Annual Consolidated Financial Statements of the ING Bank Śląski Group

For the year 2007

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CONSOLIDATED PROFIT AND LOSS ACCOUNT (PLN '000)

	Note	end of 2007 the period from 01 Jan 2007 to 31 Dec 2007	end of 2006 the period from 01 Jan 2006 to 31 Dec 2006
Interest income	*2*	*2 481 433*	*2 003 220*
Interest expenses	*2*	*1 432 840*	*1 066 916*
Net interest income	*2*	**1 048 593**	**936 304**
Commission income	*3*	*1 058 997*	*825 188*
Commission expenses	*3*	*128 239*	*89 905*
Net commission income	*3*	**930 758**	**735 283**
Net income on investment financial assets	*4*	25 780	22 578
Net income on instruments measured at fair value through profit and loss and revaluation	*5*	3 554	57 814
Other operating income and expenses	*6*	17 388	29 454
Result on basic activities		**2 026 073**	**1 781 433**
General and administrative expenses	*7*	1 377 292	1 223 316
Other expenses	*8*	9 201	10 531
Impairment losses and provisions for off-balance sheet liabilities	*9*	-103 811	-165 895
Share in net profit (loss) of associated entities recognised under the equity method	*10*	43 598	39 850
Profit (loss) before tax		**786 989**	**753 331**
Income tax	*11*	150 167	155 380
Net profit (loss)		**636 822**	**597 951**
- assigned to shareholders of the holding company		630 724	591 355
- assigned to minority shareholders		6 098	6 596

Net profit (loss) assigned to shareholders of the holding company		**630 724**	**591 355**
Weighted average number of ordinary shares		**13 010 000**	**13 010 000**
Earnings per ordinary share (PLN)	*12*	**48,48**	**45,45**
Diluted weighted average number of ordinary shares		13 010 000	13 010 000
Diluted earnings per ordinary share (PLN)		48,48	45,45

CONSOLIDATED BALANCE SHEET
(PLN '000)

	Note	end of 2007 as of 31 December 2007	end of 2006 as of 31 December 2006
ASSETS			
- Cash in hand and balances with the Central Bank	14	1 841 725	1 147 900
- Loans and receivables to other banks	15	15 183 665	13 513 898
- Financial assets measured at fair value through profit and loss	16	7 907 564	7 067 422
- Investments	17	9 388 273	12 614 914
- available-for-sale	17	*8 547 497*	*12 614 914*
- held-to-maturity	17	*840 776*	*0*
- Derivative hedge instruments	19	4 572	3 329
- Loans and receivables to customers	20	16 379 138	12 868 074
- Investments in controlled entities	23	97 326	90 309
- Investment real estates	24	144 713	145 970
- Property, plant and equipment	25	532 938	571 065
- Intangible assets	26	318 825	317 661
- Property, plant and equipment held for sale	27	241	224
- Current tax asset		25 256	0
- Deferred tax asset	28	49 292	38 132
- Other assets	29	137 332	97 114
Total assets		**52 010 860**	**48 476 012**
EQUITY AND LIABILITIES			
LIABILITIES			
- Liabilities due to the Central Bank		0	696 000
- Liabilities due to other banks	31	1 810 195	1 401 149
- Financial liabilities measured at fair value through profit and loss	32	1 214 981	3 120 520
- Liabilities due to customers	33	44 501 837	38 561 423
- Provisions	34	72 507	90 324
- Current income tax liabilities		126	67 532
- Deferred tax provision	28	0	0
- Other liabilities	35	570 712	760 671
Total liabilities		**48 170 358**	**44 697 619**
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	-149 591	42 830
- Revaluation reserve from measurement of property, plant and equipment	37	57 998	52 263
- Retained earnings	38	2 806 526	2 536 751
Equity assigned to shareholders of the holding company		**3 838 783**	**3 755 694**
- Minority equity		**1 719**	**22 699**
Total equity		**3 840 502**	**3 778 393**
Total equity and liabilities		**52 010 860**	**48 476 012**

Solvency ratio		**13,12%**	**15,74%**

Book value		**3 838 783**	**3 755 694**
Number of shares		**13 010 000**	**13 010 000**
Book value per share (PLN)		**295,06**	**288,68**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY (PLN '000)

end of year 2007
the period from 01 Jan 2007 to 31 Dec 2007

	Share capital	Supplementary capital - issuance of shares over nominal value	Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of property, plant and equipment	Retained earnings	Minority equity	Total equity
Opening balance of equity	**130 100**	**993 750**	**42 830**	**52 263**	**2 536 751**	**22 699**	**3 778 393**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-	-	-174 090	-	-	-	**-174 090**
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-	-	-18 331	-	-	-	**-18 331**
- disposal of property, plant and equipment	-	-	-	-257	2 030	-	**1 773**
- remeasurement of property, plant and equipment	-	-	-	-2 979	-	1 098	**-1 881**
- purchase of shares in subsidiary entity from the minority shareholders	-	-	-	8 971	-	-28 176	**-19 205**
- dividends paid	-	-	-	-	-362 979	-	**-362 979**
- net result for the current period	-	-	-	-	636 822	-	**636 822**
- share of minority shareholders in the net financial result	-	-	-	-	-6 098	6 098	**0**
Total equity (closing balance)	**130 100**	**993 750**	**-149 591**	**57 998**	**2 806 526**	**1 719**	**3 840 502**

Note: 36,37,38

end of year 2006
the period from 01 Jan 2006 to 31 Dec 2006

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

Note: 36,37,38

CONSOLIDATED CASH FLOW STATEMENT - indirect method (PLN '000)		end of 2007 as of 31 December 2007	end of 2006 as of 31 December 2006
OPERATING ACTIVITIES			
Net profit (loss)		**630 724**	**591 355**
Adjustments		**-3 485 198**	**3 005 836**
- Minority shareholders' profit (loss)	*38*	6 098	6 596
- Share in net profit (loss) of associated entities	*23*	-43 597	-39 850
- Depreciation and amortisation	*7*	154 799	141 625
- Interest accrued (from the profit and loss account)	*2*	1 048 593	936 304
- Interest received/paid		-1 055 221	-1 007 719
- Dividends received	*4*	-2 761	-2 561
- Gains (losses) on investment activities		6	1 125
- Income tax (from the profit and loss account)	*11*	150 167	155 380
- Income tax paid		-253 989	-11 402
- Change in provisions	*34*	-17 817	9 805
- Change in loans and other receivables to other banks	*15*	-5 813 960	2 258 975
- Change in financial assets at fair value through profit or loss	*16*	-877 983	-930 637
- Change in available-for-sale financial assets	*17*	3 976 334	-1 610 474
- Change in held-to-maturity financial assets	*17*	-850 837	0
- Change in derivative hedge instruments	*19*	-1 243	-3 329
- Change in loans and other receivables to customers	*20*	-3 495 251	-3 054 940
- Change in other assets		5 536	39 911
- Change in liabilities due to other banks	*31*	-279 671	763 480
- Change in liabilities at fair value through profit or loss	*32*	-1 905 539	-565 269
- Change in liabilities due to customers	*33*	5 961 332	5 780 145
- Change in other liabilities		-190 194	138 671
Net cash flow from operating activities		**-2 854 474**	**3 597 191**
INVESTMENT ACTIVITIES			
- Purchase of property plant and equipment	*25*	-71 992	-50 778
- Disposal of property, plant and equipment		1 936	2 360
- Purchase of intangible assets	*26*	-60 402	-40 799
- Purchase of investments in subordinated entities		-18 971	0
- Disposal of fixed assets/liabilities held for sale		4 416	620
- Dividends received	*4*	2 761	2 561
Net cash flow from investment activities		**-142 252**	**-86 036**
FINANCIAL ACTIVITIES			
- Long-term loans repaid		-19 140	-51 607
- Interest on long-term loans repaid		-1 763	-1 775
- Dividends paid	*13*	-362 979	-357 775
Net cash flow from financial activities		**-383 882**	**-411 157**
Effect of exchange rate changes on cash and cash equivalents		***-72 874***	***-97 654***
Net increase/decrease in cash and cash equivalents		**-3 380 608**	**3 099 998**
Opening balance of cash and cash equivalents		**8 163 216**	**5 063 218**
Closing balance of cash and cash equivalents	*48*	**4 782 608**	**8 163 216**

