers

Loans and advances to customers – gross	10 827 312	11 312 648
- impaired	877 881	-
- not impaired	9 949 431	-
Impairment losses	-801 175	-793 108
- related to impaired portfolio	-683 786	-
- related to not impaired portfolio	-117 389	-
Loans and advances to customers – net	10 026 137	10 519 540

Loans and advances to customers in division by method of impairment estimation

Loans and advances to customers – gross	10 827 312	11 312 648
- measured individually	443 921	-
- measured as the portfolio	10 383 391	-
Impairment losses	-801 175	-793 108
- impairment loss pertaining to loans measured individually	-378 786	-
- impairment loss pertaining to loans measured as the portfolio	-422 389	-
Loans and advances to customers – net	10 026 137	10 519 540

Loans and advances to customers by maturity

	end of 2005	end of 2004
- Maturing:	10 789 509	11 086 051
- up to 1 month	4 707 662	5 000 933
- over 1 month and up to 3 months	1 099 627	902 365
- over 3 months and up to 1 year	1 597 521	1 733 829
- over 1 year and up to 5 years	2 190 788	1 942 280
- over 5 years	1 193 911	1 506 644
- Accrued interest	37 803	226 597
TOTAL	10 827 312	11 312 648

Interest accrued as of 31 December 2005 includes the amount of PLN 27,086,000 related to accrued interest unpaid at risk of impairment and recognised before 01 January 2005, fully written off.

Average effective interest rate for loans and advances granted in PLN equals 8.32% and 3.95% for loans and advances in foreign currencies.

In accordance with the credit policy, ING Bank Śląski S.A. accepts collaterals established on accounts of borrowers and collaterals established on the property of the borrowers. As of 31 December 2005, the value of these collaterals equalled PLN 581,175,000 (31 December 2004: PLN 637,945,000).

Receivables due to financial leases

The Bank discloses no such receivables.

21. Movements in impairment losses on receivables due to loans and advances

	end of 2005	end of 2004
Opening balance	793 108	1 071 078
- change in accounting principles	100 917	-
- change in presentation of selected financial assets	21 546	-
Opening balance after changes in accounting principles	915 571	1 071 078
Movements in impairment losses:	-114 097	-277 970
<i>Recognised during the period</i>	378 732	2 271 230
<i>Reversed during the period</i>	-489 835	-2 146 467
<i>Receivables written off to provisions</i>	0	-410 667
<i>Losses applied</i>	-57 664	-56 426
<i>Amounts recovered from loans previously written off</i>	54 670	64 360
Closing balance	801 474	793 108
due to:		
- <i>deposit accounts in other banks as well as loans and advances to other banks</i>	299	-
- <i>loans and advances to customers</i>	801 175	793 108

According to the Resolution of Ministry of Finance dated 2 December 2003 changing the MF Resolution on specific provisions for banks, the Bank has written off in 2004 loan receivables amounting to PLN 410,667,000 against specific provisions, transferring them to off-balance sheet till their redemption, prescription or repayment.

The losses applied comprise of the redemption / write-off of receivables against the created charge or movement from / to other provision category.

22. Investments in controlled entities

The Bank has shares in the associated entity ING Nationale Nederlanden Polska PTE S.A.:

	Domestic	Type of activities	Share in the capital	
			end of 2005	end of 2004
ING Nationale Nederlanden Polska PTE S.A.	Poland	establishment and management of the open pension fund	20%	20%

	end of 2005	end of 2004
- Opening balance	70 944	53 208
- Profit share	26 699	22 721
- Dividend paid	-22 563	-4 985
- Other	-	-
Closing balance	75 080	70 944

General financial information on an associated entity:

	Assets	Liabilities	Net assets	Revenues	Profit/(loss)
end of 2005					
ING Nationale Nederlanden Polska PTE S.A.	464 794	39 782	397 056	279 300	136 789
end of 2004					
ING Nationale Nederlanden Polska PTE S.A.	401 349	10 553	370 383	242 285	125 347

In the individual financial statements, the Bank discloses shares in the following subsidiaries and associated companies:

Name of entity	Type of capital relation	Carrying value of shares	
		end of 2005	end of 2004
ING Securities S.A.	subsidiary	30 228	30 228
Śląski Bank Hipoteczny S.A.	subsidiary	49 950	49 950
ING BSK Development Sp z o.o.	subsidiary	50	50
Solver Sp. z o.o.	subsidiary	6 682	6 682
Centrum Banku Śląskiego Sp. z o.o.	subsidiary	0	0
ING Services Polska Sp z o.o.	subsidiary	0	13 955
ING Nationale Nederlanden Polska PTE S.A.	associated company	40 000	40 000
TOTAL		126 910	140 865

Shares in Centrum Banku Śląskiego Sp. z o.o. are held by ING BSK Development Sp. z o.o. (carrying value of these shares equals PLN 2,645,000).

On 15 November 2005, ING Bank Śląski S.A. sold all shares in ING Services Polska Sp. z o.o..

23. Sale of subsidiary companies

	sale price	value in the books of the dominant entity	cost of sale	result on sale
<i>year 2005</i>				
sale of ING Services Polska Sp. z o.o.	16 000	13 950	212	1 838
<i>year 2004</i>				
sale of ING BSK Leasing S.A.	46 500	45 000	-	1 500

On 15 November 2005, ING Bank Śląski S.A. and Alegron Belegging B.V. entered into an agreement to sell all shares held by the Bank in ING Services Polska Sp. z o.o. The subject matter of the agreement was 27,899 of the company's shares with the total face value of PLN 13,949,500. The purchase price was determined at PLN 16,000,000 in total. Alegron Belegging B.V. is a subsidiary of ING Bank N.V.

On 3 August 2004, ING Bank Śląski S.A. purchased from ING BSK Leasing S.A. 100% of shares of BSK Leasing 2 Sp. z o.o. (on 27 August 2004, the Company's business name was changed into ING BSK Development Sp. z o.o.).

On 20 August 2004, the shares of Centrum Banku Śląskiego Sp. z o.o. were transferred from ING BSK Leasing S.A. to BSK Leasing 2 (ING BSK Development Sp. z o.o.).

Furthermore, on 20 August 2004 the Bank sold the shares of ING BSK Leasing S.A. to ING Lease.

24. Property, plant and equipment

	end of 2005	end of 2004
- Real estate and investments in third-party non-current assets	265 383	313 264
- Computer hardware	77 993	48 877
- Vehicles	972	2 550
- Other fixtures and fittings	84 864	86 945
- Constructions in progress	13 881	8 729
Property, plant and equipment – total	443 093	460 365

end of 2005

	Real estate and investments in third-party non-current assets	Computer hardware	Vehicles	Other fixtures and fittings	Constructions in progress	TOTAL
a) opening balance of gross value of property, plant and equipment	516 589	280 378	10 487	309 158	8 729	1 125 341
b) additions (due to)	10 383	63 083	12	26 153	40 900	140 531
- purchases	96	51 847	0	6 103	40 607	98 653
- investments commissioned	9 577	10 496	0	13 994	0	34 067
- other	710	740	12	6 056	293	7 811
c) disposals (due to)	-36 196	-42 293	-5 748	-5 064	-35 748	-125 049
- sale and liquidation	0	-40 405	-4 831	-3 088	0	-48 324
- other, including:	-36 196	-1 888	-917	-1 976	-35 748	-76 725
- reclassified from investments	0	0	0	0	-34 057	-34 057
- termination of a lease	-12 739	0	0	0	0	-12 739
- grants	0	-1 503	0	-10	0	-1 513
- reclassified to real estate held for sale	-12 481	0	0	0	0	-12 481
d) closing balance of gross value of property, plant and equipment	490 776	301 168	4 751	330 247	13 881	1 140 823
e) opening balance of accumulated depreciation	-190 866	-231 500	-7 937	-222 213	0	-652 516
f) depreciation for the period (due to)	-18 882	8 325	4 158	-23 170	0	-29 569
- depreciation charges	-29 482	-33 500	-1 177	-28 142	0	-92 301
- sale and liquidation	0	40 188	4 424	3 087	0	47 699
- other, including:	10 600	1 637	911	1 885	0	15 033
- termination of a lease	5 145	0	0	0	0	5 145
- grants	0	1 503	0	10	0	1 513
- reclassified to real estate held for sale	2 125	0	0	0	0	2 125
g) closing balance of accumulated depreciation	-209 748	-223 175	-3 779	-245 383	0	-682 085
h) opening balance of impairment losses	-12 459	0	0	0	0	-12 459
- increases	1 008	0	0	0	0	1 008
- decreases, including:	-4 194	0	0	0	0	-4 194
- reclassified to real estate held for sale	-80	0	0	0	0	-80
i) closing balance of impairment losses	-15 645	0	0	0	0	-15 645
j) closing balance of net value of property, plant and equipment	265 383	77 993	972	84 864	13 881	443 093

end of 2004

	Real estate and investments in third-party non-current assets	Computer hardware	Vehicles	Other fixtures and fittings	Constructions in progress	TOTAL
Net value closing balance at the end of the previous period	370 774	54 960	4 167	106 757	5 873	542 531
- change in accounting principles	-26 198	-	-	-	-	-26 198
a) opening balance of gross value of property, plant and equipment	510 980	290 623	12 353	301 898	5 873	1 121 727
b) additions (due to)	7 050	42 339	240	18 134	22 162	89 925
- purchases	840	18 189	240	7 387	20 418	47 074
- investments commissioned	6 210	7 458	0	4 725	0	18 393
- other	0	16 692	0	6 022	1 744	24 458
c) disposals (due to)	-1 441	-52 584	-2 106	-10 874	-19 306	-86 311
- sale and liquidation	-1 377	-16 335	-2 106	-2 613	0	-22 431
- other, including:	-64	-36 249	0	-8 261	-19 306	-63 880
- reclassified from investments	0	0	0	0	-18 829	-18 829
- derecognition of low-value items	0	-17 544	0	0	0	-17 544
- grants	0	-1 862	0	-1 705	0	-3 567
d) closing balance of gross value of property, plant and equipment	516 589	280 378	10 487	309 158	8 729	1 125 341
e) opening balance of accumulated depreciation	-159 339	-235 663	-8 186	-195 141	0	-598 329
f) depreciation for the period (due to)	-31 527	4 162	249	-27 072	0	-54 188
- depreciation charges	-32 213	-32 791	-1 705	-28 056	0	-94 765
- sale and liquidation	686	15 088	1 954	2 204	0	19 932
- other, including:	0	21 865	0	-1 220	0	20 645
- derecognition of low-value items	0	17 544	0	0	0	17 544
- grants	0	1 862	0	1 469	0	3 331
g) closing balance of accumulated depreciation	-190 866	-231 501	-7 937	-222 213	0	-652 517
h) opening balance of impairment losses	-12 459	0	0	0	0	-12 459
- increases	0	0	0	0	0	0
- decreases, including:	0	0	0	0	0	0
i) closing balance of impairment losses	-12 459	0	0	0	0	-12 459
j) closing balance of net value of property, plant and equipment	313 264	48 877	2 550	86 945	8 729	460 365

The item "real estates and investments in third-party non-current assets" comprises, among others, the land whose value considering the fair value measurement as at 31.12.2005 was PLN 4,831,000 as compared to PLN 2,399,000 as at 31.12.2004.

On 1 January 2004 (date of transition to IAS), the Group remeasured to fair value some of property, plant and equipment items (buildings, structures, land and right to perpetual usufruct). Remeasurement was made with the participation of independent valuation experts. Fair value of individual property, plant and equipment items was identified using the income method, based on prices derived from the active market or prices from recent transactions concluded on an arms' length basis. Six real estates were measured using the replacement method.

In 2005, two other real estates were valued with the participation of independent experts (one based on the income method and another one – based on the replacement method), as well as apartments.

Property, plant and equipment items after remeasurement are disclosed at fair value less accumulated depreciation and impairment losses.

As of 31 December 2005, carrying value of real estates excluding remeasurement equalled PLN 281,028,000.

As of 31 December 2005, revaluation reserve includes the amount of PLN 39,167,000 related to real estates measured at fair value.

As of 31 December 2005, the value of fully depreciated property, plant and equipment equalled PLN 259,112,000 vs. PLN 187,961,000 as of 31 December 2004.

There are no legal limitations on property, plant and equipment. There are no contractual obligations incurred in relation to purchase of property, plant and equipment.

Constructions in progress

"Constructions in progress" include, inter alia outlays incurred in relation to branch visualisation project the purpose of which was to unify visual aspects of the Bank's branches by introducing a new external identification and internal design standards in the Bank's branches. Outlays are settled successively, after completing visualisation of individual units and recognising property, plant and equipment items in appropriate groups, in accounting records. Taking into account useful life of the asset created by aggregating individual outlays incurred in relation to the project, the Bank set the depreciation period for 3 years in the case of external elements and 2 years in the case of internal elements.

25. Intangible assets

	end of 2005	end of 2004
- Goodwill	223 343	223 343
- Software	57 842	64 575
- Outlays for projects	27 179	10 911
- Other intangible assets	677	1 911
- Outlays for intangible assets	8 759	1 005
Intangible assets – total	317 800	301 745

end of 2005

	Goodwill	Software	Outlays for projects	Other intangible assets	Outlays for intangible assets	TOTAL
a) opening balance of gross value	223 343	138 084	10 911	7 657	1 005	381 000
b) additions (due to)	0	20 321	16 268	0	10 037	46 626
- purchases	0	17 294	0	0	9 988	27 282
- reclassifications and investments	0	2 192	0	0	0	2 192
- other	0	835	16 268	0	49	17 152
c) disposals (due to)	0	-790	0	-71	-2 283	-3 144
- sale and liquidation	0	-24	0	-71	0	-95
- other, including:	0	-766	0	0	-2 283	-3 049
- reclassified from investments	0	0	0	0	-2 283	-2 283
d) closing balance of gross value	223 343	157 615	27 179	7 586	8 759	424 482
e) opening balance of accumulated amortisation	0	-73 509	0	-5 746	0	-79 255
f) amortisation for the period (due to)	0	-26 264	0	-1 163	0	-27 427
- amortisation charges	0	-26 832	0	-1 234	0	-28 066
- sale and liquidation	0	24	0	71	0	95
- other	0	544	0	0	0	544
g) closing balance of accumulated amortisation	0	-99 773	0	-6 909	0	-106 682
h) opening balance of impairment losses	0	0	0	0	0	0
- increases	0	0	0	0	0	0
- decreases	0	0	0	0	0	0
i) closing balance of impairment losses	0	0	0	0	0	0
j) closing balance of net value	223 343	57 842	27 179	677	8 759	317 800

end of 2004

	Goodwill	Software	Outlays for projects	Other intangible assets	Outlays for intangible assets	TOTAL
Net value closing balance at the end of the previous period	227 927	35 661	32 962	3 714	3 280	303 544
- change in accounting principles	-4 584	-	-	-	-	-4 584
a) opening balance of gross value	223 343	96 716	32 962	10 820	3 280	367 121
b) additions (due to)	0	49 605	0	43	5 213	54 861
- purchases	0	9 098	0	42	5 213	14 353
- reclassifications and investments	0	7 487	0	0	0	7 487
- other	0	33 020	0	1	0	33 021
c) disposals (due to)	0	-8 237	-22 051	-3 206	-7 488	-40 982
- sale and liquidation	0	-7 356	0	0	0	-7 356
- other	0	-881	-22 051	-3 206	-7 488	-33 626
- reclassified from investments	0	0	-22 051	0	-7 488	-29 539
- derecognition of low-value items	0	0	0	-2 116	0	-2 116
d) closing balance of gross value	223 343	138 084	10 911	7 657	1 005	381 000
e) opening balance of accumulated amortisation	0	-61 055	0	-7 106	0	-68 161
f) amortisation for the period (due to)	0	-12 454	0	1 360	0	-11 094
- amortisation charges	0	-20 026	0	-1 285	0	-21 311
- sale and liquidation	0	0	0	0	0	0
- other	0	7 572	0	2 645	0	10 217
- derecognition of low-value items	0	0	0	2 116	0	2 116
g) closing balance of accumulated amortisation	0	-73 509	0	-5 746	0	-79 255
h) opening balance of impairment losses	0	0	0	0	0	0
- change in accounting principles	0	0	0	0	0	0
- increases	0	0	0	0	0	0
- decreases	0	0	0	0	0	0
i) closing balance of impairment losses	0	0	0	0	0	0
h) closing balance of net value	223 343	64 575	10 911	1 911	1 005	301 745

As of 31 December 2005, the value of fully depreciated intangible assets equalled PLN 40,982,000 vs. PLN 31,137,000 as of 31 December 2004.

