

# **Financial Reporting of ING Bank Śląski Group for the year 2006**

## Table of contents

<b>Consolidated profit and loss account.....</b>	<b>1</b>
<b>Consolidated balance sheet.....</b>	<b>2</b>
<b>Consolidated statement of changes in equity.....</b>	<b>3</b>
<b>Consolidated statement of cash flow.....</b>	<b>4</b>
<b>Information on the Bank and the Capital Group.....</b>	<b>5</b>
<b>Selected financial data from the consolidated Financial Statements.....</b>	<b>6</b>
<b>Significant accounting Policies.....</b>	<b>6</b>
a. Statement of compliance with International Financial Reporting Standards.....	6
b. Term and scope of the report.....	7
c. (Earlier) Adoption of Standards which are not in force as at the Balance Sheet Date.....	7
d. Basis for preparation of consolidated financial statements.....	9
e. Accounting Estimates.....	9
<i>Impairment of loans.....</i>	<i>9</i>
<i>Impairment of other non-current assets.....</i>	<i>10</i>
<i>Measurement of financial instruments that do not have a quoted market price.....</i>	<i>10</i>
<i>Retirement and sick pension severance payments provision.....</i>	<i>10</i>
<i>Provisions for bonus for employees and top executives.....</i>	<i>11</i>
f. Consolidation policies.....	11
i. Subsidiaries.....	11
ii. Purchase method.....	11
iii. Associates.....	11
iv. Transactions eliminated in consolidation process.....	12
g. Foreign currency.....	12
i. The functional currency and the presentation's currency.....	12
ii. Transactions and balances in foreign currency.....	12
iii. Financial statements of investments in a foreign operation.....	12
h. Financial assets and liabilities.....	12
i. Classification.....	12
ii. Recognition.....	13
iii. Derecognition.....	13
iv. Measurement.....	14
v. Gains and losses resulting from subsequent measurement.....	15
i. Offsetting financial instruments.....	15
j. Repo, Reverse Repo, Sell-buy-back, buy-sell-back transactions.....	15
k. Derivatives instruments.....	16
i. Derivative instruments not qualifying as hedging instruments.....	16
ii. Hedge Accounting.....	16
l. Impairment.....	17
<i>Assets carried at amortised cost.....</i>	<i>17</i>
<i>Financial assets available for sale.....</i>	<i>18</i>
<i>Financial assets carried at cost.....</i>	<i>19</i>
m. Investment property.....	19
n. Tangible fixed assets.....	19
i. Own tangible fixed assets.....	19
ii. Subsequent costs.....	19
o. Intangible assets.....	19
i. Goodwill.....	20
ii. Computer software.....	20
iii. Other intangible assets.....	20
iv. Subsequent Costs.....	20
p. Depreciation and amortization charges.....	20
q. Leasing contracts.....	21
i. The Group as lessor.....	21
ii. The Group as lessee.....	21
r. Other balance sheet items.....	21

Consolidated financial statements of the ING Bank Śląski S.A. Group  
for the period from 1<sup>st</sup> January 2006 to 31<sup>st</sup> December 2006

i.	Other trading receivable and other receivables.....	21
ii.	Liabilities.....	21
iii.	Non current assets held for sale and discontinued operation.....	21
iv.	Cash and cash equivalents.....	22
s.	Impairment of other non- financial assets.....	22
	Measuring Recoverable Amount.....	22
	Reversing of impairment loss.....	22
t.	Equity.....	23
	Share capital.....	23
i.	Own shares.....	23
ii.	Dividends.....	23
	Share premium.....	23
	Revaluation reserve.....	23
	Retained earnings.....	23
u.	Prepayments and deferred income.....	24
	Prepayments.....	24
	Deferred income.....	24
w.	Employee benefits.....	24
i.	Defined contribution plans.....	24
ii.	Short-term employee benefits.....	24
iii.	Long-term employee benefits.....	24
x.	Provisions.....	25
y.	Net interest income.....	25
z.	Net commission income.....	25
aa.	Result on financial instruments at fair value through profit and loss.....	26
bb.	Result on investment.....	26
cc.	Dividend income.....	26
dd.	Other operating income and expense.....	26
ee.	Net profit attributable to minority shareholders.....	26
ff.	Income tax.....	26
gg.	Deferred income tax.....	26
hh.	Other taxes.....	27
	<b>Notes to the consolidated financial statements.....</b>	<b>28</b>
1.	Segment reporting.....	28
	Business segments.....	28
	Geographical segments.....	29
2.	Net interest income.....	32
3.	Net commission income.....	32
4.	Dividend income.....	33
5.	Net income on instruments measured at fair value through profit and loss.....	33
6.	Net income on investment securities.....	33
7.	Result on the revaluation of FX positions and transactions.....	33
8.	Other operating income.....	34
9.	Other operating expenses.....	34
10.	General and administrative expenses.....	34
11.	Depreciation and amortisation.....	35
12.	Impairment losses and provisions for off-balance sheet liabilities.....	35
13.	Share in net profit (loss) of associated entities recognised under the equity method.....	36
14.	Income tax.....	36
15.	Earnings per share.....	37
16.	Dividends paid/proposed.....	37
17.	Cash in hand and balances with the Central Bank.....	37
18.	Deposit accounts in other banks as well as loans and advances to other banks.....	38
19.	Financial assets measured at fair value through profit and loss.....	38
20.	Investments financial assets.....	40
21.	Loans and advances to customers.....	41

22. Movements in impairment losses on receivables due to loans and advances.....	43
23. Investments in controlled entities.....	43
24. Sale of the subsidiaries.....	44
25. Property, plant and equipment.....	45
26. Investment real estate.....	46
27. Intangible assets.....	47
28. Property, plant and equipment held for sale.....	48
29. Deferred tax assets and reserves.....	49
30. Other assets.....	50
31. Employee benefits.....	50
32. Liabilities due to other banks.....	51
33. Financial liabilities at fair value.....	51
34. Liabilities due to customers.....	52
35. Provisions.....	53
36. Other liabilities.....	55
37. Repos and reverse repos.....	55
38. Share capital.....	56
39. Revaluation reserve.....	56
40. Retained earnings.....	56
41. Balance sheet currency structure.....	58
42. Contingent liabilities.....	60
43. Off-balance sheet financial instruments.....	61
44. Hedge accounting.....	62
45. Fair value.....	62
46. Hedging assets.....	63
47. Custody activities.....	63
48. Operating leases.....	64
49. Cash and cash equivalents.....	64
50. Explanation of the classification of Bank's activities into operating, investment and financial activities in the cash flow statement.....	64
51. Reasons of differences between changes in some balance sheet items and changes in these items disclosed in the cash flow statement.....	64
52. Related entities.....	65
53. Transactions with the management staff and employees.....	66
54. Events after the balance sheet date.....	67
55. Acquisitions.....	68
56. Risk management disclosures.....	68
<i>Derivative financial instruments</i> .....	68
i. <i>Swaps</i> .....	69
ii. <i>Futures and forwards</i> .....	69
iii. <i>Options</i> .....	69
Trading activities.....	69
<i>Counterparty credit risk</i> .....	69
<i>Market risk</i> .....	70
<i>Liquidity risk</i> .....	71
<i>Credit risk</i> .....	71
<i>Operational risk</i> .....	73
<i>Capital adequacy of the Group</i> .....	74

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

	(PLN '000)	Note	year 2006	year 2005
<i>Interest income</i>		2	2 003 220	1 868 398
<i>Interest expenses</i>		2	1 066 916	1 147 177
<b>Net interest income</b>			<b>936 304</b>	<b>721 221</b>
<i>Commission income</i>		3	738 581	604 076
<i>Commission expenses</i>		3	89 905	76 398
<b>Net commission income</b>			<b>648 676</b>	<b>527 678</b>
Dividend income		4	2 561	1 711
Net income on instruments measured at fair value through profit and loss		5	552	212 137
Net income on investment financial assets		6	20 017	3 684
Net income from a subsidiary sold			0	289
Net income from fair value measurement of investment real estate			3 652	17 429
Net income on available-for-sale assets and assets held for sale			-127	3 632
Net income from fair value measurement of hedge accounting relationships			-1 260	-1 995
Net income on the revaluation of FX positions and transactions		7	148 539	176 442
Other operating income		8	54 773	40 076
Other operating expenses		9	39 057	31 856
<b>Result on basic activities</b>			<b>1 774 630</b>	<b>1 670 448</b>
General and administrative expenses		10	1 092 446	981 118
Depreciation and amortisation		11	141 625	128 269
Net income on disposal of assets other than held for sale			-998	122
Impairment losses and provisions for off-balance sheet liabilities		12	-173 920	-117 957
Share in net profit (loss) of associates entities recognised under the equity method		13	39 850	26 700
<b>Profit (loss) before tax</b>			<b>753 331</b>	<b>705 840</b>
Income tax		14	155 380	139 394
<b>Net profit (loss)</b>			<b>597 951</b>	<b>566 446</b>
- assigned to shareholders of the holding company			591 355	549 462
- assigned to minority shareholders			6 596	16 984
<b>Net profit (loss) assigned to shareholders of the holding company</b>			<b>591 355</b>	<b>549 462</b>
<b>Weighted average number of ordinary shares</b>			<b>13 010 000</b>	<b>13 010 000</b>
<b>Earnings per ordinary share (PLN)</b>		15	<b>45,45</b>	<b>42,23</b>
<b>Diluted weighted average number of ordinary shares</b>			<b>13 010 000</b>	<b>13 010 000</b>
<b>Diluted earnings per ordinary share (PLN)</b>		15	<b>45,45</b>	<b>42,23</b>

CONSOLIDATED BALANCE SHEET		(PLN '000)	Note	end of 2006 as of 31 December 2006	end of 2005 as of 31 December 2005
<b>ASSETS</b>					
- Cash in hand and balances with the Central Bank	17			1 027 727	1 176 443
- Deposit accounts in other banks as well as loans and advances to other banks	18			13 513 898	12 573 648
- Financial assets measured at fair value through profit and loss	19			7 061 444	6 155 240
- Investment financial assets	20			12 614 914	10 922 919
- Loans and advances to customers	21			12 988 247	9 902 860
- Investments in controlled entities	23			90 309	75 080
- Property, plant and equipment	25			571 065	600 851
- Investment real estates	26			145 970	140 547
- Intangible assets	27			317 661	318 857
- Property, plant and equipment held for sale	28			224	5 969
- Current tax asset				0	36 453
- Deferred tax asset	29			38 132	78 125
- Other assets	30			97 114	139 922
<b>Total assets</b>				<b>48 466 705</b>	<b>42 126 914</b>
<b>EQUITY AND LIABILITIES</b>					
<b>LIABILITIES</b>					
- Liabilities due to the Central Bank				696 000	464 000
- Liabilities due to other banks	32			1 401 149	865 301
- Financial liabilities measured at fair value through profit and loss	33			3 111 213	3 685 789
- Liabilities due to customers	34			38 561 423	32 823 596
- Provisions	35			90 324	80 519
- Current income tax liabilities				67 532	0
- Other liabilities	36			760 671	646 622
<b>Total liabilities</b>				<b>44 688 312</b>	<b>38 565 827</b>
<b>EQUITY</b>					
- Share capital	38			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	39			42 830	85 796
- Revaluation reserve from measurement of property, plant and equipment	39			52 263	38 055
- Retained earnings	40			2 536 751	2 300 937
<b>Equity assigned to shareholders of the holding company</b>				<b>3 755 694</b>	<b>3 548 638</b>
- Minority equity				22 699	12 449
<b>Total equity</b>				<b>3 778 393</b>	<b>3 561 087</b>
<b>TOTAL EQUITY AND LIABILITIES</b>				<b>48 466 705</b>	<b>42 126 914</b>
Solvency ratio				15,74%	18,60%
Book value				3 755 694	3 548 638
Number of shares				13 010 000	13 010 000
Book value per share (PLN)				288,68	272,76

## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(PLN '000)

end of 2006

period from 01 January 2006 to 31 December 2006

	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	Minority equity	Total equity
<b>Opening balance of equity</b>	<b>130 100</b>	<b>993 750</b>	<b>85 796</b>	<b>38 055</b>	<b>2 300 937</b>	<b>12 449</b>	<b>3 561 087</b>
- gains/losses on remeasurement of available-for-sale financial assets charged to equity			-28 754				-28 754
- reclassified to the financial result as a result of sale of available-for-sale financial assets			-14 212				-14 212
- disposal of property, plant and equipment				-2 132	-1 411		-3 543
- remeasurement of property, plant and equipment				16 340	3 645	3 654	23 639
- dividends paid					-357 775		-357 775
- net result for the current period					597 951		597 951
- share of minority shareholders in the net financial result					-6 596	6 596	0
<b>Total equity (closing balance)</b>	<b>130 100</b>	<b>993 750</b>	<b>42 830</b>	<b>52 263</b>	<b>2 536 751</b>	<b>22 699</b>	<b>3 778 393</b>

Notes: 38, 39, 40

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	Minority equity	Total equity
<b>Opening balance of equity</b>	<b>130 100</b>	<b>993 750</b>	<b>67 991</b>	<b>59 551</b>	<b>2 016 205</b>	<b>8 969</b>	<b>3 276 566</b>
- gains/losses on remeasurement of available-for-sale financial assets charged to equity			19 745				19 745
- 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	1 975		666
- remeasurement of property, plant and equipment				-20 187		-13 504	-33 691
- dividends paid					-266 705		-266 705
- net result for the current period					566 446		566 446
- share of minority shareholders in the net financial result					-16 984	16 984	0
<b>Total equity (closing balance)</b>	<b>130 100</b>	<b>993 750</b>	<b>85 796</b>	<b>38 055</b>	<b>2 300 937</b>	<b>12 449</b>	<b>3 561 087</b>

Notes: 38, 39, 40

# **CONSOLIDATED CASH FLOW STATEMENT - indirect method**

(PLN '000)

**Note**

**year 2006**

**year 2005**

## **OPERATING ACTIVITIES**

<b>Net profit (loss)</b>	15	<b>591 355</b>	<b>549 462</b>
<b>Adjustments</b>		<b>2 942 739</b>	<b>-546 209</b>
- Profits (losses) of minority shareholders included in the financial result		6 596	16 984
- Share in net profit (loss) of controlled entities recognised under the equity method		-39 850	-26 700
- Unrealised exchange gains (losses)		-144	-4 148
- Depreciation and amortisation	11	141 625	128 269
- Interest accrued (from the profit and loss account)		936 304	723 781
- Interest received/paid		-1 011 176	-654 737
- Dividends received	4	-2 561	-1 711
- Gains (losses) on investment activities		1 125	6 181
- Income tax (from the profit and loss account)	14	155 380	139 394
- Income tax paid		-11 402	-126 946
- Change in provisions	35	9 805	9 408
- Change in deposits in other banks and in loans and advances to other banks		2 255 444	-2 219 121
- Change in financial assets at fair value through profit or loss		-924 659	-1 030 171
- Change in investment financial assets		-1 610 474	-4 567 445
- Change in loans and advances to customers		-3 088 554	430 656
- Change in other assets		40 054	-15 558
- Change in liabilities due to other banks		764 837	-1 210 663
- Change in liabilities at fair value through profit or loss		-574 576	2 415 747
- Change in liabilities due to customers		5 780 915	5 240 826
- Change in other liabilities		114 050	199 745
<b>Net cash flow from operating activities</b>		<b>3 534 094</b>	<b>3 253</b>

## **INVESTMENT ACTIVITIES**

- Purchase of property, plant and equipment	25	-50 778	-110 145
- Disposal of property, plant and equipment		2 360	1 262
- Purchase of intangible assets	27	-40 799	-27 325
- Disposal of fixed assets/liabilities held for sale		620	9 313
- Dividends received	4	27 183	24 273
<b>Net cash flow from investment activities</b>		<b>-61 414</b>	<b>-102 622</b>

## **FINANCIAL ACTIVITIES**

- Long-term loans repaid		-51 607	-55 616
- Interest on long-term loans repaid		-1 775	-2 995
- Dividends paid	16	-357 775	-266 705
<b>Net cash flow from financial activities</b>		<b>-411 157</b>	<b>-325 316</b>

*Effect of exchange rate changes on cash and cash equivalents*

**17 189**

**-36 341**

**Net increase/decrease in cash and cash equivalents**

**3 061 523**

**-424 685**

**Opening balance of cash and cash equivalents**

**4 979 567**

**5 404 252**

**Closing balance of cash and cash equivalents**

49

**8 041 090**

**4 979 567**



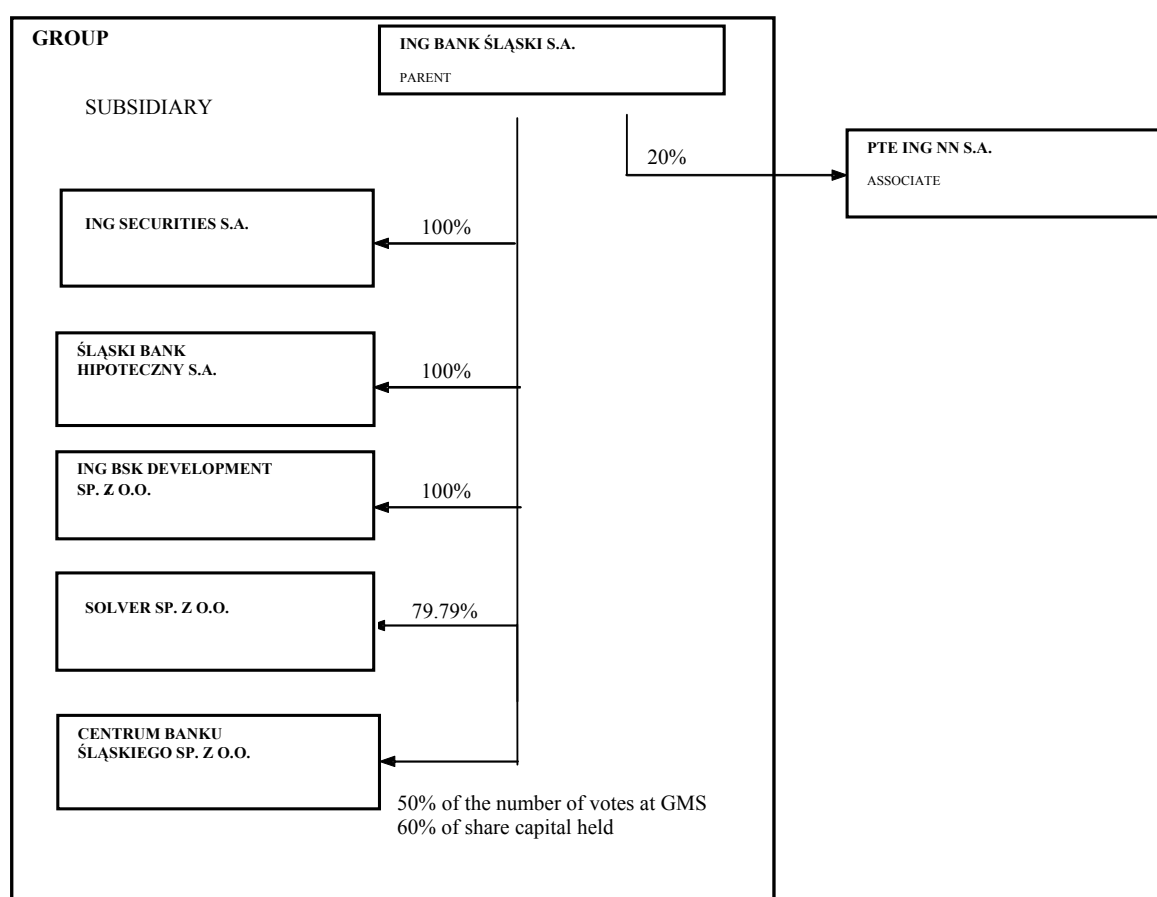
## Information on the Bank and the Capital Group

ING Bank Śląski S.A. („Parent company, parent entity, Bank”) with the headquarters in Katowice, Sokolska Str. 34, is registered in the National Court Register run by the Commercial Department of the Regional Court in Katowice under the reference number KRS 5459.