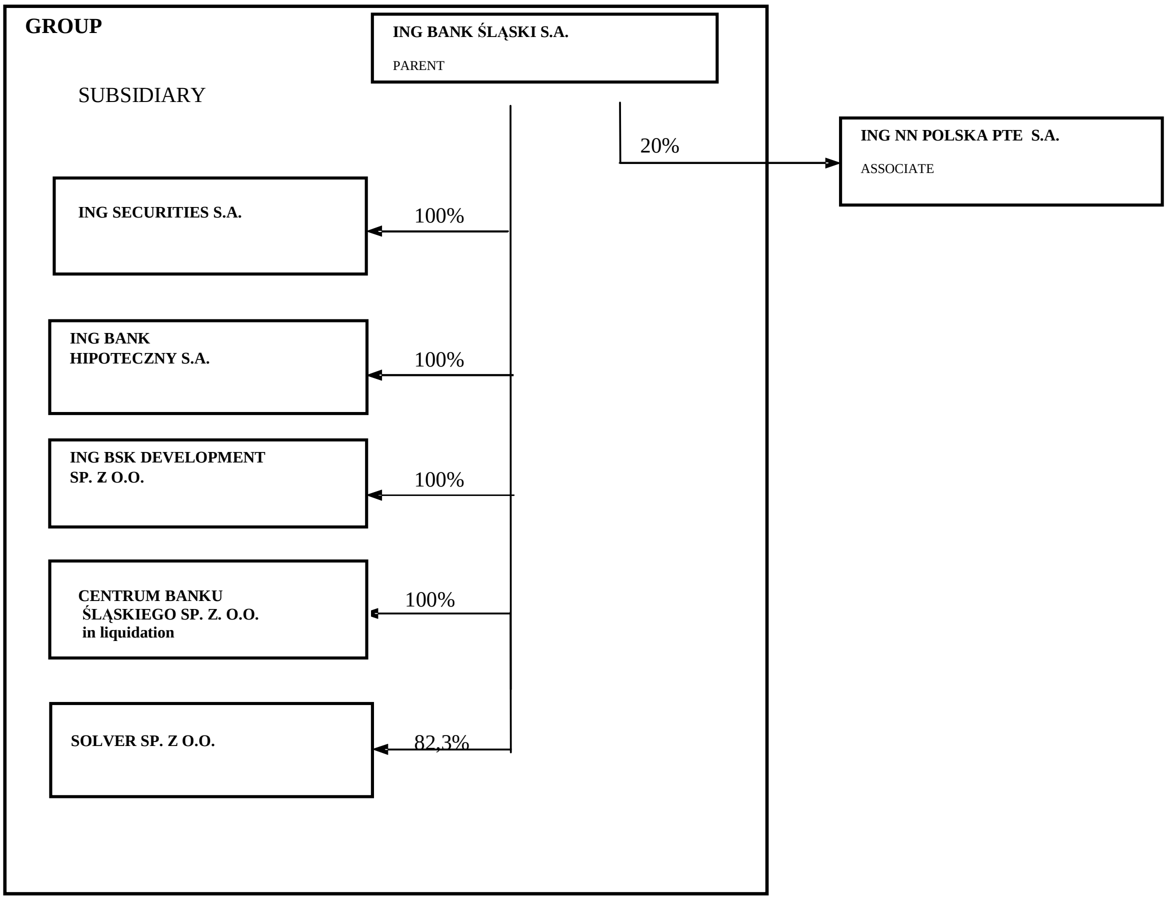
Information on the Bank and the Capital Group

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

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

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

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



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

The consolidated financial statements of the Bank for 2007 comprise the Bank and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

ING Bank Śląski S.A. offers a broad range of banking services rendered for individual and institutional clients in line with the scope of services outlined in the Bank's charter. The Bank's operations are denominated in both polish zloty and foreign currencies as well as actively participates in domestic and foreign financial markets. The subsidiary: ING Bank Hipoteczny S.A. undertaken banking activities, including sales of mortgage loans. Additionally through subsidiaries the Group operates brokerage services, real estate, leasing of real estate, advisory and acts as a financial intermediary as well as provides other financial services.

The financial statements for 2006 were approved by the General Meeting of Shareholders on 9 May 2007.

Selected financial data from the consolidated Financial Statements

Item	**PLN thousands**		**EUR thousands**	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Interest income	2 481 433	2 003 220	657 020	513 765
Commission revenue	1 058 997	825 188	280 395	211 636
Result on banking activity	2 026 073	1 781 433	536 452	456 883
Gross profit (loss)	786 989	753 331	208 375	193 206
Net profit (loss)	630 724	591 355	167 000	151 664
Net cashflow	-3 380 608	3 099 998	-895 098	795 055
Earnings (loss) per 1 ordinary share (in PLN/EUR)	48.48	45.45	12.84	11.66
Profitability ratio (%)	26.7	31.5	X	X
Return on assets (%)	1.2	1.3	X	X
Return on equity (%)	18.9	18.6	X	X
Cost / Income ratio (%)	67.0	67.7	X	X
Total assets	52 010 860	48 476 012	14 520 061	12 652 958
Equity	3 838 783	3 755 694	1 071 687	980 292
Initial capital	130 100	130 100	36 320	33 958
Number of shares	13 010 000	13 010 000	X	X
Book value per 1 share (in PLN/EUR)	295.06	288.68	82.37	75.35
Solvency ratio (%)	13.12	15.74	X	X

Profitability ratio – gross profit to total costs.
Return on assets (ROA) – net profit assigned to shareholders of the holding company to average total assets.
Return on equity (ROE) – net profit assigned to shareholders of the holding company to average equity.
Cost to Income ratio (C/I) – total costs to income from operating activity per type.
Solvency ratio – net equity to risk weighted assets and off-balance sheet liabilities.

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

- for balance-sheet items – PLN 3.5820 NBP exchange rate of 31.12.2007; 3.8312 NBP exchange rate of 31.12.2006,
- for income statement items for 30.06.2007 – PLN 3.7768 exchange rate calculated as the average of NBP exchange rates as at the last day of each month in 1Q, 2Q, 3Q and 4Q 2007; 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.

Significant accounting policies

(a) Statement of compliance with International Financial Reporting Standards

The consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 1 January 2007 to 31 December 2007 have been prepared under the International Financial Reporting Standards (IFRS), as adopted by the European Commission and with respect to matters not regulated by the above mentioned statements in accordance with the Accounting Act of 29

September 1994 (Journal of Laws no.2002/76, item 694 as amended) and secondary legislation thereto, as well as in accordance with the Ordinance of Finance Minister of 19 October 2005 on current and interim information submitted by issuers of securities (Journal of Laws of 2005, no. 209, item 1744). The consolidated balance sheet and the profit and loss account as at 31.12.2007 including comparable financial data, have been prepared consistently for all period presented in this consolidation financial statement and have been applied consistently by Group entities.

These consolidated financial statements for 2007 has 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 2007, the Group took account of the following new interpretation of accounting standards:
- IFRIC 10 – Interim Financial Reporting and Impairment.

Adoption of the above named accounting interpretation standard did not cause any significant changes in the Group's accounting principles.

(b) Term and scope of the report

These consolidated financial statements of the Capital Group of ING Bank Śląski S.A. ("Group", "Capital Group") cover the period from 1st January 2007 to 31st December 2007 and include the comparatives data:

- for the balance sheet as 31st December 2006 and financial year ending that day,
- for the profit and loss account, movement on equity and cash flow statement for the period from 1st January 2006 till 31st December 2006.

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

The Group has not elected to early adopt any new Standards and Interpretations, which have been published and approved by the European Union, and which will be effective after the balance sheet date. As at the balance day, the Group has not finalised the process of estimating the influence of these standards and interpretations on the financial statements for the period in which they will be applied for the first time.