Impairment test of cash generating centres with goodwill

Taking into account goodwill, impairment test is carried out at least once a year, irrespective of detecting any objective evidence of impairment.

The impairment test carried out by the Bank included goodwill obtained as a result of bringing in a branch of ING Bank NV as a contribution in kind. The individual cash generated centre was identified, to which goodwill of PLN 285,119,000 was assigned. No other additional intangible assets with indefinite useful life were identified that might have been assigned to the identified cash generating centre.

The recoverable amount was estimated based on estimating value in use of the asset, taking into account forecast expected future cash flows generated in the case of continued use. Cash flow forecasts were based on rational assumptions reflecting the most appropriate evaluation of the management regarding overall conditions that would prevail during the remaining period of use of the assets. Cash flow forecasts were based on the financial plan adopted in the Bank as well as operating strategy for the period of the next 5 years. The reliability of accepted assumptions is subject to periodical verification and inconsistencies between estimated future and actual cash flows are analysed.

WIBOR 1y was used to discount cash flows.

In its balance sheet assets the Bank has goodwill of PLN 7,298,000, related to purchase of Wielkopolski Bank Rolniczy in 2001. In the case of Wielkopolski Bank Rolniczy, lack of ability to generate cash flows in the amount covering the accepted loss was identified, which was a reason of recognising 100% impairment. In case of Wielkopolski Bank Rolniczy, cash flow forecasts were based on the operating strategy for the programme duration.

26. Property, plant and equipment held for sale

	end of 2005	end of 2004
a) opening balance of gross value of property, plant and equipment	0	0
b) additions (due to)	15 090	0
- purchases	0	0
- other, including:	15 090	0
- reclassification from property, plant and equipment to property, plant and equipment held for sale	12 481	0
c) disposals (due to)	-8 687	0
- sale and liquidation	-8 687	0
- other	0	0
d) closing balance of gross value of property, plant and equipment	6 403	0
e) opening balance of accumulated depreciation	0	0
f) depreciation for the period (due to)	-514	0
- depreciation charges	0	0
- sale and liquidation	1 697	0
- other, including:	-2 211	0
- reclassification from property, plant and equipment to property, plant and equipment held for sale	-2 125	0
g) closing balance of accumulated depreciation	-514	0
h) opening balance of impairment losses	0	0
- increases, including:	80	0
- reclassification from property, plant and equipment to property, plant and equipment held for sale	80	0
- decreases	0	0
i) closing balance of impairment losses	80	0
j) closing balance of net value of property, plant and equipment	5 969	0

27. Deferred tax assets and provisions

Movements in temporary differences during the year

Deferred tax assets

	Balance as of 31 December 2004	Adjustments due to changes in accounting principles	Balance as of 1 January 2005	Changes charged to the financial result	Changes charged to equity	Balance as of 31 December 2005
- Interest accrued (expense)	-21 883	-	-21 883	7 476	-	-14 407
- Provisions for receivables due to loans	-157 655	10 552	-147 103	22 146	-	-124 957
- Other provisions	-13 663	-243	-13 906	1 570	-	-12 336
- Retirement and holiday benefits	-3 681	-	-3 681	-93	-	-3 774
- Accumulated losses settled	-1 021	-	-1 021	1 021	-	0
- Other	-2 247	-24 268	-26 515	1 175	-	-25 340
	-200 150	-13 959	-214 109	33 295	0	-180 814

Provisions for deferred tax

	Balance as of 31 December 2004	Adjustments due to changes in accounting principles	Balance as of 1 January 2005	Changes charged to the financial result	Changes charged to equity	Balance as of 31 December 2005
- Interest accrued (income)	82 843	-	82 843	-34 393	-	48 388
- Settlement of the difference between tax and balance sheet depreciation	11 683	-	11 683	3 518	-	15 201
- Settlement of prepayments/accruals due to depreciation/amortisation resulting from the investment relief enjoyed	15 029	-	15 029	-1 388	-	13 641
- Other	17 998	11 468	29 466	-189	2 662	31 939
	127 553	11 468	139 021	-32 452	2 662	109 169
Deferred tax disclosed in the balance sheet			-75 088	843	2 662	-71 645

Recognised deferred tax assets and provisions related to a given reporting period

Deferred tax assets

	end of 2005	end of 2004
- Interest accrued (expense)	7 476	-7 114
- Provisions for loans	22 146	25 053
- Other provisions	1 570	-7 825
- Retirement and holiday benefits	-93	-449
- Accumulated losses settled	1 021	1 849
- Other	1 175	-354
	33 295	11 160

Provisions for deferred tax

	end of 2005	end of 2004
- Interest accrued (income)	-34 393	48 402
- Settlement of the difference between tax and balance sheet	3 518	3 017
- Prepayment/accrual due to depreciation resulting from the investment relief applied	-1 388	-1 227
- Other	-189	-17
	-32 452	50 175

Deferred tax for the reporting period

843 61 335

Unrecognised deferred tax assets

- Deferred tax assets, related to the following items, were not recognised:

	end of 2005	end of 2004
Specific provisions whose recoverability will not be proved	1 236	1 257
	1 236	1 257

Year of expiration of temporary differences:

	difference amount as of 31 December 2005	difference amount as of 31 December 2004
2005	-	1 257
2006	1 236	-
TOTAL	1 236	1 257

28. Other assets

	end of 2005	end of 2004
- Prepayments	28 570	24 471
- prepaid bank operating expenses	1 733	621
- prepayments due to insurance with NN	1 594	1 637
- materials and goods in the warehouse	2 600	2 276
- expenses to be settled	862	1 484
- settlements due to securitisation	2 109	-
- accrued income	14 066	10 726
- other	5 606	7 727
- Other assets	99 563	109 371
- interbank settlements	1 762	4 654
- interbranch settlements	270	108
- public and legal settlements	47 739	48 407
- loans from the Company's Social Benefits Fund	20 439	19 848
- other	29 353	36 354
Total other assets (gross)	128 133	133 842
- provision for other assets	-5 413	-8 546
Total other assets (net)	122 720	125 296

29. Employee benefits

ING Bank Śląski participates in the long-term incentive scheme (LTIS), introduced by ING Group. This scheme provides incentives to employees at entities from ING Group by connecting their financial results with financial results of the Group. LTIS is addressed to members of the Management Board of the Bank, management and top level experts. Two instruments are offered under the system:

- *share option*,
- *performance shares*

Share options have a maturity of 10 years and can be exercised after three years from their issue, provided that the option holder is the Bank's employee (or an employee of another entity from ING Group) or is retired. The option exercise price is the difference between the original price and the option exercise price determined by Euronext Amsterdam on the day of realisation in so-called open period after the General Meeting of Shareholders of ING Groep NV.

Performance shares are assigned on certain conditions. The number of received performance shares depends on results achieved by ING Group at the end of a three-year period. To this end, the so-called Total Shareholder Return (TSR) is calculated for every three-year period and compared with the ratio calculated for a group of financial institutions similar to ING. Depending on the position of ING in the ranking, the number of shares to be received can range from 200% in the case of first to third position and 0% for ranging from 18th to 20th position. The exercise price is determined as for *share options*.

To operate the aforementioned incentive scheme, the Bank incurs costs of financing options and system administration, which amounted to PLN 1.0 million as of 31 December 2005.

The Bank measures granted share options and performance options at fair value. The value measured for the period from 1 January 2005 to 31 December 2005 equalled PLN 3.4 million and was charged to the financial result of the Bank.

30. Liabilities due to other banks

	end of 2005	end of 2004
- Current accounts	178 958	107 154
- Interbank deposits	620 563	1 927 775
- Repo transactions	65 337	434 478
- Other liabilities	5 854	10 228
- Accrued interest	6 326	33 189
TOTAL	877 038	2 512 824

Repo transactions are disclosed under "Repo transaction" item.

Liabilities due to other banks by maturity

	end of 2005	end of 2004
- Maturing:	870 712	2 479 635
- up to 1 month	662 146	1 599 105
- over 1 month and up to 3 months	77 920	361 576
- over 3 months and up to 1 year	130 452	453 276
- over 1 year and up to 5 years	194	65 678
- over 5 years	-	-
- Accrued interest	6 326	33 189
TOTAL	877 038	2 512 824

The following assets were sold under repo transactions concluded with banks:

as of 31 December 2005:

	Repurchase date	Nominal value	Carrying amount	interest
Assets held for trading	10-12-2007	66 000	65 337	2 801
		66 000	65 337	2 801

as of 31 December 2004:

	Repurchase date	Nominal value	Carrying amount	interest
Assets held for trading	10-12-2007	66 000	65 337	} 11 028
Assets held for trading	02-11-2005	271 000	268 276	
		337 000	333 613	11 028

31. Financial liabilities at fair value

	end of 2005	end of 2004
- Financial liabilities held for trading	1 095 899	1 270 042
- Financial liabilities designated as at fair value upon initial recognition	2 589 890	0
Total financial liabilities at fair value	3 685 789	1 270 042

Financial liabilities held for trading

	end of 2005	end of 2004
- Derivative financial instruments	1 095 899	1 270 042
	1 095 899	1 270 042

Financial liabilities designated as at fair value upon initial recognition

	end of 2005	end of 2004
- Repo transactions	2 589 890	-
	2 589 890	0

The Bank designated the following components of financial assets and liabilities for fair value measurement based on the profit and loss statement: debt securities in the form of bonds issued by one of non-financial entity and all buy-sell-back and sell-buy-back transactions.

The group of sell-buy-back and buy-sell-back transactions was designated for fair value measurement on the basis of the profit and loss statement due to their classification to the portfolio managed by Financial Markets. According to the principles of risk management and the investment strategy in force at the Bank, the items of financial assets and liabilities as part of this portfolio are measured and managed on the basis of fair value. The measurement of financial liabilities designated for fair value measurement on the basis of the profit and loss statement, as of the balance sheet date, did not include the value of liabilities to be attributed to the changes of credit risk the source of which is the Bank as borrower. In the opinion of the Bank, the whole amount of the change of value of financial liabilities results from the changes of market conditions giving rise to market risk.

As of 31 December 2005, the nominal value of securities subject to repo transactions amounted to PLN 2,601,288,000. Adjustment due to measurement of these transaction at fair value equalled PLN 532,000.

32. Liabilities due to customers

	end of 2005	end of 2004
- Deposits	30 965 777	26 550 538
- Repo transactions	1 448 912	602 031
- other liabilities	406 675	460 213
- Accrued interest	56 656	63 620
Liabilities due to customers – total	32 878 020	27 676 402

Repo transactions are disclosed under “Repo transaction” item.

Liabilities due to customers by maturity

	end of 2005	end of 2004
- Maturing:	32 821 364	27 612 782
- up to 1 month	28 618 586	21 624 579
- over 1 month and up to 3 months	1 387 598	3 283 993
- over 3 months and up to 1 year	2 405 414	2 035 154
- over 1 year and up to 5 years	330 535	567 336
- over 5 years	79 231	101 720
- Accrued interest	56 656	63 620
TOTAL	32 878 020	27 676 402

The following assets were sold under repo transactions concluded with customers:

as of 31 December 2005:

	Repurchase date	Nominal value	Carrying amount	interest
Assets held for trading	2006-01-02	217 000	212 149	406
Assets held for trading	2006-01-03	389 454	364 813	396
Assets held for trading	2006-01-04	317 500	303 951	384
Assets held for trading	2006-01-05	4 000	3 940	5
Assets held for trading	2006-01-12	203 000	199 880	482
Assets held for trading	2006-01-13	353 000	346 271	770
Assets held for trading	2006-02-07	9 660	9 498	29
Assets held for trading	2006-02-20	8 570	8 410	12
		1 502 184	1 448 912	2 484

as of 31 December 2004:

	Repurchase date	Nominal value	Carrying amount	interest
Assets held for trading		-	-	-
		0	0	0

Average effective interest rate for deposits received in PLN equals 3.66% and 1.12% for deposits in foreign currencies.

33. Provisions

	end of 2005	end of 2004
- provision for disputes	19 340	27 963
- provision for off-balance sheet liabilities	29 631	17 446
- provision for retirement benefits	10 791	8 789
- provision for unused holidays	9 074	10 586
- provision for employment restructuring	10 654	0
- general risk provision	-	222 567
- other	-	34 237
TOTAL	79 490	321 588

end of 2005

	provision for disputes	provision for off-balance sheet liabilities	provision for retirement benefits	provision for unused holidays	provision for employment restructuring	general risk provision	other	TOTAL
Closing balance at the end of the previous period	27 963	17 446	8 789	10 586	0	222 567	34 237	321 588
Changes in adopted accounting principles	-	34 698	-	-	-	-222 567	-	-187 869
Opening balance	27 963	52 144	8 789	10 586	0	0	34 237	133 719
Provisions recognised	14 071	-	2 002	-	11 252	-	-	27 325
Provisions applied	-20 359	-	-	-	-598	-	-34 237	-55 194
Provisions reversed	-2 335	-22 513	-	-1 512	-	-	-	-26 360
Closing balance	19 340	29 631	10 791	9 074	10 654	0	0	79 490
expected provision settlement period								
- up to 1 year	17 602	-	1 972	9 074	10 654	-	-	39 302
- more than 1 year	1 738	29 631	8 819	-	-	-	-	40 188

end of 2004

	provision for disputes	provision for off-balance sheet liabilities	provision for retirement benefits	provision for unused holidays	provision for employment restructuring	general risk provision	other	TOTAL
Closing balance at the end of the previous period	12 157	34 720	8 673	8 339	400	204 240	0	268 529
Provisions recognised	16 140	92 298	116	2 247	-	18 327	11 437	140 565
Provisions applied	-334	-24 611	-	-	-400	-	22 800	-2 545
Provisions reversed	-	-84 961	-	-	-	-	-	-84 961
Closing balance	27 963	17 446	8 789	10 586	0	222 567	34 237	321 588
expected provision settlement period								
- up to 1 year	22 694	-	178	10 586	-	222 567	34 237	290 262
- more than 1 year	5 269	17 446	8 611	-	-	-	-	31 326

Provision for disputes

ING Bank Śląski keeps a detailed register of court cases and other receivables demonstrating features of legal claims. The Bank creates provisions for cases that according to the lawyer and/or the Bank's management, show a high risk of loss or for which recovering lost assets is impossible. Potential future settlements are charged to recognised provisions.