The Parent entity statistical number is REGON 271514909, and the tax identification number is NIP 634-013-54-75. The duration of the dominant Company and members of the Capital Group was determined as indefinite in the Bank’s charter and in articles of association of the Capital Group members.

The share capital of ING Bank Śląski S.A. amounts to PLN 130,100,000 and is divided into 13,010,000 ordinary shares with a par value of PLN 10.00 each. Shares of the Bank are quoted on the Warsaw Stock Exchange.

ING Bank Śląski S.A. is the parent company of the ING Bank Śląski S.A. Group (“Group”, “Capital Group”).



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% shares in the total number of votes at the General Shareholders Meeting.

The consolidated financial statements of the Bank for 2006 comprise the Bank and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and jointly controlled entities.

ING Bank Śląski S.A. offers a broad range of banking services rendered for individual and institutional clients in line with the scope of services outlined in the Bank’s charter. The Bank’s

operations are denominated in both Polish zloty and foreign currencies as well as actively participates in domestic and foreign financial markets. The subsidiary: Śląski Bank Hipoteczny S.A. undertakes banking activities, including sales of mortgage loans. Additionally through subsidiaries the Group operates brokerage services, real estate, leasing of real estate, advisory and acts as a financial intermediary as well as provides other financial services.

The financial statements for 2005 were approved by the General Meeting of Shareholders on 27 April 2006.

### *Selected financial data from the consolidated Financial Statements*

Item	PLN thousands		EUR thousands	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Interest income	2 003 220	1 868 398	513 765	464 394
Commission income	738 581	604 076	189 423	150 144
Result on banking activity	1 774 630	1 670 448	455 138	415 193
Gross profit (loss)	753 331	705 840	193 206	175 438
Net profit (loss)	591 355	549 462	151 664	136 570
Net cashflow	3 061 523	-424 685	799 103	-110 028
Earnings (loss) per 1 ordinary share (in PLN/EUR)	45.45	42.23	11.66	10.50
Profitability ratio (%)	31.0	29.8	-	-
Return on assets (%)	1.3	1.4	-	-
Return on equity (%)	18.6	18.2	-	-
Cost / Income ratio (%)	68.3	65.6	-	-
Total assets	48 466 705	42 126 914	12 650 529	10 914 274
Equity	3 755 694	3 548 638	980 292	919 384
Share capital	130 100	130 100	33 958	33 706
Number of shares	13 010 000	13 010 000	-	-
Book value per 1 share (in PLN/EUR)	288.68	272.76	75.35	70.67
Solvency ratio (%)	15.74	18.60	-	-

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

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

**Return on assets (ROA)** – net profit assigned to shareholders of the holding company to average total assets.

**Return on equity (ROE)** – net profit assigned to shareholders of the holding company to average equity.

**Solvency ratio** – net equity to risk weighted assets and off-balance sheet liabilities. Detailed information as to the solvency ratio is presented in note 56: Risk Management.

In order to determine the basic figures in EUR, the following exchange rates were applied:

- for balance-sheet items – PLN 3.8312 NBP exchange rate of 31.12.2006; 3.8598 NBP exchange rate of 31.12.2005,
- for income statement items for 31.12.2006 – PLN 3.8991 exchange rate calculated as the average of NBP exchange rates as at the last day of each month in 1Q, 2Q, 3Q and 4Q 2006; 4.0233 exchange rate calculated as the average of NBP exchange rates as at the last day of each month in 1Q, 2Q, 3Q and 4Q 2005.

### *Significant accounting policies*

#### **(a) Statement of compliance with International Financial Reporting Standards**

These financial statements have been prepared under the International Financial Reporting

Standards (IFRS), as adopted by the European Commission and with respect to matters not regulated by the above mentioned statements in accordance with the Accounting Act of 29 September 1994 (Journal of Laws no.2002/76, item 694 as amended) and secondary legislation thereto, as well as in accordance with the Ordinance of Finance Minister of 19 October 2005 on current and interim information submitted by issuers of securities (Journal of Laws of 2005, no. 209, item 1744). The consolidated balance sheet and the profit and loss account as at 31.12.2006 including comparable financial data, have been prepared consistently for all period presented in this consolidation financial statement and have been applied consistently by Group entities.

These financial statements have been prepared in PLN rounded to one thousand zlotys (unless otherwise noted).

In 2006 the Group included the following amendments to the existing accounting standards and new interpretations:

- amendments to IAS 39 Financial instruments: recognition and measurement. Fair value measurement option;
- amendment to IAS 39 Financial instruments: recognition and measurement. Cash flow hedge accounting policy in relation to the forecasted intragroup transactions;
- amendments to IAS 39 Financial instruments: recognition and measurement. Financial guarantee contracts;
- IFRIC 4 Determining whether an Arrangement contains a Lease.

The application of the above revised accounting standards and new interpretations did not give rise to any significant changes in the Group's accounting policy.

The amendments to the IFRS 6 Exploration for and Evaluation of Mineral Resources, IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental, IFRIC 6 Liabilities arising from participating in a specific market – electric and electronic waste equipment, IFRIC 7 Applying the restatement approach in IAS 29 Financial Reporting in Hyperinflationary Economies, changes in IAS 19 Employee benefits published on 16<sup>th</sup> December 2004 and amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates did not have any impact on the consolidated financial statements.

## **(b) Term and scope of the report**

These consolidated financial statements of the Capital Group of ING Bank Śląski S.A. cover the period from 1<sup>st</sup> January 2006 to 31<sup>st</sup> December 2006 and include the comparative data:

- as at 31<sup>st</sup> December 2005 and financial year ending that day - for the balance sheet,
- for the period from 1<sup>st</sup> January 2005 till 31<sup>st</sup> December 2005 - for the profit and loss account, movement of equity and cash flow statement.

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

The Group has not elected to early adopt any new Standards and Interpretations, which have been published and approved by the European Union, and which will be effective after the balance sheet date. Moreover, as of the balance sheet date the Group has not completed the assessment of the possible impact of the Standards and Interpretations, which will be effective after the balance sheet date, on the Group consolidated financial statements for the period of initial application.

<b>Standards and interpretations approved by the EU</b>	<b>Anticipated change in the accounting principles</b>	<b>Potential impact on the financial statements</b>	<b>Date becomes effective for periods from and after</b>
IFRS 7 Financial instruments: Disclosures	The extent of disclosure requirements with respect to Group financial instruments has been enlarged. The standard shall replace IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and is applicable to all the entities that prepare the financial statements in accordance with IFRS	The Group holds the position that additional significant disclosure requirements will relate to the Group's financial risk objectives, policy and management.	1st January 2007
Amendment to IAS 1 Capital Disclosures	As a result of IFRS 7 introduction (see above), the extent of capital disclosures will be enlarged	The Group holds the position that additional capital disclosures in respect of the Bank's and the Group's equity will not significantly differ from disclosures made so far.	1st January 2007
IFRIC 8 Scope of IFRS 2	The interpretation states that IFRS 2 Share-based payments applies to transactions where an entity makes share-based payments for inadequately low service or no service instead.	The Group has not yet completed the assessment of the impact of the new interpretation on the Group activities.	1st May 2006

IFRIC 9	The interpretation states	The Group has not	1st June 2006
Revaluation of	that embedded	yet completed the	
embedded derivative	derivative financial	assessment of the	
financial instruments	instruments are	impact of the new	
	recognized by an entity	interpretation on	
	only when it becomes a	the Group	
	party of an agreement	activities.	
	and revaluation is not		
	allowed unless		
	amendments to the		
	agreement are made		
	which cause significant		
	movements in cash		
	flows resulting from		
	this agreement.		

**(d) Basis for preparation of consolidated financial statements**

In the consolidated financial statements, the Group 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 which 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.

**(e) Accounting Estimates**

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

Change in estimates is disclosed only when the results of the change occur in the current period or are expected 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 estimates reflect the reasons for/ sources of uncertainties as at the balance sheet date.

The actual results may differ from estimates.

The estimations and assumptions are reviewed on a on-going basis. 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.

**Major accounting estimations adopted by the Group is as follows:**

***Impairment of loans***

At each balance sheet date, the Group 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 is 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 from the prior periods that are not currently present.

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 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 using 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 by adjusting a carrying amount of the financial asset. The amount of the reversal shall be recognised in profit or loss up to the value of prior impairment.

The methodology and the assumptions, on the basis of which the estimated cash flow and their anticipated timing are determined, 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***

At each balance sheet date, the Group assesses the existence of circumstances indicating of impairment of a non-current asset. If such indicators exist, the Group 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 Group 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 Group 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 Group uses valuation models based on discounted cash flows. Options are valued using option valuation models.

Valuation models used by the Group, are verified by independent bodies before/prior to their usage. Where possible, in models the Group uses observable data from active markets. However, the Group also adopts assumptions as to probability (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 Group due to employees according to employment and current remuneration. 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.



***Provisions for the bonus for employees and top executives***

Provisions for the bonus for employees shall be set in the amount resulting from the effective bonus regulations.

The provisions for top executive staff bonuses are estimated by the Management Board which calculates the amount of benefits as of the balance-sheet date. The final amount of the bonuses is approved by the Supervisory Boards of the Group's Companies.

**(f) Consolidation policies**

***(i) Subsidiaries***

Subsidiaries are any entities controlled by the Group. The control exists, when the Group 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 a half of the voting rights of an entity and when there are:

- a) rights to more than a 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, liabilities and contingent liabilities acquired in a business combination are measured initially at their fair value 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 in 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 share 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 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.

**(g) Foreign currency**

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

The items contained in presentations of particular units of the Group are priced in the currency of the basic economic environment in which a given entity operates ("the functional currency"). The consolidated financial report is presented in Polish Zloty, which is the functional currency and the presentation currency of the Group.

*(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.

*(iii) Financial statements of investments in a foreign operation*

The Group does not have any investments nor runs operations abroad.

**(h) Financial assets and liabilities**

*(i) Classification*

The Group 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 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 and 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 Group'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 Group 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 at fair value through profit and 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 liabilities*

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.

*(f) Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

*(ii) Recognition*

The Group 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 profit and loss, held-to-maturity and available for sale are recognized, in accordance with accounting policies applied to all transactions of a certain type, at the settlement date, the date on which the asset is delivered to an entity or by an entity. Loans and receivables are recognized on distribution of the cash to borrower.

*(iii) Derecognition*

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

- transfers substantially all the risks and rewards of ownership of the financial asset, it derecognises the financial asset.
- 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 Group has retained control, it continues to recognise the financial asset, and if the Group has not retained control, it derecognises the financial asset to the extent of its continuing involvement in the financial asset.

The Group removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when the obligation specified in the contract is realised or cancelled or expires.

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

Most often, the Group writes off receivables against impairment charges on financial assets, when the Group 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,
- lengthy term of ineffective execution.

The amounts of receivables written down as loss and recovered thereafter shall diminish the value of provisions for impairment loss in the income statement.

#### *(iv) Measurement*

When a financial asset or financial liability is recognised initially, the Group 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 Group 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 their fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost.

After initial recognition, the Group 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 which fair value cannot be reliably measured, are measured at cost,
- financial liabilities resulting from the transfer of a financial asset which does not qualify for being excluded from the balance sheet or recognised on a *continuing involvement* basis.

The other financial liabilities are measured at depreciated cost or the amount of due payment.

Granted financial guarantees are measured at the higher of:

- (a) the amount being the most appropriate estimation of the expenditures needed to fulfil the current obligation arising from the financial guarantee, upon consideration of the probability of materialisation thereof;
- (b) the amount recognised at the initial entry, adjusted with the settled amount of commission received for granting the guarantee.

*(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.g 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 exists that a financial asset or group of financial assets is impaired, the Group recognizes impairment in accordance with the established rules of determination of impairment of financial assets.

The fair value of financial assets quoted on active markets is based on current bid prices. If the market for a financial instrument is not active, the Group 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.

**(i) 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 Group concludes special master agreements with contracting parties, with which the Group concludes transactions of significant volume. These special master agreements do not enable the offsetting financial assets and liabilities, because they are generally settled gross.

**(j) Repo, Reverse Repo Sell-buy-back, buy-sell-back transactions**

The Group presents financial assets with the repurchase clauses (repo, sell-buy-back transactions) in its balance sheet, by simultaneously recognizing a financial liability resulting from repurchase clause. This is done in order to reflect the risks and benefits arising on this asset that are retained by the Group after the transfer. When the Group purchases securities with a repurchase clause (Reverse Repo, BSB), 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 subject to repo/reverse repo transactions are derecognised 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 or 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 profit and loss. The change in fair value of financial assets and liabilities is recognized in profit and loss account in the caption "Net income on instruments at fair value through profit or loss".

**(k) Derivative 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, i.e. fair value of received or paid amount.

The Group 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 some or all of the cash flows arising from the host contract to be 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 Group separates embedded derivatives from the host contract and accounts 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 the 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 Group uses derivative instruments in order to hedge against FX and interest rate risk, arising from 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 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 Group designates certain derivative instruments as fair value hedge or cash flow hedge. The Group 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 Group'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) is recognised in profit and 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 and 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 and loss applies if the hedged item is an available-for-sale financial asset.

The Group does not apply fair value hedge accounting in order to account for a hedge against changes in the fair value of real estate arising from foreign exchange changes/risk.

#### *Cash flow hedge*

Cash flow hedge: a hedge of the exposure to volatility 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.

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 and 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 and loss account in the same period or periods during which the asset acquired or liability assumed affects the profit and 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.

The Group does not apply cash flow hedge accounting.

### **(I) Impairment**

#### ***Assets valued at amortized cost***

The Group 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 within the group.



The Group 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 Group classifies loan receivables by size of exposure, into the individual and group portfolios. If the Group 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 Group.

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 in which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The Group 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 and 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 and 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 is removed from equity and recognised in the profit and 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 and 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 and 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 and 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, the impairment loss is reversed, with the amount of the reversal recognized in profit and loss.

***Financial assets carried at 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.

**(m) Investment property**

Investment property is property (land or a building—or part of a building—or both) held by the Group (acting as the owner or the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) occupation purposes (use in the production or supply of goods or services or for administrative purposes); or (b) sale in the ordinary course of business. Therefore, an investment property generates cash flows largely independently of the other assets held by the Group.

An investment property is measured initially at its cost (purchase price and any directly attributable expenditure). After the initial entry, investment property assets are measured in accordance with requirements of the fair value model. A gain or loss arising from a change in the fair value of investment property is recognised in the profit and loss account for the period in which it arises. The fair value of investment property reflects market conditions at the balance sheet date.

**(n) Tangible fixed assets**

*(i) Own tangible fixed assets*

Tangible fixed assets consist of fixed assets and costs to construct such assets. Tangible fixed assets include fixed assets with an expected period of use above one year, maintained to be used to serve the Group'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 Group 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 result in an inflow of economic benefits to the Group, 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.

**(o) Intangible assets**

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

Intangible assets are deemed to include assets which fulfil 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 ensure 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.

**(p) 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                    |
| • leaseholds improvements          | period of the lease or hire |
| • vehicles and others              | 3 - 5 years                 |
| • equipment                        | 5 years                     |
| • costs of development of software | 3 years                     |
| • software licenses, copyrights    | 3 years                     |



**(q) Leasing contracts**

*(i) The Group as lessor*

The Group is a party to lease contracts, on the basis of which it grants and is paid for the use on the benefits on the current assets.

In case of lease contracts, which result in transferring substantially all the risks and rewards following the ownership of that asset under lease, The subject of such lease agreement is derecognized from the balance sheet. A receivable amount is recognized, 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 achieve reaching a fixed rate of return from the outstanding receivables.

Lease payments for contracts which do not fulfil requirements 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 Group as lessee*

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

In case of lease contracts, under which essentially all risks and rewards resulting from ownership of the leased assets are transferred, subject of such lease agreement is recognized 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 achieve obtaining a fixed rate of interest on the outstanding liability. Financial costs are recognized directly in profit and loss account.

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

Lease payments for contracts which do not fulfil 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.

**(r) Other balance sheet items**

*(i) Other trading receivables and other receivables*

Trading receivables and other receivables are carried at cost less an allowance.