The Standards and Interpretations that have been published are not in force yet and have not been previously applied:

- IFRIC 11 – IFRS 2 Group and Treasury Share Transactions, effective for annual periods beginning on or after 1 March 2007.
- IFRIC 12, Service Concession Arrangements, effective for annual periods beginning on or after 1 January 2008.
- IFRIC 13, Customer Loyalty Programmes, effective for annual periods beginning on or after 1 July 2008.
- IFRIC 14 – IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, effective for annual periods beginning on or after 1 January 2008.
- IFRS 8, Operating Segments, effective for annual periods beginning on or after 1 January 2009.
- Revised IAS 1 Presentation of Financial Statements, effective from 1 January 2009.
- Revised IAS 23 Borrowing Costs, effective from 1 January 2009.
- IFRS 3 (Revised) Business Combinations, effective for annual periods beginning on or after 1 July 2009.

- Amendments to IAS 27 Consolidated and Separate Financial Statements, effective for annual periods beginning on or after 1 July 2009.
- Amendments to IFRS 2 Share based payments, effective for annual periods beginning on or after 1 January 2009.
- Amendments to IAS 32: Financial Instruments - Presentation and IAS 1: Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation, effective for annual periods beginning on or after 1 January 2009.

IFRIC 12, 13 and 14 have not been adopted by the European Union.

(d) Basis for preparation of consolidated financial statements

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

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

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

(e) Accounting Estimates

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

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

Applied assumptions related to the future and available data sources are the base for making estimations regarding carrying value of assets and liabilities, which cannot be determined explicitly on basis of other sources. The estimates reflect the reasons for/ sources of uncertainties as at the balance sheet date.

The actual results may differ from estimates.

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

Major accounting estimations adopted by the Group is as follows:

Impairment of loans

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

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

Historical parameters of recoveries are adjusted on the basis of the data coming from current observations, so as to take into consideration the influence of current conditions and to exclude the influencing factors from the prior periods that are not currently present.

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

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

Impairment of other non- current assets

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

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

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

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

Valuation models used by the Group, are verified by independent bodies before/prior to their usage. Where possible, in models the Group uses observable data from active markets. However, the Group also adopts assumptions as to probability (as credit risk, variables and market correlations). Any change in these assumptions may affect the fair value of some financial instruments.

Retirement and sick pension severance payments provision

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

Provisions for the bonus for employees and top executives

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

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

(f) Consolidation policies

(i) Subsidiaries

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

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

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

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

(ii) Purchase method

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

(iii) Associates

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

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

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

(iv) Transactions eliminated in consolidation process

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

(g) Foreign currency

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

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

(ii) Transactions and balances in foreign currency

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

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

(iii) Financial statements of investments in a foreign operation

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

(h) Financial assets and liabilities

(i) Classification

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

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

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

- Are classified as held for trading. A financial asset or financial liability is classified as held for trading if it is: acquired or incurred principally for the purpose of selling or repurchasing it in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also classified as held for trading (other than those that are designated and effective hedging instruments).
- Upon initial recognition it is designated by the Group as at fair value through profit and loss. Such designation can be made only if (i) the designated financial asset or financial liability is a hybrid instrument containing one or many embedded derivatives, which qualify for separate recognition and embedded derivatives cannot change significantly the cash flows resulting from the host contract or separation of embedded derivative is forbidden; (ii) usage of such classification of financial asset or liability eliminates or decreases significantly the inconsistency of measurement or recognition (so called accounting difference due to various methods of assets and liabilities valuation or various recognition of gains and losses attributable to them); (iii) the group of financial assets and liabilities or both categories is managed properly, and its results are measured using fair value, in accordance with documented risk management principles or the Group's investment strategy.

(b) Investment held to maturity

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

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

(c) Loans and advances

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

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

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

(d) Financial assets available for sale

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

(e) Other financial liabilities

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

(f) Financial guarantee contracts

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

(ii) Recognition

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

(iii) Derecognition

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

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

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

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

The Group usually recognises receivables against impairment losses in case it ascertains that financial assets could not have been collected for more than 90 days.

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

(iv) Measurement

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

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

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

After initial recognition, the Group measures all financial liabilities at amortised cost using the effective interest method, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument which fair value cannot be reliably measured, are measured at cost,
- financial liabilities resulting from the transfer of a financial asset which does not qualify for being excluded from the balance sheet or recognised on a *continuing involvement* basis.

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

Granted financial guarantees are measured at the higher of:

(a) the amount being the most appropriate estimation of the expenditures needed to fulfil the current obligation arising from the financial guarantee, upon consideration of the probability of materialisation thereof;

(b) the amount recognised at the initial entry, adjusted with the settled amount of commission received for granting the guarantee.

(v) Gains and losses resulting from subsequent measurement

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

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

– Foreign exchange gains and losses arising from monetary financial assets (e.g debt securities) denominated in foreign currency are recognized directly in the profit and loss account.

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

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

(i) Offsetting financial instruments

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

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

(j) Repo, Reverse Repo Sell–buy–back, buy–sell–back transactions

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

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

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

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

(k) Derivative instruments

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

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

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

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

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

(i) Derivative instruments not qualifying as hedging instruments

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

(ii) Hedge Accounting

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

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

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

- *Fair value hedge*

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

A fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) is recognised in profit and loss; the gain or loss on the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognised in profit and loss. Recognition of the gain or loss attributable to the hedged risk in profit and loss applies if the hedged item is an available-for-sale financial asset.

The Group applies the fair value hedge accounting whereby it hedges against any changes to the fair value of the real estates following the changes in the current foreign exchange rates and the changes in the fair value of debt papers of fixed interest rate classified as the assets available for sale following the changes in the interest rates.

The Group has been applying fair value hedge accounting to hedge against changes in the fair value of debt instruments with fixed interest rate classified as available-for-sale portfolio due to the change of interest rates; the Group has also applied fair value hedging to hedge against changes in the fair value of real properties due to the change in the current FX-rate.

- *Cash flow hedge*

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

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

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

In case of a hedge of non-financial asset or a non-financial liability, the associated gains and losses recognized directly in equity as an effective hedge, are transferred successively into the profit and loss account in the same period or periods during which the asset acquired or liability assumed affects the profit and loss account (such as in the periods that depreciation expense is recognised); or it is the result of a one-off transfer as an adjustment to the initial purchase price or carrying amount of a hedged item.

The Group has been applying cash flow hedge accounting to secure the size of future cash flows in a specific portfolio of the Bank's assets/ liabilities or a portfolio of highly probable planned transactions against the interest rate changes.

(l) Impairment

Assets valued at amortized cost

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

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

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

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

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

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

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

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

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

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

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

Financial assets available for sale

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

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

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

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

Financial assets carried at cost

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

(m) Investment property

Investment property is property (land or a building—or part of a building—or both) held by the Group (acting as the owner or the lessee under a finance lease) to earn rentals or for capital appreciation or both. At the same time, such a real property is a) occupied by the Group only to a small extent and b) it is not for sale as part of the regular operations of the Group. Therefore, an investment property generates cash flows largely independently of the other assets held by the Group.

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

(n) Tangible fixed assets

(i) Own tangible fixed assets

Tangible fixed assets consist of fixed assets and costs to construct such assets. Tangible fixed assets include fixed assets with an expected period of use above one year, maintained to be used to serve the Group's needs or to be transferred to other entities, based on the lease contract or for administrative purposes.

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

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

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

The revaluation effect is reflected in the revaluation reserve/ revaluation capital in case of the value increase, or carried through the income statement in case of the balance sheet asset's value decrease. However, the increase of value is recognised as income insofar as it reverses the decrease of value due to revaluation of the same asset that was previously recognised as costs of a given period. Similarly, the decrease of the asset's value resulting from revaluation shall be set off against the relevant surplus resulting from the previous revaluation of the same asset.

The entire revaluation surplus shall be realised at the time of withdrawing from use or selling the asset.