The recorded amount of provisions being PLN 19,340,000 is composed of the provisions for the following cases:

- 1) disputes related to the improper performance of agreements: PLN 17,420,000;
- 2) cases of criminal nature: PLN 1,738,000;
- 3) cases pertaining to claims made by former employees: PLN 182,000.

The Bank recognized provisions for all estimated losses. In some cases the Bank has rights to return amounts of established provisions. However, with respect to uncertainty related to the impact of expected economic benefits, the Bank did not recognise assets with respect to above in the financial statements.

Provision for retirement benefits

ING Bank Śląski S.A. recognises provisions for retirement benefits in accordance with IAS 19. Provisions for retirement benefits granted as a part of benefits required by the Labour Code are estimated based on actuarial valuation. The provision resulting from actuarial valuation is recognised and remeasured on an annual basis. Additionally, the provision is adjusted on a quarterly basis based on estimations performed. As of 31 December 2005, the value of future liabilities due to retirement benefits equalled PLN 10,791,000 (PLN 8,789,000 as of 31 December 2004).

Restructuring

A provision for restructuring is recognised when the Bank has a detailed and formal restructuring plan defining at least the business or part of the business to which it applies, the basic locations, the places of employment, the functions, and the approximate number of employees eligible to indemnification, the amount of expenditure to be incurred and the dates of implementation. The condition necessary for recognising the provisions is also for the restructuring to have been commenced or announced publicly. The provision for restructuring does not include future operating costs.

Due to the collective layoffs procedure initiated at the Bank in the fourth quarter 2005, a provision for employment restructuring in the total amount of PLN 11.3 million was recognised, out of which the amount of PLN 598,000 was utilised in 2005. Out of the total provision, the amount of PLN 10.3 million refers to severance pays for the employees dismissed. The employment restructuring results from projects carried on at the Bank, aimed at optimising the operating area. Centralisation of selected functions, consolidation of operating units and limitation of local recovery activities as a result of signing outsourcing contracts allowed to reduce employment by about 400 persons. The employees affected by headcount restructuring were notified thereof by 31.12.2005.

34. Other liabilities

	end of 2005	end of 2004
- to employees	22 512	24 814
- due to leases	23 069	48 865
- accruals	71 339	247 999
- due to operating expenses	8 093	2 500
- due to employee benefits	3 516	28 901
- due to loans granted	8 787	13 066
- due to commission	42 662	3 494
- due to distribution of deposit-related funds	4 049	-
- suspense interest	-	197 256
- other	4 232	2 782
- other liabilities	517 586	271 818
- interbank settlements	344 860	139 539
- interbranch settlements	36 564	11 157
- public and legal settlements	71 984	79 965
- other	64 178	41 157
	634 506	593 496

Gross liabilities due to financial leases by maturity

	end of 2005	end of 2004
- up to 1 year	9 586	15 028
- over 1 year and up to 5 years	9 163	21 766
- over 5 years	-	-
TOTAL	18 749	36 794

Present value of lease instalments due by maturity

	end of 2005	end of 2004
- up to 1 year	8 693	12 451
- over 1 year and up to 5 years	8 680	18 937
- Over 5 years	-	-
TOTAL	17 373	31 388

Reconciliation of differences between gross liabilities due to financial leases and present value of minimum lease instalments

	end of 2005	end of 2004
- Gross liabilities due to financial leases	18 749	36 794
- Unrealised financial expenses	-1 376	-5 406
Present value of minimum lease instalments	17 373	31 388

The Bank is a lessee in financial lease agreements concerning a part of the hardware and premises being perpetually used by the Bank. Those agreements do not provide for any contingent fees to be paid by the lessee; any limitations do not arise from the provisions of the lease agreements. In some cases the agreements provide for the possibility of prolonging the agreement, using the possibility of purchase or price change.

35. Repos and reverse repos

The Bank generates funds by selling financial instruments under repurchase agreements stipulating for their repurchase in the future at the same price plus predetermined interest amount.

Repo transactions are commonly used as a tool for short-term financing of interest asset, depending on the interest rate level.

The information on the value of assets sold in repo transactions was disclosed under notes regarding liabilities due to other banks and to customers.

The Bank also purchases financial instruments under agreements to repurchase them in the future (reverse repo transactions). The seller undertakes to repurchase the same or similar instruments on the agreed future date. Reverse repo transactions are used as a tool to obtain funds for customers.

36. Share capital

The share capital of the Bank is PLN 130,100,000.00 and is divided into:

- 9,260,000 ordinary bearer's shares of A series of face value of PLN 10.00 each
- 3,750,000 ordinary bearer's shares of B series of face value of PLN 10.00 each.

Every ordinary share entitles its owner to a dividend and one vote during the general meeting of the Bank's shareholders.

Neither the value of the share capital nor the number of shares changed during 2005.

37. Revaluation reserve

	end of 2005	end of 2004
- Revaluation reserve from measurement of available-for-sale financial assets	85 796	64 127
- including deferred tax	-18 374	-15 044
- Revaluation reserve from measurement of property, plant and equipment	31 725	32 967
- including deferred tax	-7 441	-7 203
Total revaluation reserve	117 521	97 094

end of 2005

	Revaluation reserve from measurement of available-for-sale financial assets	including deferred tax	Revaluation reserve from measurement of property, plant and equipment	including deferred tax	TOTAL
Closing balance of revaluation reserve at the end of the previous period	64 127	-15 044	32 967	-7 203	97 094
- changes in adopted accounting principles	3 865	-906	-	-	3 865
Opening balance of revaluation reserve	67 992	-15 950	32 967	-7 203	100 959
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	19 744	-2 424	-	-	19 744
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-1 940	-	-	-	-1 940
- disposal of property, plant and equipment	-	-	-1 309	-	-1 309
- remeasurement of property, plant and equipment	-	-	67	-238	67
Closing balance of revaluation reserve	85 796	-18 374	31 725	-7 441	117 521

end of 2004

	Revaluation reserve from measurement of available-for-sale financial assets	including deferred tax	Revaluation reserve from measurement of property, plant and equipment	including deferred tax	TOTAL
Closing balance of revaluation reserve at the end of the previous period	-7 173	1 758	29 620	0	22 447
- changes in adopted accounting principles	-320	-	4 207	-7 203	3 887
Opening balance of revaluation reserve	-7 493	1 758	33 827	-7 203	26 334
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	66 179	-15 526	-	-	66 179
- disposal of property, plant and equipment	-	-	-860	-	-860
- hedge accounting	5 441	-1 276	-	-	5 441
Closing balance of revaluation reserve	64 127	-15 044	32 967	-7 203	97 094

38. Retained earnings

	end of 2005	end of 2004
- Other supplementary capital	22 171	9 402
- Reserve capital	1 212 963	1 136 927
- General risk fund	430 152	400 152
- Retained earnings	51 748	-36 513
- Result for the current year	506 784	330 105
Total retained earnings	2 223 818	1 840 073

end of 2005

	other supplementar y capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Closing balance of retained earnings at the end of the previous period	9 402	1 136 927	400 152	293 592	0	1 840 073
- changes in adopted accounting principles	-	-	-	141 697	-	141 697
Opening balance of retained earnings	9 402	1 136 927	400 152	435 289	0	1 981 770
- disposal of property, plant and equipment	12 769	-	-	-10 800	-	1 969
- profit allocation, including:	-	76 036	30 000	-372 741	-	-266 705
- profit written off to reserve capital	-	76 036	-	-76 036	-	0
- profit written off to general risk fund	-	-	30 000	-30 000	-	0
- dividends paid	-	-	-	-266 705	-	-266 705
- net result for the current period	-	-	-	-	506 784	506 784
Closing balance of retained earnings at the end of the current period	22 171	1 212 963	430 152	51 748	506 784	2 223 818

end of 2004

	other supplementar y capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Closing balance of retained earnings at the end of the previous period	8 542	1 149 895	381 825	22 253	0	1 562 515
- changes in adopted accounting principles	-	-	-	-42 999	-	-42 999
Opening balance of retained earnings	8 542	1 149 895	381 825	-20 746	0	1 519 516
- disposal of property, plant and equipment	860	-	-	-	-	860
- coverage of accumulated losses	-	-12 968	-	12 968	-	0
- profit allocation, including:	-	-	18 327	-28 735	-	-10 408
- profit written off to general risk fund	-	-	18 327	-18 327	-	0
- dividend	-	-	-	-10 408	-	-10 408
- net result for the current period	-	-	-	-	330 105	330 105
Closing balance of retained earnings at the end of the current period	9 402	1 136 927	400 152	-36 513	330 105	1 840 073

Supplementary capital

Supplementary capital is created from appropriations from profit after tax, from surpluses generated due to issue of shares above their face value and the extra contributions paid up by the shareholders to be used for covering balance-sheet losses. The decision on the use of the supplementary capital is taken at the General Meeting.

Reserves

Reserves are established regardless of the supplementary capital created from the appropriations from profit after tax, in the amount resolved at the General Shareholders Meeting. The reserves are used for covering special losses and expenses. The decision on the use of the reserves is taken at the General Meeting.

The General Risk Fund

The General Risk Fund is established in accordance with the Banking Law Act from the after-tax profit and is used for unidentified risk related to banking activity. The decision on the use of the Fund is taken by the Management Board.

Hyperinflation

In accordance with the requirements of IFRS 1 (First-time Adoption of International Financial Reporting Standards), the Capital Group must retrospectively apply IAS 29 (Financial Reporting in Hyperinflationary Economies) at the preparation of financial statements.

Pursuant to paragraph 24 of IAS 29 "Financial Reporting in Hyperinflationary Economies", the shareholders' equity items (except for retained earnings and all asset revaluation gains) should be restated with the use of the general price index, starting from the date on which such equity was contributed or was created otherwise than for the period in which the economy in which the given entity operates was a hyperinflationary economy within the meaning of IAS 29.

The effect of recalculation of the respective shareholders' equity items with the use of the inflation ratios should be disclosed on the other side in the retained earnings from the previous years. Application of the provisions of paragraph 24 of IAS 29 would result in an increase in the issued capital and supplementary capital – a surplus of the issue price of the shares over their par value by PLN 460,500,000 and at the same time would charge to the same amount the retained earnings from the previous years.

Full implementation of IAS 29 requirements would result in legal effects related to the necessity to change the share capital on the basis of the Code of Companies and the Banking Law. At the same time, due to the fact that the effects of overestimation discussed above do not have any effect on the change in the value of the net assets of the Capital Group, the Bank Management Board thinks that making such an adjustment would not have any significant effect on the accuracy and fairness of presentation of the financial standing presented in these financial statements.

39. Balance sheet currency structure

end of 2005

BALANCE SHEET (PLN'000)									
	PLN	EUR		USD		CHF		other currencies (translated into PLN)	TOTAL
		after translation into PLN	in currency	after translation into PLN	in currency	after translation into PLN	in currency		
ASSETS									
- Cash in hand and balances with the Central Bank	1 036 488	127 093	32 927	12 172	3 732	108	44	575	1 176 436
- Deposit accounts in other banks as well as loans and advances to other banks	1 743 473	3 181 944	824 381	7 639 081	2 342 342	4 180	1 686	57 822	12 626 500
- Financial assets at fair value	6 061 895	48 511	12 568	53 917	16 532	-	-	1 363	6 165 686
- Investment financial assets	10 951 747	278	72	2	1	-	-	-	10 952 027
- Loans and advances to customers	8 266 667	1 474 367	381 960	198 360	60 822	84 627	34 140	2 116	10 026 137
- Investments in controlled entities	126 910	-	-	-	-	-	-	-	126 910
- Property, plant and equipment	443 093	-	-	-	-	-	-	-	443 093
- Intangible assets	317 800	-	-	-	-	-	-	-	317 800
- Property, plant and equipment held for sale	5 969	-	-	-	-	-	-	-	5 969
- Current tax asset	49 109	-	-	-	-	-	-	-	49 109
- Deferred tax asset	71 645	-	-	-	-	-	-	-	71 645
- Other assets	116 185	6 273	1 625	199	61	-	-	63	122 720
Total assets	29 190 981	4 838 466	1 253 554	7 903 731	2 423 491	88 915	35 870	61 939	42 084 032
EQUITY AND LIABILITIES									
LIABILITIES									
- Liabilities due to the Central Bank	464 000	-	-	-	-	-	-	-	464 000
- Liabilities due to other banks	708 079	9 618	2 492	146 099	44 798	1	0	13 241	877 038
- Financial liabilities at fair value	3 625 066	39 281	10 177	19 724	6 048	511	206	1 207	3 685 789
- Liabilities due to customers	27 776 337	3 093 239	801 399	1 968 948	603 731	457	184	39 039	32 878 020
- Provisions	79 490	-	-	-	-	-	-	-	79 490
- Current income tax liabilities	-	-	-	-	-	-	-	-	0
- Deferred tax provision	-	-	-	-	-	-	-	-	0
- Other liabilities	618 933	14 758	3 824	778	239	5	2	32	634 506
Total liabilities	33 271 905	3 156 896	817 891	2 135 549	654 815	974	393	53 519	38 618 843
EQUITY									
- Share capital	130 100	-	-	-	-	-	-	-	130 100
- Supplementary capital - issuance of shares over nominal value	993 750	-	-	-	-	-	-	-	993 750
- Revaluation reserve from measurement of available-for-sale financial assets	85 796	-	-	-	-	-	-	-	85 796
- Revaluation reserve from measurement of property, plant and equipment	31 725	-	-	-	-	-	-	-	31 725
- Retained earnings	2 223 818	-	-	-	-	-	-	-	2 223 818
Total equity	3 465 189	0	0	0	0	0	0	0	3 465 189
Total equity and liabilities	36 737 094	3 156 896	817 891	2 135 549	654 815	974	393	53 519	42 084 032

