Financial Reporting of ING Bank Śląski for the year 2006

ING BANK ŚLĄSKI

Table of contents

PROFIT AND LOSS ACCOUNT (PLN '000)

	Note	year 2006	year2005
Interest income	*2*	*2 007 792*	*1 870 269*
Interest expenses	*2*	*1 075 139*	*1 155 628*
Net interest income		**932 653**	**714 641**
Commission income	*3*	*620 296*	*524 701*
Commission expenses	*3*	*62 533*	*55 510*
Net commission income		**557 763**	**469 191**
Dividend income	4	57 621	41 611
Net income on instruments measured at fair value through profit and loss	5	104	211 766
Net income on investment financial assets	6	20 017	3 674
Net income from a subsidiary sold		0	1 838
Net income on available for sale assets and assets held for sale		-127	3 632
Net income on the revaluation of FX positions and transactions	7	146 697	160 121
Other operating income	8	28 770	20 094
Other operating expenses	9	31 735	30 153
Result on basic activities		**1 711 763**	**1 596 415**
General and administrative expenses	10	1 061 986	959 529
Depreciation and amortisation	11	137 268	120 430
Net income on disposal of assets other than held for sale		-998	120
Impairment losses and provisions for off-balance sheet liabilities	12	-171 547	-120 207
Profit (loss) before tax		**683 058**	**636 783**
Income tax	13	142 501	129 999
Net result for the current year		**540 557**	**506 784**
Net profit (loss) assigned to shareholders of the holding company		**540 557**	**506 784**
Weighted average number of ordinary shares		**13 010 000**	**13 010 000**
Earnings per ordinary share (PLN)	14	41.55	38.95
Diluted weighted average number of ordinary shares		13 010 000	13 010 000
Diluted earnings per ordinary share (PLN)	14	41.55	38.95

BALANCE SHEET (PLN '000)	Note	end of 2006 as of 31 December 2006	end of 2005 as of 31 December 2005
ASSETS			
- Cash in hand and balances with the Central Bank	16	1 027 718	1 176 436
- Deposit accounts in other banks as well as loans and advances to other banks	17	13 560 173	12 626 500
- Financial assets measured at fair value through profit and loss	18	7 056 724	6 165 686
- Investment financial assets	19	12 644 728	10 952 027
- Loans and advances to customers	20	13 082 578	10 026 137
- Investments in controlled entities	22	126 910	126 910
- Property, plant and equipment	24	408 453	443 093
- Intangible assets	25	316 753	317 800
- Property, plant and equipment held for sale	26	224	5 969
- Current tax asset		0	35 213
- Deferred tax asset	27	30 209	71 645
- Other assets	28	96 980	136 616
Total assets		**48 351 450**	**42 084 032**
EQUITY AND LIABILITIES			
LIABILITIES			
- Liabilities due to the Central Bank		696 000	464 000
- Liabilities due to other banks	30	1 400 239	877 038
- Financial liabilities measured at fair value through profit and loss	31	3 111 213	3 685 789
- Liabilities due to customers	32	38 626 433	32 878 020
- Provisions	33	88 833	79 490
- Current income tax liabilities		65 815	0
- Other liabilities	34	746 943	634 506
Total liabilities		**44 735 476**	**38 618 843**
EQUITY			
- Share capital	36	130 100	130 100
- Supplementary capital - issuance of shares over nominal value		993 750	993 750
- Revaluation reserve from measurement of available-for-sale financial assets	37	42 830	85 796
- Revaluation reserve from measurement of property, plant and equipment	37	40 458	31 725
- Retained earnings	38	2 408 836	2 223 818
Total equity		**3 615 974**	**3 465 189**
TOTAL EQUITY AND LIABILITIES		**48 351 450**	**42 084 032**
Solvency ratio		**15.08%**	**17.96%**
Book value		**3 615 974**	**3 465 189**
Number of shares		**13 010 000**	**13 010 000**
Book value per share (PLN)		**277.94**	**266.35**

STATEMENT OF CHANGES IN 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	Total equity
Opening balance of equity	**130 100**	**993 750**	**85 796**	**31 725**	**2 223 818**	**3 465 189**
- 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	3 647	1 515
- remeasurement of property, plant and equipment				10 865	-1 411	9 454
- dividends paid					-357 775	-357 775
- net result for the current period					540 557	540 557
Total equity (closing balance)	**130 100**	**993 750**	**42 830**	**40 458**	**2 408 836**	**3 615 974**

Notes 36,37,38

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	Total equity
Opening balance of equity	**130 100**	**993 750**	**67 992**	**32 967**	**1 981 770**	**3 206 579**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity			19 744			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	1 969	660
- remeasurement of property, plant and equipment				67		67
- dividends paid					-266 705	-266 705
- net result for the current period					506 784	506 784
Total equity (closing balance)	**130 100**	**993 750**	**85 796**	**31 725**	**2 223 818**	**3 465 189**

Notes 36,37,38

CASH FLOW STATEMENT
- indirect method

(PLN '000)	Note	year 2006	year2005
OPERATING ACTIVITIES			
Net profit (loss)	14	**540 557**	**506 784**
Adjustments		**2 980 680**	**-541 002**
- Unrealised exchange gains (losses)		-144	-4 148
- Depreciation and amortisation	11	137 268	120 430
- Interest accrued (from the profit and loss account)		932 653	717 966
- Interest received/paid		-1 008 279	-648 043
- Dividends received	4	-57 621	-41 611
- Gains (losses) on investment activities		1 125	-5 005
- Income tax (from the profit and loss account)	13	142 501	129 999
- Income tax paid		-37	-113 607
- Change in provisions	33	9 343	-25 027
- Change in deposits in other banks and in loans and advances to other banks		2 285 184	-2 187 146
- Change in financial assets at fair value through profit or loss		-909 493	-1 029 356
- Change in investment financial assets		-1 611 180	-4 570 725
- Change in loans and advances to customers		-3 059 184	457 517
- Change in other assets		39 018	-3 559
- Change in liabilities due to other banks		750 227	-1 206 191
- Change in liabilities at fair value through profit or loss		-574 576	2 415 747
- Change in liabilities due to customers		5 791 438	5 256 627
- Change in other liabilities		112 437	195 130
Net cash flow from operating activities		**3 521 237**	**-34 218**
INVESTMENT ACTIVITIES			
- Purchase of property plant and equipment	24	-47 726	-98 653
- Disposal of property, plant and equipment		2 360	1 262
- Purchase of intangible assets	25	-40 627	-27 282
- Disposal of shares in controlled entities		0	16 000
- Disposal of fixed assets/liabilities held for sale		620	9 313
- Dividends received	4	57 621	41 611
Net cash flow from investment activities		**-27 752**	**-57 749**
FINANCIAL ACTIVITIES			
- Long-term loans repaid		-51 607	-55 616
- Interest on long-term loans repaid		-1 775	-2 995
- Dividends paid	15	-357 775	-266 705
Net cash flow from financial activities		**-411 157**	**-325 316**
Effect of exchange rate changes on cash and cash equivalents		***17 189***	***-36 341***
Net increase/decrease in cash and cash equivalents		**3 082 328**	**-417 283**
Opening balance of cash and cash equivalents		**4 970 079**	**5 387 362**
Closing balance of cash and cash equivalents	47	**8 052 407**	**4 970 079**

Information on the Bank

ING Bank Śląski S.A. ("Bank", "Company") 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 Bank statistical number is REGON 271514909, and the tax identification number is NIP 634-013-54-75. The duration of the Bank was determined as indefinite in the Bank's charter.

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 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.

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

Selected financial data from the Financial Statements

Item	PLN thousands		EUR thousands	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Interest income	2 007 792	1 870 269	514 937	464 859
Commission income	620 296	524 701	159 087	130 416
Result on banking activity	1 711 763	1 596 415	439 015	396 792
Gross profit (loss)	683 058	636 783	175 184	158 274
Net profit (loss)	540 557	506 784	138 636	125 962
Net cashflow	3 082 328	-417 283	804 533	-108 110
Earnings (loss) per 1 ordinary share (in PLN/EUR)	41.55	38.95	10.66	9.68
Profitability ratio (%)	28.8	27.4	-	-
Return on assets (%)	1.2	1.3	-	-
Return on equity (%)	17.5	17.1	-	-
Cost / Income ratio (%)	70.3	67.9	-	-
Total assets	48 351 450	42 084 032	12 620 445	10 903 164
Equity	3 615 974	3 465 189	943 823	897 764
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)	277.94	266.35	72.55	69.01
Solvency ratio (%)	15.08	17.96	-	-

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 to average total assets.
Return on equity (ROE) – net profit 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 54: 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 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 financial statement.

These financial statements for 2006 have been prepared in the full version and meet the requirements of International Financial Reporting Standards (IFRS).

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

In 2006 the Bank 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 Bank'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 16th December 2004 and amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates did not have any impact on the financial statements.

(b) Term and scope of the report

These financial statements of ING Bank Śląski S.A. ("Bank", "Company") cover the period from 1st January 2006 to 31st December 2006 and include the comparative data:

- as at 31st December 2005 and financial year ending that day - for the balance sheet,
- for the period from 1st January 2005 till 31tst 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 Bank 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 Bank 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 Bank financial statements for the period of initial application.

Standards and interpretations approved by the EU	Anticipated change in the accounting principles	Potential impact on the financial statements	Date becomes effective for periods from and after
IFRS 7 Financial instruments: Disclosures	The extent of disclosure requirements with respect to Bank 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 Bank holds the position that additional significant disclosure requirements will relate to the Bank'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 Bank 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	The Bank has not yet completed the assessment of the impact of the new interpretation on the Bank activities.	1st May 2006

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

(d) Basis for preparation of consolidated financial statements

In the financial statements, the Bank has adopted valuation at the fair value for financial assets and liabilities valued at fair value, including derivative instruments and financial assets classified as available for sale, other than those 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 Bank 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 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 Bank is as follows:

Impairment of loans

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

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

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

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

Valuation models used by the Bank, are verified by independent bodies before/prior to their usage. Where possible, in models the Bank uses observable data from active markets. However, the Bank 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 Bank 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 calculate the amount of benefits as of the balance-sheet date. The final amount of the bonuses is approved by the Supervisory Board of the Bank.