*(ii) Liabilities*

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

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

The Group 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 Group ceases to classify the assets as held for sale and reclassify them into appropriate category of assets. The Group

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 from the period 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 are components of the Group that either have been disposed of or are classified as held for sale and represent a separate major line of business or geographical area of operations, are a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or are 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 for the purposes of a Cash Flow statement include: Cash on hand and cash held at the Central Bank, cash equivalents e.g. balances on current accounts and overnight deposits held by the other banks.

**(s) Impairment of other non-financial assets**

For each balance sheet date, the Group assesses the existence of objective evidence indicating impairment of a non-current asset. If such evidence exists, the Group 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 evidence exists, the Group 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 Group 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 impairment loss***

Goodwill impairment loss is not subject to reversal.

An impairment loss of 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 up to the amount, at which the book value of impaired asset does not exceed its book value, which decreased by depreciation charge, would be established, if any impairment loss had not been recognized.

#### **(t) Equity**

Equity comprises 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 Group 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 paid as of the balance sheet day are disclosed under the balance sheet recognized in the balance „Other Liabilities”.

#### **Share premium**

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

#### **Revaluation reserve**

Revaluation reserve is created 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,

The deferred tax resulting from above mentioned revaluation is included in the revaluation reserve. The revaluation reserve is not subject to profit distribution.

#### **Retained earnings**

Retained earnings are created from 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 from 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.

The net financial result allocated to the dominant entity represents the gross result under the performance statement for the current year, adjusted with the corporate income tax and the result allocated to the minority shares.

**(u) 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 of 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 Group 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.

**(w) 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 Group (other than termination benefits) comprise of wages, salaries, paid annual leave and social security contributions.

The Group 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 Group employees are entitled is calculated as the sum of unused holidays to which particular Group employees are entitled.

***(iii) Long-term employee benefits***

The Group'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 regulatory framework of social benefits, assigned based on 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 ING BSK Group participates in the long-term incentive system, launched by ING Group NV. ING Group NV has granted option rights on ING Group NV shares and conditional rights on depositary receipts for ING shares to a number of senior executives (members of the Executive Board, general managers and other officers nominated by the Executive Board). The purpose of the option and share schemes, apart from promoting a lasting growth of ING Group NV, is to attract, retain and motivate senior executives and staff.

ING Group NV holds directly or indirectly its own shares in order to fulfil the obligations with regard to the existing stock option plan and to hedge the risk of the options concerned (so-called delta hedge). As a result the granted option rights were (delta-) hedged, taking into account the following parameters: strike price, opening price, zero coupon interest rate, dividend yield, expected volatility and employee behaviour. The hedge is rebalanced regularly at predetermined points in time. Exposure arising from the share plan is not hedged. The obligations with regard to these plans will be funded by issuing own shares. The option rights are valid for a period of five or ten years. Option rights, that are not exercised within this period, lapse.

Option rights granted will remain valid until expiry date, even if the option scheme is discontinued. The option rights are subject to certain conditions, including a certain continuous period of service. The exercise prices of the options are the same as the quoted prices of ING Group NV shares at the date on which the options are granted. The entitlement to the depositary receipts for ING shares is granted conditionally. If the participant remains in employment for an uninterrupted period of three years from the grant date, the entitlement becomes unconditional. Each year, the ING Group NV Executive Board will take a decision as to whether the option and share schemes are to be continued and, if so, to what extent.

**(x) Provisions**

Provisions, including provisions for off-balance sheet commitments, are recognized in the balance sheet when the Group 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. This is also applicable for the recognition of provisions for risk-bearing off-balance sheet commitments including guarantees, letters of credit, and irrevocable unused credit lines.

**(y) Net interest income**

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 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.

**(z) Net commission income**

Fee and commission income arises on providing financial services by the Group 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 Group, 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.

**(aa) 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.

**(bb) Result on investments**

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

**(cc) Dividend income**

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

**(dd) 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.

**(ee) Net profit attributable to minority shareholders**

Net profit attributable to minority shareholders comprises of that part of the profit or loss, net result for the period and net assets of subordinated entity that can be attributed to shares not held by parent company (directly or indirectly through subordinated entities) .

**(ff) 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.

**(gg) Deferred income tax**

The Group creates a provision for deferred tax in respect of all taxable temporary difference and deferred tax asset with regard to all deductible temporary differences to extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised according to accounting regulations and according to legal regulations concerning corporate income taxation. A positive net difference is recognized in liabilities as "Deferred tax reserve". A negative net difference is recognized under "Deferred tax assets".

The deferred tax reserve 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 reserve 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 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 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 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 tax component.

Deferred tax assets and deferred tax reserves are estimated with the use of the tax rates which are expected to be in force when the asset is realized or reserve 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 reserves are recognized by the Group in the balance sheet after offsetting at level of each entity included in consolidation. The Group offsets deferred tax assets and deferred tax reserves, where it has legal title to effect such offsetting, and the deferred assets and reserves pertain to the same taxpayer.

#### **(hh) Other taxes**

Income, 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 consolidated financial statements***

### **1. Segment reporting**

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

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 using of the transfer pricing system. The transfer prices are calculated on the basis of one profitability curve for the given currency, common for assets' and liability' products. The transfer price designated for assets' and liabilities' 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 Group's positions, the cost of hedging in case of complex products and pricing policy. 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 by the Group is business segment classification. The management of the ING Bank Śląski Group 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's Group 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 Group provides reporting broken down by loan 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 the 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 of investing funds originating from own funds and funding some assets of the Bank. The main element of the core business income of 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 parent entity.

### ***Geographical segments***

The business activities of the Capital Group are performed on the territory of the Republic of Poland.

Consolidated financial statements of the ING Bank Śląski S.A. Group  
for the period from 1<sup>st</sup> January 2006 to 31<sup>st</sup> December 2006

**Segment reporting – continued**

PLN thousand	31.12.2006					31.12.2005				
	Retail customers segment	Corporate customers segment	Own operations		TOTAL	Retail customers segment	Corporate customers segment	Own operations		TOTAL
			Proprietary trading	ALCO				Proprietary trading	ALCO	
<b>Revenue total</b>	<b>984 244</b>	<b>619 037</b>	<b>146 203</b>	<b>76 519</b>	<b>1 826 003</b>	<b>834 438</b>	<b>624 346</b>	<b>125 565</b>	<b>123 803</b>	<b>1 708 151</b>
<b>Core business</b>	<b>961 664</b>	<b>583 422</b>	<b>135 393</b>	<b>145 524</b>	<b>1 826 003</b>	<b>805 919</b>	<b>578 440</b>	<b>115 470</b>	<b>208 322</b>	<b>1 708 151</b>
Income on lending	223 781	166 086			389 868	226 468	170 987			397 455
<i>Interest income external</i>	<i>286 041</i>	<i>444 144</i>				<i>310 802</i>	<i>473 553</i>			
<i>Interest cost internal</i>	<i>-114 504</i>	<i>-334 018</i>				<i>-130 825</i>	<i>-358 123</i>			
<i>Income on fees/ other income</i>	<i>52 245</i>	<i>55 961</i>				<i>46 490</i>	<i>55 557</i>			
Income on deposits	574 880	228 611			803 492	517 129	231 375			748 504
<i>Interest costs external</i>	<i>-595 426</i>	<i>-354 692</i>				<i>-642 917</i>	<i>-399 124</i>			
<i>Interest income internal</i>	<i>939 787</i>	<i>470 884</i>				<i>954 932</i>	<i>513 815</i>			
<i>Income on fees/ other income</i>	<i>230 519</i>	<i>112 419</i>				<i>205 114</i>	<i>116 685</i>			
Income on mutual funds	91 795	1 736			93 531	27 299	399			27 698
Income on brokerage and custody	36 855	78 563			115 418	25 670	56 302			81 972
Other income on core business	-14 546	-527	253 394	145 524	383 845	-23 558	-3 718	244 748	208 322	425 795
FM products sales	9 049	108 952	-118 001		0	6 183	123 095	-129 278		0
Income on Pension Funds shares	39 850				39 850	26 728				26 728
Result on economic capital	22 580	35 615	10 810	-69 005	0	28 519	45 906	10 095	-84 519	0
<b>Expenses total</b>	<b>778 018</b>	<b>411 975</b>	<b>41 500</b>	<b>15 099</b>	<b>1 246 592</b>	<b>712 515</b>	<b>358 110</b>	<b>28 700</b>	<b>20 943</b>	<b>1 120 268</b>
Operational costs	771 701	408 127	41 500	15 099	1 236 426	702 300	357 748	28 505	20 943	1 109 495
<i>including depreciation</i>	<i>111 728</i>	<i>23 099</i>	<i>6 798</i>		<i>141 625</i>	<i>101 191</i>	<i>20 921</i>	<i>6 157</i>		<i>128 269</i>
Other operational costs (operational risk)	6 318	3 849	0	0	10 166	10 216	362	195	0	10 773
<b>Result before risk</b>	<b>206 226</b>	<b>207 062</b>	<b>104 704</b>	<b>61 419</b>	<b>579 411</b>	<b>121 922</b>	<b>266 236</b>	<b>96 865</b>	<b>102 860</b>	<b>587 883</b>
Risk cost	-22 253	-151 667	0	0	-173 920	-52 912	-65 045	0	0	-117 957
<b>Result before tax</b>	<b>228 479</b>	<b>358 729</b>	<b>104 704</b>	<b>61 419</b>	<b>753 331</b>	<b>174 835</b>	<b>331 280</b>	<b>96 865</b>	<b>102 860</b>	<b>705 840</b>
CIT					155 380					139 394
<b>Result after tax</b>					<b>597 951</b>					<b>566 446</b>
<b>- assigned to shareholders of the holding company</b>					<b>591 355</b>					<b>549 462</b>
- assigned to minority shareholders					6 596					16 984

Consolidated financial statements of the ING Bank Śląski S.A. Group  
for the period from 1<sup>st</sup> January 2006 to 31<sup>st</sup> December 2006

Transformed item	31.12.2006					31.12.2005				
	Business segment				TOTAL	Business segment				TOTAL
	Retail customers segment	Corporate customers segment	Proprietary trading	ALCO		Retail customers segment	Corporate customers segment	Proprietary trading	ALCO	
<b>Assets and liabilities</b>										
Assets of the segment	3 277 865	16 095 397	27 293 653	539 116	47 206 032	2 792 333	12 497 641	24 901 340	539 796	40 731 110
Segment investments in subordinates	90 309				90 309	75 080				75 080
Other assets (not allocated to segments)					1 170 364					1 320 724
<b>Total assets</b>					<b>48 466 705</b>					<b>42 126 914</b>
Segment liabilities	22 890 000	13 933 000	6 946 587		43 769 587	20 042 000	11 455 000	6 341 686		37 838 686
Other liabilities (not allocated to segments)					918 725					727 141
Equity					3 778 393					3 561 087
<b>Total liabilities</b>					<b>48 466 705</b>					<b>42 126 914</b>
<b>Other</b>										
Capital expenditure	91 864	48 644	4 900	1 783	147 191	110 551	55 563	4 453	3 249	173 816
Depreciation	111 728	23 099	6 798		141 625	101 191	20 921	6 157		128 269
Net cash flow from operating activity	3 085 737	327 060	-2 995 520	3 040 761	3 458 038	5 915 124	384 585	-3 078 847	-3 353 624	-132 762
Net cash flow from operating activity - other items not allocated to segments					76 056					136 015
Total net cash flow from operating activity					3 534 094					3 253
Net cash flow from investing activity	-20 251	-40 702	-26 056	25 595	-61 414	-17 464	-54 115	-32 323	1 280	-102 622
Net cash flow from financial activity	-13 100	-40 282	0	-357 775	-411 157	-23 119	-35 492	0	-266 705	-325 316

## 2. Net interest income

	year 2006	year 2005
<b>Interest and similar income</b>		
- Loans and advances to banks	537 426	416 865
- Loans and advances to customers	708 707	770 083
- Interest on debt securities held for trading	140 031	158 322
- Interest on available-for-sale debt securities	614 786	522 363
- Reverse repos	1 727	0
- Other	543	765
	<b>2 003 220</b>	<b>1 868 398</b>

With regards to interest revenue for 2006, the amount of PLN 32,732 thousand represents revenue from financial assets for which impairment loss was recognised. In 2005 respectively the amount reached PLN 25,291 thousand. Interest income related to financial assets is calculated using the net exposure amounts; i.e. the amounts including effective impairment losses.

<b>Interest expense and similar charges</b>		
- Deposits from banks	-64 880	-112 615
- Deposits from customers	-942 682	-1 009 924
- Loans and advances	-17 129	-2 998
- Reverse repos	-42 222	-21 640
- Other liabilities	-3	0
	<b>-1 066 916</b>	<b>-1 147 177</b>
<b>Net interest income</b>	<b>936 304</b>	<b>721 221</b>

## 3. Net commission income

	year 2006	year 2005
<b>Commission income</b>		
- Brokerage fees	113 657	76 614
- Fiduciary and custodian fees	23 550	20 228
- Foreign commercial business	20 032	17 947
- Commission for transfers, cash payments and other payment transactions	103 686	104 014
- Commission and fees for payment and credit cards	120 152	87 486
- Commission for loans and advances	75 579	79 353
- Commission and fees related to keeping accounts	147 520	148 212
- Commission and fees related to electronic banking systems	11 600	11 523
- Commission and fees for guarantees, sureties and letters of credit	17 863	16 391
- Commission and fees due to distribution of participation units	91 199	29 752
- Other	13 743	12 556
	<b>738 581</b>	<b>604 076</b>
<b>Commission expense</b>		
- Brokerage fees	-27 369	-20 651
- Other commission, including:	-62 536	-55 747
- costs of the Bank Guarantee Fund (BFG)	-3 402	-3 422
- costs of the National Clearing House (KIR)	-3 448	-4 244
- commission paid related to securities trading	-4 322	-5 372
- commission paid on the VISA card system	-26 777	-23 785
	<b>-89 905</b>	<b>-76 398</b>
<b>Net commission income</b>	<b>648 676</b>	<b>527 678</b>

#### 4. Dividend income

	year 2006	year 2005
- Securities held for trading	17	43
- Available-for-sale securities	2 544	1 668
	<b>2 561</b>	<b>1 711</b>

#### 5. Net income on instruments measured at fair value through profit and loss

	year 2006	year 2005
<u>Net income on financial assets and liabilities held for trading</u>	1 169	205 461
- Net income on equity instruments	-402	667
- Net income on debt instruments	23 371	20 857
- Net income on derivatives	-21 800	183 937
Equity derivatives	0	-296
Currency derivatives	-40 865	139 637
Exchange rate derivatives	14 968	44 429
Securities derivatives	4 097	167
<u>Net income on financial assets and liabilities measured at fair value upon initial recognition</u>	-617	6 676
debt instruments	-617	6 676
<b>Net income on instruments measured at fair value through profit or loss</b>	<b>552</b>	<b>212 137</b>

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, money market instruments (treasury bills).

Net income on derivatives includes net income on 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 securities

	year 2006	year 2005
	5 805	2 442
- Equity instruments	14 212	1 242
- Debt instruments	<b>20 017</b>	<b>3 684</b>

#### 7. Result on the revaluation of FX positions and transactions

	year 2006	year 2005
- Result on the revaluation of balance sheet items	-221 414	660 073
- FX purchase / sale transactions	16 132	15 775
- Provision for the valuation of FX transactions	-1 038	0
- Valuation of FX transactions (Spot, Forward, Swap)	300 522	-361 835
- Swap items	54 337	-137 571
<b>Exchange gains or loss total</b>	<b>148 539</b>	<b>176 442</b>

## 8. Other operating income

	year 2006	year 2005
- Due to recovered unrecoverable receivables	1 067	5 449
- Received indemnities, penalties and fines	8 587	234
- Refunded court fees	0	164
- Due to rental of an investment real estate	14 944	11 122
- Income from sales of other services	10 839	18 853
- Other	19 336	4 254
	<b>54 773</b>	<b>40 076</b>

The "Received indemnities, penalties and fines" item includes damages in the amount of PLN 8,100 thousand received by the Group for the operational risk related loss.

Item "Income from sales of other services" covers mainly the sales of services at recreation centres of one of the subsidiaries of Group.

## 9. Other operating expenses

	year 2006	year 2005
- Damages, penalties and fines paid	431	1 042
- Due to court fees paid	43	944
- Donations made	1 305	2 391
- Other operating expenses due to disputed claims	21 407	14 329
- Other	15 871	13 150
	<b>39 057</b>	<b>31 856</b>

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.

In December 2006 year, the Office of Competition and Consumer Protection imposed a fine in the total amount of PLN 164.7 million on 20 banks for the collusion regarding the commissions collected for transactions made with payment cards. Due to the above, in the part falling to ING Bank Śląski, the provision in the amount of PLN 14,088 thousand was established for any foreseen losses.