end of 2004

BALANCE SHEET (PLN'000)									
	PLN	EUR		USD		CHF		other currencies (translated into PLN)	TOTAL
		after translation into PLN	in currency	after translation into PLN	in currency	after translation into PLN	in currency		
ASSETS									
- Cash in hand and balances with the Central Bank	845 289	33 975	8 329	14 615	4 887	154	58	1 291	895 324
- Deposit accounts in other banks as well as loans and advances to other banks	1 590 082	893 006	2 18 928	8 608 541	2 878 726	5 104	1 932	58 872	11 155 605
- Financial assets at fair value	4 998 393	47 955	11 757	85 929	28 735	31	12	1 019	5 133 327
- Investment financial assets	6 565 016	191	47	-	-	-	-	-	6 565 207
- Loans and advances to customers	8 158 763	2 020 173	495 262	208 248	69 639	111 037	42 026	21 319	10 519 540
- Investments in controlled entities	140 865	-	-	-	-	-	-	-	140 865
- Property, plant and equipment	460 365	-	-	-	-	-	-	-	460 365
- Intangible assets	301 745	-	-	-	-	-	-	-	301 745
- Property, plant and equipment held for sale	0	-	-	-	-	-	-	-	0
- Current tax asset	62 060	-	-	-	-	-	-	-	62 060
- Deferred tax asset	76 035	-	-	-	-	-	-	-	76 035
- Other assets	116 619	8 234	2 019	369	123	1	0	73	125 296
Total assets	23 315 232	3 003 534	736 341	8 917 702	2 982 110	116 327	44 028	82 574	35 435 369
EQUITY AND LIABILITIES									
LIABILITIES									
- Liabilities due to the Central Bank	-	-	-	-	-	-	-	-	0
- Liabilities due to other banks	2 448 949	7 999	1 961	26 279	8 788	4	2	29 593	2 512 824
- Financial liabilities at fair value	605 080	297 152	72 849	365 564	122 246	1 995	755	251	1 270 042
- Liabilities due to customers	23 203 663	2 637 930	646 710	1 789 797	598 514	480	182	44 532	27 676 402
- Provisions	317 255	1 908	468	2 425	811	-	-	-	321 588
- Current income tax liabilities	-	-	-	-	-	-	-	-	0
- Deferred tax provision	-	-	-	-	-	-	-	-	0
- Other liabilities	568 709	24 457	5 996	307	103	23	9	-	593 496
Total liabilities	27 143 656	2 969 446	727 984	2 184 372	730 461	2 502	947	74 376	32 374 352
EQUITY									
- Share capital	130 100	-	-	-	-	-	-	-	130 100
- Supplementary capital - issuance of shares over nominal value	993 750	-	-	-	-	-	-	-	993 750
- Revaluation reserve from measurement of available-for-sale financial assets	64 127	-	-	-	-	-	-	-	64 127
- Revaluation reserve from measurement of property, plant and equipment	32 967	-	-	-	-	-	-	-	32 967
- Retained earnings	1 840 073	-	-	-	-	-	-	-	1 840 073
Total equity	3 061 017	0	0	0	0	0	0	0	3 061 017
Total equity and liabilities	30 204 673	2 969 446	727 984	2 184 372	730 461	2 502	947	74 376	35 435 369

40. Contingent liabilities

Liabilities granted

The Bank discloses obligations to grant loans. These obligations include approved loans, credit card limits and limits of overdraft in current accounts.

The Bank issues guarantees and letters of credits securing fulfilment of obligations of the Bank's customers to third parties.

The Bank charges commissions for contingent liabilities granted, which are settled in line with the characteristic of the particular instrument.

Values of contractual contingent liabilities by category are presented in the table below. Values of guarantees and letters of credit disclosed below reflect maximum loss that can be incurred, which would be disclosed as at the balance sheet date if customers do not fully fulfil their obligations.

	end of 2005	end of 2004
Liability value		
- Credit card limits	467 328	130 485
- Undrawn credit facilities	5 355 912	4 591 552
- Undrawn overdrafts in current account	2 662 085	1 340 786
- Guarantees and letters of credit	1 175 238	982 208
- Deposits to be issued	28 500	4 458 657
	9 689 063	11 503 688

Provisions are created for contingent financial liabilities exposed at risk of loss due to impairment. If there is objective evidence of impairment of contingent liabilities existing as at the balance sheet date, the Bank recognises a provision equal to the difference between the statistically estimated part of off-balance sheet exposure (balance sheet equivalent of current off-balance sheet items) and the present value of estimated future cash flows. Taking into account off-balance sheet character of contingent liabilities, the value of the provision does not reduce carrying amount of assets and is recognised in the Bank's balance sheet and profit and loss account. Provisions for off-balance sheet liabilities are disclosed in the balance sheet of the Bank under "Provisions" and in explanatory note no. 33.

Liabilities received

As of 31 December 2005, the Bank received contingent liabilities in form of guarantees with a value of PLN 10,469,326 and related to financing in the amount of PLN 75,299,000. As of 31 December 2005, these amounts equalled PLN 11,874,858,000 and PLN 207,220,000 respectively.

Information on issue guarantees granted to other issuers

In 2005, ING Bank Śląski S.A. did not act as a guarantor of issues of commercial papers.

41. Off-balance sheet financial instruments

as of 31 December 2005

	Nominal value of instruments with the period remaining to maturity				Fair value measurement	
	less than 3 months	more than 3 months and less than 1 year	more than 1 year	Total	Assets	Equity and liabilities
Interest rate derivatives						
Forward rate agreements (FRA)	2 300 000	45 809 065	1 900 000	50 009 065	14 048	14 881
Interest rate swaps (IRS)	8 786 784	13 979 967	12 476 829	35 243 580	694 428	620 046
Total	11 086 784	59 789 032	14 376 829	85 252 645	708 476	634 927
FX derivatives						
FX contracts (swap, forward)	12 762 675	3 692 985	1 062 186	17 517 846	157 506	414 258
Currency options (purchased)	859 027	930 530	27 628	1 817 185	23 664	0
Currency options (sold)	505 940	526 439	27 628	1 060 007	0	26 584
Total	14 127 642	5 149 954	1 117 442	20 395 038	181 170	440 842
Current off-balance sheet transactions						
FX operations	1 435 400	0	0	1 435 400	314	527
Securities operations	1 742 266	0	0	1 742 266	0	0
Total	3 177 666	0	0	3 177 666	314	527
Total	28 392 092	64 938 986	15 494 271	108 825 349	889 960	1 076 296

as of 31 December 2004

	Nominal value of instruments with the period remaining to maturity			Fair value measurement		
	less than 3 months	more than 3 months and less than 1 year	more than 1 year	Total	Assets	Equity and liabilities
Interest rate derivatives						
Forward rate agreements (FRA)	900 000	26 126 000	200 000	27 226 000	4 990	10 007
Interest rate swaps (IRS)	3 673 828	12 835 006	14 667 138	31 175 972	118 411	38 078
Total	4 573 828	38 961 006	14 867 138	58 401 972	123 401	48 085
FX derivatives						
FX contracts (swap, forward)	21 921 343	3 433 096	1 556 469	26 910 908	219 831	31 516
Currency options (purchased)	1 502 774	701 268	1 500	2 205 542	70 940	13 951
Currency options (sold)	1 673 292	777 596	25 313	2 476 201	22 474	83 064
Total	25 097 409	4 911 960	1 583 282	31 592 651	313 245	128 531
Current off-balance sheet transactions						
FX operations	1 071 411	-	-	1 071 411	469	2 977
Securities operations	368 913	-	-	368 913	263	5 385
Total	1 440 324	0	0	1 440 324	732	8 362
Total	31 111 561	43 872 966	16 450 420	91 434 947	437 378	184 978

Currency contracts

The table below summarises contractual values of currency forwards, swaps and options by currency, as well as details of the period remaining to maturity of the particular contract. Values in foreign currency are converted at exchange rates valid as at the balance sheet date.

	Nominal value	
	end of 2005	end of 2004
EUR		
less than 3 months	1 261 057	3 762 034
more than 3 months and less than 1 year	1 076 218	1 593 937
more than 1 year	780 448	1 343 622
USD		
less than 3 months	2 519 229	6 165 308
more than 3 months and less than 1 year	1 248 730	1 411 838
more than 1 year	166 222	31 404
GBP		
less than 3 months	50 627	2 112
more than 3 months and less than 1 year	5 625	-
more than 1 year	-	-
Other currencies		
less than 3 months	145 456	331 857
more than 3 months and less than 1 year	123 436	26 421
more than 1 year	-	-

Embedded derivatives

The Bank has deposits in PLN and USD, including embedded derivatives. Embedded derivatives include currency options and exchange index options. As of 31 December 2005, the value of embedded derivatives equalled PLN 14,742,000 for purchased options and PLN 45,954 for sold options.

42. Hedge accounting

Fair value hedge accounting

In the financial statements as of 31 December 2005, the Bank did not use fair value hedge accounting.

Cash flow hedge accounting

In the financial statements as of 31 December 2005, the Bank did not use cash flow hedge accounting.

43. Fair value

Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in a direct transaction, other than compulsory sale or winding-up. Fair value is in the best way reflected by the market price if available.

Summary of carrying values and fair values for each group of assets and liabilities not disclosed in the Bank's balance sheet at fair value is presented below. Purchase and sale prices were used respectively to estimate fair values of assets and liabilities. In accordance with Paragraph 36A IFRS 1, the Bank used exemption from disclosure of comparative information in respect to fair value. In the case of short-term financial assets and liabilities, it is assumed that the carrying amount of these instruments approximates their fair value.

end of 2005

	Carrying amount	Fair value
Assets		
Deposit accounts in other banks as well as loans and advances to other banks	12 626 500	12 626 500
Loans and advances to customers	10 026 137	10 099 469
Equity and liabilities		
Liabilities due to other banks	877 038	877 038
Liabilities due to customers	32 878 020	32 869 812

Fair value determination

The main methods and assumptions used in estimating fair values of financial instruments from the table above are summarised below.

Loans and advances to customers: They are carried at net value less impairment losses due to provisions. Fair value is calculated as discounted expected future payments of principal and interest. It is assumed that loans and advances would be repaid on dates set in agreements. In the case of credits without defined repayment dates and credits at risk of earlier repayment, payments were estimated based on historical data for previous periods, during which interest rate levels were similar to the current one, adjusted for expectations regarding their level in the future. Credit risk and any grounds indicating impairment of credits were taken into account when estimating expected future cash flows. Expected future cash flow related to uniform loan and advance categories, e.g. mortgage loans to natural persons, were estimated based on the credit portfolio and discounted using the current interest rate used for loans from the similar category offered to new customers with similar credit profile. Market prices of instruments hedged by similar types of loans and advances adjusted for differences resulting from different types of loans and advances are also used to estimate fair values. Estimated fair value of loans and advances reflects movements in interest rate level in the case of credits with fixed interest rate.

Deposit accounts in other banks as well as loans and advances to other banks: Fair value of deposits with floating interest and overnight deposits is their carrying amount. Fair value of deposits bearing fixed interest rate is estimated based on cash flows discounted using current interest rate of the monetary market for receivables with similar credit risk and number of days to maturity.

Investments in controlled entities: In the case of financial assets being investments in controlled entities, equity method was applied for their measurement.

Liabilities due to other banks and customers: In the case of deposits paid at request and deposits without predefined maturity, the amount that would be paid at request as at the balance sheet date is accepted as fair value. Fair value of deposits with predetermined maturity was estimated based on cash flows discounted by current interest rate for deposits with similar maturities. Importance of long-term cooperation with depositaries is not taken into account in the process of estimating fair value of these instruments.

44. Hedging assets

On 18 June 2002, the Bank obtained from the Bank Guarantee Fund a loan in the amount of PLN 30,000,000 related to acquisition of Wielkopolski Bank Rolniczy S.A. The loan was granted for a period of 5 years. The first instalment of the loan was repaid in June 2004; subsequent instalments are due on a semi-annual basis (in December and in June). As of 31 December 2005, the debt level amounted to PLN 12,860,000. The loan is secured by a pledge on MF treasury bills with nominal value of PLN 17,190,000.

koniec roku 2005

Security	Pledge reason	Portfolio	Face value	Balance sheet value
<i>T-bills- MF</i>	<i>collateral of the BFG loan</i>	<i>financial assets available for sale</i>	<i>17 190</i>	<i>17 008</i>

koniec roku 2004

Security	Pledge reason	Portfolio	Face value	Balance sheet value
<i>T-bills- MF</i>	<i>collateral of the BFG loan</i>	<i>financial assets available for sale</i>	<i>25 340</i>	<i>24 939</i>

As at 31.12.2005, the Bank had a lombard loan totalling PLN 464,000,000. The loan was secured with 580,000 State Treasury bonds (WZ0307) with face value of PLN 580,000,000.

45. Custody activities

As of 31 December 2005, ING Bank Śląski S.A. kept 3,020 securities accounts, on which securities were deposited for the Bank's customers. At the end of 2005, ING Bank Śląski acted as a depositary bank for 33 investment funds and 1 employee fund.

ING Bank Śląski S.A. was also selected to perform this function for three newly-created investment funds, including one fund with 12 sub-funds. During the period from 01 January 2005 to 31 December 2005, ING Bank Śląski S.A. cooperated with 16 Polish brokerage houses.

46. Operating leases

ING Bank Śląski cooperates with ING Car Lease in respect to car leasing and fleet management. The Bank also makes payments due to lease of apartments, which is treated as operating leases. Those agreements do not provide for any contingent fees to be paid by the lessee; any limitations do not arise from the provisions of the lease agreements. In some cases the agreements provide for the possibility of prolonging the agreement, using the possibility of purchase or price change.

Lease payments by maturity are disclosed in the table below:

	end of 2005	end of 2004
up to 1 year	53 769	52 219
over 1 year and up to 5 years	249 783	256 198
over 5 years – annual payment amount	47 354	47 354

47. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash disclosed in the balance sheet as well as current accounts and overnight deposits in other banks.

	end of 2005	end of 2004
- Cash in hand and balances with the Central Bank	1 176 436	895 324
- Accounts with other banks	3 793 643	4 492 038
	4 970 079	5 387 362

48. Explanation of the classification of Bank's activities into operating, investment and financial activities in the cash flow statement

Operating activities include core activities of the Bank, not classified as investment and financial activities.

Investment activities consist in purchasing and selling shares in controlled entities as well as purchasing and selling intangible assets, property, plant and equipment. Inflows from investing activities concerning also the dividend received.

Financial activities refer to long-term (over 1 year) financial operations with financial entities. Inflows from financial activities indicate sources of financing of the Bank, including e.g. long-term loans and advances from other banks, as well as financial entities other than banks. Outflows from financial activities refer mainly to repayment of long-term liabilities (e.g. received loans) by the Bank and payment of dividends to the owners and other outflows due to profit distribution.

49. Reasons of differences between changes in some balance sheet items and changes in these items disclosed in the cash flow statement

Movements in investment financial assets

Movements do not include a part of available-for-sale assets charged to equity (revaluation reserve on available-for-sale assets).