(f) Investments in subsidiaries and affiliated companies

Investments in subsidiaries and affiliated companies are measured at purchase price minus impairment charges. Impairment, if any, will not be reversed.

(g) Foreign currency

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

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

(ii) Transactions and balances in foreign currency

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

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

(iii) Financial statements of investments in a foreign operation

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

(h) Financial assets and liabilities

(i) Classification

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

(a) Financial assets and liabilities valued at fair value through 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 Bank 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 Bank's investment strategy.

(b) Investment held to maturity

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

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

(c) Loans and advances

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

- those that the entity intends to sell immediately or in the near term, which are classified as held for trading, and those that the entity upon initial recognition designates 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 Bank recognizes financial assets or liabilities on the balance sheet when, and only when it becomes a party to the contractual provisions of the instrument. Purchase and sale transactions of financial assets valued at fair value through 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 Bank derecognises a financial asset when, and only when: the contractual rights to the cash flows from the financial asset expire or the Bank transfers the contractual right to receipt of the cash flow from the financial asset. On transferring a financial asset, the Bank evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. Accordingly, where the Bank:

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

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

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

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

- discontinuation of execution proceeding,
- death of borrower,
- conclusion of bankruptcy procedures,
- unconditional cancellation of a part of the loan,
- 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 Bank measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity investments are measured at amortised cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and 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 Bank measures all financial liabilities at amortised cost using the effective interest method, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument 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 Bank recognizes impairment in accordance with the established rules of determination 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 Bank estimates its fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, discounted cash flow analysis and option pricing models and other techniques used by market members.

(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 Bank concludes special master agreements with contracting parties, with which the Bank 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

The Bank 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 Bank after the transfer. When the Bank 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 Bank 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 Bank separates and recognizes in the balance sheet derivative instruments being a component of hybrid instruments. A hybrid (combined) instrument includes a non-derivative host contract and derivative instrument, which causes 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 Bank separates embedded derivatives from the host contract and account for them as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and host contract is not valued at fair value through profit and loss.

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

The Bank uses derivative instruments in order to hedge against FX and interest rate risk, arising from activity of the Bank. 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 Bank 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 Bank's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
- The hedging instrument and hedged instrument are similar, especially nominal value, maturity date, and volatility for interest rate and foreign exchange changes.
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
- The effectiveness of the hedge can be reliably measured, i.e. 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 Bank 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 Bank does not apply cash flow hedge accounting.

(l) Impairment

Assets valued at amortized cost

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

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

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments above 90 days;
c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

e) the disappearance of an active market for that financial asset because of financial difficulties; or

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets within the group.

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

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

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

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

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

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

The impairment is presented as a reduction of the carrying amount of the asset either through use of an allowance account and the amount of the loss shall be recognized in profit 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 or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit 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) 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 Bank's needs or to be transferred to other entities, based on the lease contract or for administrative purposes.

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

Each component part of property, plant and equipment items, whose purchasing price or generation cost is material in comparison with the purchase price or generation cost of the entire item, is depreciated separately. The Bank allocates the initial value of the property, plant and equipment into its significant parts.

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

(ii) *Subsequent Costs*

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

(n) 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 Bank, 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 Bank. In other cases, costs are charged to the profit and loss in the reporting period in which they were incurred.

(o) 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

(p) Leasing contracts

(i) The Bank as lessor

The Bank 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 the 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 Bank as lessee*

The Bank 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 Bank'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.

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

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

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

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

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

– its carrying amount 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 Bank 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 0n hand and cash held at the Central Bank, cash equivalents e.g. balances on current accounts and overnight deposits held by the other banks.

(r) Impairment of other non- financial assets

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

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

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

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

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

Measuring Recoverable Amount

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

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

Reversing 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.

(s) 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 Bank 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.

(t) 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 Bank by counterparties, which will be accrued over future periods and settlements resulting from employee benefits. Accruals and deferred income are presented in 'Other liabilities' balance sheet caption.

(u) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term employee benefits

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

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

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

(iii) Long-term employee benefits

Bank's obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The provisions for retirement bonus payment granted within the 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 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.

(w) Provisions

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

(x) 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 in made considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and commissions paid or received (external) between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

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

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

(y) Net commission income

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

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

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

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

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

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

(aa) Result on investments

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

(bb) Dividend income

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

(cc) Other operating income and expense

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

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

(dd) Income tax

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

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

(ee) Deferred tax

The Bank 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.

(ff) 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 financial statements

1. Segment reporting

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

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 the transfer pricing system. The transfer prices are calculated on the basis of one profitability curve for the given currency, common for asset' and liability' products. The transfer price designated for assets' and liability' products with the same location on the profitability curve is identical. Modifications of the baseline transfer price obtained from valuation of the product on the profitability curve are possible, and the factors correcting the transfer price may be the premium for acquisition of long-term liquidity, matching of the Bank's positions, the cost of hedging in 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 Bank is business segment classification. The management of the ING Bank Śląski is conducted through breaking down the operations into the following business segments:

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

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

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

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

For corporate banking, the Bank 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 Bank are performed on the territory of the Republic of Poland.

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	
Revenue total	**905 072**	**557 870**	**146 203**	**114 141**	**1 723 286**	**779 593**	**585 874**	**125 565**	**116 384**	**1 607 416**
Core business	**882 492**	**522 254**	**135 393**	**183 146**	**1 723 286**	**751 074**	**539 968**	**115 470**	**200 903**	**1 607 416**
Income on lending	221 281	164 726			386 007	223 977	172 279			396 257
Interest income external	*278 788*	*439 296*				*303 115*	*472 661*			
Interest cost internal	*-109 583*	*-331 140*				*-125 033*	*-355 746*			
Income on fees/ other income	*52 076*	*56 570*				*45 895*	*55 364*			
Income on deposits	574 880	228 611			803 492	517 129	231 375			748 504
Interest costs external	*-595 426*	*-354 692*				*-642 917*	*-399 124*			
Interest income internal	*939 787*	*470 884*				*954 932*	*513 815*			
Income on fees/ other income	*230 519*	*112 419*				*205 114*	*116 685*			
Income on mutual funds	91 795	1 736			93 531	27 299	399			27 698
Income on brokerage and custody	33	18 756			18 789	43	16 538			16 581
Other income on core business	-14 546	-527	253 394	183 146	421 467	-23 558	-3 718	244 748	200 903	418 376
FM products sales	9 049	108 952	-118 001		0	6 183	123 095	-129 278		0
Result on economic capital	22 580	35 615	10 810	-69 005	0	28 519	45 906	10 095	-84 519	0
Expenses total	**763 874**	**393 087**	**41 840**	**12 974**	**1 211 775**	**698 258**	**344 432**	**30 417**	**17 733**	**1 090 840**
Operational costs	757 556	389 238	41 840	12 974	1 201 609	688 042	344 070	30 222	17 733	1 080 067
including depreciation	*108 291*	*22 388*	*6 589*		*137 268*	*95 007*	*19 642*	*5 781*		*120 430*
Other operational costs (operational risk)	6 318	3 849	0	0	10 166	10 216	362	195	0	10 773
Result before risk	**141 198**	**164 783**	**104 363**	**101 167**	**511 511**	**81 336**	**241 442**	**95 148**	**98 651**	**516 576**
Risk cost	-21 949	-149 598	0	0	-171 547	-53 922	-66 285	0	0	-120 207
Result before tax	**163 147**	**314 381**	**104 363**	**101 167**	**683 058**	**135 257**	**307 727**	**95 148**	**98 651**	**636 783**
CIT					142 501					129 999
Result after tax					**540 557**					**506 784**

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	
Assets and liabilities										
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)					1 055 109					1 277 842
Total assets					**48 351 450**					**42 084 032**
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)					965 889					780 157
Equity					3 615 974					3 465 189
Total liabilities					**48 351 450**					**42 084 032**
Other										
Capital expenditure	88 674	46 954	4 730	1 721	142 079	103 159	51 848	4 155	3 032	162 194
Depreciation	108 291	22 388	6 589		137 268	95 007	19 642	5 781		120 430
Net cash flow from operating activity	3 027 461	313 002	-2 981 610	3 133 889	3 492 742	5 893 420	378 357	-3 083 405	-3 294 686	-106 314
Net cash flow from operating activity - other items not allocated to segments					28 495					72 096
Total net cash flow from operating activity					3 521 237					-34 218
Net cash flow from investing activity	-19 514	-39 221	-25 108	56 091	-27 752	-13 674	-42 373	-25 309	23 607	-57 749
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
Interest and similar income		
- Loans and advances to banks	541 523	421 686
- Loans and advances to customers	707 837	765 773
- Interest on debt securities held for trading	140 026	158 643
- Interest on available-for-sale debt securities	616 679	524 167
- Reverse repos	1 727	0
	2 007 792	**1 870 269**

With regards to interest revenue for 2006, the amount of PLN 32,583 thousand represents revenue from financial assets for which impairment loss was recognised. In 2005 respectively the amount reached PLN 25,332 thousand. Interest income related to financial assets is calculated using the net exposure amounts; i.e. the amounts including effective impairment losses.