(ii) *Subsequent Costs*

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

(o) Intangible assets

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

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

– they can be separated from an economic entity and sold, transferred, licensed or granted for use for a fee to third parties, both separately, and together with their accompanying contracts, assets or liabilities, or

– arise from contractual titles or other legal titles, irrespective of whether those are transferable or separable from the business entity or other rights and obligations.

(i) Goodwill

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

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

(ii) Computer software

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

(iii) Other intangible assets

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

(iv) Subsequent Costs

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

(p) Depreciation and amortization charges

The depreciation charge of tangible and intangible fixed assets is applied using the straight line method, using defined depreciation rates throughout the period of their useful lives. The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. The useful life, amortization/ depreciation rates and residual values of tangible and intangible assets are reviewed annually. Conclusions of the review may lead to a change of depreciation periods recognized prospectively from the date of application (the effect of this change is in accordance with IAS 8 charged to profit and loss)

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

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

• lands and buildings	50 years
• leaseholds improvements	period of the lease or hire
• vehicles and others	3 - 5 years

• equipment	5 years
• costs of development of software	3 years
• software licenses, copyrights	3 years

(q) Leasing contracts

(i) The Group as lessor

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

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

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

(ii) *The Group as lessee*

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

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

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

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

(r) Other balance sheet items

(i) Other trading receivables and other receivables

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

(ii) Liabilities

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

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

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

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

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

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

Where the criteria for classification as non-current assets for sale are no longer met, the Group will no longer classify that asset as an asset for sale (or a group of assets for sale) but reclassify it as appropriate. In such a case, the Group measures the asset that is no longer classified as an asset for sale (or that is no longer part of a group for sale) at the lower of the following amounts:

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

Discontinued operations are components of the Group that either have been disposed of or are classified as held for sale and represent a separate major line of business or geographical area of operations, are a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or are a subsidiary acquired exclusively with a view to resale.

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

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

(iv) Cash and cash equivalents

Cash and cash equivalents for the purposes of a Cash Flow statement include: Cash in hand and cash held at the Central Bank, cash equivalents e.g. balances on current accounts and overnight deposits held by the other banks.

(s) Impairment of other non- financial assets

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

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

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

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

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

Measuring Recoverable Amount

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

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

Reversing impairment loss

Goodwill impairment loss is not subject to reversal.

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

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

(t) Equity

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

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

Share capital

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

(i) Own shares

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

(ii) Dividends

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

Share premium

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

Revaluation reserve

Revaluation reserve is created as a result of:

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

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

Retained earnings

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

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

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

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

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

(u) Prepayments and deferred income

Prepayments

Prepayments comprise of particular expenses which will be settled against the profit and loss as being accrued over the future reporting periods. Deferred costs include primarily provisions for material costs due to services provided for the Group by counterparties, as well as insurance costs paid in advance to be settled in the future periods. 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. Deferred income is presented in 'Other liabilities' balance sheet caption.

(w) Employee benefits

(i) Defined contribution plans

Expenses incurred due to a programme of certain contributions are recognised as costs in income statement.

(ii) Short-term employee benefits

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

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

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

(iii) Long-term employee benefits

The Group's obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The provisions for retirement bonus payment granted within the regulatory framework of social benefits, assigned based on the regulations arising from the Labour Code are estimated on the basis of an actuarial valuation. The provision arising from actuarial valuation is recognised and updated on an annual basis. In addition, the provisions are revalued quarterly on the basis of the estimations made. Starting 2007, the Bank changed the accounting methodology as to the recognition of provisions for retirement allowance by adopting the corridor approach for recognising a specific part of the cumulated net actuarial gains and losses.

Under this method, when determining an obligation due to certain benefits, the Bank recognises some actuarial gains and losses as revenue or costs, when the net value of accumulated unrecognised actuarial gains and losses as at the end of the previous reporting period exceeds the higher of the following two values:

a) 10% of the current value of the obligation due to certain benefits as at that day (before deduction of the plan's assets)

b) 10% of the fair value of the plan's assets as at that day.

A portion of the actuarial gains and losses above the said limit is recognised in the profit and loss account as the quotient of the above named excess and the average expected remaining working life of the Bank employees. Following that change, the Bank presents in the balance sheet the net value of the liability comprising the current value of the liability and unrecognised actuarial gains/ losses. The Bank changed the estimates in prospective terms in view of immateriality.

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

The implemented Employee Capital Schemes are presented as costs, which on the other side result in the liabilities increase.

ING Group NV holds directly or indirectly its own shares in order to fulfil the obligations with regard to the existing stock option plan and to hedge the risk of the options concerned (so-called delta hedge). As a result the granted option rights were (delta-) hedged, taking into account the following parameters: strike price, opening price, zero coupon interest rate, dividend yield, expected volatility and employee behaviour. The hedge is rebalanced regularly at predetermined points in time. Exposure arising from the share plan is not hedged. The obligations with regard to these plans will be funded by issuing own shares. The option rights are valid for a period of five or ten years. Option rights, that are not exercised within this period, lapse.
Option rights granted will remain valid until expiry date, even if the option scheme is discontinued. The option rights are subject to certain conditions, including a certain continuous period of service. The exercise prices of the options are the same as the quoted prices of ING Group NV shares at the date on which the options are granted. The entitlement to the depositary receipts for ING shares is granted conditionally. If the participant remains in employment for an uninterrupted period of three years from the grant date, the entitlement becomes unconditional. Each year, the ING Group NV Executive Board will take a decision as to whether the option and share schemes are to be continued and, if so, to what extent.

(x) Provisions

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

(y) Net interest income

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

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

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an estimate of cash flows 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.

(z) Net commission income

Fee and commission income arises on providing financial services by the Group and comprise of fees and commissions on loan granting, pledge to grant a loan, issue of cards, cash management services, brokerage services and asset management services. Commission income also comprises margins on FX derivatives transactions concluded with corporate clients.

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

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

(aa) Net income on investment financial assets

The net income on investment financial assets comprises profits and losses resulting from sale of financial assets classified as available for sale and earnings from dividends. Dividend income is recognized in the profit and loss account when the shareholders' right to receive payment is established.

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

Result on financial instruments at fair value through profit and loss and revaluation 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 on financial instruments at fair value through profit and loss and revaluation also covers the swap points from derivative transactions that the Bank enters into in order to gain liquidity in foreign currencies.

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.

(cc) Other operating income and expense

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

These include in particular: the result due to holding an investment property, sale of assets (non-current assets and intangible assets); revenues from sales of other services; revenues due to recovered bad debts; received and paid damages, penalties and fines; costs of reserves for litigation and due to donations.

(dd) Net profit attributable to minority shareholders

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

(ee) 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.

(ff) Deferred income tax

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

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

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

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

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

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

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

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

(gg) Other taxes

Revenues, costs and assets are recognised less the value added tax, 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.

Comparability of financial data – changes in presentation

In the financial statements prepared for the period from 1st January 2007 to 31st December 2007 the Bank made changes relating to presentation of certain positions in Profit and Loss Account. The changes consisted mainly in a more detailed presentation of selected items and aggregation of items of similar nature or those containing the evaluation of financial products with the same or similar characteristics.

This situation applies to Financial assets measured at fair value through profit and loss and Commission due to currency exchange transactions. Both positions were influenced by valuation of financial instruments which previously were presented split into mark to market valuation and changes due to exchange rate differences. In the Bank's opinion aggregation of those positions into one line in financial statement results in better presentation of results on each instrument as well as in easier analysis. Furthermore, the margins on FX derivatives transactions concluded with clients were moved from the item "Result on financial instruments carried at fair value through profit or loss" to the "Commission result".

Similarly, provisions from currency exchange transactions in Bank's branches were transferred from Net income on the revaluation of F/X positions & transactions into Net commission income as they create a stable income flow on the year to year basis.

Item "Revenue on dividend" and "Result on investment financial assets" were combined into one item "Result on investment financial assets".

Detailed analysis of economical content in current positions other operating income and expenses resulted in clear division of positions into those related to costs and income. Additionally positions related to commissions, stable among the reporting periods were moved to Net commission income.
The costs of direct maintenance of buildings were transferred from the item "Costs of the bank's operation" to the item "Other operating revenue & expenses".