Movements in loans and advances and deposits in other banks

This item does not include a part of receivables due to operations with the NBP and other banks, which was disclosed under "Total net cash flows" (movements in cash).

Movements in liabilities due to other banks and customers

This item does not include liabilities due to incurred/repaid long-term (over one year) loans and advances received from other banks and financial institutions, disclosed in a section regarding financial activities. Movements in liabilities to the financial sector resulting from exchange rate changes also are excluded from this item. They are disclosed under item A.II.2 "Gains/losses due to exchange differences".

Movements in loans and advances to customers

Movements in provisions

Movements in other liabilities

Movements result from changes introduced into the balance sheet as a result of implementation of the International Financial Reporting Standards as of 01 January 2005.

50. Related entities

The following subsidiaries and associates of ING Bank Śląski:

- ING Securities
- ING BSK Development
- Solver
- PTE ING Nationale-Nederlanden
- Centrum Banku Śląskiego (CBS)
- Śląski Bank Hipoteczny

within the framework of their operations hold current accounts in ING Bank Śląski. They use these current accounts for performing standard settlement operations and also deposit their funds on term deposits. Furthermore, CBS and Śląski Bank Hipoteczny took loans from ING Bank Śląski. The transactions with the above entities are performed on an arm's length basis.

Similarly, ING Bank Śląski carries bank accounts for other members of the ING Group, including ING Lease (Polska), ING Car Lease, ING Nationale-Nederlanden, ING Real Estate.

ING Bank Śląski conducts on the interbank market operations with ING Bank NV and its subsidiaries. Such operations include both deposits and short-term loans as well as operations on derivatives: Forex Spot and Forex Forward, currency options, SWAP transactions. The transactions are made on an arm's length basis.

Between the entities related to ING Bank Śląski, also transactions arising from the agreements on cooperation, sub-lease of premises, lease of equipment, data processing, social security contributions, lease of tangible and intangible assets, and lease and management of the vehicle fleet.

Between 1.01.2005 and 31.12.2005, the following transactions of a total value above EUR 500,000 were made:

- Under the Agreement on Settlements for Improvements Made of 1 February 2005 between Centrum Banku Śląskiego Sp. z o.o., ING Lease (Polska) Spółka z o.o. and ING Bank Śląski S.A., transactions of payment of a total liability of PLN 8.5 million (net) were made. The purpose of the agreement in question was to settle the accounts with the building owner for the improvements made in the building of the Bank's Headquarters in Katowice at ul. Sokolska 34.
- Under the tenancy agreement for office rooms in the building which is owned by CBS, ING Bank Śląski paid rent (via ING BSK Development) of PLN 19.1 million (gross) in monthly instalments. In addition, the Bank paid PLN 0.4 million for adaptation work.
- ING Services Polska provides services to ING Bank Śląski as related to the rent of computer resources. The cost of the service was PLN 11.2 million (gross).
- The remuneration for the financial consultation services provided in connection with the performance of the Cooperation Agreement between ING Bank Śląski S.A. and ING Bank NV amounted to PLN 27.5 million (net).
- On 25 March 2005, an annex to the Loan Agreement was signed, as a result of which the zloty credit line for ING Lease amounts to PLN 375 million. The agreement assumes the Wibor interest rate + margin for the Bank.
- ING Bank Śląski made a transaction with ING Lease for sub-renting of utility premises for a total amount of PLN 15.4 million (gross).

- ING Bank Śląski cooperates with ING Car Lease in the area of car lease and management of vehicle fleet. The amount of the respective payment amounted to PLN 6.9 million in 2005.

Cooperation Agreement between ING Bank NV, ING GROUP NV and ING Bank Śląski

Since July 1996, ING Bank Śląski has been a subsidiary of ING Bank NV. Close cooperation between the Bank and the ING Group dates back to that time. To formalise this cooperation, the Cooperation Agreement regulating its rules was signed in January 1997.

Over the past 8 years since the Agreement was in force starting from 1997, the principles and scope of cooperation has changed, in particular after 2001 when Bank Śląski combined with ING Bank NV Branch in Warsaw. In the first six months of 2005, the Supervisory Board of the Bank decided to amend the Cooperation Agreement. As a result of the work undertaken, a new Cooperation Agreement was signed in July 2005, replacing the Cooperation Agreement of 1997. The new Agreement regulates in particular the rules defining the possibilities of benefiting from the experience and knowledge of the ING Group, which may be useful and helpful for the Bank in order to improve the standard of services, improve competitiveness and minimise the risk of banking operations, as well as for the development of the uniform methodological system within the framework of the ING Group. The services of financial advising apply to the following areas of activity of the Bank:

1. business support and project methodology, including consultations in management of relationships with international customers of ING BSK and ING Group, direct support to the execution of international transactions entered into by the Bank, using the global system for strategic customers of the ING Group, consultations related to the methodology and standards of project management, making available the knowledge base of the ING Group within the Intranet;
2. brand and reputation management, including supporting actions aimed at the creation of the Bank's image and brand, using the standard of visualisation of the Bank branches,
3. human resources and management staff development (so-called Talent Management), including training, e.g. supporting employee development programmes;
4. methodology and construction of risk management models, including the supporting standard determination, policy and procedures related to the monitoring of the risk of banking operations, supporting implementation and improvement of models constituting the basis for assessment of the risk of banking operations, supporting implementation of procedures, policies and standards of risk analysis and mitigation, use of the ING models for market, operational and credit risk management.
5. taxes related to joint ventures and controlling and finances, including the planning and budgeting processes such as supporting adjustment of the finance and accounting operations of the Bank to new regulations (EBC regulations), the use of the ING solutions as related to the accounting principles applied and implementation of IFRS/IAS, and the use of the SOX 404 methodology for the mitigation of risk in the Bank's operations, in particular with respect to correctness of financial data;
6. methodology of construction and operation of internal control, including the use of solutions of the ING Group for monitoring implementation of post-control recommendations, consultations concerning the assessment of effectiveness of the implemented procedures, regulations and instructions;
7. IT architecture, IT infrastructure development and management of the information system risk, including the use of standards of safety of IT systems and data encryption, consultations related to the architecture and standardisation of IT systems;
8. legal issues related to the Bank's operation within the ING Group, foreign law, corporate governance and *compliance* rules, including the use of the ING Group's solutions related to *compliance*.
9. optimisation of the purchasing process, including consultations at optimisation of outsourcing processes;

10. financial markets, including advising on assessment of the market risk for FM products, the use of global ING limits;
11. support with respect to the solutions used in the *back-office* operations.

The remuneration for the services provided in 2005 amounted to PLN 27.5 million (net).

ING Bank Śląski plans also to sign an outsourcing agreement on the services of processing and analysing financial information of the Bank's corporate customers, which will be used by the Bank for:

- assigning to customers the credit rating in accordance with the interpretation of the Capital Agreement applied by ING,
- monitoring of the process of analysis of loan applications and procedures of making the loan decision,
- automatic generation and change of historical databases on customer ratings and changes of the customers' exposures and securities,
- current monitoring of total credit exposures of entities related legally and economically, which are customers of ING BSK,
- ongoing monitoring of the customer's risk arising from credit exposures and exposures in financial market instruments as well as of the limits set,
- ongoing calculation of amounts of collaterals for certain exposures in financial market instruments,
- generation of management and mandatory reports consistent with the interpretation of the Capital Agreement standards and IAS 39 applied by ING,
- estimation of the level of specific provisions for individually material exposures in accordance with IAS 39.

Transactions with related parties

31.12.2005

	Parent company	Other ING Group entities	Subsidiary undertakings	Associated undertakings
Balances of receivables and payables				
Deposits given	4 367 977	85 089	-	-
Loans	10 244	374 972	361 356	-
Deposits taken	75 443	88 165	313 674	25 676
Securities	-	-	42 003	-
Other receivables	365	5 545	2 711	-
Other liabilities	2 934	22 847	2	-
Off-balance derivatives revaluation	1 263	17 248	-	-
Off-balance sheet commitments and transactions				
Guarantees issued	52 575	6 565	-	-
Undrawn credit lines granted	50 563	67 851	327 337	-
FX spot	4 745 872	983 970	-	-
FX forward	497 352	28 703	-	-
IRS/CIRS	12 881 610	56 641	-	-
FRA	1 713 065	100 000	-	-
Options	207 293	192 990	-	-
Income and expenses				
Income	166 378	23 265	17 317	180
Expenses	70 001	3 795	37 159	3 705

51. Transactions with the management staff and employees

Employees of the ING Bank Śląski S.A. Group use loans on the same terms and conditions as the remaining customers of the Bank (no preferential loans for employees exist). Loans for employees disclosed in the amount of loans for customers and as of 31.12.2005 amount to PLN 53,362,000.

Granting of a loan, cash advance, bank guarantee and surety for the Bank's management staff members is regulated in a separate procedure and monitored in accordance with the Ordinance of the President of ING Bank Śląski S.A. The financial statements for 2005 contain the loans, cash advances,

bank guarantees and sureties for the Bank's management staff (within the meaning of Article 79 of the Banking Law) amounting to PLN 8,695,000.

The employees may use various forms of social assistance within the framework of Internal Social Benefit Funds established in the entities of the Group. The balance of money advances granted from the Internal Social Benefit Funds as of 31.12.2005 amounts to PLN 20,439,000.

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

Remuneration paid in 2005 to the Members of the Management Board (PLN '000)

Year	Remuneration and bonuses	Benefits	Total
2005	9 402	5 323	14 725
2004	11,921	3,544	15,465

The total amount of remuneration and bonuses paid out or due for 2005 given here is the gross amount of remuneration paid out or due and payable for the period from January to December 2005 and the 2004 bonus, which was paid out in 2005 at the total amount of PLN 1,494,000. Furthermore, in 2005 the Bank established a provision of PLN 2,574,000 for the bonus payable for that year.

The members of the Management Board have concluded non-competition agreements after they stop holding their function on the Bank's Management Board. In the event that a Management Board is not renominated for another term of office or is recalled from his/ her function, he or she is entitled to severance pay.

Remuneration paid in 2005 to the Members of the Supervisory Board of ING Bank Śląski S.A. (PLN '000)

Year	Remuneration and bonuses	Benefits	Total
2005	1,058	0	1,058
2004	1,001	0	1,001

The Management Board Members and other persons employed by ING Bank Śląski S.A. do not receive any remuneration for performing functions in the governing bodies of subsidiaries and associates of the ING Bank Śląski S.A. Group.

52. Events after the balance sheet date

On 30 January 2006, the Bank signed a loan agreement with ING Lease (Polska) Sp. z o.o. The loan amount is PLN 1.5 billion. The borrower is related to ING Bank Śląski S.A.

On 2 February 2006, the Bank signed with a Polish subsidiary of a global corporation a supplementary agreement to the loan agreement of 23 April 2004, increasing the loan amount to PLN 483.0 million.

On 1 February 2006, the Bank signed with Handlowy Heller S.A. a supplementary agreement to the loan agreement of 30 December 1999, increasing the loan amount to PLN 350.0 million.

53. Acquisitions

In 2005, the Bank did not make any acquisitions.

54. Risk management disclosures

An integral part of banking activity is bearing risk, which to minimise its negative effects must be appropriately monitored and managed. The basic types of banking risk are credit risk, liquidity risk, market risk (interest rate risk, foreign exchange risk) and operational risk. All objectives, tasks, obligations, and key procedures related to risk management are contained in internal regulations of the Bank.

This section below provides details of the Bank's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which ING Bank Śląski is exposed are credit risk, operational risk, liquidity risk and market risk. Market risk includes interest rate risk and exchange rate risk.

Derivative financial instruments

The purpose of this section is to provide information to enhance understanding of the significance of financial instruments to the Bank's financial position, performance and cash flows, and assist in assessing the amounts, timing and certainty of future cash flows associated with those instruments.

The Bank enters into a variety of derivative financial instruments for trading and risk management purposes. Details of the nature and terms of derivative instruments outstanding at the balance sheet date are set out in Notes 5, 18 and 41.

Derivative financial instruments used by the Group include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates, security prices, commodity prices or price indices. Derivatives are either standardised contracts transacted through regulated exchanges (referred to as exchange-traded products) or individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used by the Bank is set out below.

(i) Swaps

Swaps are over-the-counter agreements between the Bank and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Group are interest rate and cross-currency interest rate swaps ("CIRS swaps"). Under interest rate swaps, the Bank agrees with other parties to exchange the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The CIRS swap usually requires an exchange of interest payment flows and capital amounts in different currencies. The Bank is subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavourable movements in interest rates relative to the contractual rates or foreign exchange rates.

(ii) Futures and forwards

Futures and forwards are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardised exchange-traded contracts whereas forwards are individually-traded over-the-counter contracts. Hedging payments for futures are made in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the changes in the contract value for a single day. Futures contracts have little credit risk because the counterparties are futures market makers. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

(iii) Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer

specified underlying commodities at a specified price on a specified date (in the case of European options) or before a specified date (in the case of American options). The Bank enters into interest rate options, foreign exchange options, equity and index options. Interest rate options, including caps and floors, are used as hedges against the rise or fall, respectively, of interest rates. They provide protection against changes in interest rates on financial instruments above or below a specified level. Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

Financial risk management and hedging activities

Fair value hedges

In the financial statements as of 31.12.2005, the Bank did not use fair value hedge accounting.

Cash flow hedges

In the financial statements as of 31.12.2005, the Bank did not use cash flow hedge accounting.

Hedges of net investment in a foreign entity

In the financial statements as of 31.12.2005, the Bank did not use hedge accounting related to net investment in a foreign entity.

Trading activities

The main sources of the Bank's risk in this area are counterparty risk related mainly to the financial condition of the Bank's counterparties in operations in financial markets and market risks related to the significant variability of prices of trading financial instruments, which are mainly related to changes in foreign exchange rates, interest rates, and thus debt instrument prices.

Counterparty credit risk

Counterparty risk is managed by establishing limits for individual counterparties. On request of the relevant organisational units of the Bank, the final decision is made by the unit at the appropriate level of credit competencies. The following limit categories are used: settlement limit (for spot foreign exchange transactions, partly for foreign exchange swaps), pre-settlement (for foreign exchange swap transactions, forward fx, FRAs, repo, reverse repo, debt instrument purchase/sale), lending (mainly depositary operations). The methodology of risk control was developed by the Bank and accepted by the strategic shareholder, ING Bank N.V.

Market risk

In the previous years, the management of market risk in ING Bank Śląski was focused on the activity of the Financial Markets area. In 2005, the Bank implemented policies and related control reports in order to ensure market risk management in other areas of the Bank and its Capital Group. A summary of the significant control elements in the market risk management process is presented below.

Foreign exchange risk

In the area of foreign exchange risk, the respective systems ensuring the transfer of the currency position to the Financial Markets area are used. The potential changes of the Bank's profit or loss on the foreign exchange positions held, arising from the normal and crisis changes in the market, are monitored on a real time basis. In 2005, regular monitoring of foreign exchange positions in the Bank's subsidiaries was introduced to maintain such positions (and the resulting risk) at a low level.