	year 2006	year 2005
Interest expense and similar charges		
- Deposits from banks	-86 562	-122 320
- Deposits from customers	-944 826	-1 008 670
- Loans and advances	-1 529	-2 998
- Reverse repos	-42 222	-21 640
	-1 075 139	**-1 155 628**
Net interest income	**932 653**	**714 641**

3. Net commission income

	year 2006	year 2005
Commission income		
- Brokerage fees	150	365
- Fiduciary and custodian fees	22 338	19 499
- 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	75 492	79 148
- 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	87 720	27 560
- Other	13 743	12 556
	620 296	**524 701**
Commission expense		
- Other commission, including:	-62 533	-55 510
- 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*
	-62 533	**-55 510**
Net commission income	**557 763**	**469 191**

4. Dividend income

	year 2006	year 2005
- Securities held for trading	0	0
- Available-for-sale securities	57 621	41 611
	57 621	**41 611**

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

	year 2006	year 2005
Net income on financial assets and liabilities held for trading	711	205 090
- Net income on equity instruments	0	0
- Net income on debt instruments	23 371	20 857
- Net income on derivatives	-22 660	184 233
Currency derivatives	*-40 865*	*139 637*
Exchange rate derivatives	*14 968*	*44 429*
Securities derivatives	*3 237*	*167*
Net income on financial assets and liabilities measured at fair value upon initial recognition	-607	6 676
debt instruments	-607	6 676
Net income on instruments measured at fair value through profit and loss	**104**	**211 766**

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	2 432
- Equity instruments	14 212	1 242
- Debt instruments	**20 017**	**3 674**

7. Net income on the revaluation of FX positions and transactions

	year 2006	year 2005
Result on the revaluation of balance sheet items	-223 256	643 752
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
Net income on the revaluation of FX items and FX transactions	**146 697**	**160 121**

8. Other operating income

	year 2006	year 2005
- Due to recovered unrecoverable receivables	1 067	5 449
- Received indemnities, penalties and fines	8 584	226
- Refunded court fees	0	164
- Income from sales of other services	6 456	2 937
- Other	12 663	11 318
	28 770	**20 094**

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

9. Other operating expenses

	year 2006	year 2005
- Damages, penalties and fines paid	348	1 037
- Due to court fees paid	0	936
- Donations made	1 251	2 391
- Other operating expenses due to disputed claims	21 407	14 329
- Other	8 729	11 460
	31 735	**30 153**

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:	551 294	511 896
wages and salaries, including:	*460 209*	*427 042*
retirement benefits	*4 026*	*3 179*
holiday accrual	*2 060*	*-1 512*
employee benefits, including:	*91 085*	*84 854*
training expenses	*12 883*	*12 484*
- General and administrative expenses:	510 692	447 633
on property, plant and equipment	*87 859*	*76 558*
taxes and charges (including PFRON)	*6 759*	*6 727*
maintenance and rental of buildings	*150 018*	*140 146*
communication services	*63 891*	*57 575*
leasing services	*10 313*	*9 272*
refurbishment services	*27 710*	*29 075*
licences and patents	*15 962*	*13 299*
other external services	*148 180*	*114 981*
	1 061 986	**959 529**

11. Depreciation and amortisation

	year 2006	year 2005
- On property, plant and equipment	94 662	92 364
- On intangible assets	42 606	28 066
	137 268	**120 430**

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

	year 2006	year 2005
- Impairment losses on loans and advances	179 358	311 073
- Reversed impairment losses on loans and advances	-215 153	-363 255
Net impairment losses on loans and advances	**-35 795**	**-52 182**
including:		
- losses on loans and advances at risk of impairment	*-15 703*	*-45 289*
- IBNR	*-20 092*	*-6 893*
- 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
Net impairment losses on loans and advances	**-119 505**	**-54 670**
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*
- shares in subsidiaries, co-subsidiaries and associated entities, as well as minority interests	*-160*	*-16*
Net impairment losses on available-for-sale financial assets:	**-160**	**-16**
- securities	*0*	*0*
- shares in subsidiaries, co-subsidiaries 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	*3 797*	*7 909*
- Reversed impairment losses on property, plant and equipment	*-12 846*	*-1 580*
- Reversed impairment losses on other assets	*-2 330*	*-1 686*
Net impairment losses on other assets and property, plant and equipment:	**-9 156**	**9 174**
- property, plant and equipment	*-10 623*	*2 951*
- other assets	*1 467*	*6 223*
- Recognised provisions for off-balance sheet liabilities	12 221	18 223
- Reversed provision for off-balance sheet liabilities	-19 152	-40 736
Net provisions for off-balance sheet liabilities recognised	**-6 931**	**-22 513**
including:		
- on the portfolio at risk of impairment	*-4 908*	*-25 009*
- IBNR	*-2 023*	*2 496*
Total impairment losses	**217 263**	**416 886**
Total reversed impairment losses	**-388 810**	**-537 093**
Net impairment losses and provisions for off-balance sheet liabilities	**-171 547**	**-120 207**

13. Income tax

Recognised in the profit and loss account	year 2006	year 2005
- Current portion		
Current year	89 602	130 994
Adjustment of last-year tax settlement	-127	-5 126
	89 475	**125 868**
- Deferred tax		
Recognised and reversed temporary differences	51 907	1 864
Benefits resulting from tax loss	0	-1 021
	51 907	**843**
- Increases/decreases of the receivables due to 8% relief related to provisions for receivables	-1 119	-3 288
Total income tax recognised in the profit and loss account	**142 501**	**129 999**

Effective tax rate calculation

- Profit before tax	**683 058**	**636 783**
- 19% income tax	**129 781**	**120 989**
- Increases – non-deductible expenses	**26 856**	**17 817**
- provision for expected losses	*1 529*	*2 880*
- PFRON	*866*	*813*
- impairment in a part not covered by deferred tax	*16 007*	*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*
- 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	*1 484*	*2 263*
- Decreases – tax exempt income	**-15 255**	**-12 095**
- income exempt due to the entity	*-581*	*-796*
- dividend income	*-10 947*	*-7 906*
- release of the provision for any foreseen losses	*-798*	*-1 690*
- provisions/impairment in a part not covered by deferred tax	*-1 933*	*-475*
- depreciation on real estate	*0*	*0*
- share in net profit (loss) of co-subsidiaries and associated entities recognised under the equity method	*0*	*0*
- balance sheet valuation of loans	*0*	*0*
- other	*-996*	*-1 228*
- 19% income tax /+/ increases /-/ decreases	**141 382**	**126 711**
- Increases/decreases of the receivable due to 8% relief related to provisions for receivables	-1 119	-3 288
Income tax from profit and loss account	**142 501**	**129 999**
Effective tax rate	**20,86%**	**20,41%**

14. 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 540,557 thousand (31 December 2005: PLN 506,784 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	540 557	506 784
- Weighted average number of ordinary shares	13 010 000	13 010 000
Earnings per share (PLN)	**41,55**	**38,95**

Diluted earnings per share

During 2006 as well as during 2005, the number of shares making up the share capital of ING Bank Śląski S.A. did not change. During the analysed period, the Bank issued neither convertible bonds nor share options. The whole share capital is divided into ordinary shares (there are no preference shares). Due to the above, diluted earnings per share is the same as basic earnings per share.

15. Dividends paid/proposed

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.

16. Cash in hand and balances with the Central Bank

	end of 2006	end of 2005
- Cash in hand	388 072	313 829
- Balances with the Central Bank	639 646	862 607
	1 027 718	**1 176 436**

The Bank maintains obligatory provisions with the National Bank of Poland accounting for 3.5% of deposits obtained by the Bank. The amount of the provision accrued is reduced by an equivalent of EUR 500 thousand as for the 30.11.2006. For the period of 30.11.2006 - 01.01.2007 the average provision was equal to PLN 1,190,881 thousand. For the respective period of the previous year the avarage was PLN 1,070,549 thousand.

The Bank 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.

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

	end of 2006	end of 2005
- Nostro accounts	277 596	156 026
- interbank deposits	12 976 032	12 332 697
- other receivables	265 475	108 769
- loans and advances	*263 903*	*107 671*
- other receivables	*1 572*	*1 098*
- accrued interest	41 496	29 307
Total (gross)	**13 560 599**	**12 626 799**
Impairment losses, including:	-426	-299
- portfolio impairment losses	*-426*	*-299*
Total (net)	**13 560 173**	**12 626 500**

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

- Maturing:	13 519 103	12 597 492
- up to 1 month	11 324 247	12 125 956
- over 1 month and up to 3 months	2 045 303	21 673
- over 3 months and up to 1 year	143 441	438 448
- over 1 year and up to 5 years	6 112	11 415
- Accrued interest	41 496	29 307
Total	**13 560 599**	**12 626 799**

18. Financial assets measured at fair value through profit and loss

	end of 2006	end of 2005
- Financial assets held for trading	6 833 206	5 920 785
- Financial assets designated as at fair value upon initial recognition	223 518	244 901
Total	**7 056 724**	**6 165 686**

Financial assets held for trading

	end of 2006	end of 2005
- Debt instruments		
Bonds and bills issued by:	5 868 633	4 962 993
State Treasury	*5 856 927*	*3 949 452*
NATIONAL BANK OF POLAND (NBP)	*0*	*1 001 714*
Non financial sector	*11 706*	*11 827*
	5 868 633	**4 962 993**
Listed instruments	*5 842 211*	*3 751 869*
Unlisted instruments	*26 422*	*1 211 124*
- Equity instruments	**0**	**0**
- Derivative financial instruments	**964 573**	**957 792**
	6 833 206	**5 920 785**

Financial assets designated as at fair value upon initial recognition

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

The Bank designated the following components of financial assets and liabilities for fair value measurement based on the profit and loss statement: debt securities in the form of bonds issued by one of non-financial entity and all buy-sell-back and sell-buy-back transactions.
Designation of 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	144 465	1 171 693
- 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	2 106 932
- over 5 years	211 174	2 147 561
Total	**7 056 724**	**6 165 686**

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

	end of 2006	end of 2005
Opening balance	6 165 686	5 133 327
Increases	902 890 393	642 657 435
- purchase of debt securities	902 725 279	642 454 501
- increase in the value of securities	161 218	186 234
- measurement of off-balance sheet derivative instruments	3 896	16 700
Decreases	-901 999 355	-641 625 076
- sales of debt securities	-855 193 188	-580 851 791
- repurchase of debt securities	-37 971 704	-59 953 595
- drop in the value of securities	-8 834 463	-178 785
- measurement of off-balance sheet derivative instruments	0	-640 905
Closing balance	**7 056 724**	**6 165 686**

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.