Item "Bank's operational costs and general administration costs" and "Depreciation of non-current and intangible assets" were combined into one item "Bank's operational costs".
Minor change was made in Impairment losses and provisions for off-balance sheet liabilities which resulted in exclusion of positions relating to valuation of own property. This position was moved into newly created position in Other Expenses.

Profit and loss account for the period of 1st January to 30st December 2006 was adjusted for comparison purposes.

In the financial statements drafted as at 31.12.2007, the Bank changed the balance-sheet presentation of cash entrusted to the outsourcer. The change meant transferring from the item "Loans and cash loans granted to clients" to the item "Cash, funds with Central Bank". An argument in favour of the abovementioned change was the fact that despite transferring the entire risk to the outsourcer in accordance with the terms and conditions of the agreement, as a matter of fact the Bank maintained control over the assets. The said change also concerned the presentation of cash in the cashflow statement.

The balance sheet as at 31.12.2007 includes a separate item "Hedge derivatives", where the balance valuation of fair value hedge derivatives was presented and whereto the relevant amounts from the items "Financial assets carried at fair value through profit or loss" and "Financial liabilities carried at fair value through profit or loss" were moved. The aforementioned balance change affected modification of the cash flow statement; i.e. the relevant amounts from the item "Movements in financial assets carried at fair value through profit or loss" were shifted to the item "Movements in other assets" and from the item "Movements in liabilities carried at fair value through profit or loss" to the item "Movements in other liabilities".

Additionally the Bank in the financial statement changed an approach to presentation of book short position in trading debt securities. Previously the book short position in trading debt securities was presented on a net basis, i.e. it decreased the carrying amount of trading debt securities presented in Financial assets at fair value through profit or loss. Under the revised approach, the book short position in trading debt securities is presented on a gross basis in line Financial liabilities at fair value through profit or loss. The change in approach to presentation of book short position in trading debt securities does not affect the Bank's profit and loss account, however it results in an increase of the Bank's total assets by the amount of the book short position.

On 31.12.2007, the Bank established a new portfolio of debt securities – held to maturity. The Bank's intention is to keep the financial assets classified to this category until their maturity date.

In the financial statements as at 31.12. 2007, the Bank changed the presentation of Investment Term Deposits in the balance-sheet notes by moving the relevant amounts from the item "Liabilities towards financial sector entities other than banks – term deposits" to the item "Liabilities towards non-financial entities – household deposits – term deposits".

In the financial statements as at 31.12. 2007, the Bank changed the manner of calculating the movement of cash flows due to F/X difference. In the Bank's opinion, the values presented in the item "Movement of cash flows due to F/X differences" in the cash flow statement reflect more accurately the impact of F/X rates changes on the movement of cash flows.

The balance sheet and the cashflow statements for previous terms were modified in order to make them comparable.

		Profit and loss account before change																						
	Profit and loss account	Interest income	Interest expenses	**Net interest income**	Commission income	Commission expenses	**Net commission income**	Dividend income	Net income on instruments measured at fair value through profit and loss	Net income on investmet of financial assets	Net income from fair value measurement of investment real estate	Net income on available for sale assets and assets held for sale	Net income from fair value measurement for the purpose of hedge accounting	Net income on the revaluation of FX positions and transactions	Other operating income	Other operating expenses	**Result on basic activities**	General and administrative expenses	Depreciation and amortization	Net income on disposal of assets other than held for sale	Impairment losses and provisions for off-BS liabilities	Share in net profit (loss) of co-subsidiaries and associated entities recognised under the equity method	**Profit (loss) before tax**	Income tax	**Net profit (loss)**
	31.12.2006 Group consolidated	2 003 220	-1 066 916	**936 304**	738 581	-89 905	**648 676**	2 561	552	20 017	3 652	-127	-1 260	148 539	54 773	-39 057	**1 774 630**	-1 092 446	-141 625	-998	173 920	39 850	**753 331**	-155 380	**597 951**
Profit and loss account after change	Interest income	2 003 220																							**2 003 220**
	Interest expenses		-1 066 916																						**-1 066 916**
	Net interest income																								**936 304**
	Commission income				737 744									90 046 {A}		-2 602 {B}									**825 188**
	Commission expenses					-89 905																			**-89 905**
	Net commission income																								**735 283**
	Net income on investmet of financial assets							2 561		20 017															**22 578**
	Net income on instruments measured at fair value through profit and loss and revaluation								-679					58 493											**57 814**
	Other operating income and expenses								1 231		3 652	-127	-1 260		49 252	##### {C}		-7 147		-998	-2 598 {D}				**29 454**
	Result on basic activities																								**1 781 433**
	General and administrative expenses				837										2 771 {E}			-1 085 299	-141 625						**-1 223 316**
	Other expenses														2 750 {F}	-23 904					10 623 {G}				**-10 531**
	Impairment losses and provisions for off-BS liabilities																				165 895				**165 895**
	Share in net profit (loss) of co-subsidiaries and associated entities recognised under the equity method																					39 850			**39 850**
	Profit (loss) before tax																								**753 331**
	Income tax																							-155 380	**-155 380**
	Net profit (loss)	**2 003 220**	**-1 066 916**	**936 304**	**738 581**	**-89 905**	**648 676**	**2 561**	**552**	**20 017**	**3 652**	**-127**	**-1 260**	**148 539**	**54 773**	**-39 057**	**1 774 630**	**-1 092 446**	**-141 625**	**-998**	**173 920**	**39 850**	**753 331**	**-155 380**	**597 951**

{A}-carry-forward relating to: commission due to FX operations and transaction margin on FX derivative instruments and result on FX operations – transactions
{B}-carry-forward relating to: costs of suspended commissions relating to written down receivables (representing and not representing tax deductible costs) and commission income relating to personnel & payroll services
{C}-carry-forward relating to: other operating costs that results in diminishing other income due to its economic contents
{D}-carry-forward relating to: impairment charge for other non-financial assets
{E}- carry-forward relating to: income connected with the costs of the bank's activity
{F}- carry-forward relating to: other operating income that results in diminishing costs due to its economic contents
{G}-carry-forward relating to: fair value measurement of tangible non-current assets

Notes to the consolidated financial statements

1. Segment reporting

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

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

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

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

Business segments

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

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

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

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

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

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

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

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

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

The basis for separation of the corporate and retail banking segments is the segment breakdown defined in the internal regulations of the parent entity.

Geographical segments

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

Segment reporting – continued

PLN thousand	31.12.2007						31.12.2006					
	Retail customers segment	Corporate customers segment	Own operations		Non-allocated items	TOTAL	Retail customers segment	Corporate customers segment	Own operations		Non-allocated items	TOTAL
			Proprietary trading	ALCO					Proprietary trading	ALCO		
Revenue total	**1 148 570**	**741 907**	**110 129**	**69 066**		**2 069 671**	**984 244**	**619 037**	**146 203**	**71 798**		**1 821 283**
Core business	**1 133 558**	**714 394**	**98 302**	**123 418**		**2 069 671**	**961 664**	**583 422**	**135 393**	**140 804**		**1 821 283**
Income on lending	223 791	207 662				431 454	223 781	166 086				389 868
Interest income external	*339 182*	*638 137*					*286 041*	*444 144*				
Interest cost internal	*-173 522*	*-512 229*					*-114 504*	*-334 018*				
Income on fees/ other income	*58 131*	*81 754*					*52 245*	*55 961*				
Income on deposits	616 007	276 522				892 529	574 880	230 348				805 228
Interest costs external	*-719 888*	*-368 122*					*-602 826*	*-352 955*				
Interest income internal	*1 091 432*	*534 934*					*944 587*	*470 884*				
Income on fees/ other income	*244 462*	*109 710*					*233 119*	*112 419*				
Income on mutual funds	203 096					203 096	91 795					91 795
Income on brokerage and custody	47 184	87 490				134 675	36 855	78 563				115 418
Other income on core business	-10 950	-2 077	253 929	123 418		364 320	-14 546	-527	253 394	140 804		379 125
FM products sales	10 831	144 796	-155 627			0	9 049	108 952	-118 001			0
Income on Pension Funds shares	43 598					43 598	39 850					39 850
Result on economic capital	15 012	27 513	11 827	-54 352		0	22 580	35 615	10 810	-69 005		0
Expenses total	**894 025**	**449 228**	**47 417**	**2 561**	**-6 738**	**1 386 493**	**778 018**	**411 975**	**41 500**	**-11 261**	**13 615**	**1 233 847**
Operational costs	894 025	449 228	47 417	2 561	-6 738	1 386 493	778 018	411 975	41 500	-11 261	13 615	1 233 847
including depreciation	*122 121*	*25 248*	*7 430*			*154 799*	*111 728*	*23 099*	*6 798*			*141 625*
Result before risk	**254 545**	**292 678**	**62 712**	**66 505**	**6 738**	**683 178**	**206 226**	**207 062**	**104 704**	**83 059**	**-13 615**	**587 436**
Risk cost	-40 258	-63 553	0	0		-103 811	-21 226	-144 669	0	0		-165 895
Result before tax	**294 803**	**356 231**	**62 712**	**66 505**	**6 738**	**786 989**	**227 452**	**351 731**	**104 704**	**83 059**	**-13 615**	**753 331**
CIT						150 167						155 380
Result after tax						**636 822**						**597 951**
- assigned to shareholders of the holding company						**630 724**						**591 355**
- assigned to minority shareholders						6 098						6 596