Statistics of the VaR measure for the foreign exchange risk area – FX spot- in 2005 (in PLN '000)

Minimum value	Maximum value	Mean value
5	1,410	455

Interest rate risk

In the area of interest rate risk, appropriate systems ensuring the transfer of the interest rate positions of the Bank to the Financial Markets area are used. The potential changes of the Bank's profit or loss on the interest rate position held, arising from normal and crisis changes in the market, are monitored on a daily basis. In 2005, the following changes were made in the area of monitoring of the interest rate risk:

- 1) interest rate positions in the Bank's subsidiaries are regularly monitored for the purpose of their maintenance at a low level (which is also applicable to the resulting risk),
- 2) the level of the interest rate risk arising from non-standard pricing mechanisms used in products remaining in the areas of corporate and retail banking is regularly monitored; in relation to the simplification of the Bank's product range offered, the level of this risk has been constantly decreasing,
- 3) the Bank still increases the volume of call liabilities, invested in accordance with the replication rules, the purpose of which is to reflect more precisely the characteristics of the interest rates of the above volumes; a set of reports was introduced to ensure appropriate functioning of the above investment mechanisms.

Statistics of the VaR measure for the interest rate risk area in 2005 (in PLN '000)

Area	Minimum value	Maximum value	Mean value
Financial Markets: trading book and area of liquidity management and financing	737	3,122	1,859
Financial Markets: ALM portfolio	49	3,081	699

Potential changes in the value of the currency options portfolio, arising from normal and crisis changes in the market, are monitored on a daily basis. In 2005, regular monitoring of the risk arising from options embedded in corporate and retail term deposits (possibility of early withdrawal of the deposit by the customer) was introduced. A similar approach will be introduced in 2006 for corporate and retail credit products of the Bank.

Statistics of the VaR measure for currency options – Financial Markets area - in 2005 (in PLN '000)

Minimum value	Maximum value	Mean value
62	1,162	304

ING Bank Śląski S.A. - BPV profile* at end of 2005 (in PLN)

	Financial Markets	Corporate and Retail Banking	Total
1D	274	23	297
1M	3 709	405	4 115
3M	-57 507	-811	-58 318
6M	-9 252	-235	-9 487
9M	4 555	340	4 894
1Y	-39 903	-587	-40 489
2Y	48 174	-143	48 031
3Y	-38 930	1 355	-37 575
4Y	-63 355	502	-62 853
5Y	-26 416	0	-26 416
7Y	2 258	0	2 258
10Y	-162	0	-162
Total	-176 555	853	-175 702

*: bpv: Change in economic result from a one basis point (0.01%) change in interest rates

Liquidity risk

ING Bank Śląski possesses an appropriate plan for the event of a liquidity crisis. In 2005, the following changes were introduced in the liquidity risk area:

- 1) liquidity positions in the Bank's subsidiaries are regularly monitored to ensure the appropriate liquidity profile in these entities,
- 2) the Bank has conducted a full review of its liquidity policy and revised it. Reports drawn up on the basis of the new policy constitute a significant improvement in reflection of the Bank's liquidity position in a normal and crisis situation. To the extent possible, presentation of the liquidity position is based on statistical measures (for example, the level of earlier withdrawal and prolongation of deposits).

Liquidity Gap Report as of End of 2005 with Adjustments for Client Behavior and Possibilities for Asset Liquidation (PLN millions)

BALANCE		currency (in Mio PLN) : PLN + FC (USD, EUR, CHF)														
ASSETS	TOTAL	1 M	2 M	3 M	4 M	5 M	6 M	7 M	8 M	9 M	10 M	11 M	12 M	2Y	3Y	OVER 3Y
CAPITAL MARKET BANK. BOOK	885.9	35.3	0.0	14.9	8.9	4.9	0.0	19.0	0.0	0.0	0.0	0.0	0.0	81.1	30.0	691.9
CAPITAL MARKET TRADE	2,213.0	2,120.3	0.0	0.0	12.3	7.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	72.5	0.0	0.0
CAPITAL MARKET REP. PORT.	9,057.6	9,057.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MONEY MARKET (GIVEN)	12,339.9	11,941.0	0.0	6.5	81.5	0.0	310.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LOANS WHOLESALE	5,499.5	472.3	113.3	150.4	136.5	103.2	125.4	104.8	91.5	95.4	67.0	69.5	106.3	361.5	241.6	3,261.0
LOANS STRATEGIC CLIENTS	2,470.7	640.4	211.9	212.5	50.2	64.9	52.2	29.3	19.1	34.8	27.6	8.5	15.9	218.5	105.9	779.0
LOANS RETAIL	2,802.7	1,221.0	30.2	31.3	29.2	27.1	25.9	24.5	22.6	20.9	21.0	20.2	19.5	164.3	117.3	1,027.7
NBP BALANCE	767.1	0.0														767.1
NOSTRO	121.6	121.6														
NOTES & COINS	311.5	311.5														
TOTAL ASSETS	36,469.6	25,921.1	355.4	415.6	318.7	207.9	514.3	177.7	133.2	151.1	115.5	98.1	141.7	897.9	494.7	6,526.6
LIABILITIES	TOTAL	1 M	2 M	3 M	4 M	5 M	6 M	7 M	8 M	9 M	10 M	11 M	12 M	2Y	3Y	OVER 3Y
MONEY MARKET (TAKEN)	1,022.1	815.8	10.0	0.4	0.0	32.6	97.8	0.0	0.0	0.0	0.0	0.0	0.0	65.3	0.0	0.0
DEPO WHOLESALE	2,534.7	2,220.4	66.2	41.1	8.0	8.0	11.0	5.8	1.3	15.4	12.6	3.0	13.5	6.1	64.0	58.3
DEPO STRATEGIC CLIENTS	6,986.7	6,694.2	97.6	83.4	33.2	0.4	5.4	0.0	0.0	0.0	71.0	0.0	0.5	0.9	0.0	0.0
SPECIAL FINANCING	57.9	0.0	0.0	0.0	19.3	0.0	0.0	0.0	0.0	0.0	19.3	0.0	0.0	19.3	0.0	0.0
DEPO RETAIL	4,414.6	463.1	98.2	113.0	61.8	58.3	81.5	83.5	194.5	99.0	69.1	149.3	204.4	215.5	3.2	2,520.2
CA WHOLE SALE	2,430.9	486.2	388.7	311.1	248.9	199.1	159.3	127.5	102.0	81.6	65.3	52.2	41.8	155.1	11.2	0.9
CA STRATEGIC CLIENTS	1,125.3	225.1	179.9	144.0	115.2	92.2	73.8	59.0	47.2	37.8	30.2	24.2	19.3	71.8	5.2	0.4
CA RETAIL	2,516.5	503.3	211.8	277.3	234.6	198.5	167.9	142.1	120.2	101.7	86.1	72.8	61.6	291.3	40.7	6.6
SAVINGS ACCOUNTS RETAIL	12,728.1	2,545.6	0.0	1,068.5	960.3	859.1	768.6	687.6	615.1	550.3	492.3	440.5	394.1	2,444.0	658.9	243.2
REFIN. & LOMBARD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LORO	136.7	136.7														
IMPAIRMENT	774.1															774.1
TOTAL LIABILITIES	34,727.6	14,090.5	1,052.5	2,038.9	1,681.2	1,448.3	1,365.3	1,105.4	1,080.4	885.8	845.9	742.0	735.2	3,269.3	783.2	3,603.7
OFF BALANCE																
ASSETS	TOTAL	1 M	2 M	3 M	4 M	5 M	6 M	7 M	8 M	9 M	10 M	11 M	12 M	2Y	3Y	OVER 3Y
FX SWAPS	16,360.3	11,222.9	334.9	1,075.7	394.9	659.0	1,090.0	163.5	481.1	46.8	129.5	23.3	80.9	218.8	248.7	190.3
CC-IRS	536.7	0.6	0.6	0.6	0.6	0.6	6.3	0.6	0.6	0.6	0.6	0.6	6.3	127.6	349.9	40.9
MONEY MARKET	28.5	28.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DEPO STRATEGIC CLIENTS	74.6	74.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GUARANTEES (30%)	206.1	38.5	13.6	12.8	6.5	5.4	5.8	4.6	3.5	4.5	3.4	2.5	3.8	20.5	11.7	69.0
LETTERS OF CREDIT (90%)	68.9	8.1	5.5	8.1	1.6	1.1	1.0	0.9	0.4	2.8	1.0	0.5	0.5	6.1	3.0	28.3
UNUSED CREDIT LINES - WHOLESALE (75%/25%)*	1,526.2	14.7	3.6	4.2	2.4	2.2	2.4	1.8	1.6	1.5	1.2	1.1	1.7	7.2	4.4	1,476.3
UNUSED CREDIT LINES - RETAIL (50%/25%)*	468.7	459.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	1.1	0.7	5.4
TOTAL ASSETS	19,270.0	11,847.4	358.4	1,101.5	406.2	668.5	1,105.7	171.5	487.3	56.2	135.8	28.1	93.3	381.2	618.5	1,810.3
LIABILITIES	TOTAL	1 M	2 M	3 M	4 M	5 M	6 M	7 M	8 M	9 M	10 M	11 M	12 M	2Y	3Y	OVER 3Y
FX SWAPS	16,678.3	11,270.3	338.8	1,092.6	401.7	664.9	1,092.9	173.6	482.6	51.2	133.0	27.1	85.9	277.5	320.6	265.5
CC-IRS	483.6	0.6	0.6	0.6	0.6	0.6	5.4	0.6	0.6	0.6	0.6	0.6	5.4	113.0	313.3	40.9
MONEY MARKET	28.5	28.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DEPO STRATEGIC CLIENTS	74.6	74.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
REVERSE REPOS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GUARANTEES (30%)	206.1	206.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LETTERS OF CREDIT (90%)	68.9	68.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
UNUSED CREDIT LINES - WHOLESALE (75%/25%)*	1,526.2	1,526.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
UNUSED CREDIT LINES - RETAIL (50%/25%)*	468.7	468.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL LIABILITIES	19,535.0	13,643.6	339.4	1,093.5	402.2	665.4	1,098.3	174.1	483.2	51.8	133.6	27.7	91.2	390.5	633.9	306.4
G A P		10,034.4	-678.1	-1,615.3	-1,358.6	-1,237.3	-843.7	-930.3	-943.0	-730.3	-728.1	-643.5	-591.5	-2,380.6	-303.8	4,426.8
CUMULATIVE GAP		10,034.4	9,356.3	7,741.0	6,382.4	5,145.1	4,301.4	3,371.1	2,428.1	1,697.8	969.6	326.2	-265.3	-2,646.0	-2,949.8	1,477.0
3 mth liquidity ratio		1.24														
1 mth liquidity ratio		1.36														

In the areas where this is possible, the Bank conducted a revision of the VaR model (comparison of the forecasted results with the actual results) to ensure the continuous verification of correctness of the market risk data. To the extent possible, the market risk measurement is transferred from internal systems to integrated applications used by the ING Group members; this ensures the use of a common approach to the market risk measurement within the Group and reduces the operational risk.

Credit risk

Credit risk is defined as a risk of incurring financial losses as a result of the customer's inability to perform his financial obligations towards the Bank.

The basic tools for the management of credit risk in the Bank are sectoral analyses, establishing sectoral limits, creditworthiness assessment criteria and risk migration analysis. With respect to a retail banking customer, the main tool which supports risk assessment is an automatic and centralised application based on a scoring card.

An inherent part of the credit risk is the credit concentration issue. The regulations of the Banking Law in force in Poland allow on the one hand increasing the level of credit exposure to one customer (to 25% of the Bank's own funds), but on the other hand impose the requirements of monitoring large concentrations on an ongoing basis.

On the basis of the regulations in force, the Bank has introduced procedures for the management of risk related to large concentrations. So-called large exposures, i.e. total receivables, shares, supplementary payments and other types of the Bank's interest in enterprises/groups of enterprises which are bound by capital or organisationally, in the case of which the value exceeds 10% of net own funds, are monitored on an ongoing basis. Pursuant to Article 71 of the Banking Law, the maximum permissible coefficient is 800% of the Bank's own funds. As of the end of December 2005, the concentration coefficient was not exceeded.

The greatest balance sheet and off-balance exposures as of 31.12.2005 were as follows:

PLN '000

Customer	Balance sheet exposure	Off-balance sheet exposure	Total
1 (Customer)	170,467	327,337	497,804
2 (Group)	115,312	268,320	383,632
3 (Customer)	341,178	30,784	371,962
4 (Customer)	169,358	130,900	300,258
5 (Customer)	282,471	0	282,471
6 (Customer)	230,704	414	231,118
7 (Group)	2	212,895	212,897
8 (Customer)	96,906	103,809	200,715
9 (Customer)	129,133	64,330	193,463
10 (Customer)	0	193,171	193,171
TOTAL	1,535,531	1,331,960	2,867,491

To mitigate the risk related to credit portfolio concentration, the Bank diversifies its portfolio by increasing its exposure to small and medium-sized enterprises, and also develops its retail banking business. Apart from that, the Bank uses exposure limiting procedures in the case of increased-risk customers and economy sectors.

The table below presents the Group's exposure in branches and sectors of the national economy (taking into account the balance sheet and off-balance sheet exposure in business entities):

National economy branches and sectors (by classes of Classification of Economic Activities in the European Community)	Total exposure in PLN '000		Structure %	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Agriculture, hunting and forestry	235,787	249,937	1.57	1.78
Mining of coal and lignite	3,713	8,724	0.03	0.06
Extraction of crude petroleum and natural gas	195,795	109,274	1.30	0.78
Other mining and quarrying	111,199	38,212	0.74	0.27
Manufacture of food products and beverages	1,147,397	1,088,867	7.63	7.75
Manufacture of tobacco products	359,822	357,053	2.39	2.54
Manufacture of textiles	36,779	40,208	0.24	0.29
Manufacture of clothes and leather products	35,212	40,373	0.23	0.29
Manufacture of wood and wood products and manufacture of pulp, paper and paper products	239,198	192,098	1.59	1.37
Publishing	210,578	150,289	1.40	1.07
Fuel industry	258,632	241,476	1.72	1.72
Chemical industry	295,938	369,251	1.97	2.63
Rubber industry	222,878	134,140	1.48	0.95
Manufacture of other non- metallic products	370,632	330,103	2.46	2.35
Manufacture of metals	226,177	242,494	1.50	1.73
Manufacture of fabricated metal products	304,628	206,378	2.03	1.47
Manufacture of machinery and equipment	550,980	545,542	3.66	3.88
Manufacture of electronic products	260,386	314,573	1.73	2.24
Manufacture of precision instruments	83,980	103,437	0.56	0.74
Manufacture of transport equipment	356,544	366,322	2.37	2.61
Manufacture of furniture	107,846	93,607	0.72	0.67
Waste management	17,226	17,207	0.11	0.12
Production and distribution of electricity	731,755	553,739	4.86	3.94
Collection, purification and distribution of water	74,064	66,779	0.49	0.48
Construction	571,220	419,721	3.80	2.99
Sale, maintenance and repair of motor vehicles	325,914	324,594	2.17	2.31
Trade	2,584,433	2,686,072	17.18	19.12
Hotels and restaurants	45,217	43,416	0.30	0.31
Transport	309,854	231,788	2.07	1.66
Post and telecommunications	356,198	331,969	2.37	2.36
Financial intermediation, insurance and pension funding	2,190,805	1,464,983	14.56	10.42

Real property activities, renting of machinery and equipment	895,490	885,069	5.95	6.30
Computer and related activities	59,269	48,846	0.39	0.35
Research and development	5,132	8,047	0.03	0.06
Other business activities	338,609	463,910	2.25	3.30
Public administration and defence	364,766	391,159	2.43	2.78
Education	38,816	54,103	0.26	0.38
Health and social work	36,709	26,319	0.24	0.19
Other community, social and personal service activities	9,221	6,572	0.06	0.05
Recreational and sporting activities	43,494	114,968	0.29	0.82
Other	432,659	692,966	2.87	4.87
Total	15,044,952	14,054,585	100.00	100.00

Operational risk

ING Bank Śląski has implemented the rules of managing operational risk, abiding by the Recommendation of the National Bank of Poland based on the respective guidelines of the Basel Committee and consistently with the standards developed by the ING Group. Consistently with these regulations, the Operational Risk Management Policy specifying the consistent methodology and practice in this area has been adopted and implemented in the Bank.