19. Investment financial assets

Available-for-sale financial assets

	end of 2006	end of 2005
- Fixed rate debt instruments	10 921 618	9 275 809
Treasury bonds	*10 659 886*	*8 215 159*
Treasury bills	*261 732*	*1 060 650*
- Floating rate debt instruments	1 697 227	1 674 176
Treasury bonds	*1 119 430*	*1 118 041*
NBP bonds	*516 017*	*525 367*
Other	*61 780*	*30 768*
Total debt instruments	**12 618 845**	**10 949 985**
Listed instruments	*11 779 316*	*9 333 200*
Unlisted instruments	*839 529*	*1 616 785*
- Equity instruments		
Equity instruments at cost	*27 016*	*5 395*
Market value evaluation	*11 868*	*0*
Impairment	*-13 001*	*-3 353*
Equity instruments – carrying value	**25 883**	**2 042**
Unlisted instruments	*0*	*2 042*
Total - Investment financial assets	**12 644 728**	**10 952 027**

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 nominal value of PLN 870,000 thousand constituted a collateral of 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	10 952 027	6 565 207
Increases	5 109 845	7 174 365
- purchase of debt securities	4 460 032	6 621 224
- increase in the value of securities	636 779	545 638
- purchase of shares	11 984	4 598
- reversed provision for shares	1 050	2 905
Decreases	-3 417 144	-2 787 545
- sales of debt securities	-1 510 959	-595 844
- repurchase of debt securities	-1 323 147	-1 858 391
- drop in the value of securities	-581 980	-234 071
- sales of shares	-1 052	-21 344
- recognised provision for share	-6	0
- reclassification to loans and advances to customers	0	-77 895
Closing balance	**12 644 728**	**10 952 027**

20. 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	153 613	117 746
- accrued interest	3 892	2 368
Total (gross)	**2 167 971**	**949 319**
Impairment losses	-8 735	-10 153
Total (net)	**2 159 236**	**939 166**

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

	end of 2006	end of 2005
- loans and advances granted to business entities	7 264 243	6 167 721
- in the current account	2 386 690	2 160 295
- term ones	4 877 553	4 007 426
- loans and advances granted to households	3 527 561	3 138 472
- in the current account	954 067	953 809
- term ones	2 573 494	2 184 663
- other receivables	113 239	110 386
- accrued interest	37 101	34 794
Total (gross)	10 942 144	9 451 373
Impairment losses	-663 191	-758 756
Total (net)	**10 278 953**	**8 692 617**

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	425 979
- in the current account	2 575	3 051
- term ones	666 062	422 928
- other receivables	1	0
- accrued interest	2 459	641
Total (gross)	671 097	426 620
Impairment losses	-26 707	-32 266
Total (net)	**644 390**	**394 354**

Loans and advances granted to customers - total

	end of 2006	end of 2005
- loans and advances	13 470 907	10 561 377
- other receivables	266 852	228 132
- accrued interest	43 452	37 803
Loans and advances granted to customers (gross)	**13 781 211**	**10 827 312**
Impairment losses	-698 633	-801 175
Loans and advances granted to customers (net)	**13 082 578**	**10 026 137**

Quality of portfolio of loans and advances to customers

Loans and advances granted to customers (gross)	**13 781 211**	**10 827 312**
- impaired	661 873	877 881
- unimpaired	13 226 921	9 949 431
Impairment losses	**-698 633**	**-801 175**
- related to impaired portfolio	-603 203	-683 786
- related to unimpaired portfolio	-95 430	-117 389
Loans and advances granted to customers (net)	**13 082 578**	**10 026 137**

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

Loans and advances granted to customers (gross)	**13 781 211**	**10 827 312**
- measured individually	341 946	0
- measured as the portfolio	13 439 265	10 827 312
Impairment losses	**-698 633**	**-801 175**
- impairment loss pertaining to loans measured individually	-339 202	0
- impairment loss pertaining to loans measured as the portfolio	-359 431	-801 175
Loans and advances granted to customers (net)	**13 082 578**	**10 026 137**

Loans and advances to customers by maturity

	end of 2006	end of 2005
- Maturing:	13 737 759	10 789 509
- up to 1 month	5 550 624	4 707 662
- over 1 month and up to 3 months	1 015 032	1 099 627
- over 3 months and up to 1 year	1 973 521	1 597 521
- over 1 year and up to 5 years	3 031 557	2 190 788
- over 5 years	2 167 025	1 193 911
- Accrued interest	43 452	37 803
Total	**13 781 211**	**10 827 312**

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.

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

	end of 2006	end of 2005
Opening balance after changes in accounting principles	**801 472**	**915 571**
Movements in impairment losses:	-102 413	-114 097
Recognised during the period	*199 022*	*378 732*
Reversed during the period	*-354 322*	*-489 835*
Deductions written off	*-69 692*	*-57 664*
Amounts recovered from loans previously written off	*119 505*	*54 670*
Accounting balance	*3 074*	*0*
Closing balance	**699 059**	**801 474**
due to:		
- deposit accounts in other banks as well as loans and advances to other banks	*426*	*299*
- loans and advances to customers	*698 633*	*801 175*

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

22. Investments in controlled entities

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

	Domestic	Type of activities	Share in the capital	
			end of 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	38 120	26 699
- Dividend paid	-24 621	-22 563
Closing balance	**88 579**	**75 080**

General financial information on an associated entity:

	Assets	Liabilities and provisions for liabilities	Net assets	Revenues	Profit/(loss)
end of 2006					
ING Nationale Nederlanden Polska PTE S.A.	507 151	35 279	471 872	368 463	198 804
end of 2005					
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.	*subsidiary*	30 228	30 228
Śląski Bank Hipoteczny S.A.	*subsidiary*	49 950	49 950
ING BSK Development Sp z o.o.	*subsidiary*	50	50
Solver Sp. z o.o.	*subsidiary*	6 682	6 682
Centrum Banku Śląskiego Sp. z o.o.	*subsidiary*	0	0
ING Nationale Nederlanden Polska PTE S.A.	*associated company*	40 000	40 000
Total		**126 910**	**126 910**

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).

23. Sale of the subsidiaries

2005	selling price	net assests	cost of sale	result on sale
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.

24. Property, plant and equipment

	end of 2006	end of 2005
- Real estate and leasehold improvements	265 971	265 383
- Computer hardware	59 940	77 993
- Vehicles	194	972
- Other fixtures and fittings	79 168	84 864
- Constructions in progress	3 180	13 881
Property, plant and equipment – total	**408 453**	**443 093**

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 begining of the period	490 776	301 168	4 751	330 247	13 881	*1 140 823*
b) additions (due to)	10 020	18 843	0	25 300	22 649	*76 812*
- purchases	364	17 939		6 774	22 649	*47 726*
- investment take-overs	9 656	904		18 171		*28 731*
- others				355		*355*
c) disposals (due to)	-5 115	-58 018	-1 733	-20 257	-29 085	*-114 208*
- sale and liquidation	-2 049	-57 491	-1 733	-20 248		*-81 521*
- investment take-overs					-29 085	*-29 085*
- other, including:	-3 066	-527	0	-9	0	*-3 602*
- termination of a lease						*0*
- grants		*-527*		*-9*		*-536*
- reclassified to real estate held for sale	*-3 066*					*-3 066*
d) transfers	-1 992	-1 007	34	987	-4 265	-6 243
e) gross value of property, plant and equipment at the end of the period	493 689	260 986	3 052	336 277	3 180	1 097 184
f) accumulated depreciction at the begining of the period	-209 748	-223 175	-3 779	-245 383	0	-682 085
g) depreciation at the end of the period	-25 109	22 129	921	-11 726	0	-13 785
- depreciation sign offs	-28 099	-34 023	-676	-31 864		-94 662
- sale and liquidation	1 529	55 317	1 624	19 313		77 783
- transfers	1 069	309	-27	817		2 168
- other, including:	392	526	0	8	0	926
- termination of a lease						*0*
- grants		*526*		*8*		*534*
- reclassified to real estate held for sale	*392*					*392*
h) accumulated depreciction at the end of the period	-234 857	-201 046	-2 858	-257 109	0	-695 870
i) evaluation at the fair value at the begining of the period	-15 645					-15 645
- increases	27 494					27 494
- decreases, including:	-4 710					-4 710
- reclassified to real estate held for sale	486					486
j) evaluation at the fair value at the end of the period	7 139	0	0	0	0	7 139
k) net value of the property, plant and equipment at the end of the period	265 971	59 940	194	79 168	3 180	408 453

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 begining of the period	516 589	280 378	10 487	309 158	8 729	1 125 341
b) additions (due to)	10 383	63 083	12	26 153	40 900	140 531
- purchases	96	51 847		6 103	40 607	98 653
- investment take-overs	9 577	10 496		13 994		34 067
- others	710	740	12	6 056	293	7 811
c) disposals (due to)	-36 196	-42 293	-5 748	-5 064	-35 748	-125 049
- sale and liquidation	0	-40 405	-4 831	-3 088		-48 324
- investment take-overs					-34 057	-34 057
- other, including:	-25 220	-1 888	-917	-1 976	-1 691	-31 692
- termination of a lease	*-12 739*					*-12 739*
- grants	*0*	*-1 503*		*-10*		*-1 513*
- 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	490 776	301 168	4 751	330 247	13 881	1 140 823
f) accumulated depreciction at the begining of the period	-190 866	-231 500	-7 937	-222 213		-652 516
g) depreciation at the end of the period	-18 882	8 325	4 158	-23 170		-29 569
- depreciation sign offs	-29 545	-33 500	-1 177	-28 142		-92 364
- sale and liquidation	0	40 188	4 424	3 087		47 699
- transfers						0
- other, including:	10 663	1 637	911	1 885		15 096
- 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 depreciction at the end of the period	-209 748	-223 175	-3 779	-245 383	0	-682 085
i) evaluation at the fair value at the begining of the period	-12 459					-12 459
- increases	1 008					1 008
- decreases, including:	-4 194					-4 194
- reclassified to real estate held for sale	-80					-80
j) evaluation at the fair value at the end of the period	-15 645	0	0	0	0	-15 645
k) net value of the property, plant and equipment at the end of the period	265 383	77 993	972	84 864	13 881	443 093

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 40,458 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 31,725 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.