Transformed item	30.06.2007					30.06.2006				
	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	4 533 063	13 994 252	31 582 557	595 065	50 704 937	3 136 859	11 188 799	32 320 036	569 843	47 215 537
Segment investments in subordinates	97 326				97 326	90 309				90 309
Other assets (not allocated to segments)					1 208 597					1 170 166
Total assets					**52 010 860**					**48 476 012**
Segment liabilities	27 453 096	18 224 624	1 849 293		47 527 013	22 892 361	14 757 315	6 129 416		43 779 092
Other liabilities (not allocated to segments)					643 345					918 527
Equity					3 840 502					3 778 393
Total liabilities					**52 010 860**					**48 476 012**
Other										
Capital expenditure	133 991	67 661	7 082	2 901	211 635	92 813	49 146	4 951	281	147 191
Depreciation	122 121	25 248	7 430		154 799	111 728	23 099	6 798		141 625
Net cash flow from operating activity	2 538 708	725 776	410 874	-6 063 985	-2 388 627	3 070 234	368 981	-2 998 208	3 052 050	3 493 057
Net cash flow from operating activity - other items not allocated to segments					-465 847					104 134
Total net cash flow from operating activity					-2 854 474					3 597 191
Net cash flow from investing activity	-91 811	-46 361	-4 853	773	-142 252	-55 866	-29 582	-2 980	2 392	-86 036
Net cash flow from financial activity	0	-20 903	0	-362 979	-383 882	0	-53 382	0	-357 775	-411 157

2. Net interest income

	end of year 2007	end of year 2006
Interest and similar income		
- Loans and advances to banks	868 146	541 675
- Loans and advances to customers	924 075	702 247
- Interest on debt securities held for trading	176 769	140 031
- Interest on available-for-sale debt securities	493 688	616 694
- Interest on held-to-maturity debt securities	13 922	0
- Reverse repos	3 148	1 727
- Other	1 685	846
	2 481 433	**2 003 220**

With regards to interest revenue for year 2007, the amount of PLN 21,925,000 represents revenue from financial assets for which impairment loss was recognised. In year 2006 respectively the amount reached PLN 32,732,000. Interest income related to financial assets is calculated using the net exposure amounts; i.e. the amounts including effective impairment losses.

	end of year 2007	end of year 2006
Interest expense and similar charges		
- Deposits from banks	-109 445	-86 562
- Deposits from customers	-1 231 319	-934 487
- Loans and advances	-2 319	-3 645
- Reverse repos	-89 757	-42 222
	-1 432 840	**-1 066 916**
Net interest income	**1 048 593**	**936 304**

3. Net commission income

	end of year 2007	end of year 2006
Commission income		
- Commission related to brokerage activity	124 861	113 480
- Commission and fees related to customer accounts	266 495	262 806
- Commission for loans and advances	119 413	94 027
- Commission and fees for payment and credit cards	142 871	120 152
- Commission and fees due to distribution of participation units	213 206	91 198
- Fiduciary and custodian fees	26 879	23 203
- Foreign commercial business	21 603	20 032
- The transaction margin on currency exchange transactions	131 362	90 047
- Other	12 307	10 243
	1 058 997	**825 188**
Commission expense		
- Brokerage fees	-28 392	-26 842
- Other commission, including:	-99 847	-63 063
- costs of the Bank Guarantee Fund (BFG)	*-4 037*	*-3 402*
- costs of the National Clearing House (KIR)	*-4 599*	*-3 448*
- commission paid related to securities trading	*-7 438*	*-4 482*
- commission paid related to banking cards	*-38 347*	*-26 777*
	-128 239	**-89 905**
Net commission income	**930 758**	**735 283**

4. Net income on investment financial assets

	end of year 2007	end of year 2006
- Equity instruments	14 640	5 805
- Debt instruments	7 600	14 212
- Dividend income	2 761	2 561
- Valuation of the transaction hedged under the fair value hedge accounting for securities	-5 317	0
- Valuation of the hedging transaction under the fair value hedge accounting for securities	6 096	0
Net income on investment financial assets	**25 780**	**22 578**

5. Result on financial instruments carried through profit and loss and revaluation

	end of year 2007	end of year 2006
Net income on financial assets and liabilities held for trading	372 037	280 886
- Net income on equity instruments	-3 127	-402
- Net income on debt instruments	-49 096	25 238
- Net income on derivatives	424 260	256 050
- Currency derivatives	*438 602*	*236 984*
- Exchange rate derivatives	*-31 775*	*14 968*
- Securities derivatives	*17 433*	*4 098*
Net income on financial assets and liabilities measured at fair value upon initial recognition	6 345	-607
- Net income on debt instruments	6 345	-607
Result on the revaluation of balance sheet items	-374 828	-222 465
Result on financial instruments carried through profit and loss and revaluation	**3 554**	**57 814**

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. Other operating income and expenses

	end of year 2007	end of year 2006
- Due to recovered unrecoverable receivables	1 169	1 067
- Received indemnities, penalties and fines	2	8 103
- Income from sales of other services	4 968	5 254
- Net income on available-for-sale assets and assets held for sale	-107	-127
- Result on disposal of assets (fixed and intangible assets and own properties)	101	-998
- Impairment losses on other non financial assets	-2 524	-2 598
- Net income on the investment properties:	6 095	14 344
- Income rental from of the investment properties	*14 418*	*14 944*
- Measurement of the investment property at the fair value	*-1 373*	*3 652*
- Maintance expenses relating to the investment properties	*-6 950*	*-4 252*
- Fair value adjustment in hedge accounting	-8 214	-1 260
- Valuation of the hedging transaction under the fair value hedge accounting for properties	7 813	1 231
- Impairment losses on investment real estate	-3 947	0
- Other operating income due to mortgage loans insurance premiums	1 924	779
- Other income – returned amounts, material and personnel-related costs	826	345
- Other operating income due to interest received, calculated on an off-balance basis	1 841	2 451
- Other	7 441	863
Total	**17 388**	**29 454**

As of 31 Dec 2006 the "Received indemnities, penalties and fines" item includes damages in the amount of PLN 8,100,000 received by the Bank for the operational risk related loss.

"Income from sales of other services" primarily includes the sales of services at recreation centres of one of the subsidiairies of Group.