## 10. General and administrative expenses

	year 2006	year 2005
- Personnel expenses:	579 400	536 549
<i>wages and salaries, including:</i>	<i>484 431</i>	<i>448 265</i>
<i>retirement benefits</i>	<i>4 058</i>	<i>3 203</i>
<i>holiday accrual</i>	<i>2 370</i>	<i>-1 318</i>
<i>employee benefits, including:</i>	<i>94 969</i>	<i>88 284</i>
<i>training expenses</i>	<i>13 065</i>	<i>12 526</i>
- General and administrative expenses:	513 046	444 569
<i>on property, plant and equipment</i>	<i>89 849</i>	<i>78 501</i>
<i>taxes and charges (including PFRON)</i>	<i>8 945</i>	<i>7 177</i>
<i>maintenance and rental of buildings</i>	<i>138 789</i>	<i>131 508</i>
<i>communication services</i>	<i>65 239</i>	<i>59 073</i>
<i>leasing services</i>	<i>10 400</i>	<i>9 355</i>
<i>refurbishment services</i>	<i>29 447</i>	<i>33 493</i>
<i>licences and patents</i>	<i>15 962</i>	<i>14 866</i>
<i>other external services</i>	<i>154 415</i>	<i>110 596</i>
	<b>1 092 446</b>	<b>981 118</b>

## 11. Depreciation and amortisation

	year 2006	year 2005
- On property, plant and equipment	98 700	99 142
- On intangible assets	42 925	29 127
	<b>141 625</b>	<b>128 269</b>

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

	year 2006	year 2005
- Impairment losses on loans and advances	179 713	311 623
- Reversed impairment losses on loans and advances	-219 012	-363 156
<b>Net impairment losses on loans and advances</b>	<b>-39 299</b>	<b>-51 533</b>
including:		
- losses on loans and advances at risk of impairment	-16 275	-44 606
- IBNR	-23 024	-6 927
- Impairment of amounts recovered from loans previously written off	19 664	75 150
- Reversed impairment of amounts recovered from loans previously written off	-139 169	-129 820
<b>Net impairment losses on loans and advances</b>	<b>-119 505</b>	<b>-54 670</b>
including:		
- losses on loans and advances at risk of impairment	-119 505	-54 670
- Impairment losses on available-for-sale financial assets	0	0
- Reversed impairment losses on available-for-sale financial assets:	-160	-16
- securities	0	0
- shares in subsidiaries, co-subsiidiaries and associated entities, as well as minority interests	-160	-16
<b>Net impairment losses on available-for-sale financial assets:</b>	<b>-160</b>	<b>-16</b>
- securities	0	0
- shares in subsidiaries, co-subsiidiaries and associated entities, as well as minority interests	-160	-16
- Impairment losses on property, plant and equipment	2 223	4 531
- Impairment losses on other assets	4 975	9 533
- Reversed impairment losses on property, plant and equipment	-12 846	-1 580
- Reversed impairment losses on other assets	-2 507	-1 709
<b>Net impairment losses on other assets and property, plant and equipment:</b>	<b>-8 155</b>	<b>10 775</b>
- property, plant and equipment	-10 623	2 951
- other assets	2 468	7 824
- Recognised provisions for off-balance sheet liabilities	12 351	18 223
- Reversed provision for off-balance sheet liabilities	-19 152	-40 736
<b>Net provisions for off-balance sheet liabilities recognised</b>	<b>-6 801</b>	<b>-22 513</b>
including:		
- on the portfolio at risk of impairment	-4 908	-25 009
- IBNR	-2 023	2 496
<b>Total impairment losses</b>	<b>218 926</b>	<b>419 060</b>
<b>Total reversed impairment losses</b>	<b>-392 846</b>	<b>-537 017</b>
<b>Net impairment losses and provisions for off-balance sheet liabilities</b>	<b>-173 920</b>	<b>-117 957</b>

**13. Share in net profit (loss) of associated entities recognised under the equity method**

	year 2006	year 2005
ING Nationale-Nederlanden Polska PTE S.A.	39 850	26 700
	<b>39 850</b>	<b>26 700</b>

**14. Income tax**

	year 2006	year 2005
<b>Recognised in the profit and loss account</b>		
- Current portion		
Current year	103 953	139 604
Adjustment of last-year tax settlement	-155	-5 126
	<b>103 798</b>	<b>134 478</b>
- Deferred tax		
Recognised and reversed temporary differences	50 467	2 649
Benefits resulting from tax loss	-4	-1 021
	<b>50 463</b>	<b>1 628</b>
- Increases/decreases of the receivables due to 8% relief related to provisions for receivables	-1 119	-3 288
<b>Total income tax recognised in the profit and loss account</b>	<b>155 380</b>	<b>139 394</b>

**Effective tax rate calculation**

- Profit before tax	753 331	705 840
- 19% income tax	143 133	134 110
- Increases – non-deductible expenses	27 675	17 612
- provision for expected losses	1 529	2 879
- PFRON	892	831
- impairment in a part not covered by deferred tax	15 968	4 001
- representation and advertising expenses over the statutory limit	1 560	1 401
- expenses due to foreign payments	234	544
- expenses due to loan and non-loan receivables written off	1 652	5 915
- result on the sale of a subsidiary	0	294
- provision for payments connected with the fine imposed by the Office of Competition and Consumer Protection	2 677	0
- accelerated amortisation due to shortening the economic utility period /the Mass Payments Service system MPS/	847	0
- other	2 316	1 747
- Decreases – tax exempt income	-16 547	-15 616
- income exempt due to the entity	-581	-796
- dividend income	-483	-325
- release of the provision for any foreseen losses	-798	-1 691
- provisions/impairment in a part not covered by deferred tax	0	0
- depreciation on real estate	-1 958	-1 899
- impairment losses on investment property	0	-3 311
- share in net profit (loss) of co-subsiaries and associated entities recognised under the equity method	-7 572	-5 073
- balance sheet valuation of loans	-496	0
- sales of non-current assets under the investment allowance	-1 933	-475
- other	-2 726	-2 046
- 19% income tax +/- increases /- decreases	154 261	136 106
- Increases/decreases of the receivable due to 8% relief related to provisions for receivables	-1 119	-3 288
<b>Income tax from profit and loss account</b>	<b>155 380</b>	<b>139 394</b>
<b>Effective tax rate</b>	<b>20,63%</b>	<b>19,75%</b>



## 15. Earnings per share

### Basic earnings per share

Calculation of basic earnings per share as of 31 December 2006 was based on annualised net profit in the amount of PLN 591,355 thousand (31 December 2005: PLN 549,462 thousand) and weighted average number of ordinary shares in the similar period equal 13,010,000 (31 December 2005: 13,010,000).

	year 2006	year 2005
- Profit for 12 months	591 355	549 462
- Weighted average number of ordinary shares	13 010 000	13 010 000
<b>Earnings per share (PLN)</b>	<b>45,45</b>	<b>42,23</b>

### Diluted earnings per share

During 2006 as well as during 2005, the number of shares making up the share capital of the Group did not change. During the analysed period, the Group 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.

## 16. Dividends paid/proposed

General Stakeholders Meeting accepted the dividend payment for the 2005 on 27 April 2006. The amount of dividend equals PLN 27.50 per share which in total amounted to PLN 357,775 thousand. The dividend was paid on 5 of June 2006.

The management Board of ING Bank Śląski S.A. proposed payment of the dividend for 2006 in amount of PLN 27.90 per share which in total amounted to PLN 362 979 thousand.

## 17. Cash in hand and balances with the Central Bank

	end of 2006	end of 2005
- Cash in hand	388 081	313 836
- Balances with the Central Bank	639 646	862 607
	<b>1 027 727</b>	<b>1 176 443</b>

Dominant entity of the Group maintains a mandatory provision - at the level of 3.5% of the value of deposits received by the Bank - on its current account kept with the National Bank of Poland. The amount of the calculated provision is reduced by an equivalent of EUR 500 thousand as at 30 November 2006. The average obligatory provision for the period from 30 November 2006 to 01 January 2007 equalled PLN 1,190,881 thousand. The mean for the similar period of the previous year was PLN 1,070,549 thousand.

The Group may utilise the debt limit with the National Bank of Poland for the amount of PLN 15,365,442 thousand i.e. 0.8 of the face value of Treasury papers pledged.

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

	end of 2006	end of 2005
- Nostro accounts	289 163	156 026
- interbank deposits	12 878 188	12 332 697
- other receivables	305 364	58 160
- <i>loans and advances</i>	263 903	30 981
- <i>other receivables</i>	41 461	27 179
- accrued interest	41 609	27 064
<b>Total (gross)</b>	<b>13 514 324</b>	<b>12 573 947</b>
Impairment losses, including:	-426	-299
- <i>portfolio impairment losses</i>	-426	-299
<b>Total (net)</b>	<b>13 513 898</b>	<b>12 573 648</b>

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

- Maturing:	13 474 293	12 546 883
- up to 1 month	11 330 679	12 135 548
- over 1 month and up to 3 months	2 026 960	5 275
- over 3 months and up to 1 year	110 542	394 645
- over 1 year and up to 5 years	6 112	11 415
- Accrued interest	40 031	27 064
<b>Total</b>	<b>13 514 324</b>	<b>12 573 947</b>

# 19. Financial assets measured at fair value through profit and loss

	end of 2006	end of 2005
- Financial assets held for trading	6 837 926	5 910 339
- Financial assets designated as at fair value upon initial recognition	223 518	244 901
<b>Total</b>	<b>7 061 444</b>	<b>6 155 240</b>

## Financial assets held for trading

	end of 2006	end of 2005
- <u>Debt instruments</u>		
Bonds and bills issued by:	5 856 674	4 951 262
<i>State Treasury</i>	5 856 674	3 949 452
<i>NATIONAL BANK OF POLAND (NBP)</i>	0	1 001 714
<i>Non financial sector</i>	0	96
	<b>5 856 674</b>	<b>4 951 262</b>
<i>Listed instruments</i>	5 842 211	3 751 869
<i>Unlisted instruments</i>	14 463	1 199 393
- <u>Equity instruments</u>	<b>16 679</b>	<b>1 282</b>
<i>Listed instruments</i>	16 679	1 282
- <u>Derivative financial instruments</u>	<b>964 573</b>	<b>957 795</b>
	<b>6 837 926</b>	<b>5 910 339</b>

**Financial assets designated as at fair value upon initial recognition**

	end of 2006	end of 2005
<u>Debt instruments</u>	142 559	147 852
- Bonds and bills issued by:	142 559	147 852
<i>Non financial sector</i>	142 559	147 852
<u>Buy-sell-back transactions</u>	80 959	97 049
	<b>223 518</b>	<b>244 901</b>

The Group 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 the above mentioned bonds for fair value measurement based on the profit and loss statement allows to obtain more useful information due to elimination of „accounting mismatch“. "Mismatch" would involve inconsistencies with regards to the recognition of the effects of measurement of an investment item in the form of above bonds and IRS transactions, measured at fair value through the profit and loss, securing the interest rate risk of 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 measured at fair value through profit and loss by maturity**

	end of 2006	end of 2005
- up to 1 month	149 185	1 172 978
- over 1 month and up to 3 months	1 197 034	129 363
- over 3 months and up to 1 year	672 331	610 137
- over 1 year and up to 5 years	4 831 720	2 095 201
- over 5 years	211 174	2 147 561
<b>Total</b>	<b>7 061 444</b>	<b>6 155 240</b>

**Movements in financial assets measured at fair value through profit and loss**

	end of 2006	end of 2005
Opening balance	6 155 240	5 122 066
Increases	903 048 249	643 238 299
- purchase of debt securities	902 882 781	642 454 501
- purchase shares in other parties	0	581 047
- increase in the value of securities	161 572	186 051
- measurement of off-balance sheet derivative instruments	3 896	16 700
Decreases	-902 142 045	-642 205 125
- sales of debt securities	-855 335 221	-580 851 791
- repurchase of debt securities	-37 971 704	-59 953 595
- sales of shares in other parties	0	-580 882
- drop in the value of securities	-8 835 117	-177 940
- measurement of off-balance sheet derivative instruments	-3	-640 917
<b>Closing balance</b>	<b>7 061 444</b>	<b>6 155 240</b>

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 2006, the nominal value of securities subject to repo transactions amounted to PLN 2,282,291 thousand. Adjustment due to measurement of these transaction at fair value equalled PLN 1,330 thousand.

## 20. Investment financial assets

### Available-for-sale financial assets

	end of 2006	end of 2005
- <u>Fixed rate debt instruments</u>	10 921 628	9 276 797
<i>Treasury bonds</i>	10 659 886	8 216 147
<i>Treasury bills</i>	261 742	1 060 650
- <u>Floating rate debt instruments</u>	1 667 227	1 643 904
<i>Treasury bonds</i>	1 119 430	1 118 041
<i>NBP bonds</i>	516 017	525 367
<i>Other</i>	31 780	496
<b>Total debt instruments</b>	<b>12 588 855</b>	<b>10 920 701</b>
<i>Listed instruments</i>	11 779 326	9 334 188
<i>Unlisted instruments</i>	839 529	1 586 513
- <u>Equity instruments</u>		
<i>Equity instruments at cost</i>	27 432	13 857
<i>Market value evaluation</i>	11 868	0
<i>Impairment</i>	-13 241	-11 639
<b>Equity instruments - carrying value</b>	<b>26 059</b>	<b>2 218</b>
<i>Unlisted instruments</i>	176	2 218
<b>Total - Investment financial assets</b>	<b>12 614 914</b>	<b>10 922 919</b>

A part of the available-for-sale financial instruments held by the Bank secured the Bank's own liabilities, as at 31 December 2006:

- treasury bonds with the nominal value of PLN 870,000 thousand constituted the hedge for the lombard loan,

- treasury bills with nominal value of PLN 92,900 thousand constituted a collateral to BFG

as of 31 December 2005:

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

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

### Movements in investment financial assets

	end of 2006	end of 2005
Opening balance	10 922 919	6 539 378
Increases	5 110 142	7 175 282
- purchase of debt securities	4 460 042	6 622 170
- increase in the value of securities	636 794	545 609
- purchase of shares	12 256	4 598
- reversed provision for shares	1 050	2 905
Decreases	-3 418 147	-2 791 741
- sales of debt securities	-1 511 959	-595 844
- repurchase of debt securities	-1 323 147	-1 858 991
- drop in the value of securities	-581 983	-234 071
- sales of shares	-1 052	-24 940
- recognised provision for share	-6	0
- reclassification to loans and advances to customers	0	-77 895
<b>Closing balance</b>	<b>12 614 914</b>	<b>10 922 919</b>

In 2006, the Group sold shares and stakes in 1 company which value in the books totalled PLN 191 thousand.

In 2005, the Group sold shares and stakes in 4 companies which value in the books totalled PLN 24,940 thousand.

This included:

- Wschodni Bank Cukrownictwa S.A.,
- Huta Lucchini Sp. z o.o.,
- Izostal S.A.,
- Górnośląskie Towarzystwo Lotnicze S.A.

### 21. Loans and advances to customers

#### Loans and advances granted to entities from the financial sector other than banks

	end of 2006	end of 2005
- loans and advances	2 010 466	829 205
- in the current account	493 093	77 312
- term ones	1 517 373	751 893
- other receivables	172 344	135 274
- accrued interest	3 892	2 368
<b>Total (gross)</b>	<b>2 186 702</b>	<b>966 847</b>
Impairment losses	-11 335	-10 153
<b>Total (net)</b>	<b>2 175 367</b>	<b>956 694</b>

#### Loans and advances granted to entities from the non-financial sector

	end of 2006	end of 2005
- loans and advances granted to business entities	7 064 684	5 926 102
- in the current account	2 386 692	2 160 295
- term ones	4 677 992	3 765 807
- loans and advances granted to households	3 615 383	3 238 685
- in the current account	961 359	953 809
- term ones	2 654 024	2 284 876
- other receivables	115 687	114 820
- accrued interest	37 596	34 863
<b>Total (gross)</b>	<b>10 833 350</b>	<b>9 314 470</b>
Impairment losses	-664 859	-762 658
<b>Total (net)</b>	<b>10 168 491</b>	<b>8 551 812</b>

**Loans and advances granted to entities from the government  
and self-government institutions' sector**

	end of 2006	end of 2005
- loans and advances	668 637	424 821
- in the current account	2 575	3 051
- term ones	666 062	421 770
- other receivables	1	0
- accrued interest	2 459	1 799
<b>Total (gross)</b>	<b>671 097</b>	<b>426 620</b>
Impairment losses	-26 707	-32 266
<b>Total (net)</b>	<b>644 390</b>	<b>394 354</b>

**Loans and advances granted to customers - total**

	end of 2006	end of 2005
- loans and advances	13 359 170	10 418 813
- other receivables	288 031	250 094
- accrued interest	43 947	39 030
<b>Loans and advances granted to customers (gross)</b>	<b>13 691 148</b>	<b>10 707 937</b>
Impairment losses	-702 901	-805 077
<b>Loans and advances granted to customers (net)</b>	<b>12 988 247</b>	<b>9 902 860</b>

**Quality of portfolio of loans and advances to customers**

<b>Loans and advances granted to customers (gross)</b>	<b>13 691 148</b>	<b>10 707 937</b>
- impaired	663 786	881 586
- unimpaired	13 027 362	9 826 351
<b>Impairment losses</b>	<b>-702 901</b>	<b>-805 077</b>
- related to impaired portfolio	-603 888	-684 761
- related to unimpaired portfolio	-99 013	-120 316
<b>Loans and advances granted to customers (net)</b>	<b>12 988 247</b>	<b>9 902 860</b>

**Loans and advances to clients broken down according to impairment estimation methods**

<b>Loans and advances granted to customers (gross)</b>	<b>13 691 148</b>	<b>10 707 937</b>
- measured individually	341 946	443 921
- measured as the portfolio	13 349 202	10 264 016
<b>Impairment losses</b>	<b>-702 901</b>	<b>-805 077</b>
- impairment loss pertaining to loans measured individually	-339 202	-378 786
- impairment loss pertaining to loans measured as the portfolio	-363 699	-426 291
<b>Loans and advances granted to customers (net)</b>	<b>12 988 247</b>	<b>9 902 860</b>

**Loans and advances to customers by maturity**

	end of 2006	end of 2005
- Maturing:	13 647 201	10 668 907
- up to 1 month	5 578 430	4 728 426
- over 1 month and up to 3 months	1 016 968	1 101 316
- over 3 months and up to 1 year	1 985 465	1 600 369
- over 1 year and up to 5 years	3 076 505	2 195 631
- over 5 years	1 989 833	1 043 165
- Accrued interest	43 947	39 030
<b>Total</b>	<b>13 691 148</b>	<b>10 707 937</b>

Interest accrued as of 31 December 2006 includes the amount of PLN 18,903 thousand 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 in %**

	end of 2006	end of 2005
Average effective interest rate for loans and advances in PLN	6,33%	8,32%
Average effective interest rate for loans and advances in foreign currencies	4,24%	3,95%

In line with the credit policy, ING Bank Śląski S.A. accepts collateral for repayment of the loans extended in the form of blocked borrower's account funds and the borrower's assets.

As at 31.12.2006, this collateral was valued at PLN 482,315 thousand (31.12.2005: PLN 581,175 thousand).

**Receivables due to financial leases**

The Group discloses no such receivables.