25. Intangible assets

	end of 2006	end of 2005
- Goodwill	223 343	223 343
- Software	78 658	57 842
- Outlays for projects	9 890	27 179
- Other intangible assets	299	677
- Outlays for intangible assets	4 563	8 759
Intangible assets – total	**316 753**	**317 800**

end of 2006

	Goodwill	Software	Outlays for projects	Other intangible assets	Outlays for intangible assets	TOTAL
a) gross value of intangible assets at the beginig of the period	223 343	157 615	27 179	7 586	8 759	424 482
b) additions (due to)	0	29 990	15 982	16	19 634	65 622
- purchases		5 552	15 870	16	19 189	40 627
- investment take-overs		24 438	112		445	24 995
- other						0
c) disposals (due to)	0	505	-33 040	-16	-24 638	-57 189
- sale and liquidation		-32 535		-16		-32 551
- investment take-overs		33 040	-33 040		-24 638	-24 638
- other						0
- grants						*0*
d) transfers		6	-231		808	583
e) gross value of intangible assets at the end of the period	223 343	188 116	9 890	7 586	4 563	433 498
f) accumulated depreciction at the begining of the period		-99 773		-6 909	0	-106 682
g) amortisation for the period (due to)	0	-9 685	0	-378	0	-10 063
- amortisation charges		-42 213		-393		-42 606
- sale and liquidation		32 528		15		32 543
- transfers					0	0
- other						0
- grants						*0*
h) accumulated depreciction at the end of the period	0	-109 458	0	-7 287	0	-116 745
i) evaluation at the fair value at the begining 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 the intangible assets at the end of the period	223 343	78 658	9 890	299	4 563	316 753

end of 2005

	Goodwill	Software	Outlays for projects	Other intangible assets	Outlays for intangible assets	TOTAL
a) gross value of intangible assets at the beginig of the period	223 343	138 084	10 911	7 657	1 005	381 000
b) additions (due to)	0	20 321	16 268	0	10 037	46 626
- purchases		17 294			9 988	27 282
- investment take-overs		2 192				2 192
- other		835	16 268		49	17 152
c) disposals (due to)	0	-790	0	-71	-2 283	-3 144
- sale and liquidation		-24		-71		-95
- investment take-overs					-2 283	-2 283
- other		-766				-766
- grants						*0*
d) transfers						0
e) gross value of intangible assets at the end of the period	223 343	157 615	27 179	7 586	8 759	424 482
f) accumulated depreciction at the begining of the period		-73 509		-5 746		-79 255
g) amortisation for the period (due to)	0	-26 264	0	-1 163	0	-27 427
- amortisation charges		-26 832		-1 234		-28 066
- sale and liquidation		24		71		95
- transfers						0
- other		544				544
- grants						*0*
h) accumulated depreciction at the end of the period	0	-99 773	0	-6 909	0	-106 682
i) evaluation at the fair value at the begining 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 the intangible assets at the end of the period	223 343	57 842	27 179	677	8 759	317 800

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

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.

26. Property, plant and equipment held for sale

	end of 2006	end of 2005
a) Gross value of property, plant and equipment at the begining 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 depreciction at the begining 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 depreciction at the end of the period	0	-514
i) evaluation at the fair value at the begining 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*	*0*
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) Gross value of property, plant and equipment at the end of the period	224	5 969

27. 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)	-14 408	-1 396		**-15 804**
- Provisions for receivables due to loans	-124 957	28 393		**-96 564**
- Other provisions	-12 336	-3 245		**-15 581**
- Retirement and holiday benefits	-3 774	-355		**-4 129**
- Accumulated losses settled	0	0		**0**
- Other	-25 340	-378		**-25 718**
	-180 815	**23 019**	**0**	**-157 796**

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)	48 388	32 572		**80 960**
- Settlement of the difference between tax and balance sheet depreciation	15 201	-194		**15 007**
- Settlement of prepayments/accruals due to depreciation/amortisation resulting from the investment relief enjoyed	13 641	-2 515		**11 126**
- Other	31 939	-975	-10 470	**20 494**
	109 169	**28 888**	**-10 470**	**127 587**
Deferred tax disclosed in the balance sheet	**-71 646**	**51 907**	**-10 470**	**-30 209**

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

Deferred tax assets

	end of 2006	end of 2005
- Interest accrued (expense)	-1 396	7 476
- Provisions for loans	28 393	22 146
- Other provisions	-3 245	1 570
- Retirement and holiday benefits	-355	-93
- Accumulated losses settled	0	1 021
- Other	-378	1 175
	23 019	**33 295**

Deferred tax reserve

	end of 2006	end of 2005
- Interest accrued (income)	32 572	-34 393
- Settlement of the difference between tax and balance sheet	-194	3 518
- Prepayment/accrual due to depreciation resulting from the investment relief applied	-2 515	-1 388
- Other	-975	-189
	28 888	**-32 452**
Deferred tax for the reporting period	**51 907**	**843**

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		
	21 866	**1 236**

Year of expiration of temporary differences:	difference amount end of 2006	difference amount end of 2005
2006		1 236
2007	21 866	
2008		
Total	**21 866**	**1 236**

Deferred tax recognised directly in equity

- Measurement of available-for-sale securities	5 855	18 374
- Measurement of property, plant and equipment	9 490	7 441
	15 345	**25 815**

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.

28. Other assets

	end of 2006	end of 2005
- **Prepayments**	**39 418**	**28 570**
- prepaid bank operating expenses	*3 932*	*1 733*
- prepayments due to insurance with NN	*1 530*	*1 594*
- materials and goods in the warehouse	*3 426*	*2 600*
- expenses to be settled	*0*	*862*
- settlements due to securitisation	*0*	*2 109*
- accrued income	*21 237*	*14 066*
- other	*9 293*	*5 606*
- **Other assets**	**60 762**	**113 459**
- interbank settlements	*1 937*	*1 762*
- interbranch settlements	*305*	*270*
- public and legal settlements	*14 929*	*61 635*
- loans from the Company's Social Benefits Fund	*17 845*	*20 439*
- other	*25 746*	*29 353*
Total other assets (gross)	**100 180**	**142 029**
- provision for other assets	-3 200	-5 413
Total other assets (net)	**96 980**	**136 616**

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.

29. Employee benefits

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

- *Share options,*
- *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).

30. Liabilities due to other banks

	end of 2006	end of 2005
- Current accounts	178 315	178 958
- Interbank deposits	1 106 518	620 563
- Repo transactions	105 805	65 337
- Other liabilities	5 450	5 854
- Accrued interest	4 151	6 326
Total	**1 400 239**	**877 038**

Repo transactions are disclosed under "Repo transaction" item.

Liabilities due to other banks by maturity

	end of 2006	end of 2005
- Maturing:	1 396 088	870 712
- up to 1 month	1 166 072	662 146
- over 1 month and up to 3 months	93 179	77 920
- over 3 months and up to 1 year	136 837	130 452
- over 1 year and up to 5 years	0	194
- Accrued interest	4 151	6 326
Total	**1 400 239**	**877 038**

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
		106 900	**105 805**	**3 186**

as of 31 December 2005:

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

31. 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
Total financial liabilities at fair value	**3 111 213**	**3 685 789**

Financial liabilities held for trading

	end of 2006	end of 2005
- Derivative financial instruments	828 922	1 095 899
	828 922	**1 095 899**

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
	2 282 291	**2 589 890**

The Bank designated the following components of financial assets and liabilities for fair value measurement based on the profit and loss statement: debt securities in the form of bonds issued by one of non-financial entity and all buy-sell-back and sell-buy-back transactions.
The group of sell-buy-back and buy-sell-back transactions was designated for fair value measurement on the basis of the profit and loss statement due to their classification to the portfolio managed by 5. Financial Markets and Strategic Clients Operations Department. 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.

32. Liabilities due to customers

Liabilities due to entities from the financial sector other than banks

	end of 2006	end of 2005
- Deposits	3 146 386	1 911 142
- current accounts	2 265 816	885 060
- term deposit	880 570	1 026 082
- Repo transactions	1 429 242	1 430 734
- Other liabilities	30 719	87 982
- Accrued interest	1 768	4 424
Total	**4 608 115**	**3 434 282**

Liabilities due to entities from the non-financial sector

	end of 2006	end of 2005
- Business entities' deposits	10 389 287	8 519 180
- current accounts	5 885 424	5 384 094
- term deposit	4 503 863	3 135 086
- Households' deposits	21 274 488	19 150 998
- current accounts	2 897 751	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	405 668	316 674
- Accrued interest	46 243	51 383
Total	**32 487 510**	**28 056 413**

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	713	2 019
- Accrued interest	1 988	849
Total	**1 530 808**	**1 387 325**

Liabilities due to customers – total

	end of 2006	end of 2005
- Deposits	36 338 268	30 965 777
- Repo transactions	1 801 066	1 448 912
- Other liabilities	437 100	406 675
- Accrued interest	49 999	56 656
Liabilities due to customers – total	**38 626 433**	**32 878 020**

Repo transactions are disclosed under "Repo transaction" item.