The Bank considers operational risk the risk of direct or indirect tangible loss or loss of reputation as a result of inadequate or failed internal governance, human resources, technical systems or external events.

Operational risk management, applicable to all the Bank's organisational units and subsidiaries, involves identification, measurement and monitoring of this risk, and undertaking actions with a view to mitigate it. The Supervisory Board and the Management Board of the Bank systematically supervise the operational risk management-related operations, and the Operational Risk Committee coordinates the respective work. The Operational Risk Management Department has been established within the Bank's organisational structures, which has been entrusted with the execution of tasks related to the implementation, coordination, and monitoring of processes related to operational risk as well as to the IT risk, business process risk, and security of human and other resources.

Within the framework of operational risk management, the Bank focuses on the following issues:

- implementation of mechanisms of estimation of the operational risk level and its mitigation in individual areas of the Bank's business,
- collecting information, analysis and reporting of operational risk-related events,
- determination of significant risk ratios and their monitoring,
- limitation of losses by improving the system of control of the Bank's business,
- improving the audit process through implementation of an integrated recording systems and monitoring the implementation of post-audit recommendations,
- economic capital allocation adequate to the risk level,
- testing continuity-of-business plans for critical and important business processes,
- improvement of physical protections in the Bank, with particular consideration of the integrated system of monitoring security in the Branches and ensuring immediate help in emergency situations,
- arranging educational programmes and training related to operational risk management.

Capital adequacy of the Bank

In accordance with the provisions of the Resolution Number 4/2004 of the Bank Supervisory Commission of 8 September 2004 concerning the scope and detailed rules of determining capital requirements related to individual types of risk and scope of application of statistical methods and conditions whose conformity makes it possible to obtain consent for their application, the method and detailed rules of calculation of the bank solvency ratio, scope and method of taking into account bank operations in holding groups in calculation of capital requirements and solvency ratio and determination of additional bank balance sheet items disclosed together with shareholders' equity in the capital adequacy accounting and the scope, method and conditions of their determination, ING Bank Śląski S.A. capital adequacy as of 31 December 2005 was 17.96% - the minimum is 8%. The Bank conducted significant trading operations, and that is why it is subjected to the full requirement of calculation of capital requirements arising from individual risks.

The total capital requirement at the end of December 2005 was PLN 1,205,657,000, 90.4% of which corresponded to the credit risk, and 9.6% corresponded to the financial risks of the trading book.

CALCULATION OF SOLVENCY RATIO	end of 2005	end of 2004
Own funds:		
- Initial capital	130 100	130 100
- Supplementary capital -agio	993 750	993 750
- Revaluation reserve from measurement of available-for-sale financial assets	85 796	64 127
- Revaluation reserve from measurement of property, plant and equipment	31 725	32 967
- Retained profit or uncovered loss from prior years	1 717 034	1 509 968
- Decrease of capital in respect of shareholdings in financial entities	-80 179	-80 179
- Decrease of capital in respect of intangible assets	-287 415	-280 900
- Short-term capital	116 391	119 274
I. Total own funds	2 707 202	2 489 107
Risk weighted assets:		
- risk weighted assets with risk rate 20%	2 713 062	2 379 135
- risk weighted assets with risk rate 50%	117 268	470 588
- risk weighted assets with risk rate 100%	9 489 842	8 759 539
II. Total risk weighted assets	12 320 172	11 609 262
- risk weighted contingent liabilities granted with risk rate 10%	2 098	609
- risk weighted contingent liabilities granted with risk rate 20%	14 998	1 074 413
- risk weighted contingent liabilities granted with risk rate 50%	172 015	376 277
- risk weighted contingent liabilities granted with risk rate 100%	1 112 051	906 995
III. Total risk weighted contingent liabilities granted	1 301 162	2 358 294
IV. Total risk weighted assets and contingent liabilities granted (II + III)	13 621 334	13 967 556
V. Credit risk (IV*8%)	1 089 707	1 117 404
VI. Market risk	115 950	193 691
VII. Total capital requirement (V + VI)	1 205 657	1 311 095
VIII. Solvency ratio (%)	17,96	15,19

55. Explanation of transition to IFRSs

These financial statements are the first financial statements prepared consistently with the regulations of IFRS.

The accounting principles specified in Note 1 have been applied at preparation of the financial statements the financial year ending on 31.12.2005 as well as at presentation of comparative data for the financial year ending on 31 December 2004, and also at preparation of the opening balance as of 1 January 2004 (date of transition to the IFRS) consistently with the IFRS provisions.

In accordance with the requirements of the International Financial Reporting Standards/ International Accounting Standards, the financial statements for 2004 have been made comparable with the data disclosed in the financial statements for the above periods.

The transformation to comparative data related to:

1. Impairment in goodwill acquired as a result of the acquisition of Wielkopolski Bank Rolniczy S.A. and also as a result of amortisation for 2004 of the goodwill related to the acquisition of the ING Bank NV Branch and WBR,
2. Measurement of financial instruments related to the long-term incentive scheme
3. Real property revaluation to fair value
4. Furthermore, presentation changes in the Bank's financial statements related to the valuation of subsidiaries at cost.
7. Deferred tax
8. Reclassification from revaluation reserve to retained earnings

When preparing the financial statements consistently with the provisions of IFRS 1, the Bank used the following exemptions from the retrospective use of IFRS.

Exemption from the requirement to fully retrospectively apply IFRS

The Bank used the exemption from the requirement to fully retrospectively apply IFRS with respect to:

1. combination of economic entities,
2. assumed cost for tangible assets,
3. determination of the earlier recognised financial instruments.

Exemption from the transformation of comparative data

Pursuant to paragraph 36A of IFRS 1, the Bank decided to use the exemption from the requirement to restate comparative information for IAS 39 (measurement at amortised cost using the effective interest method, impairment losses on financial assets carried at amortised cost using the effective interest method).

Exemption from the retrospective introduction of other IFRS provisions

The Bank has not used this exemption.

Earlier application of the standards which are not mandatory as of the balance sheet date

The Bank did not use the option of earlier application of the new Standards and Interpretations, which have been published and approved by the European Community and which will enter into effect after the balance sheet date. Furthermore, as of the balance sheet date, the Bank did not complete yet the process of estimation of the effects of the new Standards and Interpretations which

will enter into effect after the balance sheet date on the financial statements of the Bank for the period in which they will be used for the first time.

Standards and Interpretations approved or pending approval	Effective date
Later amendment to IAS 1 Disclosures about capital	1 January 2007
IFRS 7 Financial Instruments: information disclosure	1 January 2007
IAS 39 and IFRS 4	1 January 2006
<ul style="list-style-type: none"> • Later amendments to IAS 39 and to IFRS 4: Financial guarantees • Financial Instruments: Recognition and Measurement – Cash flow hedge accounting of forecast intragroup transactions • Later amendments to IAS 39 Financial Instruments: Recognition and Measurement – Fair value option (including the resulting amendments to IAS 32 and IFRS 1) 	
IFRS 6	1 January 2006
<ul style="list-style-type: none"> • IFRS 6 Exploration and Evaluation of Mineral Resources (including the resulting amendments to IFRS 1, IAS 16 and IAS 38) and • Later amendment to IFRS 6 Exploration and Evaluation of Mineral Resources and to IFRS 1 First-time Adoption of International Financial Reporting Standards 	
Later amendments to IAS 19 Employee Benefits – Actuarial gains and losses, Group Plans and Disclosures (including the resulting amendments to IAS 1, IAS 24 and do IFRS 1)	1 January 2006
IFRIC 4 Determining whether an Arrangement contains a Lease (including the resulting amendments to IFRS 1)	1 January 2006
IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (including the resulting amendments to IAS 39)	1 January 2006
IFRIC 6 Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 December 2005

The Bank did not use the option of earlier application of IFRS 7, because as assessed by the Management Board, the disclosures consistent with IFRS 7 will not deviate significantly from the disclosures required by IAS 32 and IAS 30.

The Bank Management Board is in the process of estimating the effect of amendments to IAS 39 and IFRS 4, and also to IFRIC 4 on the operations of the Bank and the Group.

The remaining standards and changes to the existing standards and interpretations issued by the International Financial Reporting Interpretations Committee, both those approved and pending approval by the European Commission, either do not apply to the financial statements of the Bank or would not have any significant effect on these financial statements.

Transformation of capital to comparative data

At preparation of the opening balance consistently with IFRS, the Bank adjusted the values disclosed in the prior financial statements which had been prepared consistently with the accounting standards applied earlier.

The table below presents the transformation to comparative data related to equity and net profit or loss as of 01.01.2004, 01.01.2005 and 31.12.2004 (data in PLN '000). The changes were made in the following areas:

- (1) Impairment in goodwill acquired as a result of the acquisition of Wielkopolski Bank Rolniczy S.A and as a result of amortisation of the goodwill related to the acquisition of the ING Bank NV,
- (2) Measurement of financial instruments related to the long-term incentive scheme,
- (3) Real property revaluation to fair value,
- (4) Recognition of subsidiaries at cost,
- (7) Deferred tax.
- (8) Reclassification from revaluation reserve to retained earnings

RECONCILIATION OF NET ASSETS
PLN thous.

	Net result	Result of previous year	Equity Revaluation reserve	Other	TOTAL
PAS 01.01.2004	-	22 253	22 447	2 664 112	2 708 812
Impairment and depreciation of goodwill		-4 584			-4 584
Revaluation of building to fair value		-46 999	19 228		-27 771
Equity method		-2 102	-321		-2 423
Deferred tax		-4 332			-4 332
Revaluation reserve			-15 020	15 020	0
IFRS/IAS 01.01.2004	-	-35 764	26 334	2 679 132	2 669 702
PAS 31.12.2004	366 255	6 486	92 886	2 670 331	3 135 958
Impairment and depreciation of goodwill	29 825	-4 584			25 241
Recognition of financial instruments (option)	-724				-724
Revaluation of building to fair value		-46 999	19 228		-27 771
Equity method	-63 079	-2 102	0		-65 182
Deferred tax	-2 173	-4 332			-6 505
Revaluation reserve			-15 020	15 020	0
IFRS/IAS 31.12.2004	330 104	-51 531	97 094	2 685 351	3 061 017
PAS 01.01.2005		372 741	92 886	2 670 331	3 135 958
Impairment and depreciation of goodwill		25 241			25 241
Recognition of financial instruments (option)		-724			-724
Revaluation of building to fair value		-46 999	19 228		-27 771
Equity method		-65 182	0		-65 182
Loan impairment		197 581			197 581
Amortised cost		-56 099	3 865		-52 234
Deferred tax		-6 291			-6 291
Revaluation reserve			-15 020	15 020	0
IFRS/IAS 01.01.2005	0	420 268	100 959	2 685 351	3 206 578

The description and the effects of transformations related to the introduction of IFRS/IAS on the financial statements of ING Bank Śląski S.A. are presented below

Impairment and amortisation of goodwill

IAS implementation is associated with a change in measurement of goodwill which consistently with IAS is subject to testing for impairment. In its books, the Bank holds goodwill related to the acquisition of ING Warsaw Branch for which no impairment has been found and Wielkopolski Bank Rolniczy in the case of which the Bank does not obtain the profits assumed and thus an impairment occurred at the level of 100% of the recorded goodwill (amount PLN 4,584,000 was charged to the profit for the previous years) Furthermore, the Bank derecognised PLN 29,825,000 of depreciation in the goodwill for 2004.

Note 1	Impairment of goodwill related to WBR	Derecognition of depreciation related to ING Bank Warsaw Branch	TOTAL
ASSETS			
- Intangible assets	-4 584	29 825	25 241
Total assets	-4 584	29 825	25 241
LIABILITIES			
EQUITY			
- Result of previous year	-4 584		-4 584
- Net profit or loss for the current year (2004)		29 825	29 825
Total equity	-4 584	29 825	25 241
Total liabilities and equity	-4 584	29 825	25 241

This adjustment was presented retrospectively in the comparative data as of 31.12.2004.

Measurement of financial instruments (options in the incentive scheme)

IFRS implementation is related with the introduction of measurement of derivative instruments related to the long-term incentive scheme. Therefore, the Bank disclosed in its books the measurement of such instruments amounting to PLN –724,000 (including the deferred tax) as the charge to the profit or loss for 2004.

Note 2	Option measurement	Deferred tax	TOTAL
ASSETS			
- Deferred tax assets		243	243
Total assets	0	243	243
LIABILITIES			
LIABILITIES			
- Other liabilities	967		967
Total liabilities	967	0	967
EQUITY			
- Net profit or loss for the current year (2004)	-967	243	-724
Total equity	-967	243	-724
Total liabilities and equity	-967	243	-724

This adjustment was presented retrospectively in the comparative data as of 31.12.2004.

Remeasurement of real property to fair value

The Bank has introduced a change in measurement of real property used for conducting banking activity to fair value reduced by depreciation. This is dictated by the willing to present in the Bank's financial statements the actual value of the real property. So far the real property was disclosed at the historical acquisition cost or manufacturing cost reduced by depreciation, which did not give a reliable picture of the non-current asset in the Bank's opinion. Real property will be measured periodically, not less frequently than once in every 3 – 5 years. The effects of real property measurement (taking into account deferred tax) had an effect on the profit or loss for the previous years at an amount of PLN 46,999,000 and on the revaluation reserve at an amount of PLN 19,228,000.