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

	end of 2006	end of 2005
Opening balance after changes in accounting principles	<b>805 376</b>	<b>918 831</b>
Movements in impairment losses:		
<i>Recognised during the period</i>	-102 049	-113 455
<i>Reversed during the period</i>	200 182	379 275
<i>Deductions written off</i>	-356 262	-489 736
<i>Amounts recovered from loans previously written off</i>	-69 692	-57 664
<i>Accounting balance</i>	119 505	54 670
<b>Closing balance</b>	<b>703 327</b>	<b>805 376</b>
due to:		
- <i>deposit accounts in other banks as well as loans and advances to other banks</i>	426	299
- <i>loans and advances to customers</i>	702 901	805 077

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

**23. Investments in controlled entities**

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

	Domestic	Type of activities	Share in the capital	
			end of 2006	end of 2005
ING Nationale Nederlanden Polska PTE S.A.	Poland	establishment and management of the open pension fund	20%	20%
			end of 2006	end of 2005
- Opening balance			75 080	70 944
- Profit share			39 850	26 699
- Dividend paid			-24 621	-22 563
<b>Closing balance</b>			<b>90 309</b>	<b>75 080</b>



General financial information on an associated entity:

	Assets	Liabilities and provisions for liabilities	Net assets	Revenues	Profit/(loss)
<b>end of 2006</b>					
ING Nationale Nederlanden Polska PTE S.A.	507 151	35 279	471 872	368 463	198 804
<b>end of 2005</b>					
ING Nationale Nederlanden Polska PTE S.A.	464 794	67 738	397 056	279 300	136 789

In the individual financial statements, the Bank discloses shares in the following subsidiaries and associates.

Name of entity	Type of capital relation	Carrying value of shares	
		end of 2006	end of 2005
ING Securities S.A.	<i>subsidiary</i>	30 228	30 228
Śląski Bank Hipoteczny S.A.	<i>subsidiary</i>	49 950	49 950
ING BSK Development Sp z o.o.	<i>subsidiary</i>	50	50
Solver Sp. z o.o.	<i>subsidiary</i>	6 682	6 682
Centrum Banku Śląskiego Sp. z o.o.	<i>subsidiary</i>	0	0
ING Nationale Nederlanden Polska PTE S.A.	<i>associated company</i>	40 000	40 000
<b>Total</b>		<b>126 910</b>	<b>126 910</b>

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 thousand).

#### 24. Sale of the subsidiaries

	selling price	net assets	cost of sale	result on sale
<b>2005</b>				
sale of ING Services Polska Sp. z o.o.	16 000	13 950	212	1 838

Throughout 2006, the Bank did not sell any shares or participations in the subsidiaries.

On 15 November 2005, ING Bank Śląski S.A. and Alegron Belegging B.V. Company signed an agreement on sale of all ING Services Polska Sp. z o.o. shares by the Bank. The subject-matter thereof was 27,899 Company shares of the total face value of PLN 13,949,500. The purchase price of shares was agreed upon at PLN 16,000,000. Alegron Belegging B.V. is a subsidiary of ING Bank N.V.

## 25. Property, plant and equipment

	end of 2006	end of 2005
- Real estate and leasehold improvements	426 017	419 942
- Computer hardware	60 851	78 709
- Vehicles	579	1 827
- Other fixtures and fittings	80 438	86 492
- Constructions in progress	3 180	13 881
<b>Property, plant and equipment – total</b>	<b>571 065</b>	<b>600 851</b>

### end of 2006

	Real estate and leasehold improvements	Computer hardware	Vehicles	Other fixtures and fittings	Constructions in progress	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	665 532	307 171	6 231	335 185	13 881	1 328 000
b) additions (due to)	10 220	19 509	3	27 484	22 662	79 878
- purchases	564	18 592	2	8 958	22 662	50 778
- investment take-overs	9 656	916	0	18 171		28 743
- others	0	1	1	355		357
c) disposals (due to)	-5 115	-58 468	-2 311	-22 441	-29 098	-117 433
- sale and liquidation	-2 049	-57 941	-2 311	-20 407		-82 708
- investment take-overs				-2 035	-29 098	-31 133
- other, including:	-3 066	-527		1		-3 592
- termination of a lease						0
- grants		-527		-92		-619
- reclassified to real estate held for sale	-3 066					-3 066
d) transfers	-1 959	-1 007	34	1 010	-4 265	-6 187
e) gross value of property, plant and equipment at the end of the period	668 678	267 205	3 957	341 238	3 180	1 284 258
f) accumulated depreciation at the beginning of the period	-238 503	-228 462	-4 404	-248 693		-720 062
g) depreciation at the end of the period	-27 702	22 108	1 026	-12 107	0	-16 675
- depreciation sign offs	-30 839	-34 492	-935	-32 434		-98 700
- sale and liquidation	1 529	55 766	1 987	19 437		78 719
- transfers	1 216	309	-27	807		2 305
- other, including:	392	525	1	83		1 001
- termination of a lease						0
- grants		525		9		534
- reclassified to real estate held for sale	392			74		466
h) accumulated depreciation at the end of the period	-266 205	-206 354	-3 378	-260 800	0	-736 737
i) evaluation at the fair value at the beginning of the period	-7 087					-7 087
- increases	35 359					35 359
- decreases, including:	-4 728					-4 728
- reclassified to real estate held for sale	486					486
j) evaluation at the fair value at the end of the period	23 544	0	0	0	0	23 544
k) net value of the property, plant and equipment at the end of the period	426 017	60 851	579	80 438	3 180	571 065

### end of 2005

	Real estate and leasehold improvements	Computer hardware	Vehicles	Other fixtures and fittings	Constructions in progress	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	682 722	374 281	11 720	314 839	8 729	1 392 291
b) additions (due to)	19 006	63 626	420	26 560	40 900	150 512
- purchases	8 683	52 390	393	6 368	40 607	108 441
- investment take-overs	9 613	10 496	0	14 046		34 155
- others	710	740	27	6 146	293	7 916
c) disposals (due to)	-36 196	-130 736	-5 909	-6 214	-35 748	-214 803
- sale and liquidation		-128 807	-4 992	-4 159		-137 958
- investment take-overs					-34 057	-34 057
- other, including:	-36 196	-1 929	-917	-2 055	-1 691	-42 788
- termination of a lease	-12 739					-12 739
- grants		1 503		-10		1 493
- reclassified to real estate held for sale	-12 481					-12 481
d) transfers						0
e) gross value of property, plant and equipment at the end of the period	665 532	307 171	6 231	335 185	13 881	1 328 000
f) accumulated depreciation at the beginning of the period	-216 654	-313 813	-8 432	-225 375		-764 274
g) depreciation at the end of the period	-21 849	85 351	4 028	-23 318		44 212
- depreciation sign offs	-32 520	-36 471	-1 426	-28 725		-99 142
- sale and liquidation		120 149	4 521	3 522		128 192
- transfers						0
- other, including:	10 671	1 673	933	1 885		15 162
- termination of a lease	5 145					5 145
- grants		1 503		10		1 513
- reclassified to real estate held for sale	2 125					2 125
h) accumulated depreciation at the end of the period	-238 503	-228 462	-4 404	-248 693	0	-720 062
i) evaluation at the fair value at the beginning of the period	35 862					35 862
- increases	1 008					1 008
- decreases, including:	-43 957					-43 957
- reclassified to real estate held for sale	-80					-80
j) evaluation at the fair value at the end of the period	-7 087	0	0	0	0	-7 087
k) net value of the property, plant and equipment at the end of the period	419 942	78 709	1 827	86 492	13 881	600 851

The item "Real estate and leasehold improvements" comprises, among others, the land whose value considering the fair value measurement as at 31.12.2006 was PLN 5,022 thousand as compared to PLN 4,831 thousand as at 31.12.2005. As at 31.12.2006, PLN 52,263 thousand - that refers to the real properties assessed at their fair value – is recognised in the impermanent capital. As at 31.12.2005, the same item amounted to PLN 38,055 thousand. The real properties were assessed in December 2006 by an independent expert. The assessment was carried out in line with the binding principles of the real property assessment dependable on the character of the building under assessment (for administrative buildings – reconstruction method was applied, for operational buildings – income method). The real properties - assessed at their historical cost taking into account the impairment and depreciation charges - would be worth PLN 150,540 thousand.

As at 31.12.2006, the value of fully depreciated tangible non-current assets is 283,215 thousand as compared to 259,112 thousand as at 31.12.2005.

#### **Constructions in progress**

"Constructions in progress" include, inter alia outlays incurred in relation to the 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.

### **26. Investment real estate**

	end of 2006	end of 2005
a) Gross value of property, plant and equipment at the beginning of the period	180 181	178 477
b) additions (due to)	1 821	1 703
- purchase	1 821	1 703
- other		
c) disposals (due to)	-51	0
- sale and liquidation		
- other	-51	0
d) transfers		
e) Gross value of property, plant and equipment at the end of the period	181 951	180 180
f) accumulated depreciation at the beginning of the period		
g) amortisation for the period (due to)	0	0
- amortisation charges		
- sale and liquidation		
- other		
h) accumulated depreciation at the end of the period	0	0
i) evaluation at the fair value at the beginning of the period	-39 633	-57 062
- increases	3 652	17 429
- decreases		
j) evaluation at the fair value at the end of the period	-35 981	-39 633
k) Net value of property, plant and equipment at the end of the period	145 970	140 547

The Group has an investment real estate measured at fair value. Fair value was determined based on the valuation prepared by an independent expert. The method applied for valuation was the income method of discounted cash flows for the period of 10 years. The market parameters generally adopted for similar investments were used for valuation, upon considering the occupancy rate of the building space.

Investment property is measured in EUR (the real property value as at 31.12.2006 totalled EUR 38,100 thousand), hence exchange differences affect the value of investment property.

	end of 2006 (thousand PLN)	end of 2005 (thousand PLN)
Income from the lease of the real estate on the group level	14 944	11 122
Operational cost of the lease activity	4 252	3 887

There are no legal limitations on the investment real estate. There are no contractual obligations incurred in relation to purchase of the investment real estate.

## 27. Intangible assets

	end of 2006	end of 2005
- Goodwill	223 821	223 821
- Software	78 787	58 121
- Outlays for projects	9 890	27 179
- Other intangible assets	1 409	977
- Outlays for intangible assets	3 754	8 759
<b>Intangible assets – total</b>	<b>317 661</b>	<b>318 857</b>

### end of 2006

	Goodwill	Software	Outlays for projects	Other intangible assets	Outlays for intangible assets	TOTAL
a) Gross value of intangible assets at the beginning of the period	223 821	162 996	27 179	8 500	8 759	431 255
b) additions (due to)	0	30 057	15 982	16	19 794	65 849
- purchases		5 564	15 870	16	19 349	40 799
- investment take-overs		24 493	112		445	25 050
- other						0
c) disposals (due to)	0	408	-33 040	-16	-24 693	-57 341
- sale and liquidation		-32 632		-16		-32 648
- investment take-overs		33 040	-33 040		-24 693	-24 693
- other						0
- grants						0
d) transfers		4	-231	915	-106	582
e) gross value of intangible assets at the end of the period	223 821	193 465	9 890	9 415	3 754	440 345
f) accumulated depreciation at the beginning of the period		-104 875		-7 523		-112 398
g) amortisation for the period (due to)	0	-9 803	0	-483	0	-10 286
- amortisation charges		-42 428		-497		-42 925
- sale and liquidation		32 625		15		32 640
- transfers						0
- other				-1		-1
- grants						0
h) accumulated depreciation at the end of the period	0	-114 678	0	-8 006	0	-122 684
i) evaluation at the fair value at the beginning of the period						0
- increases						0
- decreases						0
j) evaluation at the fair value at the end of the period	0	0	0	0	0	0
k) Net value of intangible assets at the end of the period	223 821	78 787	9 890	1 409	3 754	317 661

### end of 2005

	Goodwill	Software	Outlays for projects	Other intangible assets	Outlays for intangible assets	TOTAL
a) Gross value of intangible assets at the beginning of the period	223 821	147 777	10 911	8 555	1 005	392 069
b) additions (due to)	0	20 348	16 268	16	10 037	46 669
- purchases		17 321		16	9 988	27 325
- investment take-overs		2 192				2 192
- other		835	16 268		49	17 152
c) disposals (due to)	0	-5 129	0	-71	-2 283	-7 483
- sale and liquidation		-4 364		-71		-4 435
- investment take-overs					-2 283	-2 283
- other		-765				-765
- grants						0
d) transfers						0
e) Gross value of intangible assets at the end of the period	223 821	162 996	27 179	8 500	8 759	431 255
f) accumulated depreciation at the beginning of the period		-80 318		-6 338		-86 656
g) amortisation for the period (due to)	0	-24 557	0	-1 185	0	-25 742
- amortisation charges		-27 871		-1 256		-29 127
- sale and liquidation		2 770		71		2 841
- transfers						0
- other		544				544
- grants						0
h) accumulated depreciation at the end of the period	0	-104 875	0	-7 523	0	-112 398
i) evaluation at the fair value at the beginning of the period	0	0	0	0	0	0
- increases	0	0	0	0	0	0
- decreases	0	0	0	0	0	0
j) evaluation at the fair value at the end of the period	0	0	0	0	0	0
k) Net value of intangible assets at the end of the period	223 821	58 121	27 179	977	8 759	318 857

As of 31.12 December 2006, the value of fully depreciated intangible assets equalled PLN 68,879 thousand vs. PLN 40,982 thousand as of 31 December 2005.

By 31 December 2006, the Group entities concluded agreements with the contracting parties for the future purchase of intangible assets for the amount of PLN 11,773 thousand, of which PLN 8,084 thousand will be spent for that purpose in 2007. Before 31.12.2005, Group entities had no agreements concluded for the purchase of intangible assets in 2006.

#### **Impairment test of cash generating units with respective goodwill**

Taking into account goodwill, the 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 thousand 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 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. Reliability of accepted assumptions is subject to periodical verification and inconsistencies between estimated future and actual cash flows are analysed.

8% discount rate was assumed for the needs of cash-flows discounting.

#### **28. Property, plant and equipment held for sale**

	end of 2006	end of 2005
a) Gross value of property, plant and equipment at the beginning of the period	6 403	0
b) additions (due to)	3 113	15 090
- purchase	0	0
- other	3 113	15 090
- reclassified of property, plant and equipment to property, plant and equipment held for sale	3 113	12 481
c) disposals (due to)	-9 292	-8 687
- sale and liquidation	-9 292	-8 687
- other	0	0
d) transfers	0	0
e) Gross value of property, plant and equipment at the end of the period	224	6 403
f) accumulated depreciation at the beginning of the period	-514	0
g) amortisation for the period (due to)	514	-514
- sale and liquidation	906	1 697
- other	-392	-2 211
- reclassified of property, plant and equipment to property, plant and equipment held for sale	-392	-2 125
h) accumulated depreciation at the end of the period	0	-514
i) evaluation at the fair value at the beginning of the period	80	0
b) additions (due to)	406	80
- reclassified of property, plant and equipment to property, plant and equipment held for sale	406	80
c) disposals (due to)	-486	0
- reclassified of property, plant and equipment to property, plant and equipment held for sale	0	0
j) evaluation at the fair value at the end of the period	0	80
k) Net value of property, plant and equipment at the end of the period	224	5 969

## 29. Deferred tax assets and reserves

### Movements in temporary differences during the year

#### Deferred tax assets

	Balance as of 31 December 2005	Changes charged to the financial result	Changes charged to equity	Balance as of 31 December 2006
- Interest accrued (expense)	-14 412	-1 266		-15 678
- Provisions for receivables due to loans	-120 620	28 084		-92 536
- Other provisions	-13 375	-4 203		-17 578
- Retirement and holiday benefits	-3 920	-408		-4 328
- Accumulated losses settled	-498	139		-359
- Other	-34 892	-868		-35 760
	<b>-187 717</b>	<b>21 478</b>	<b>0</b>	<b>-166 239</b>

#### Deferred tax reserve

	Balance as of 31 December 2005	Changes charged to the financial result	Changes charged to equity	Balance as of 31 December 2006
- Interest accrued (income)	48 412	32 575		80 987
- Settlement of the difference between tax and balance sheet depreciation	15 234	-218		15 016
- Settlement of prepayments/accruals due to depreciation/amortisation resulting from the investment relief enjoyed	13 641	-2 515		11 126
- Other	32 305	-857	-10 470	20 978
	<b>109 592</b>	<b>28 985</b>	<b>-10 470</b>	<b>128 107</b>

<b>Deferred tax disclosed in the balance sheet</b>	<b>-78 125</b>	<b>50 463</b>	<b>-10 470</b>	<b>-38 132</b>
--	----------------	---------------	----------------	----------------

### Recognised deferred tax assets and reserves related to a given reporting period

#### Deferred tax assets

	end of 2006	end of 2005
- Interest accrued (expense)	-1 266	7 484
- Provisions for loans	28 084	22 146
- Other provisions	-4 203	905
- Retirement and holiday benefits	-408	-127
- Accumulated losses settled	139	1 021
- Other	-868	2 769
	<b>21 478</b>	<b>34 198</b>

#### Deferred tax reserve

	end of 2006	end of 2005
- Interest accrued (income)	32 575	-34 386
- Settlement of the difference between tax and balance sheet	-218	3 498
- Prepayment/accrual due to depreciation resulting from the investment relief applied	-2 515	-1 388
- Other	-857	-294
	<b>28 985</b>	<b>-32 570</b>

<b>Deferred tax for the reporting period</b>	<b>50 463</b>	<b>1 628</b>
--	---------------	--------------

### Unrecognised deferred tax assets

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

	end of 2006	end of 2005
- Specific provisions whose recoverability will not be proved	21 866	1 236
- Tax losses	2 917	6 728
	<b>24 783</b>	<b>7 964</b>

Year of expiration of temporary differences:

	difference amount end of 2006	difference amount end of 2005
2006		1 441
2007	23 923	4 667
2008	621	1 370
2009	46	134
2010	193	
<b>Total</b>	<b>24 783</b>	<b>7 612</b>

**Deferred tax recognised directly in equity**

- Measurement of available-for-sale securities	5 855	18 374
- Measurement of property, plant and equipment	7 083	5 034
	<b>12 938</b>	<b>23 408</b>

**Temporary differences concerning the measurement of shares in an affiliated company**

The Bank did not establish any deferred tax on the measurement of the share in affiliated company, ING Nationale Nederlanden Polska PTE S.A. Total amount of temporary differences relating to investments in the affiliated company, for which provisions due to deferred tax were not established, is PLN 7,572 thousand.