Liabilities due to customers by maturity

	end of 2006	end of 2005
- Maturing:	38 576 434	32 821 364
- up to 1 month	34 454 471	28 618 586
- 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	71 462	79 231
- Accrued interest	49 999	56 656
Total	**38 626 433**	**32 878 020**

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
		1 514 525	**1 801 066**	**1 276**

as of 31 December 2005:

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

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

33. Provisions

	end of 2006	end of 2005
- provision for disputes	42 082	19 340
- provision for off-balance sheet liabilities	25 015	29 631
- provision for retirement benefits	10 602	10 791
- provision for unused holidays	11 134	9 074
- provision for employment restructuring	0	10 654
Total	**88 833**	**79 490**

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*
Closing balance at the end of the previous period	**19 340**	**29 631**	**10 791**	**9 074**	**10 654**	**79 490**
Provisions recognised	31 904		312	2 060		**34 276**
Provisions applied	-4 962	-4 616			-10 074	**-19 652**
Provisions reversed	-4 200		-501		-580	**-5 281**
Closing balance	**42 082**	**25 015**	**10 602**	**11 134**	**0**	**88 833**
expected provision settlement period						
- up to 1 year	*42 082*			*11 134*	*0*	***53 216***
- more than 1 year		*25 015*	*10 602*			***35 617***

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*
Closing balance at the end of the previous period	**27 963**	**52 144**	**8 789**	**10 586**	**34 237**	**133 719**
Provisions recognised	14 071		2 002		11 252	**27 325**
Provisions applied	-20 359				-34 835	**-55 194**
Provisions reversed	-2 335	-22 513		-1 512		**-26 360**
Do wykorzystania						**0**
Closing balance	**19 340**	**29 631**	**10 791**	**9 074**	**10 654**	**79 490**
expected provision settlement period						
- up to 1 year	*17 602*		*1 972*	*9 074*	*10 654*	***39 302***
- more than 1 year	*1 738*	*29 631*	*8 819*			***40 188***

Provision for issues in dispute

The Bank 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 Bank recognised provisions for all estimated losses. In some cases, the Bank is entitles to reimbursement of funds relating to the provisions. However, due to the uncertainty of the inflow of the expected economic benefits, the Bank 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 10,602 thousand (PLN 10,791 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 on at the Bank, aimed at optimising the operating area. Centralisation of selected functions, consolidation of operating units and limitation of local recovery activities as a result of signing outsourcing contracts allowed to reduce employment by 354 persons.

34. Other liabilities

	end of 2006	end of 2005
- to employees	**20 441**	**22 512**
- due to leases	**10 804**	**23 069**
- accruals	**128 763**	**71 339**
- due to operating expenses	*3 153*	*8 093*
- due to employee benefits	*56 931*	*3 516*
- due to loans granted	*3 971*	*8 787*
- due to commission	*52 610*	*42 662*
- due to distribution of deposit-related funds	*5 582*	*4 049*
- other	*6 516*	*4 232*
- other liabilities	**586 935**	**517 586**
- interbank settlements	*441 053*	*344 860*
- interbranch settlements	*13 553*	*36 564*
- public and legal settlements	*30 027*	*71 984*
- other	*102 302*	*64 178*
	746 943	**634 506**

Gross liabilities due to financial leases by maturity

	end of 2006	end of 2005
- up to 1 year	7 535	9 586
- over 1 year and up to 5 years	3 269	9 163
Total	**10 804**	**18 749**

Present value of lease instalments due by maturity

	end of 2006	end of 2005
- up to 1 year	7 983	8 693
- over 1 year and up to 5 years	3 365	8 680
Total	**11 348**	**17 373**

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	10 804	18 749
- Unrealised financial expenses	544	-1 376
- Present value of minimum lease instalments	**11 348**	**17 373**

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

35. Repos and reverse repos

The Bank generates funds by selling financial instruments under repurchase agreements stipulating for their repurchase in the future at the same price plus predetermined interest amount.
Repo transactions are commonly used as a tool for short-term financing of interest asset, depending on the interest rate level.
The information on the value of assets sold in repo transactions was disclosed under notes regarding liabilities due to other banks and to customers.

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

36. Share capital

The share capital 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.

37. Revaluation reserve

	end of 2006	end of 2005
- Revaluation reserve from measurement of available-for-sale financial assets	42 830	85 796
- including deferred tax	*-5 855*	*-18 374*
- Revaluation reserve from measurement of property, plant and equipment	40 458	31 725
- including deferred tax	*-9 490*	*-7 441*
Total revaluation reserve	**83 288**	**117 521**

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
Opening balance of revaluation reserve	**85 796**	*-18 374*	**31 725**	*-7 441*	**117 521**
- 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			10 865	*-2 218*	**10 865**
Closing balance of revaluation reserve	**42 830**	*-5 855*	**40 458**	*-9 490*	**83 288**

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
Opening balance of revaluation reserve	**67 992**	*-15 950*	**32 967**	*-7 203*	**100 959**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	19 744	*-2 424*			**19 744**
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-1 940				**-1 940**
- disposal of property, plant and equipment			-1 309		**-1 309**
- remeasurement of property, plant and equipment			67	*-238*	**67**
Closing balance of revaluation reserve	**85 796**	*-18 374*	**31 725**	*-7 441*	**117 521**

38. Retained earnings

	end of 2006	end of 2005
- Other supplementary capital	23 582	22 171
- Reserve capital	1 359 501	1 212 963
- General risk fund	480 152	430 152
- Retained earnings	5 044	51 748
- Result for the current year	540 557	506 784
Total retained earnings	**2 408 836**	**2 223 818**

end of 2006

	other supplementary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Opening balance of retained earnings	**22 171**	**1 212 963**	**430 152**	**558 532**		**2 223 818**
- disposal of property, plant and equipment				2 236		**2 236**
- remeasurement of property, plant and equipment	1 411			-1 411		**0**
- profit allocation, including:	0	146 538	50 000	-554 313		**-357 775**
- profit written off to supplementary capital						***0***
- profit written off to reserve capital		*146 538*		*-146 538*		***0***
- profit written off to general risk fund			*50 000*	*-50 000*		***0***
- dividends paid				*-357 775*		***-357 775***
- net result for the current period					540 557	**540 557**
Closing balance of retained earnings at the end of the current period	**23 582**	**1 359 501**	**480 152**	**5 044**	**540 557**	**2 408 836**

end of 2005

	other supplementary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Opening balance of retained earnings	**9 402**	**1 136 927**	**400 152**	**435 289**		**1 981 770**
-disposal of property, plant and equipment	12 769			-10 800		**1 969**
- profit allocation, including:		76 036	30 000	-372 741		**-266 705**
- profit written off to supplementary capital						***0***
- profit written off to reserve capital		*76 036*		*-76 036*		***0***
- profit written off to general risk fund			*30 000*	*-30 000*		***0***
- dividend				*-266 705*		***-266 705***
- net result for the current period					506 784	**506 784**
Closing balance of retained earnings at the end of the current period	**22 171**	**1 212 963**	**430 152**	**51 748**	**506 784**	**2 223 818**

Suplementary capital

Suplementary 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 suplememntary capital is taken at the General Meeting.

Reserves

Reserves are established regardless of the suplementary 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 Bank, the Bank Management Board thinks that making such an adjustment would not have any significant effect on the accuracy and fairness of presentation of the financial standing presented in these financial statements.

39. Balance sheet currency structure

end of 2006

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*		
ASSETS									
- Cash in hand and balances with the Central Bank	919 577	95 266	*24 866*	12 341	*4 240*	81	*34*	453	**1 027 718**
- Deposit accounts in other banks as well as loans and advances to other banks	2 479 826	1 986 397	*518 479*	9 016 693	*3 097 988*	26 576	*11 147*	50 681	**13 560 173**
- Financial assets at fair value	6 959 894	38 398	*10 022*	58 079	*19 955*	225	*94*	128	**7 056 724**
- Investment financial assets	12 632 584	276	*72*	11 868	*4 078*		*0*		**12 644 728**
- Loans and advances to customers	11 090 006	1 743 646	*455 117*	153 185	*52 632*	69 654	*29 215*	26 087	**13 082 578**
- Investments in controlled entities	126 910		*0*		*0*		*0*		**126 910**
- Property, plant and equipment	408 453		*0*		*0*		*0*		**408 453**
- Intangible assets	316 753		*0*		*0*		*0*		**316 753**
- Property, plant and equipment held for sale	224		*0*		*0*		*0*		**224**
- Deferred tax asset	0		*0*		*0*		*0*		**0**
- Deferred tax asset	30 209		*0*		*0*		*0*		**30 209**
- Other assets	90 766	5 904	*1 541*	225	*77*	3	*1*	82	**96 980**
Total assets	**35 055 202**	**3 869 887**	***1 010 098***	**9 252 391**	***3 178 970***	**96 539**	***40 491***	**77 431**	**48 351 450**
EQUITY AND LIABILITIES									
LIABILITIES									
- Liabilities due to the Central Bank	696 000		*0*		*0*		*0*		**696 000**
- Liabilities due to other banks	1 089 717	3 717	*970*	295 058	*101 377*	1 884	*790*	9 863	**1 400 239**
- 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	38 317 575	137 154	*35 799*	151 351	*52 002*	726	*305*	19 627	**38 626 433**
- Provisions	88 833		*0*		*0*		*0*		**88 833**
- Current income tax liabilities	65 815		*0*		*0*		*0*		**65 815**
- Deferred tax provision			*0*		*0*		*0*		**0**
- Other liabilities	738 038	8 373	*2 185*	527	*181*	5	*2*		**746 943**
Total liabilities	**44 022 637**	**168 576**	***44 001***	**510 749**	***175 485***	**2 807**	***1 177***	**30 707**	**44 735 476**
EQUITY									
- Share capital	130 100	0	*0*		*0*		*0*		**130 100**
- Supplementary capital - issuance of shares over nominal value	993 750	0	*0*		*0*		*0*		**993 750**
- Revaluation reserve from measurement of available-for-sale financial assets	42 830	0	*0*		*0*		*0*		**42 830**
- Revaluation reserve from measurement of property, plant and equipment	40 458	0	*0*		*0*		*0*		**40 458**
- Retained earnings	2 408 836	0	*0*		*0*		*0*		**2 408 836**
Equity assigned to shareholders of the holding company	**3 615 974**	**0**	***0***	**0**	***0***	**0**	***0***	**0**	**3 615 974**
- Minority equity		0	*0*	0	*0*	0	*0*	0	**0**
Total equity	**3 615 974**	**0**	***0***	**0**	***0***	**0**	***0***	**0**	**3 615 974**
TOTAL EQUITY AND LIABILITIES	**47 638 611**	**168 576**	***44 001***	**510 749**	***175 485***	**2 807**	***1 177***	**30 707**	**48 351 450**