7. General and administrative expenses

	end of year 2007	end of year 2006
- Personnel expenses:	**687 325**	**579 155**
wages and salaries, including:	*569 255*	*485 268*
special and retirement benefits	*2 894*	*4 058*
employee benefits, including:	*118 070*	*93 887*
training expenses	*21 220*	*13 065*
- General and administrative expenses:	**535 168**	**502 536**
on property, plant and equipment	*103 533*	*89 849*
taxes and charges (including PFRON)	*7 493*	*7 162*
maintenance and rental of buildings	*134 569*	*130 655*
communication services	*63 596*	*65 240*
leasing services	*12 022*	*10 483*
refurbishment services	*30 560*	*31 873*
licences and patents	*17 198*	*15 962*
consulting	*82 965*	*81 406*
lease of computer resources	*19 314*	*15 089*
other external services	*63 918*	*54 817*
- Depreciation and amortisation	**154 799**	**141 625**
on property, plant and equipment	*96 509*	*98 700*
on intangible assets	*58 290*	*42 925*
Total	**1 377 292**	**1 223 316**

8. Other expenses

	end of year 2007	end of year 2006
- Donations made	2 492	1 290
- Other operating expenses due to disputed claims	1 348	18 287
- Measurement of fixed assets at fair value	4 357	-10 623
- Other	1 004	1 577
Total	**9 201**	**10 531**

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.

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

	end of year 2007	end of year 2006
- Impairment losses on loans and advances	99 806	129 447
- Reversed impairment losses on loans and advances	-123 503	-211 092
Net impairment losses on loans and advances	**-23 697**	**-81 645**
including:		
- losses on loans and advances at risk of impairment	*-30 535*	*-71 163*
- IBNR	*6 860*	*-10 482*
- Impairment losses on bad debts	78 031	73 108
- Reversed impairment of amounts recovered from loans previously written off	-159 925	-150 267
Net impairment losses on bad debts	**-81 894**	**-77 159**
- Impairment losses on available-for-sale financial assets:	0	0
- shares in subsidiaries, co-subsidiaries and associated entities, as well as minority interests	*0*	*0*
- Reversed impairment losses on available-for-sale financial assets:	-6	-160
- shares in subsidiaries, co-subsidiaries and associated entities, as well as minority interests	*-6*	*-160*
Net impairment losses on available-for-sale financial assets:	**-6**	**-160**
- Recognised provisions for off-balance sheet liabilities	14 651	12 221
- Reversed provision for off-balance sheet liabilities	-12 865	-19 152
Net provisions for off-balance sheet liabilities recognised	**1 786**	**-6 931**
including:		
- on the portfolio at risk of impairment	*1 786*	*-6 931*
- IBNR	*0*	*0*
Total impairment losses	**192 488**	**214 776**
Total reversed impairment losses	**-296 299**	**-380 671**
Net impairment losses and provisions for off-balance sheet liabilities	**-103 811**	**-165 895**

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

	end of year 2007	end of year 2006
- ING Nationale Nederlanden Polska PTE S.A.	43 598	39 850
Total	**43 598**	**39 850**

11. Income tax

	end of year 2007	end of year 2006
Recognised in the profit and loss account		
- Current portion		
Current year	117 218	103 953
Adjustment of last-year tax settlement	6 332	-155
	123 550	**103 798**
- Deferred tax		
Recognised and reversed temporary differences	25 347	50 467
Benefits resulting from tax loss	0	-4
	25 347	**50 463**
- Increases/decreases of the receivables due to 8% relief related to provisions for receivables	1 270	1 119
Total income tax recognised in the profit and loss account	**150 167**	**155 380**

Effective tax rate calculation

	end of year 2007	end of year 2006
- Profit before tax	**786 989**	**753 331**
- 19% income tax	**149 528**	**143 133**
- Increases – non-deductible expenses	**12 008**	**27 675**
- provision for expected losses	*657*	*1 529*
- PFRON	*915*	*892*
- impairment in a part not covered by deferred tax	*96*	*15 968*
- representation and advertising expenses over the statutory limit	*0*	*1 560*
- representation expenses	*1 477*	*0*
- expenses due to foreign payments	*264*	*234*
- expenses due to loan and non-loan receivables written off	*6 384*	*1 652*
- provision for payments connected with the fine imposed by the Office of Competition and Consumer Protection	*0*	*2 677*
- accelerated amortisation due to shortening the economic utility period of the Mass Payments Service system	*0*	*847*
- other	*2 215*	*2 316*
- Decreases – tax exempt income	**12 639**	**16 547**
- income exempt due to the entity	*592*	*581*
- dividend income	*523*	*483*
- release of the provision for any foreseen losses	*424*	*798*
- depreciation on real estate	*2 073*	*1 958*
- share in net profit (loss) of associated entities	*8 284*	*7 572*
- balance sheet valuation of loans	*0*	*496*
- sales of non-current assets under the investment allowance	*0*	*1 933*
- other	*743*	*2 726*
- 19% income tax /+/ increases /-/ decreases	**148 897**	**154 261**
- Increases/decreases of the receivable due to 8% relief related to provisions for receivables	1 270	1 119
Income tax from profit and loss account	**150 167**	**155 380**
Effective tax rate	**19,08%**	**20,63%**

12. Earnings per share

Basic earnings per share

The calculation of basic earnings per share as of 31 Dec 2007 was based on annualised net profit amounted to PLN 630,724,000 (31 Dec 2006: PLN 591,355,000) and weighted average number of ordinary shares in the similar period equal 13,010,000 (31 Dec 2006: 13,010,000).

	end of year 2007	end of year 2006
- Net profit	630 724	591 355
- Weighted average number of ordinary shares	13 010 000	13 010 000
Earnings per share (PLN)	**48,48**	**45,45**

Diluted earnings per share

During 2007 and 2006 the number of shares making up the share capital of the Group did not change. During the analysed period, the Group issued neither convertible bonds nor share options. The whole share capital is divided into ordinary shares (there are no preference shares). Due to the above, diluted earnings per share is the same as basic earnings per share.

13. Dividends paid/proposed

General Shareholders' Meeting accepted the dividend payment for the 2006 on 9 May 2007. The amount of dividend equals PLN 27.90 per share which in total amounted to PLN 362,979 thousand. The dividend was paid on 11 of June 2007.

The Management Board of ING Bank Śląski S.A. proposed payment of the dividend for 2007 in the amount of PLN 11.70 gross per share, which amount to PLN 152,217,000.

14. Cash in hand and balances with the Central Bank

	end of year 2007	end of year 2006
- Cash in hand	678 072	508 254
- Balances with the Central Bank	1 163 653	639 646
Total	**1 841 725**	**1 147 900**

Dominant entity of the Group maintains a mandatory provision - at the level of 3.5% of the value of deposits received by the Bank - on its current account kept with the National Bank of Poland. The amount of the calculated provision is reduced by an equivalent of EUR 500 thousand, which equalled:
- PLN 1,813,000 as of 30 Nov 2007,
- PLN 1,944,000 as of 31 Oct 2006.

The average obligatory provision equalled:
- PLN 1,497,935,000 for the period from 31 Dec 2007 to 30 Jan 2008,
- PLN 1,190,991,000 for the period from 30 Nov 2006 to 30 Jan 2007.

The Group may utilise the debt limit with the National Bank of Poland for the amount of PLN 9,388,779,000 i.e. 0,8 of the face value of Treasury papers pledged. The mean for the similar period of the previous year was PLN 12,166,994,000.