**30. Other assets**

	end of 2006	end of 2005
<b>- Prepayments</b>	<b>39 974</b>	<b>28 838</b>
- prepaid bank operating expenses	4 026	1 972
- prepayments due to insurance with NN	1 530	1 594
- materials and goods in the warehouse	3 426	2 629
- expenses to be settled	31	862
- settlements due to securitisation	0	2 109
- accrued income	21 655	14 066
- other	9 306	5 606
<b>- Other assets</b>	<b>60 536</b>	<b>116 497</b>
- interbank settlements	1 937	1 762
- interbranch settlements	305	270
- public and legal settlements	14 930	61 647
- loans from the Company's Social Benefits Fund	17 845	20 439
- other	25 519	32 379
<b>Total other assets (gross)</b>	<b>100 510</b>	<b>145 335</b>
- provision for other assets	-3 396	-5 413
<b>Total other assets (net)</b>	<b>97 114</b>	<b>139 922</b>

The amount of receivables resulting from the EU Guarantee Fund was presented under "public – private settlements" item. In 2006, the said amount was PLN 12,777 thousand, whereas in 2005 – PLN 13,896 thousand. In 2005 reporting, the above data were recognised under "deferred tax assets" item.

**31. 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 the so-called open period after the General Meeting of Shareholders of ING Group 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 set according to the same principles as for share options.

To operate the aforementioned incentive scheme, the Bank incurs costs of financing options and system administration, which amounted to PLN 2.72 million compared with PLN 1.00 million in 2005.

The Bank measures granted share options and performance options at fair value. The value measured for the period from 1 January 2006 to 31 December 2006 equalled PLN 2.9 million and was charged to the financial result of the Bank (in 2005 measurement result reached PLN 3.4 million.).



**32. Liabilities due to other banks**

	end of 2006	end of 2005
- Current accounts	178 315	178 903
- Interbank deposits	949 486	599 713
- Repo transactions	105 805	65 337
- Other liabilities	161 446	15 040
- Accrued interest	6 097	6 308
<b>Total</b>	<b>1 401 149</b>	<b>865 301</b>

Repo transactions are disclosed under "Repo transaction" item.

**Liabilities due to other banks by maturity**

	end of 2006	end of 2005
- Maturing:	1 399 056	858 993
- up to 1 month	1 046 122	650 426
- over 1 month and up to 3 months	74 836	77 920
- over 3 months and up to 1 year	129 395	130 452
- over 1 year and up to 5 years	148 703	195
- Accrued interest	2 093	6 308
<b>TOTAL</b>	<b>1 401 149</b>	<b>865 301</b>

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

**as of 31 December 2006:**

	Repurchase date	Nominal value	Carrying amount	interest
Assets held for trading	2007-12-10	66 000	65 337	3 173
Assets held for trading	2007-02-06	20 680	20 462	7
Assets held for trading	2007-02-02	20 220	20 006	6
		<b>106 900</b>	<b>105 805</b>	<b>3 186</b>

**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
		<b>66 000</b>	<b>65 337</b>	<b>2 801</b>

**33. Financial liabilities at fair value**

	end of 2006	end of 2005
- Financial liabilities held for trading	828 922	1 095 899
- Financial liabilities designated as at fair value upon initial recognition	2 282 291	2 589 890
<b>Total financial liabilities at fair value</b>	<b>3 111 213</b>	<b>3 685 789</b>

**Financial liabilities held for trading**

	end of 2006	end of 2005
- Derivative financial instruments	828 922	1 095 899
	<b>828 922</b>	<b>1 095 899</b>

Under the item "Derivative Financial Instruments" the valuation of the forward instrument hedging against a change in the fair value of the estate due to FX risk was recognised; as at 31.12.2006, it was PLN 2,111 thousand. As of 31 December 2005 this position was PLN 251.31.

**Financial liabilities designated as at fair value upon initial recognition**

	end of 2006	end of 2005
- Sell-buy-back transactions	2 282 291	2 589 890
	<b>2 282 291</b>	<b>2 589 890</b>

The Group 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 2006, the nominal value of securities subject to repo transactions amounted to PLN 2,282,291 thousand. Adjustment due to measurement of these transaction at fair value equalled PLN 1,330 thousand.

**34. Liabilities due to customers**

**Liabilities due to entities from the financial sector other than banks**

	end of 2006	end of 2005
- Deposits	2 881 493	1 624 456
- current accounts	2 265 816	884 202
- term deposit	615 677	740 254
- Repo transactions	1 429 242	1 430 734
- Other liabilities	45 343	93 234
- Accrued interest	1 768	4 398
<b>Total</b>	<b>4 357 846</b>	<b>3 152 822</b>

**Liabilities due to entities from the non-financial sector**

	end of 2006	end of 2005
- Business entities' deposits	10 375 275	8 513 141
- current accounts	5 885 516	5 378 090
- term deposit	4 489 759	3 135 051
- Households' deposits	21 472 352	19 150 998
- current accounts	3 095 615	2 292 935
- savings accounts	15 421 774	12 300 085
- term deposit	2 954 963	4 557 978
- Repo transactions	371 824	18 178
- Other liabilities	407 010	549 722
- Accrued interest	46 306	51 410
<b>Total</b>	<b>32 672 767</b>	<b>28 283 449</b>

**Liabilities due to entities from the government and self-government institutions' sector**

	end of 2006	end of 2005
- Deposits	1 528 107	1 384 457
- current accounts	1 190 267	831 559
- term deposit	337 840	552 898
- Other liabilities	714	2 019
- Accrued interest	1 988	849
<b>Total</b>	<b>1 530 809</b>	<b>1 387 325</b>

**Liabilities due to customers – total**

	end of 2006	end of 2005
- Deposits	36 257 227	30 673 052
- Repo transactions	1 801 067	1 448 912
- Other liabilities	453 067	644 975
- Accrued interest	50 062	56 657
<b>Liabilities due to customers – total</b>	<b>38 561 423</b>	<b>32 823 596</b>

Repo transactions are disclosed under "Repo transaction" item.

**Liabilities due to customers by maturity**

	end of 2006	end of 2005
- Maturing:	38 511 441	32 766 939
- up to 1 month	34 389 022	28 564 161
- over 1 month and up to 3 months	1 521 061	1 387 598
- over 3 months and up to 1 year	1 945 281	2 405 414
- over 1 year and up to 5 years	584 159	330 535
- over 5 years	71 918	79 231
- Accrued interest	49 982	56 657
<b>Total</b>	<b>38 561 423</b>	<b>32 823 596</b>

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

**as of 31 December 2006:**

	Repurchase date	Nominal value	Carrying amount	interest
Assets held for trading	2007-01-02	50 560	50 000	16
Assets held for trading	2007-01-05	235 905	230 000	75
Assets held for trading	2007-01-12	626 645	583 999	190
Assets held for trading	2007-02-09	61 234	57 499	313
Assets held for trading	2007-01-15	9 870	9 750	18
Assets held for trading	2007-01-05	2 916	2 749	8
Assets held for trading	2007-01-18	6 724	6 251	10
Assets held for trading	2007-01-10	35 392	33 000	11
Assets held for trading	2007-01-12	196 170	193 997	63
Assets held for trading	2007-01-11	39 681	36 999	15
Assets held for trading	2007-01-12	241 428	224 998	73
Assets held for trading	2007-01-02	8 000	7 906	12
Assets held for trading	2007-01-24	37 297	34 678	46
Assets held for trading	2007-01-02	131 700	128 798	68
Assets held for trading	2007-01-08	50 000	49 413	21
Assets held for trading	2007-01-11	1 100	1 086	3
Assets held for trading	2007-01-22	95 550	90 277	109
Assets held for trading	2007-01-29	7 167	6 679	2
Assets held for trading	2007-02-26	53 830	52 987	223
		<b>1 514 525</b>	<b>1 801 066</b>	<b>1 276</b>

**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
		<b>1 502 184</b>	<b>1 448 912</b>	<b>2 484</b>

In 2006, the average effective interest rate for the PLN deposits was 2.76% versus 3.66% in the year 2005 respectively; for FX deposits it was 1.58% on the average, versus 1.12% in 2005 respectively.

### 35. Provisions

	end of 2006	end of 2005
- provision for disputes	42 262	19 340
- provision for off-balance sheet liabilities	25 015	29 638
- provision for retirement benefits	10 898	11 063
- provision for unused holidays	12 149	9 824
- provision for employment restructuring	0	10 654
<b>Total</b>	<b>90 324</b>	<b>80 519</b>

end of 2006

	provision for disputes	provision for off- balance sheet liabilities	provision for retirement benefits	provision for unused holidays	provision for employment restructuring	TOTAL
<b>Closing balance at the end of the previous period</b>	<b>19 340</b>	<b>29 638</b>	<b>11 063</b>	<b>9 824</b>	<b>10 654</b>	<b>80 519</b>
Provisions recognised	32 084		354	2 370	592	<b>35 400</b>
Provisions applied	-4 962			-30	-10 074	<b>-15 066</b>
Provisions reversed	-4 200	-4 623	-519	-15	-1 172	<b>-10 529</b>
<b>Closing balance</b>	<b>42 262</b>	<b>25 015</b>	<b>10 898</b>	<b>12 149</b>	<b>0</b>	<b>90 324</b>
<i>expected provision settlement period</i>						
- up to 1 year	42 262			12 149	0	<b>54 411</b>
- more than 1 year		25 015	10 898			<b>35 913</b>

end of 2005

	provision for disputes	provision for off- balance sheet liabilities	provision for retirement benefits	provision for unused holidays	provision for employment restructuring	TOTAL
<b>Closing balance at the end of the previous period</b>	<b>27 963</b>	<b>52 144</b>	<b>8 994</b>	<b>11 211</b>	<b>0</b>	<b>100 312</b>
Provisions recognised	14 071	7	2 079	194	11 252	<b>27 603</b>
Provisions applied	-20 359			-69	-598	<b>-21 026</b>
Provisions reversed	-2 335	-22 513	-10	-1 512		<b>-26 370</b>
Do wykorzystania						<b>0</b>
<b>Closing balance</b>	<b>19 340</b>	<b>29 638</b>	<b>11 063</b>	<b>9 824</b>	<b>10 654</b>	<b>80 519</b>
<i>expected provision settlement period</i>						
- up to 1 year	17 602		2 006	9 824	10 654	<b>40 086</b>
- more than 1 year	1 738	29 638	9 057			<b>40 433</b>

#### Provision for issues in dispute

The Group maintains a detail record of all court cases and other legal claims. In cases where the Group is burdened with legal obligations or other obligations arising from commonly accepted customs, having its source in past events, and it is also probable that the fulfilment of the said obligation will result in the unavoidable outflow of funds, the Group creates provisions. Any future settlements are made against those provisions.

The recognised amount of provisions comprises:

- 1) disputable cases connected with negligent performance of agreements: PLN 26,112 thousand,
- 2) fine imposed by the Office of Competition and Consumer Protection: PLN 14,088 thousand,
- 3) crime cases: PLN 1,833 thousand,
- 4) cases relating to claims filed by former employees: PLN 49 thousand.

The Group recognised provisions for all estimated losses. In some cases, the Group is entitled to reimbursement of funds relating to the provisions. However, due to the uncertainty of the inflow of the expected economic benefits, the Group did not recognise any assets due to that title in the financial statement.

#### Provision for retirement benefits

The Group 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 2006, the value of future liabilities due to retirement benefits equalled PLN 10,898 thousand (PLN 11,063 thousand as of 31 December 2005).

#### 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, the Bank created a provision for employment restructuring in the total amount of PLN 11.3 million. The provision was fully used in 2006.

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 out 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 354 persons.

### 36. Other liabilities

	end of 2006	end of 2005
- to employees	20 457	22 571
- due to leases	11 161	20 990
- accruals	137 880	78 485
- due to operating expenses	5 796	8 429
- due to employee benefits	62 872	7 317
- due to loans granted	3 971	8 787
- due to commission	52 779	42 672
- due to distribution of deposit-related funds	5 582	4 049
- other	6 880	7 231
- other liabilities	591 173	524 576
- interbank settlements	441 194	344 948
- interbranch settlements	14 727	36 564
- public and legal settlements	30 583	73 829
- other	104 669	69 235
	<b>760 671</b>	<b>646 622</b>

#### Gross liabilities due to financial leases by maturity

	end of 2006	end of 2005
- up to 1 year	7 672	9 586
- over 1 year and up to 5 years	3 530	9 163
<b>Total</b>	<b>11 202</b>	<b>18 749</b>

#### Present value of lease instalments due by maturity

	end of 2006	end of 2005
- up to 1 year	8 087	8 693
- over 1 year and up to 5 years	3 617	8 680
<b>Total</b>	<b>11 704</b>	<b>17 373</b>

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

	end of 2006	end of 2005
- Gross liabilities due to financial leases	11 202	18 749
- Unrealised financial expenses	502	-1 376
<b>- Present value of minimum lease instalments</b>	<b>11 704</b>	<b>17 373</b>

The Group is a lessee in financial lease agreements concerning a part of the hardware and premises being perpetually used by the Group. 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.

### 37. Repos and reverse repos

The Group 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 Group 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.

### 38. Share capital

The share capital includes 13,010,000 ordinary shares, and is sub-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 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 and 2006.

### 39. Revaluation reserve

	end of 2006	end of 2005
- Revaluation reserve from measurement of available-for-sale financial assets	42 830	85 796
- <i>including deferred tax</i>	-5 855	-18 374
- Revaluation reserve from measurement of property, plant and equipment	52 263	38 055
- <i>including deferred tax</i>	-9 490	-7 441
<b>Total revaluation reserve</b>	<b>95 093</b>	<b>123 851</b>

end of 2006

	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
<b>Opening balance of revaluation reserve</b>	<b>85 796</b>	<b>-18 374</b>	<b>38 055</b>	<b>-7 441</b>	<b>123 851</b>
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-28 754	9 819			-28 754
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-14 212	2 700			-14 212
- disposal of property, plant and equipment			-2 132	169	-2 132
- remeasurement of property, plant and equipment			16 340	-2 218	16 340
<b>Closing balance of revaluation reserve</b>	<b>42 830</b>	<b>-5 855</b>	<b>52 263</b>	<b>-9 490</b>	<b>95 093</b>

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
<b>Opening balance of revaluation reserve</b>	<b>67 992</b>	<b>-15 950</b>	<b>59 551</b>	<b>-9 611</b>	<b>127 543</b>
- 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			-20 187	2 170	-20 187
<b>Closing balance of revaluation reserve</b>	<b>85 796</b>	<b>-18 374</b>	<b>38 055</b>	<b>-7 441</b>	<b>123 851</b>

### 40. Retained earnings

	end of 2006	end of 2005
- Other supplementary capital	23 582	31 396
- Reserve capital	1 359 501	1 231 839
- General risk fund	480 179	430 179
- Retained earnings	82 134	58 061
- Result for the current year	591 355	549 462
<b>Total retained earnings</b>	<b>2 536 751</b>	<b>2 300 937</b>

end of 2006

	other supplementary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
<b>Opening balance of retained earnings</b>	<b>31 396</b>	<b>1 231 839</b>	<b>430 179</b>	<b>607 523</b>		<b>2 300 937</b>
- disposal of property, plant and equipment				2 236		2 236
- remeasurement of property, plant and equipment	1 411			-1 411		0
- profit allocation, including:	-9 225	127 662	50 000	-526 214		-357 777
- <i>profit written off to supplementary capital</i>	-9 225			28 099		18 874
- <i>profit written off to reserve capital</i>		127 662		-146 538		-18 876
- <i>profit written off to general risk fund</i>			50 000	-50 000		0
- <i>dividends paid</i>				-357 775		-357 775
- net result for the current period					597 951	597 951
- share of minority shareholders in the net financial result					-6 596	-6 596
<b>Closing balance of retained earnings at the end of the current period</b>	<b>23 582</b>	<b>1 359 501</b>	<b>480 179</b>	<b>82 134</b>	<b>591 355</b>	<b>2 536 751</b>

end of 2005

	other supplementar y capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
<b>Opening balance of retained earnings</b>	<b>16 894</b>	<b>1 153 299</b>	<b>400 179</b>	<b>445 833</b>		<b>2 016 205</b>
-disposal of property, plant and equipment	12 769			-10 794		<b>1 975</b>
- profit allocation, including:	1 733	80 198	30 000	-378 636		<b>-266 705</b>
- profit written off to supplementary capital	1 733			-1 733		<b>0</b>
- profit written off to reserve capital		80 198		-80 198		<b>0</b>
- profit written off to general risk fund			30 000	-30 000		<b>0</b>
- dividend				-266 705		<b>-266 705</b>
- subsidiary sold		-1 658		1 658		<b>0</b>
- net result for the current period					566 446	<b>566 446</b>
- share of minority shareholders in the net financial result					-16 984	<b>-16 984</b>
<b>Closing balance of retained earnings at the end of the current period</b>	<b>31 396</b>	<b>1 231 839</b>	<b>430 179</b>	<b>58 061</b>	<b>549 462</b>	<b>2 300 937</b>

#### **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 Hyperinflation Economies) at the preparation of financial statements.

Pursuant to paragraph 24 of IAS 29 "Financial Reporting in Hyperinflation 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 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 thousand 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.