end of 2005

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*		
ASSETS									
- Cash in hand and balances with the Central Bank	1 036 488	127 093	*32 927*	12 172	*3 732*	108	*44*	575	**1 176 436**
- Deposit accounts in other banks as well as loans and advances to other banks	1 743 473	3 181 944	*824 381*	7 639 081	*2 342 342*	4 180	*1 686*	57 822	**12 626 500**
- Financial assets at fair value	6 061 895	48 511	*12 568*	53 917	*16 532*			1 363	**6 165 686**
- Investment financial assets	10 951 747	278	*72*	2	*1*				**10 952 027**
- Loans and advances to customers	8 266 667	1 474 367	*381 980*	198 360	*60 822*	84 627	*34 140*	2 116	**10 026 137**
- Investments in controlled entities	126 910				*0*				**126 910**
- Property, plant and equipment	443 093				*0*				**443 093**
- Intangible assets	317 800				*0*				**317 800**
- Property, plant and equipment held for sale	5 969				*0*				**5 969**
- Deferred tax asset	35 213				*0*				**35 213**
- Deferred tax asset	71 645				*0*				**71 645**
- Other assets	130 081	6 273	*1 625*	199	*61*			63	**136 616**
Total assets	**29 190 981**	**4 838 466**	***1 253 553***	**7 903 731**	***2 423 490***	**88 915**	***35 870***	**61 939**	**42 084 032**
EQUITY AND LIABILITIES									
LIABILITIES									
- Liabilities due to the Central Bank	464 000				*0*				**464 000**
- Liabilities due to other banks	708 079	9 618	*2 492*	146 099	*44 798*	1	*0*	13 241	**877 038**
- Financial liabilities at fair value	3 625 066	39 281	*10 177*	19 724	*6 048*	511	*206*	1 207	**3 685 789**
- Liabilities due to customers	27 776 337	3 093 239	*801 399*	1 968 948	*603 731*	457	*184*	39 039	**32 878 020**
- Provisions	79 490				*0*				**79 490**
- Current income tax liabilities					*0*				**0**
- Deferred tax provision					*0*				**0**
- Other liabilities	618 933	14 758	*3 824*	778	*239*	5	*2*	32	**634 506**
Total liabilities	**33 271 905**	**3 156 896**	***817 892***	**2 135 549**	***654 816***	**974**	***392***	**53 519**	**38 618 843**
EQUITY									
- Share capital	130 100				*0*	0	*0*	0	**130 100**
- Supplementary capital - issuance of shares over nominal value	993 750				*0*	0	*0*	0	**993 750**
- Revaluation reserve from measurement of available-for-sale financial assets	85 796				*0*	0	*0*	0	**85 796**
- Revaluation reserve from measurement of property, plant and equipment	31 725				*0*	0	*0*	0	**31 725**
- Retained earnings	2 223 818				*0*	0	*0*	0	**2 223 818**
Equity assigned to shareholders of the holding company	**3 465 189**	**0**	***0***	**0**	***0***	**0**	***0***	**0**	**3 465 189**
- Minority equity		0	*0*	0	*0*	0	*0*	0	**0**
Total equity	**3 465 189**	**0**	***0***	**0**	***0***	**0**	***0***	**0**	**3 465 189**
TOTAL EQUITY AND LIABILITIES	**36 737 094**	**3 156 896**	***817 892***	**2 135 549**	***654 816***	**974**	***392***	**53 519**	**42 084 032**

Off-balance sheet items

	end of 2006	end of 2005
- Contingent liabilities granted	13 817 405	9 689 063
- Contingent liabilities received	10 530 245	10 544 625
- Off-balance sheet financial instruments	157 144 424	130 550 244
	181 492 074	**150 783 932**

40. Contingent liabilities

Liabilities granted

The Bank discloses obligations to grant loans. These obligations include approved loans, credit card limits and limits of overdraft in current accounts.
The Bank issues guarantees and letters of credits securing fulfilment of obligations of the Group’s customers to third parties.
The Bank charges commissions for contingent liabilities granted, which are settled in line with the characteristic of the particular instrument.

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

	end of 2006	end of 2005
Liability value		
- Credit card limits	660 563	467 328
- Undrawn credit facilities	6 217 846	5 355 912
- Undrawn overdrafts in current account	1 790 166	2 662 085
- Guarantees and letters of credit	1 442 705	1 175 238
- Deposits to be issued	3 706 125	28 500
	13 817 405	**9 689 063**

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. 33.

Liabilities received

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

Information on issue guarantees granted to other issuers

25. In 2006, the Bank 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 Bank was not the guarantor for the issue of commercial papers.

41. 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
Interest rate derivatives						
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
Total	**17 461 715**	**51 568 919**	**15 898 759**	**84 929 393**	**435 495**	**333 801**
FX derivatives						
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
Total	**26 489 045**	**14 070 214**	**2 052 899**	**42 612 158**	**486 761**	**448 816**
Current off-balance sheet transactions						
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
Total	**29 114 253**	**0**	**0**	**29 114 253**	**3 871**	**7 860**
Stock market derivatives						
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
Total	**0**	**0**	**488 620**	**488 620**	**38 446**	**38 445**
Total	**73 065 013**	**65 639 133**	**18 440 278**	**157 144 424**	**964 573**	**828 922**

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
Interest rate derivatives						
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
Total	**11 086 784**	**59 789 032**	**14 376 829**	**85 252 645**	**708 476**	**635 713**
FX derivatives						
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
Total	**25 350 835**	**8 471 192**	**2 362 764**	**36 184 791**	**242 757**	**452 108**
Current off-balance sheet transactions						
FX operations	7 355 609			7 355 609	849	2 368
Securities operations	1 701 943			1 701 943	0	0
Total	**9 057 552**	**0**	**0**	**9 057 552**	**849**	**2 368**
Stock market derivatives						
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
Total	**0**	**0**	**55 256**	**55 256**	**5 710**	**5 710**
Total	**45 495 171**	**68 260 224**	**16 794 849**	**130 550 244**	**957 792**	**1 095 899**

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**
EUR	**7 130 926**	**7 801 100**
Up to 3 months	3 089 703	4 799 242
From 3 months to 1 year	3 336 287	2 129 641
Over 1 year	704 936	872 217
USD	**7 792 191**	**12 555 234**
Up to 3 months	5 621 511	9 690 262
From 3 months to 1 year	1 940 650	2 697 800
Over 1 year	230 030	167 172
GBP	**64 387**	**102 380**
Up to 3 months	61 176	96 755
From 3 months to 1 year	3 211	5 625
Over 1 year	0	0
PLN	**26 396 446**	**15 433 899**
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
other currencies	**228 208**	**292 178**
Up to 3 months	225 599	264 796
From 3 months to 1 year	2 609	27 382
Over 1 year	0	0

Embedded derivatives

The Bank has deposits in PLN and USD, in which derivative instruments are embedded. These are FX options and stock exchange indices. As at 31 December 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.

42. Hedge accounting

Fair value hedge accounting

In the financial statements as of 31 December 2006, the Bank did not use fair value hedge accounting.

Cash flow hedge accounting

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

43. 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
Assets		
- Cash in hand and balances with the Central Bank	1 027 718	1 027 718
- Deposit accounts in other banks as well as loans and advances to other banks	13 560 173	13 560 173
- Financial assets at fair value through profit or loss	7 056 724	7 056 724
- Investment financial assets	12 644 728	12 644 728
- Loans and advances to customers	13 082 578	13 170 604
- Investments in controlled entities	126 910	126 910
Equity and liabilities		
- Liabilities due to the Central Bank	696 000	696 000
- Liabilities due to other banks	1 400 239	1 400 239
- Financial liabilities at fair value through profit or loss	3 111 213	3 111 213
- Liabilities due to customers	38 626 433	38 618 477

end of 2005

	Carrying amount	Fair value
Assets		
- Cash in hand and balances with the Central Bank	1 176 436	1 176 436
- Deposit accounts in other banks as well as loans and advances to other banks	12 626 500	12 626 500
- Financial assets at fair value through profit or loss	6 165 686	6 165 686
- Investment financial assets	10 952 027	10 952 027
- Loans and advances to customers	10 026 137	10 099 469
- Investments in controlled entities	126 910	126 910
Equity and liabilities		
- Liabilities due to the Central Bank	464 000	464 000
- Liabilities due to other banks	877 038	877 038
- Financial liabilities at fair value through profit or loss	3 685 789	3 685 789
- Liabilities due to customers	32 878 020	32 869 812

Fair value determination

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

Loans and advances to customers: They are carried at net value less impairment losses due to provisions. 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 collaterised 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.