Note 3	Revaluation of real property	Deferred tax	TOTAL
ASSETS			
- Tangible fixed assets	-31 592		-31 592
- Deferred tax assets		3 821	3 821
Total assets	-31 592	3 821	-27 771
LIABILITIES			
EQUITY			
- Revaluation reserve	26 431	-7 203	19 228
- Result of previous year	-58 023	11 024	-46 999
Total equity	-31 592	3 821	-27 771
Total liabilities and equity	-31 592	3 821	-27 771

This adjustment was presented retrospectively in the comparative data as of 31.12.2004.

Revaluation of financial assets

As required by IAS 39, the Bank has performed revaluation of financial assets accounted for at amortised acquisition cost as the difference between the carrying value of the asset and the present value of expected future cash flows discounted at the effective interest rate. The provisions recognised for the expected (estimated) loss and for the risk of future loss recognised so far consistently with PAS have been replaced by the revaluation of assets with respect of which impairment was found and the provision for incurred but not reported (IBNR) losses.

The following operations have been performed by the Bank to calculate the amount of impairment as of 01.01.2005:

- The interest accrued and unpaid, recorded so far as classified income, have been transferred to the profit or loss for previous years (increased the profit or loss for previous years), and at the same time, the full revaluation write down was made for the amount of unpaid accrued interest in the situation of impairment risk, originating from before 01.01.2005.
- Specific provisions and general risk provisions recognised consistently with PAS have been transferred to the profit or loss for previous years (increased the profit or loss for previous years),
- Assets taken over for debts, which had previously been recognised as investment financial assets, were presented as financial assets measured at amortised price of acquisition.
- The impairment amount was calculated as a difference between the sum of expected future cash flows discounted at the effective interest rate and the present value of receivables (or liability equivalent). IBNR provisions; i.e. the provisions for the incurred but not reported losses were calculated – using the statistical models for exposures in respect of which no loss in the value was reported – on the basis of PD (probability of default) and the estimated period between the appearance of circumstances conditioning loss occurrence (e.g. loss of capacity to repay liabilities) and obtainment of knowledge about that situation by the Bank and LGD (loss given default).
- The loss recognised in the Bank books and pertaining to the investment property owned by the Bank's subsidiary was derecognised and a loss calculated as a difference between the total of projected future cash flows discounted with the effective interest rate and the present value of the loan drawn from the Bank by the subsidiary was recognised instead.

As a result, the amount of PLN 197,581,000; taking also deferred tax into account, increased the profit or loss for previous years.

Note 4	Transfer of suspended interest	Transfer of specific provision	Impairment write-downs	Movement of assets taken over for debt - cost	Movement of assets taken over for debt - impairment write-downs	Replacement of impairment of real property with impairment of financial assets carried at cost	Deferred tax	TOTAL
ASSETS								
- Investment financial assets				-103 330	21 545			-81 785
- Loans and cash advances granted to customers	-140 184	792 301	-849 059	103 330	-27 042	33 113		-87 541
- Deferred tax assets							-13 415	-13 415
Total assets	-140 184	792 301	-849 059	0	-5 497	33 113	-13 415	-182 741
LIABILITIES								
LIABILITIES								
- Provisions		-240 010						-240 010
- Other liabilities	-192 456		52 144					-140 312
Total liabilities	-192 456	-240 010	52 144	0	0	0	0	-380 322
EQUITY								
- Result of previous year	52 272	1 032 311	-901 203		-5 497	33 113	-13 415	197 581
Total equity	52 272	1 032 311	-901 203	0	-5 497	33 113	-13 415	197 581
Total liabilities and equity	-140 184	792 301	-849 059	0	-5 497	33 113	-13 415	-182 741

Pursuant to the exemption arising from paragraph 36A IFRS 1, this adjustment has not been used for comparative data.

Measurement at amortised cost

Consistently with PAS, interest was disclosed in the income statement on an accrual basis, and fees and commissions were disclosed in the income statement on an accrual basis or cash basis, depending on the type of the commission or fee. Consistently with IFRS, measurement at amortised cost taking into account the effective profitability obtained on the financial instrument was used, while the effective profitability is calculated taking into account all fees and payments made and received.

Due to the estimation of impairment of financial assets consistently with IFRS for the first time as of 01.01.2005, the adjustment based on the effective interest rate does not take into account the change in the method of calculating interest on the present value of assets, due to which the transformed financial profit or loss will not be fully comparable with the profit or loss defined consistently with IAS in a continuous manner in 2005.

As a result, the amount of PLN – 56,099,000, taking also into account deferred tax, reduced the profit or loss for previous years, and the amount of PLN 3,865,000, taking also into account deferred tax, increased the revaluation reserve.

Note 5	Measurement of loans and advances at amortised cost	Measurement of loans taken at amortised cost	Measurement of investment financial assets at amortised cost	Deferred tax	TOTAL
ASSETS					
- Loans and cash advances granted to customers	-26 150				-26 150
- Deferred tax assets				12 252	12 252
Total assets	-26 150	0	0	12 252	-13 898
LIABILITIES					
LIABILITIES					
- Amounts due to other banks		-442			-442
- Provisions					0
- Other liabilities	38 778				38 778
Total liabilities	38 778	-442	0	0	38 336
EQUITY					
- Revaluation reserve			4 771	-906	3 865
- Result of previous year	-64 928	442	-4 771	13 158	-56 099
Total equity	-64 928	442	0	12 252	-52 234
Total liabilities and equity	-26 150	0	0	12 252	-13 898

Pursuant to the exemption arising from paragraph 36A IFRS 1, this adjustment has not been used for comparative data.

Recognition of subsidiaries at cost

In accordance with PAS, the Bank measured subsidiaries using the equity method.

In accordance with IFRS, the above enterprises should be recognised in the individual balance sheet of the Bank at cost. Therefore, the Bank derecognised the prior valuations in the item of share in profits or losses of subsidiaries (and also operations related to consolidation adjustments which have been taken into account in accounting by the equity method – e.g. specific provisions) and recognised dividend income, taking into account the resulting changes in income tax. As a result, the amount of PLN 65,181,000, including also the deferred tax, decreased the profit or loss from previous years.

Note 6	Recognition of subsidiaries at cost	Dividend income on subsidiaries	Deferred tax	TOTAL
ASSETS				
- Investment in subsidiaries	-76 046	4 985		-71 061
- Deferred tax assets			5 880	5 880
Total assets	-76 046	4 985	5 880	-65 181
LIABILITIES				
EQUITY				
- Result of previous year	-4 612		2 510	-2 102
- Net profit or loss for the current year (2004)	-71 434	4 985	3 370	-63 079
Total equity	-76 046	4 985	5 880	-65 181
Total liabilities and equity	-76 046	4 985	5 880	-65 181

This adjustment was presented retrospectively in the comparative data as of 31.12.2004.

Deferred Tax

The Bank reviewed the balance items forming the basis for provisioning and the assets due to deferred tax in accordance with the requirements of IAS 12 and also considering the impact of previous adjustments and transformations. As a result of new estimates, the amount of PLN 2,173,000 was charged to the result of the 2004 year and the amount of PLN 4,118,000 to the result of the previous years.

Note 7	a) Derecognition of deferred tax related to impairment on real property	b) Deferred tax on impairment of loans	TOTAL
ASSETS			
- Deferred tax assets	-6 505	214	-6 291
Total assets	-6 505	214	-6 291
LIABILITIES			
EQUITY			
- Result of previous year	-4 332	214	-4 118
- Net profit or loss for the current year (2004)	-2 173		-2 173
Total equity	-6 505	214	-6 291
Total liabilities and equity	-6 505	214	-6 291

This adjustment in the part:

(7a) – was presented retrospectively in the comparative data as of 31.12.2004.

(7b) – under the exemption deriving from 36A of IFRS 1 was not applied to comparable data.

Revaluation reserve

Following the measurement in 2004 of real estate held by the Bank, the amounts recognised under the

capital on revaluation of non-current assets were verified. The amount of revaluation, which was carried out between 1994 and 1995 and totalled PLN15,020,000, was related to non-current assets other than real estate and was transferred to the result of previous years.

Note 8	Movement revaluation reserve related to other than properties	TOTAL
LIABILITIES		
EQUITY		
- Revaluation reserve	-15 020	-15 020
- Result of previous year	15 020	15 020
Total equity	0	0
Total liabilities and equity	0	0

This adjustment was presented retrospectively in the comparative data as of 31.12.2004.

The comparable balance sheet and income statement for 31.12.2004 for the statements of the Bank, and also the transformation of the opening balance of the Bank as of 01.01.2005 are as follows:

COMPARABLE BALANCE SHEET as at 31.12.2004								
	31.12.2004 based PAS	Goodwill	Option measurement	Revaluation real property to fair value	Recognition of subsidiaries at cost	Deferred tax	Revaluation reserve	31.12.2004 based on IFRS
NOTE		1	2	3	6	7	8	
ASSETS								
- Cash and balances with the Central Bank	895 324							895 324
- Deposits in other banks and loans and advances granted to other banks	11 155 605							11 155 605
- Financial assets carried at cost	5 133 327							5 133 327
- Investment financial assets	6 565 207							6 565 207
- Loans and advances granted to customers	10 519 540							10 519 540
- Investments in subsidiaries	211 926				-71 061			140 865
- Tangible assets	484 857			-31 592				453 265
- Intangible assets	276 504	25 241						301 745
- Fixed assets held for trading	8 614							8 614
- Current income tax assets	62 060							62 060
- Deferred tax assets	72 595		243	3 821	5 881	-6 505		76 035
- Other assets	123 782							123 782
Total assets	35 509 341	25 241	243	-27 771	-65 180	-6 505	0	35 435 369
LIABILITIES AND EQUITY								
LIABILITIES								
- Amounts due to Central Bank	0							0
- Amounts due other banks	2 512 824							2 512 824
- Financial liabilities held for trading	1 270 042							1 270 042
- Amounts due to customers	27 676 402							27 676 402
- Provisions	321 588							321 588
- Current income tax liabilities	0							0
- Deferred tax liabilities	0							0
- Other liabilities	592 529		967					593 496
Total Liabilities	32 373 385	0	967	0	0	0	0	32 374 352
EQUITY								
- Share capital	130 100							130 100
- Supplementary capital - surplus on the sale of shares above par value	993 750							993 750
- Revaluation reserve from revaluation of financial assets available for sale	64 127							64 127
- Revaluation reserve form revaluation of fixed assets	28 759			19 228			-15 020	32 967
- Retained earnings	1 919 220	25 241	-724	-46 999	-65 180	-6 505	15 020	1 840 073
Total equity	3 135 956	25 241	-724	-27 771	-65 180	-6 505	0	3 061 017
Total liabilities and equity	35 509 341	25 241	243	-27 771	-65 180	-6 505	0	35 435 369

COMPARABLE PROFIT AND LOSS ACCOUNT for 2004		Year 2004	Goodwill	Option measurement	Recognition of subsidiaries at cost	Deferred tax	Year 2004 based on IFRS
NOTE			1	2	6	7	
- Interest received		1 686 170					1 686 170
- Interest paid		864 467					864 467
Net interest		821 703	0	0	0	0	821 703
- Fees and commissions received		551 566					551 566
- Fees and commissions expenses		78 899					78 899
Net fee and commission		472 667	0	0	0	0	472 667
- Dividend income		750			4 985		5 735
- Net income on financial instruments measured at fair value through profit and loss		72 298					72 298
- Net income on investment financial assets		2 961					2 961
- Net income on sale of a subsidiary		1 501					1 501
- Net income on adjustments of fair value in hedge accounting		0					0
- Foreign exchange results		201 978					201 978
- Other operating income		16 110					16 110
- Other operating expenses		42 118					42 118
Net income on core business		1 547 850	0	0	4 985	0	1 552 835
- Operating and general administrative expenses		882 919		967			883 886
- Depreciation and amortisation of tangible and intangible assets		145 901	-29 825				116 076
- Net income of valuation of investment real estate at fair value		-11 437					-11 437
- Net income from sale of assets other than held for trading		694					694
- Impairment write-downs and provisions for off-balance sheet liabilities		153 789			-4 888		148 901
- Net income on fixed assets and assets held for trading		-422					-422
- Share in net profits (losses) of jointly controlled and associated enterprises accounted for by the equity method		76 322			-76 322		0
Gross profit (loss)		430 398	29 825	-967	-66 449	0	392 807
- Income tax		64 143		-243	-3 370	2 173	62 703
Net profit (loss)		366 255	29 825	-724	-63 079	-2 173	330 104

RESTATEMENTS OF OPENING BALANCE SHEET as at 01.01.2005	01.01.2005 based on PAS	Goodwill	Option measurement	Revaluation of real property to fair value	Impairment of financial assets carried at cost	Measurement at amortised cost	Recognition of subsidiary at cost	Deferred tax	Revaluation reserve	01.01.2005 based on IFRS
NOTE		1	2	3	4	5	6	7	8	
ASSETS										
- Cash and balances with the Central Bank	895 324									895 324
- Deposits in other banks and loans and advances granted to other banks	11 155 605									11 155 605
- Financial assets carried at cost	5 133 327									5 133 327
- Investment financial assets	6 565 207				-81 785					6 483 422
- Loans and advances granted to customers	10 519 540				-87 541	-26 150				10 405 849
- Investments in subsidiaries	211 926						-71 061			140 865
- Tangible assets	484 857			-31 592						453 265
- Intangible assets	276 504	25 241								301 745
- Fixed assets held for trading	8 614									8 614
- Current income tax assets	62 060									62 060
- Deferred tax assets	72 595		243	3 821	-13 415	12 252	5 881	-6 291		75 086
- Other assets	123 782									123 782
Total assets	35 509 341	25 241	243	-27 771	-182 741	-13 898	-65 180	-6 291	0	35 238 944
LIABILITIES AND EQUITY										
LIABILITIES										
- Amounts due to Central Bank	0									0
- Amounts due other banks	2 512 824					-442				2 512 382
- Financial liabilities held for trading	1 270 042									1 270 042
- Amounts due to customers	27 676 402									27 676 402
- Provisions	321 588				-240 010					81 578
- Current income tax liabilities	0									0
- Deferred tax liabilities	0									0
- Other liabilities	592 529		967		-140 312	38 778				491 962
Total Liabilities	32 373 385	0	967	0	-380 322	38 336	0	0	0	32 032 366
EQUITY										
- Share capital	130 100									130 100
- Supplementary capital - surplus on the sale of shares above par value	993 750									993 750
- Revaluation reserve from revaluation of financial assets available for sale	64 127					3 865				67 992
- Revaluation reserve from revaluation of fixed assets	28 759			19 228					-15 020	32 967
- Retained earnings	1 919 220	25 241	-724	-46 999	197 581	-56 099	-65 180	-6 291	15 020	1 981 769
Total equity	3 135 956	25 241	-724	-27 771	197 581	-52 234	-65 180	-6 291	0	3 206 578
Total liabilities and equity	35 509 341	25 241	243	-27 771	-182 741	-13 898	-65 180	-6 291	0	35 238 944