41. Balance sheet currency structure

end of 2006

CONSOLIDATED BALANCE SHEET (PLN'000)									
	PLN	EUR after translation into PLN	USD after translation into PLN	CHF after translation into PLN	in currency	CHF after translation into PLN	in currency	other currencies (after translation into PLN)	TOTAL
<b>ASSETS</b>									
- Cash in hand and balances with the Central Bank	920 080	95 262	24 665	11 851	4 072	81	34	453	1 027 727
- Deposit accounts in other banks as well as loans and advances to other banks	2 434 761	1 986 393	518 778	9 016 203	3 097 919	26 358	11 055	50 183	13 513 898
- Financial assets at fair value	6 964 614	38 398	10 022	58 079	19 955	225	94	128	7 061 444
- Investment financial assets	12 602 770	276	72	11 868	4 078		0		12 614 914
- Loans and advances to customers	11 246 244	1 485 559	387 753	158 438	54 437	71 919	30 165	26 087	12 988 247
- Investments in controlled entities	90 309	0	0	0	0	0	0	0	90 309
- Property, plant and equipment	571 065	0	0	0	0	0	0	0	571 065
- Investment real estates	145 970	0	0	0	0	0	0	0	145 970
- Intangible assets	317 661	0	0	0	0	0	0	0	317 661
- Property, plant and equipment held for sale	224	0	0	0	0	0	0	0	224
- Deferred tax asset	0	0	0	0	0	0	0	0	0
- Deferred tax asset	38 132	0	0	0	0	0	0	0	38 132
- Other assets	90 900	5 904	1 541	225	77	3	1	82	97 114
<b>Total assets</b>	<b>35 422 730</b>	<b>3 611 792</b>	<b>942 731</b>	<b>9 256 664</b>	<b>3 180 438</b>	<b>98 586</b>	<b>41 350</b>	<b>76 933</b>	<b>48 466 705</b>
<b>EQUITY AND LIABILITIES</b>									
<b>LIABILITIES</b>									
- Liabilities due to the Central Bank	696 000	0	0	0	0	0	0	0	696 000
- Liabilities due to other banks	1 066 839	27 488	7 175	295 075	101 383	1 884	790	9 863	1 401 149
- Financial liabilities at fair value	3 026 659	19 332	5 046	63 813	21 925	192	81	1 217	3 111 213
- Liabilities due to customers	38 252 565	137 154	35 799	151 351	52 002	726	305	19 627	38 561 423
- Provisions	90 324	0	0	0	0	0	0	0	90 324
- Current income tax liabilities	67 532	0	0	0	0	0	0	0	67 532
- Deferred tax provision	0	0	0	0	0	0	0	0	0
- Other liabilities	751 766	8 373	2 165	527	181	5	2		760 671
<b>Total liabilities</b>	<b>43 951 685</b>	<b>192 347</b>	<b>50 205</b>	<b>510 766</b>	<b>175 491</b>	<b>2 807</b>	<b>1 177</b>	<b>30 707</b>	<b>44 688 312</b>
<b>EQUITY</b>									
- Share capital	130 100	0	0	0	0	0	0	0	130 100
- Supplementary capital - issuance of shares over nominal value	993 750	0	0	0	0	0	0	0	993 750
- Revaluation reserve from measurement of available-for-sale financial assets	42 830	0	0	0	0	0	0	0	42 830
- Revaluation reserve from measurement of property, plant and equipment	52 263	0	0	0	0	0	0	0	52 263
- Retained earnings	2 536 751	0	0	0	0	0	0	0	2 536 751
<b>Equity assigned to shareholders of the holding company</b>	<b>3 755 694</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3 755 694</b>
- Minority equity	22 689	0	0	0	0	0	0	0	22 689
<b>Total equity</b>	<b>3 778 393</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3 778 393</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>47 730 078</b>	<b>192 347</b>	<b>50 205</b>	<b>510 766</b>	<b>175 491</b>	<b>2 807</b>	<b>1 177</b>	<b>30 707</b>	<b>48 466 705</b>

end of 2005

CONSOLIDATED BALANCE SHEET (PLN'000)									
	PLN	EUR		USD		CHF		other currencies (after translation into PLN)	TOTAL
		after translation into PLN	in currency	after translation into PLN	in currency	after translation into PLN	in currency		
<b>ASSETS</b>									
- Cash in hand and balances with the Central Bank	1 036 495	127 093	32 927	12 172	3 732	108	44	575	1 176 443
- Deposit accounts in other banks as well as loans and advances to other banks	1 701 431	3 177 615	823 289	7 636 125	2 341 436	655	264	57 822	12 573 648
- Financial assets at fair value	6 063 180	36 780	9 529	53 917	16 532			1 363	6 155 240
- Investment financial assets	10 922 639	278	72	2	1				10 922 919
- Loans and advances to customers	8 403 192	1 208 056	312 984	201 381	61 749	88 115	35 547	2 116	9 902 860
- Investments in controlled entities	75 080		0		0				75 080
- Property, plant and equipment	600 851		0		0				600 851
- Investment real estates	140 547		0		0				140 547
- Intangible assets	318 857		0		0				318 857
- Property, plant and equipment held for sale	5 969		0		0				5 969
- Deferred tax asset	36 453		0		0				36 453
- Deferred tax asset	78 125		0		0				78 125
- Other assets	133 387	6 273	1 625	199	61			63	139 922
<b>Total assets</b>	<b>29 516 206</b>	<b>4 556 095</b>	<b>1 180 386</b>	<b>7 903 796</b>	<b>2 423 511</b>	<b>88 878</b>	<b>35 855</b>	<b>61 939</b>	<b>42 126 914</b>
<b>EQUITY AND LIABILITIES</b>									
<b>LIABILITIES</b>									
- Liabilities due to the Central Bank	464 000				0				464 000
- Liabilities due to other banks	696 342	9 618	2 492	146 099	44 798	1	0	13 241	865 301
- 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	27 832 881	2 982 410	772 685	1 968 809	602 688	457	184	39 039	32 823 596
- Provisions	80 519				0				80 519
- Current income tax liabilities	0				0				0
- Deferred tax provision					0				0
- Other liabilities	631 048	14 758	3 824	778	239	5	2	32	646 621
<b>Total liabilities</b>	<b>33 329 856</b>	<b>3 046 067</b>	<b>789 178</b>	<b>2 135 410</b>	<b>654 773</b>	<b>974</b>	<b>392</b>	<b>53 519</b>	<b>38 565 826</b>
<b>EQUITY</b>									
- Share capital	130 100				0		0	0	130 100
- Supplementary capital - issuance of shares over nominal value					0		0	0	993 750
- Revaluation reserve from measurement of available-for-sale financial assets	85 797				0		0	0	85 797
- Revaluation reserve from measurement of property, plant and equipment	38 055				0		0	0	38 055
- Retained earnings	2 300 937				0		0	0	2 300 937
<b>Equity assigned to shareholders of the holding company</b>	<b>3 548 639</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3 548 639</b>
- Minority equity	12 449	0	0	0	0	0	0	0	12 449
<b>Total equity</b>	<b>3 561 088</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3 561 088</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>36 890 944</b>	<b>3 046 067</b>	<b>789 178</b>	<b>2 135 410</b>	<b>654 773</b>	<b>974</b>	<b>392</b>	<b>53 519</b>	<b>42 126 914</b>

### Consolidated off-balance sheet items

	end of 2006	end of 2005
- Contingent liabilities granted	13 817 539	9 337 610
- Contingent liabilities received	10 530 245	10 544 625
- Off-balance sheet financial instruments	157 144 424	130 550 244
	<b>181 492 208</b>	<b>150 432 479</b>

## 42. Contingent liabilities

### Liabilities granted

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

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

The Group 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 2006	end of 2005
<b>Liability value</b>		
- Credit card limits	660 563	467 328
- Undrawn credit facilities	6 217 846	5 044 325
- Undrawn overdrafts in current account	1 790 166	2 662 085
- Guarantees and letters of credit	1 442 839	1 175 372
- Deposits to be issued	3 706 125	28 500
	<b>13 817 539</b>	<b>9 377 610</b>

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 the 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 Group under "Provisions" and in explanatory note no. 35.

### Liabilities received

	end of 2006	end of 2005
Guarantee conditioned liabilities	10 418 776	10 469 326
Financing liabilities	111 469	75 299
	<b>10 530 245</b>	<b>10 544 625</b>

### Information on issue guarantees granted to other issuers

In 2006, the Group was the guarantor for the issue of commercial papers of two budget entities and one entity from the fuel sector. The total guarantee amount is PLN 58.5 million, PLN 6 million of which were used. In 2005, the Group was not the guarantor for the issue of commercial papers.

#### 43. Off-balance sheet financial instruments

as for 31 December 2006

	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
<b>Interest rate derivatives</b>						
Forward rate agreements (FRA)	2 000 000	32 305 065	700 000	35 005 065	11 069	12 095
Interest rate swaps (IRS)	15 461 715	19 263 854	15 198 759	49 924 328	424 426	321 706
<b>Total</b>	<b>17 461 715</b>	<b>51 568 919</b>	<b>15 898 759</b>	<b>84 929 393</b>	<b>435 495</b>	<b>333 801</b>
<b>FX derivatives</b>						
FX contracts (swap, forward)	25 613 568	12 539 505	2 050 699	40 203 772	396 502	421 332
CIRS					80 378	11 983
Currency options (purchased)	560 209	589 950	1 082	1 151 241	3 874	5 318
Currency options (sold)	315 268	940 759	1 118	1 257 145	6 007	10 183
<b>Total</b>	<b>26 489 045</b>	<b>14 070 214</b>	<b>2 052 899</b>	<b>42 612 158</b>	<b>486 761</b>	<b>448 816</b>
<b>Current off-balance sheet transactions</b>						
FX operations	24 680 691	0	0	24 680 691	986	7 662
Securities operations	4 433 562	0	0	4 433 562	2 885	198
<b>Total</b>	<b>29 114 253</b>	<b>0</b>	<b>0</b>	<b>29 114 253</b>	<b>3 871</b>	<b>7 860</b>
<b>Stock market derivatives</b>						
Options for stock market (buy)	0	0	244 310	244 310	38 446	0
Options for stock market (sold)	0	0	244 310	244 310	0	38 445
<b>Total</b>	<b>0</b>	<b>0</b>	<b>488 620</b>	<b>488 620</b>	<b>38 446</b>	<b>38 445</b>
<b>Total</b>	<b>73 065 013</b>	<b>65 639 133</b>	<b>18 440 278</b>	<b>157 144 424</b>	<b>964 573</b>	<b>828 922</b>

as for 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
<b>Interest rate derivatives</b>						
Forward rate agreements (FRA)	2 300 000	45 809 065	1 900 000	50 009 065	14 048	15 667
Interest rate swaps (IRS)	8 786 784	13 979 967	12 476 829	35 243 580	694 428	620 046
<b>Total</b>	<b>11 086 784</b>	<b>59 789 032</b>	<b>14 376 829</b>	<b>85 252 645</b>	<b>708 476</b>	<b>635 713</b>
<b>FX derivatives</b>						
FX contracts (swap, forward)	23 561 278	7 438 813	2 362 764	33 362 855	157 083	412 442
CIRS					67 720	18 791
Currency options (purchased)	859 027	505 940	0	1 364 967	3 956	4 696
Currency options (sold)	930 530	526 439	0	1 456 969	13 998	16 179
<b>Total</b>	<b>25 350 835</b>	<b>8 471 192</b>	<b>2 362 764</b>	<b>36 184 791</b>	<b>242 757</b>	<b>452 108</b>
<b>Current off-balance sheet transactions</b>						
FX operations	7 355 609			7 355 609	849	2 368
Securities operations	1 701 943			1 701 943	0	0
<b>Total</b>	<b>9 057 552</b>	<b>0</b>	<b>0</b>	<b>9 057 552</b>	<b>849</b>	<b>2 368</b>
<b>Stock market derivatives</b>						
Options for stock market (buy)	0	0	27 628	27 628	5 710	
Options for stock market (sold)	0	0	27 628	27 628		5 710
<b>Total</b>	<b>0</b>	<b>0</b>	<b>55 256</b>	<b>55 256</b>	<b>5 710</b>	<b>5 710</b>
<b>Total</b>	<b>45 495 171</b>	<b>68 260 224</b>	<b>16 794 849</b>	<b>130 550 244</b>	<b>957 792</b>	<b>1 095 899</b>

#### 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.

	Net value in PLN	
	end of 2006	end of 2005
<b>EUR</b>		
Up to 3 months	3 089 706	1 261 057
From 3 months to 1 year	3 336 287	1 076 218
Over 1 year	704 936	780 448
<b>USD</b>		
Up to 3 months	5 621 511	2 519 229
From 3 months to 1 year	1 940 650	1 248 730
Over 1 year	230 030	166 222
<b>GBP</b>		
Up to 3 months	61 176	50 627
From 3 months to 1 year	3 211	5 625
Over 1 year	0	0
<b>PLN</b>		
Up to 3 months	17 491 056	10 499 781
From 3 months to 1 year	8 787 456	3 610 743
Over 1 year	117 934	1 323 375
<b>other currencies</b>		
Up to 3 months	225 599	145 456
From 3 months to 1 year	2 609	123 436
Over 1 year	0	0

### **Embedded derivatives**

The Group has deposits in PLN and USD, in which derivative instruments are embedded. These are FX options and stock exchange indices. As at 31.12.2006, the embedded instruments were valued at PLN 46,514 thousand. As at 31 December 2005, the value embedded derivatives equalled PLN 14,742 thousand for purchased options and PLN 45,954 thousand for sold options.

## **44. Hedge accounting**

### **Fair value hedge accounting**

In the financial statements as of 31 December 2006, the Group uses fair value hedge accounting. The risk hedged is the change in fair value of the real property (building of a subsidiary - Centrum Banku Śląskiego Sp. z o.o., in which the Head Office of ING Bank Śląski in Katowice is located) as a result of a change in the spot EUR/PLN exchange rate, and the hedging instrument is the forward type foreign currency transaction. The notional amount of the hedging transaction is updated in line with the updated value of the building estimated by an independent expert. As of 31 December 2006, the loss due to measurement of the hedged item in the amount of PLN 3,255 thousand plus deferred income tax of PLN 619 thousand reduced the Group's financial result.

Evaluation of hedge accounting is presented in Profit and Loss Account in "Effects of correction in fair value in hedge accounting". Evaluation of hedge accounting is presented in balance sheet in "Fixed assets".

### **Cash flow hedge accounting**

In the financial statements as of 31 December 2006, the Group did not use cash flow hedge accounting.

## **45. Fair values**

### **Fair values of financial assets and liabilities**

The 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 forced sale or liquidation, which is best reflected by the market price, if available.

Below, balance sheet and fair values are summarised for each group of assets and liabilities that are not shown at fair value in the group's balance sheet. In the estimation of the fair value of assets and liabilities the purchase and sale prices were adopted accordingly. For short-term financial assets and liabilities, their balance sheet value is assumed as approximating their fair value.

end of 2006

	Carrying amount	Fair value
<b>Assets</b>		
- Cash in hand and balances with the Central Bank	1 027 727	1 027 727
- Deposit accounts in other banks as well as loans and advances to other banks	13 513 898	13 513 898
- Financial assets at fair value through profit or loss	7 061 444	7 061 444
- Investment financial assets	12 614 914	12 614 914
- Loans and advances to customers	12 998 247	13 086 272
- Investments in controlled entities	90 309	90 309
<b>Equity and liabilities</b>		
- Liabilities due to the Central Bank	696 000	696 000
- Liabilities due to other banks	1 401 149	1 401 149
- Financial liabilities at fair value through profit or loss	3 111 213	3 111 213
- Liabilities due to customers	38 561 423	38 553 466

end of 2005

	Carrying amount	Fair value
<b>Assets</b>		
- Cash in hand and balances with the Central Bank	1 176 443	1 176 443
- Deposit accounts in other banks as well as loans and advances to other banks	12 573 648	12 573 648
- Financial assets at fair value through profit or loss	6 155 240	6 155 240
- Investment financial assets	10 922 919	10 922 919
- Loans and advances to customers	9 902 860	9 976 192
- Investments in controlled entities	75 080	75 080
<b>Equity and liabilities</b>		
- Liabilities due to the Central Bank	464 000	464 000
- Liabilities due to other banks	865 301	865 301
- Financial liabilities at fair value through profit or loss	3 685 789	3 685 789
- Liabilities due to customers	32 823 596	32 815 388

#### **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. For the loans with unspecified repayment dates, we assume that their fair value does not differ considerably from the balance sheet value. The fair value is calculated as a discounted value of expected future principal and interest payments. Cash loans and loans are expected to be repaid at the dates set out in the agreements. The expected future cash flows related to homogenous categories of loans and cash loans; e.g. mortgage loans extended to individuals were discounted with the current interest rate, which encumber the cash loans of a similar class that are offered to new clients with a similar credit profile. Market prices of the instruments collateralised with similar types of loans and cash loans, adjusted with the differences resulting from various types of loans and cash loans are also used to estimate the fair value. The estimated fair value of loans and cash loans reflects the changes of the interest rate level for the fixed interest rate loans. For exposures at impairment, we assume that their fair value does not differ considerably from the balance sheet value.

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 the 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 the current interest rate for deposits with similar maturities. The importance of long-term cooperation with depositaries is not taken into account in the process of estimating fair value of these instruments.

#### **46. Hedging assets**

On 18 June 2002 Bank received a loan of 30 000 000 PLN for 5 years from the Banking Guarantee Fund. The loan was related with taking over of Wielkopolski Bank Rolniczy S.A. In June 2004 the first installment was paid back. Following installments are paid every 6 months (June and December). In 2006, the loan was repaid in its full amount.

On 31 December 2006 Bank securities portfolio includes securities of net value 2,227,309 thousand PLN (at the end of 2005 securities and treasury bills of total net value 2,601,288 thousand PLN) which are collateral for sell-buy-back securities.

Total liabilities secured by those assets reached 2,282,291 thousand PLN ( 2,589,890 thousand PLN at the end of 2005).

Table below presents net value of assets that are collateral for those liabilities:

	end of 2006	end of 2005
- Treasury bills collateralising a loan from the Bank Guarantee Fund	0	17 008
- Treasury bonds constituting the hedge for the lombard loan	870 000	580 000
- Treasury bills collateralising the liabilities due to securities sold with a promise of repurchase	0	111 320
- Treasury bonds collateralising the liabilities due to securities sold with a promise of repurchase	2 227 309	2 489 968

#### **47. Custody activities**

On 31.12.2006 ING Bank Śląski S.A. maintained 3017 securities accounts for its customers. At the end of 2006 ING Bank Śląski S.A. was a deposit bank for 44 investment funds and 1 employee fund.

The Group was also selected to fulfil this role for 7 new investment funds. From 1 January 2006 to 31 December 2006, the Group co-operated with 18 Polish brokerage houses.