44. 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 od 2005).

Table below presents net value of assets that are collateral fot 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

45. Custody activities

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

46. Operating leases

Group as a lessee

The Bank cooperates with ING Car Lease in respect to car leasing and fleet management. The Bank 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	68 977	53 769
over 1 year and up to 5 years	79 565	249 783
over 5 years – annual payment amount	10 845	47 354

47. Cash and cash equivalents

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

	end of 2006	end of 2005
- Cash in hand and balances with the Central Bank (presented in note 16)	388 072	313 829
- Accounts with other banks (presented in note 16)	639 646	862 607
- Current accounts with other banks (presented in note 17)	277 171	157 075
- O/N deposits with other banks (presented in note 17)	6 747 518	3 636 568
	8 052 407	**4 970 079**

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

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

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

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

49. Reasons 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.

50. 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. The transactions are prepared regards with the market conditions.

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.

Transactions with related parties (in PLN thousands) **31.12.2006**

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

51. Transactions with the management staff and employees

Employees of the ING Bank Śląski S.A.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 Bank. 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 (PLN '000)

Year	Emoluments and bonuses	Benefits	Total
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. (PLN '000)

Year	Remuneration and bonuses	Benefits	Total
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.

52. 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 financial report for publication

This financial report was approved for publication by the Management Board of the Bank on 03.04.2007 and by the Supervisory Board of the Bank 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.

53. Acquisitions

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

54. Risk management disclosures

An integral part of Bank'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 Bank's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank 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 Bank's financial position, performance and cash flows, and assist in assessing the amounts, timing and certainty of future cash flows associated with those instruments.

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

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

(i) Swaps

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

(ii) Futures and forwards

Futures and forwards are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardised exchange-traded contracts whereas forwards are individually-traded over-the-counter contracts. Hedging payments for futures are made in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the changes in the contract value for a single day. Futures contracts have 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 Bank enters into interest rate options, foreign exchange options, equity and index options. Interest rate options, including caps and floors, are used as hedges against the rise or fall, respectively, of interest rates. They provide protection against changes in interest rates on financial instruments above or below a specified level. Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

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 Bank and accepted by the strategic shareholder, ING Bank NV.

Market risk

The ING Bank Śląski attaches great significance to the measurement, management and mitigation of individual types of market risk for all areas of the Bank, 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 Bank reported a significant progress in ensuring compliance with the New Capital Accord in terms of the market risk. As part of these works, the Bank 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)

Entity(ies)	Minimum	Maximum	Average
ING Bank Śląski (standalone)	5	1 131	349

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)

Entity(ies)	Business Area:	Minimum	Maximum	Average
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 (standalone)	Corporate and Retail Banking	17	99	56

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 (standalone)	19 519 414	17 727 077

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):

Customer	Balance sheet exposure	Off-balance sheet exposure	Total
1 (Customer)	868 313	64 901	933 214
2 (Customer)	186 626	305 636	492 262
3 (Customer)	65 537	417 910	483 447
4 (Customer)	367 689	57 380	425 069
5 (Group)	292 274	88 987	381 261

6 (Group)	205 840	175 083	380 923
7 (Customer)	341 033	7 692	348 725
8 (Customer)	247 529	52 839	300 368
9 (Customer)	0	276 933	276 933
10 (Customer)	275 802	0	275 802
TOTAL	**2 850 643**	**1 447 361**	**4 298 004**

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 Bank's exposure in branches and sectors of the national economy (taking into account the balance sheet and off-balance sheet exposure in business entities):

National economy branches and sectors (by classes of Classification of Economic Activities in the European Community	Total exposure in PLN thousand		Structure %	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Agriculture, hunting and forestry	290 362	235 787	1,55	1,57
Mining of coal and lignite	4 001	3 713	0,02	0,03
Extraction of crude petroleum and natural gas	196 746	195 795	1,05	1,30
Other mining and quarrying	130 135	111 199	0,69	0,74
Manufacture of food products and beverages	1 150 517	1 147 397	6,13	7,63
Manufacture of tobacco products	371 015	359 822	1,98	2,39
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	1,04	1,59
Publishing	196 677	210 578	1,05	1,40
Fuel industry	476 431	258 632	2,54	1,72
Chemical industry	430 146	295 938	2,29	1,97
Rubber industry	282 362	222 878	1,50	1,48
Manufacture of other non-metallic products	474 876	370 632	2,53	2,46
Manufacture of metals	254 133	226 177	1,35	1,50
Manufacture of fabricated metal products	305 946	304 628	1,63	2,03
Manufacture of machinery and equipment	523 918	550 980	2,79	3,66
Manufacture of electronic products	269 407	260 386	1,43	1,73
Manufacture of precision instruments	82 925	83 980	0,44	0,56
Manufacture of transport equipment	353 293	356 544	1,88	2,37
Manufacture of furniture	128 030	107 846	0,68	0,72
Waste management	19 038	17 226	0,10	0,11
Production and distribution of electricity	1 148 008	731 755	6,11	4,86
Collection, purification and distribution	256 456	74 064	1,37	0,49

of water				
Construction	896 509	571 220	4,77	3,80
Sale, maintenance and repair of motor vehicles	347 968	325 914	1,85	2,17
Trade	3 142 491	2 584 433	16,73	17,18
Hotels and restaurants	60 685	45 217	0,32	0,30
Transport	338 563	309 854	1,81	2,07
Post and telecommunications	498 631	356 198	2,66	2,37
Financial intermediation, insurance and pension funding	3 263 542	2 190 805	17,38	14,56
Real property activities, renting of machinery and equipment	1 000 254	895 490	5,33	5,95
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	2,85	2,25
Public administration and defence	646 545	364 766	3,44	2,43
Education	40 675	38 816	0,22	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	0,35	2,87
Total	**18 778 348**	**15 044 952**	**100,00**	**100,00**

Operational risk

ING Bank Śląski has implemented the rules of managing operational risk, abiding by the Recommendation of the National Bank of Poland based on the respective guidelines of the Basel Committee and consistently with the standards developed by the ING Group. Consistently with these regulations, the Operational Risk Management Policy specifying the consistent methodology and practice in this area has been adopted and implemented in the Bank.
The Bank considers operational risk the risk of direct or indirect tangible loss or loss of reputation as a result of inadequate or failed internal governance, human resources, technical systems or external events.

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

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

- implementation of mechanisms of estimation of the operational risk level and its mitigation in individual areas of the Bank's business,
- collecting information, analysis and reporting of operational risk-related events,
- determination of significant risk ratios and their monitoring,
- limitation of losses by improving the system of control of the Bank's business,
- improving the audit process through implementation of an integrated recording systems and monitoring the implementation of post-audit recommendations,

- economic capital allocation adequate to the risk level,
- testing continuity-of-business plans for critical and important business processes,
- improvement of physical protections in the Bank, with particular consideration of the integrated system of monitoring security in the Branches and ensuring immediate help in emergency situations,
- arranging educational programmes and training related to operational risk management.

Capital adequacy of the Bank

In accordance with the provisions of the Resolution Number 4/2004 of the Bank Supervisory Commission of 8 September 2004 concerning the scope and detailed rules of determining capital requirements related to individual types of risk and scope of application of statistical methods and conditions whose conformity makes it possible to obtain consent for their application, the method and detailed rules of calculation of the bank solvency ratio, scope and method of taking into account bank operations in holding groups in calculation of capital requirements and solvency ratio and determination of additional bank balance sheet items disclosed together with shareholders' equity in the capital adequacy accounting and the scope, method and conditions of their determination, the Bank's capital adequacy as of 31 December 2006 was 15.08% - the minimum is 8%. The Bank conducted significant trading operations, and that is why it is subjected to the full requirement of calculation of capital requirements arising from individual risks.

The total capital requirement at the end of December 2006 was PLN 1,484,678 thousand, 91.7% of which corresponded to the credit risk, and 8.3% corresponded to the financial risks of the trading book.

CALCULATION OF SOLVENCY RATIO	**end of 2006**	**end of 2005**
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	85 796
- Revaluation reserve from measurement of property, plant and equipment	40 458	31 725
- Retained profit or uncovered loss from prior years	1 868 279	1 717 034
- Decrease of capital in respect of shareholdings in financial entieties	-80 179	-80 179
- Decrease of capital in respect of intangible assets	-316 753	-287 415
- Short-term capital	120 556	116 391
I. Total own funds	**2 799 041**	**2 707 202**
Risk weighted assets:		
- risk weighted assets with risk rate 20%	2 922 094	2 713 062
- risk weighted assets with risk rate 50%	114 621	117 268
- risk weighted assets with risk rate 100%	11 179 189	9 489 842
II. Total risk weighted assets	**14 215 904**	**12 320 172**
- 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	1 112 051
III. Total risk weighted contingent liabilities granted	**2 800 201**	**1 301 162**
IV. Total risk weighted assets and contingent liabilities granted (II + III)	**17 016 105**	**13 621 334**
V. Credit risk (IV*8%)	**1 361 288**	**1 089 707**
VI. Overrun of the exposure concentration limit	**897**	
VII. Market risk	**122 493**	**115 950**
VIII. Total capital requirement (V + VI + VII)	**1 484 678**	**1 205 657**
IX. Solvency ratio (%)	**15,08**	**17,96**