#### 48. Operating leases

##### **Group as a lessee**

The Group cooperates with ING Car Lease in respect to car leasing and fleet management. The Group also incurs cost due to lease of dwelling units, which is recognised as operating leasing. 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 2006	end of 2005
up to 1 year	15 197	53 769
over 1 year and up to 5 years	63 801	249 783
over 5 years – annual payment amount	17 521	47 354

##### **Group as a lessor**

The Group obtains an income from renting investment real estate. Those agreements are treated as operating lease agreements. 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 or changing the price; however they do not provide for the possibility of purchase.

Lease payments by maturity are disclosed in the table below:

	end of 2006	end of 2005
up to 1 year	15 122	12 904
over 1 year and up to 5 years	63 262	43 536
over 5 years – annual payment amount	17 521	12 217

#### 49. 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 2006	end of 2005
- Cash in hand and balances with the Central Bank (presented in note 17)	388 081	313 836
- Accounts with other banks (presented in note 17)	639 646	862 607
- Current accounts with other banks (presented in note 18)	265 845	166 556
- O/N deposits with other banks (presented in note 18)	6 747 518	3 636 568
	<b>8 041 090</b>	<b>4 979 567</b>

#### 50. 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.

#### 51. Reasons for 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 and are presented as Movements in financial assets due to exchange rate.



## 52. Related entities

The following subsidiaries and associates of ING Bank Śląski:

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

within the scope of their operations those companies 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.

Entities related to ING Bank Śląski, also conclude 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.

In the period 1.01.2006 – 31.12.2006 following transactions of the total value exceeding EURO 500 thousand were concluded:

- In connection with execution of the Co-operation Agreement concluded by ING Bank Śląski S.A. and ING Bank NV the remuneration for the financial consulting services provided during 12 months of 2006 amounted to PLN 36.5 million (net).
- Following the implementation of the agreement for provision of data processing and financial information analysis services, concluded by and between ING Bank Śląski S.A. and ING Bank NV, the remuneration for implementation and pilot run of the integrated IT environment amounted to PLN 5.4 million (net). The fee for data processing and financial information analysis services used by ING Bank Śląski amounted to PLN 11.1 million (net).
- Under the agreement of lease of office rooms in the building owned by CBS, ING Bank Śląski paid a rent (through ING BSK Development) of PLN 20.9 million (gross) in monthly instalments. In addition, the Bank paid PLN 1.7 million for adaptation works.
- ING Services Polska provides services to ING Bank Śląski with regards to lease of hardware resources. The costs of service were PLN 14.9 million (gross).
- ING Bank Śląski made a transaction with ING Lease due to sublease of functional rooms totalling PLN 15.2 million (gross).
- ING Bank Śląski co-operates with ING Car Lease as to leasing of cars and management of car fleet. The derivative amount of payment was PLN 9.4 million in 12 months 2006.

Consolidated financial statements of the ING Bank Śląski S.A. Group  
for the period from 1<sup>st</sup> January 2006 to 31<sup>st</sup> December 2006

**Transactions with related parties (in PLN thousands)**

**31.12.2006**

	Parent company	Other ING Group entities	Subsidiary undertakings	Associated undertakings
<b>Balances of receivables and payables</b>				
Deposits given	2 875 621	452 874	-	-
Loans	9 565	950 817	370 983	202
Deposits taken (current & term)	236 360	225 935	359 137	123 129
Securities	-	-	41 959	-
Other receivables	6 358	2 007	2 715	-
Other liabilities	-	13 419	14	-
<b>Off-balance sheet commitments and transactions</b>				
Guarantees issued	482 517	206 155	-	-
Undrawn credit lines granted	2 080 919	1 437 135	305 576	-
FX spot	21 928 730	2 664 027	-	-
FX forward	2 638	1 430 478	-	-
IRS/CIRS	23 419 946	70 321	-	-
FRA	4 289 330	-	-	-
Options	853 227	32 805	-	-
<b>Income and expenses</b>				
Income	759 005	31 242	16 109	341
Expenses	696 191	28 141	30 590	2 943

**31.12.2005**

	Parent company	Other ING Group entities	Subsidiary undertakings	Associated undertakings
<b>Balances of receivables and payables</b>				
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	-	-
<b>Off-balance sheet commitments and transactions</b>				
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	-	-
<b>Income and expenses</b>				
Income	166 378	23 265	17 317	180
Expenses	70 001	3 795	37 159	3 705

### 53. Transactions with the management staff and employees

Employees of the ING Bank Śląski S.A. Group are granted loans on the same terms and conditions as the customers of the Bank (no preferential loans for employees exist). Loans for employees disclosed in the amount of loans for customers as of 31.12.2006 amounted to PLN 56,329 thousand.

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 2006 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 12,908 thousand.

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 31.12.2006 amounts to PLN 17,845 thousand.

#### **Remuneration paid in 2006 to the Members of the Management Board and Supervisory Board of ING Bank Śląski S.A.**

##### **Remuneration to the Members of the Management Board (in PLN thousand)**

<b>Year</b>	<b>Emoluments and bonuses</b>	<b>Benefits</b>	<b>Total</b>
2006	11 640	4 567	16 207
2005	9 402	5 323	14 725

The total amount of remuneration and bonuses paid or due for 2006 presented above constitutes the gross amount of remuneration paid or due and payable for the period from January to December 2006 and the 2005 bonus, which was paid out in 2006 at the total amount of PLN 2,393 thousand.

The members of the Management Board have signed 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. Information on allowances owing to the Management Board Members is contained in their employment contracts and shall be paid only in case of termination of the employment contract by the Bank due to other reasons than those giving rise to termination without notice.

##### **Remuneration paid to the Members of the Supervisory Board of ING Bank Śląski S.A. (in PLN thousand)**

<b>Year</b>	<b>Remuneration and bonuses</b>	<b>Benefits</b>	<b>Total</b>
2006	931	0	931
2005	1 058	0	1 058

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.

As regards members of the Bank Supervisory Board, the following individuals have held shares of ING Bank Śląski: Mr. Mirosław Kośmider – 3 shares; Mr. Wojciech Popiołek – 9 shares. The other members of the Bank Management Board and the Bank Supervisory Board do not hold any shares of ING Bank Śląski S.A.

#### **54. Events after the balance sheet date**

##### ***Change of Rating***

On 22 January 2007, the rating agency Fitch Ratings Ltd. informed the Management Board of ING Bank Śląski S.A. about upgrading the IDR, or the Issuer Default Rating, from "A+" to "AA-" with the "stable" outlook. Furthermore, the agency confirmed other ratings remaining unchanged:

- individual rating 'C/D',
- rating of short-term liabilities 'F1',
- support rating '1'.

The change is a consequence of upgrading the international rating for Poland for debts in a foreign currency to the level "A-" from "BBB+" and upgrading the Polish cap to the level "AA-" from "A+".

### *Approval of the consolidated financial report for publication*

This consolidated financial report was approved for publication by the Management Board of the dominant entity on 03.04.2007 and by the Supervisory Board of the dominant entity on 20.04.2007, upon recommendations of the Audit Committee.

### *Securitisation*

On 14.03.2007, the Bank concluded with Copernicus Capital Towarzystwo Funduszy Inwestycyjnych S.A. [mutual fund company] (acting for VPF I Niestadaryzowanego Sekurytyzacyjnego Funduszu Inwestycyjnego Zamkniętego [Non-standard Securitisation Closed-end Mutual Fund]) the agreement for sale of the portfolio of identified bad loans. The sale will cover 45,127 debt claims totalling PLN 135,022 thousand. The portfolio to be sold comprises debt claims recognised in the Bank's balance sheet and those written down from the balance sheet. The current net book value of the portfolio amounts to PLN 5,823 thousand. The sales price of the debt claims was set at PLN 23,604 thousand.

## **55. Acquisitions**

In 2006 the Group did not make any acquisitions, similar to 2005.

## **56. Risk management disclosures**

An integral part of Group's 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, market risk (interest rate risk, foreign exchange risk) liquidity 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 Group's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Group is exposed are credit risk, operational risk, liquidity risk and market risk. Market risk includes interest rate risk, liquidity 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 Group'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 Group 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, 19 and 43.

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 Group is set out below.

**(i) Swaps**

Swaps are over-the-counter agreements between the Group 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 Group 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 Group 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 lower 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 Group 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 Group 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 Group exercises the option. As the writer of over-the-counter options, the Group is subject to market risk only since it is obliged to make payments if the option is exercised.

**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 risk control methodology was developed by the Group and accepted by the strategic shareholder, ING Bank NV.

### *Market risk*

The Capital Group of ING Bank Śląski attaches great significance to the measurement, management and mitigation of individual types of market risk for all areas of the Group, as well as to constant improvement of the process of internal transfer of market risk arising from material consolidated items at the Bank and its Capital Group to the Financial Markets area.

All material sources of market risk at the Bank and its subsidiaries are measured and are subject to the formal limit defined by the Management Board. Historical verification is performed in order to ensure control of credibility of the risk levels reported.

In 2006, the Group reported a significant progress in ensuring compliance with the New Capital Accord in terms of the market risk. As part of these works, the Group effected implementation of appropriate calculations to define the economic capital requirements arising from the market risk exposure. The approach used throughout the Bank and aimed at ensuring the appropriate adequacy of economic and statutory capital was also formalised.

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. The FX positions of the bank's subsidiaries are regularly monitored to ensure that such positions (and their risk) are at very low levels. In 2006 the bank has transferred measurement of FX risk to centralized systems in order to ensure compliance with ING group approach to risk measurement.

#### *FX Spot VaR Statistics for 2006 (in PLN thousands)*

<b>Entity(ies)</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Average</b>
ING Bank Śląski (standalone)	5	1 131	349
ING Bank Śląski (subsidiaries)	0,2	10	2
ING Bank Śląski (consolidated)	62	1 039	428

### *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. The IR positions of the bank's subsidiaries are regularly monitored to ensure that such positions (and their risk) are at very low levels. In 2006 the bank continued to increase the volume of demand liabilities which are invested according to replicating rules designed to more accurately reflect the interest rate characteristics of these volumes; at present all material PLN demand liabilities are invested in line with this approach.

#### *IR VaR Statistics for 2006 (in PLN thousands)*

<b>Entity(ies)</b>	<b>Business Area:</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Average</b>
ING Bank Śląski (standalone)	Financial Markets Trading and Treasury	918	4 417	1 660
ING Bank Śląski (standalone)	Financial Markets ALM	100	3 564	1 085
ING Bank Śląski	Corporate and	17	99	56



Consolidated financial statements of the ING Bank Śląski S.A. Group  
for the period from 1<sup>st</sup> January 2006 to 31<sup>st</sup> December 2006

(standalone)	Retail Banking			
ING Bank Śląski (subsidiaries)	(all)	0,3	29	7
ING Bank Śląski (consolidated)	(all)	1 035	8 109	2 808

*Optionality risk*

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. The risks arising from embedded optionality (client ability to early-withdraw funds and early-repay loans) in the bank's corporate and retail term deposit and loan products are now regularly monitored.

*FX Options Var Statistics for 2006 (in PLN thousands)*

Entity(ies)	Minimum	Maximum	Average
ING Bank Śląski (Financial Markets)	180	1 260	486

*Liquidity risk*

The bank manages liquidity risk through a suite of reports which provide a realistic view of the bank's liquidity position under a variety of internal/external stress scenarios. Other reports are used to ensure that the bank maintains its highly-diversified funding base. The bank maintains and periodically reviews a liquidity crisis contingency plan. The liquidity positions of the bank's subsidiaries are regularly monitored to ensure that these entities maintain a prudent liquidity profile.

*Dutch Central Bank Liquidity Gap Report as of End of December, 2006 (in PLN thousands)*

Entity	Liquidity Gap to 1 week	Liquidity Gap to 1 month
ING Bank Śląski (stand-alone)	19 519 414	17 727 077
ING Bank Śląski (subsidiaries)	303 074	278 239
ING Bank Śląski (consolidated)	17 697 012	15 809 716

*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 2006, the concentration ratio in respect of the banking portfolio was not exceeded.

The greatest balance sheet and off-balance exposures as of 31.12.2006 were as follows (in PLN thousand):

<b>Customer</b>	<b>Balance sheet exposure</b>	<b>Off-balance sheet exposure</b>	<b>Total</b>
1 (Customer)	868 313	64 901	933 214
2 (Customer)	65 537	417 910	483 447
3 (Customer)	367 689	57 380	425 069
4 (Group)	292 274	88 987	381 261
5 (Group)	205 840	175 083	380 923
6 (Customer)	341 033	7 692	348 725
7 (Customer)	247 529	52 839	300 368
8 (Customer)	0	276 933	276 933
9 (Customer)	34 493	189 113	223 606
10 (Group)	91 370	119 002	210 372
<b>TOTAL</b>	<b>2 514 078</b>	<b>1 449 840</b>	<b>3 963 918</b>

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):

<b>National economy branches and sectors (by classes of Classification of Economic Activities in the European Community)</b>	<b>Total exposure in PLN thousand</b>		<b>Structure %</b>	
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
Agriculture, hunting and forestry	290 362	235 787	1,53	1,55
Mining of coal and lignite	4 001	3 713	0,02	0,02
Extraction of crude petroleum and natural gas	196 746	195 795	1,04	1,29
Other mining and quarrying	130 135	111 199	0,69	0,73
Manufacture of food products and beverages	1 150 517	1 147 397	6,07	7,55
Manufacture of tobacco products	371 015	359 822	1,96	2,37
Manufacture of textiles	43 585	36 779	0,23	0,24
Manufacture of clothes and leather products	45 069	35 212	0,24	0,23
Manufacture of wood and wood products and manufacture of pulp, paper and paper products	196 020	239 198	1,03	1,57
Publishing	196 677	210 578	1,04	1,39
Fuel industry	476 431	258 632	2,51	1,70
Chemical industry	430 146	295 938	2,27	1,95
Rubber industry	282 362	222 878	1,49	1,47
Manufacture of other non-metallic products	474 876	370 632	2,50	2,44
Manufacture of metals	254 133	226 177	1,34	1,49



Consolidated financial statements of the ING Bank Śląski S.A. Group  
for the period from 1<sup>st</sup> January 2006 to 31<sup>st</sup> December 2006

Manufacture of fabricated metal products	305 946	304 628	1,61	2,00
Manufacture of machinery and equipment	523 918	550 980	2,76	3,63
Manufacture of electronic products	269 407	260 386	1,42	1,71
Manufacture of precision instruments	82 925	83 980	0,44	0,55
Manufacture of transport equipment	353 293	356 544	1,86	2,35
Manufacture of furniture	128 030	107 846	0,68	0,71
Waste management	19 038	17 226	0,10	0,11
Production and distribution of electricity	1 148 008	731 755	6,05	4,82
Collection, purification and distribution of water	256 456	74 064	1,35	0,49
Construction	896 509	571 220	4,73	3,76
Sale, maintenance and repair of motor vehicles	347 968	325 914	1,84	2,15
Trade	3 142 491	2 584 433	16,57	17,01
Hotels and restaurants	60 685	45 217	0,32	0,30
Transport	338 563	309 854	1,78	2,03
Post and telecommunications	498 631	356 198	2,63	2,34
Financial intermediation, insurance and pension funding	3 447 665	2 339 409	18,18	15,40
Real property activities, renting of machinery and equipment	1 000 254	895 490	5,27	5,89
Computer and related activities	84 610	59 269	0,45	0,39
Research and development	7 187	5 132	0,04	0,03
Other business activities	534 599	338 609	2,82	2,23
Public administration and defence	646 545	364 766	3,41	2,40
Education	40 675	38 816	0,21	0,26
Health and social work	59 089	36 709	0,31	0,24
Other community, social and personal service activities	22 201	9 221	0,12	0,06
Recreational and sporting activities	141 318	43 494	0,75	0,29
Other	64 385	432 659	0,34	2,86
<b>Total</b>	<b>18 962 471</b>	<b>15 193 556</b>	<b>100,00</b>	<b>100,00</b>

### *Operational risk*

ING Bank Śląski Group 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 Group***

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, the Group's capital adequacy as of 31 December 2006 was 15.74% - the minimum is 8%. The Group 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 2006 was PLN 1,520,046 thousand, 90.7% of which corresponded to the credit risk, and 9.3% corresponded to the financial risks of the trading book.

Consolidated financial statements of the ING Bank Śląski S.A. Group  
for the period from 1<sup>st</sup> January 2006 to 31<sup>st</sup> December 2006

<b>CALCULATION OF SOLVENCY RATIO</b>	<b>end of 2006</b>	<b>end of 2005</b>
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	42 830	85 797
- Revaluation reserve from measurement of property, plant and equipment	52 263	38 055
- Retained profit or uncovered loss from prior years	1 945 397	1 751 475
- Decrease of capital in respect of shareholdings in financial entities	-	-
- Decrease of capital in respect of intangible assets	-317 661	-288 472
- Minority equity	22 699	14 849
- Short-term capital	120 556	116 391
<b>I. Total own funds</b>	<b>2 989 934</b>	<b>2 841 945</b>
Risk weighted assets:		
- risk weighted assets with risk rate 20%	2 906 839	2 702 493
- risk weighted assets with risk rate 50%	147 836	160 886
- risk weighted assets with risk rate 100%	11 377 802	9 598 439
<b>II. Total risk weighted assets</b>	<b>14 432 477</b>	<b>12 461 818</b>
- risk weighted contingent liabilities granted with risk rate 10%	2 368	2 098
- risk weighted contingent liabilities granted with risk rate 20%	876 672	14 998
- risk weighted contingent liabilities granted with risk rate 50%	582 738	172 015
- risk weighted contingent liabilities granted with risk rate 100%	1 338 423	1 118 254
<b>III. Total risk weighted contingent liabilities granted</b>	<b>2 800 201</b>	<b>1 307 365</b>
<b>IV. Total risk weighted assets and contingent liabilities granted (II + III)</b>	<b>17 232 678</b>	<b>13 769 183</b>
<b>V. Credit risk (IV*8%)</b>	<b>1 378 614</b>	<b>1 101 535</b>
<b>VI. Overrun of the exposure concentration limit</b>	<b>720</b>	
<b>VII. Market risk</b>	<b>140 712</b>	<b>120 545</b>
<b>VIII. Total capital requirement (V + VI + VII)</b>	<b>1 520 046</b>	<b>1 222 080</b>
<b>IX. Solvency ratio (%)</b>	<b>15,74</b>	<b>18,60</b>