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

	end of year 2007	end of year 2006
- Nostro accounts	381 145	277 596
- interbank deposits	14 347 480	12 976 032
- other receivables	345 940	220 665
- loans and advances	*280 113*	*170 188*
- other receivables	*65 827*	*50 477*
- accrued interest	109 791	40 031
Total (gross)	**15 184 356**	**13 514 324**
Impairment losses	-691	-426
Total (net)	**15 183 665**	**13 513 898**

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

	end of year 2007	end of year 2006
- Maturing:	15 074 565	13 474 293
- up to 1 month	11 822 945	11 330 679
- over 1 month and up to 3 months	737 561	2 026 960
- over 3 months and up to 1 year	2 512 354	110 542
- over 1 year and up to 5 years	1 705	6 112
- Accrued interest	109 791	40 031
Total	**15 184 356**	**13 514 324**

16. Financial assets at fair value through profit or loss

	end of year 2007	end of year 2006
- Financial assets held for trading	6 062 786	6 843 904
- Financial assets designated as at fair value upon initial recognition	1 844 778	223 518
Total	**7 907 564**	**7 067 422**

Financial assets held for trading

	end of year 2007	end of year 2006
- Debt instruments		
Bonds and bills issued by:	4 373 230	5 865 981
State Treasury	*4 373 230*	*5 865 981*
Total debt instruments	**4 373 230**	**5 865 981**
Listed instruments	*4 292 647*	*5 851 518*
Unlisted instruments	*80 583*	*14 463*
Equity instruments	**38 530**	**16 679**
Listed instruments	*38 530*	*16 679*
Derivative financial instruments	**1 651 026**	**961 244**
Total	**6 062 786**	**6 843 904**

Financial assets designated as at fair value upon initial recognition

	end of year 2007	end of year 2006
Debt instruments	**1 513 211**	**142 559**
- Bonds and bills issued by:	1 513 211	142 559
State Treasury	*1 381 685*	*0*
Non financial sector	*131 526*	*142 559*
Repo transactions	**331 567**	**80 959**
Total	**1 844 778**	**223 518**

The Group designated the following components of financial assets and liabilities for fair value measurement based on the profit and loss statement: debt securities in the form of bonds issued by one of non-financial entity and all buy-sell-back and sell-buy-back transactions.
Designation of above mentioned bonds for fair value measurement based on the profit and loss statement allows to obtain more useful information due to the elimination of „accounting mismatch". "Mismatch" would involve inconsistencies in regard to the recognition of the effects of measurement of an investment item in the form of above bonds and IRS transactions, measured as fair value through the financial result, securing the interest rate risk from the transaction.
The Group of sell-buy-back and buy-sell-back transactions was designated for fair value measurement on the basis of the profit and loss statement due to their classification to the portfolio managed by Financial Markets. According to the principles of risk management and the investment strategy in force at the Bank, the items of financial assets and liabilities as part of this portfolio are measured and managed on the basis of fair value.

For the transactions with the buy-back commitment, all benefits and risks related to assets and the option of their sale remain with the Group.

Financial assets at fair value through profit or loss by maturity

	end of year 2007	end of year 2006
- up to 1 month	872 840	149 185
- over 1 month and up to 3 months	192 738	1 197 034
- over 3 months and up to 1 year	743 798	669 002
- over 1 year and up to 5 years	4 382 511	4 841 027
- over 5 years	1 715 677	211 174
Total	**7 907 564**	**7 067 422**

Movements in financial assets at fair value through profit or loss

	end of year 2007	end of year 2006
Opening balance	7 067 422	6 155 240
Increases	419 485 442	903 044 917
- purchase of debt securities	417 766 495	902 882 781
- purchase shares in other parties	823 811	0
- increase in the value of securities	205 353	161 572
- measurement of off-balance sheet derivative instruments	689 783	564
Decreases	-418 645 300	-902 132 735
- sales of debt securities	-362 666 224	-855 325 914
- repurchase of debt securities	-50 683 369	-37 971 704
- sales of shares in other parties	-801 632	0
- decrease in the value of securities	-4 494 075	-8 835 117
Closing balance	**7 907 564**	**7 067 422**

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'.

17. Investments

	end of year 2007	end of year 2006
- Available-for-sale financial assets, including:	8 547 497	12 614 914
Fair value hedge - hedged items	*435 531*	*0*
- Held-to-maturity financial assets	840 776	0
Total	**9 388 273**	**12 614 914**

Available-for-sale financial assets

	end of year 2007	end of year 2006
- Fixed rate debt instruments	7 365 286	10 921 628
Treasury bonds	*7 224 265*	*10 659 886*
Treasury bills	*141 021*	*261 742*
- Floating rate debt instruments	1 158 862	1 667 227
Treasury bonds	*389 829*	*1 119 430*
NBP bonds	*514 650*	*516 017*
Other	*254 383*	*31 780*
Total debt instruments	**8 524 148**	**12 588 855**
Listed instruments	*7 614 104*	*11 779 326*
Unlisted instruments	*910 044*	*809 529*
- Equity instruments		
Equity instruments at cost	*15 441*	*27 432*
Market value evaluation	*21 142*	*11 868*
Impairment	*-13 234*	*-13 241*
Equity instruments – carrying value	**23 349**	**26 059**
Listed instruments	*78*	*0*
Unlisted instruments	*23 271*	*26 059*
Total	**8 547 497**	**12 614 914**

The item “Equity instruments” shows the shares and participations of several entities that in major part - except for shares of 1 company - are not listed on the stock exchange. The Bank does not measure them at fair value. The shares of one of the companies where the Bank holds B-series shares (not quoted on the stock exchange) form an exception thereto. These are measured using the share price of A-series shares from the regulated trading market.
Holding some shares and participations is driven by the Bank's operations. These are the shares of the Warsaw Stock Exchange, CeTO SA, the Polish Clearing Chamber, SWIFT and the Polish Credit Information Bureau, among others. Other shares are classified by the Group for disposal (by sale or liquidation).

Fair value hedge - hedged items

	end of year 2007	end of year 2006
Fixed rate debt instruments	435 531	0
- Bonds issued by:	435 531	0
State treasury	*435 531*	*0*
Total	**435 531**	**0**

Held-to-maturity financial assets

	end of year 2007	end of year 2006
Fixed rate debt instruments	840 776	0
- Bonds issued by:	840 776	0
State treasury	*840 776*	*0*
Total	**840 776**	**0**

Movements in investment financial assets

	end of year 2007	end of year 2006
Opening balance	12 614 914	10 922 919
Increases	4 099 684	5 110 142
- purchase of debt securities	3 586 939	4 460 042
- increase in the value of securities	512 729	636 794
- purchase of shares	10	12 256
- reversed provision for shares	6	1 050
Decreases	-7 326 325	-3 418 147
- sales of debt securities	-5 975 318	-1 511 959
- repurchase of debt securities	-465 489	-1 323 147
- drop in the value of securities	-873 536	-581 983
- sales of shares	-11 982	-1 052
- recognised provision for share	0	-6
Closing balance	**9 388 273**	**12 614 914**

In 2007 the Bank sold shares and stakes in 2 companies which value in the books totalled PLN 11,982,000. This included:
- Stalexport S.A.
- WRJ Inwestycje Sp. z o.o.

In 2006, the Group sold shares and stakes in 1 company which value in the books totalled PLN 191,000.

18. Financial assets pledged as collateral for liabilities

The portfolio of financial assets held for trading comprises T-bonds securing the liabilities due to the securities sold with the buy-back commitment. The nominal value of bonds is given in the table below. The adjustment following the transaction measurement at fair value was:
- as at 31 Dec 2007: PLN – 298,000;
- as at 31 Dec 2006: PLN 1,330,000;

The liabilities secured with the above assets amounted to:
- as at 31 Dec 2007: PLN 103,014,000;
- as at 31 Dec 2006: PLN 2,282,291,000;

Nominal value of assets that are collateral for liabilities

	end of year 2007	end of year 2006
The portfolio of financial assets held for trading:		
- Treasury bills collateralising the liabilities due to securities sold with a promise of repurchase	102 939	2 227 309
The portfolio of financial asstes avaible for sale:		
- Treasury bills constituting a collateral to Bank Guarantee Fund	117 900	92 900
- Treasury bonds constituting a collateral for the lombard loan	0	870 000

Securities are pledged on the terms provided for by:
- the Banking Guarantee Fund Act (Journal of Laws 183 of 2005, item 1538),
- the Lombard Loan and Securing Pledge Agreement with the National Bank of Poland dated 30 December 2003,
- the Bylaw for Bank Refinancing with the Lombard Loan by the National Bank of Poland, being enclosure to Resolution No. 42/2003 by the Management Board of the National Bank of Poland dated 3 October 2003,
- the basis of the transaction.

19. Derivative hedge instruments

Hedge instruments in fair value hedge accounting

	end of year 2007	end of year 2006
- Balance valuation of securities fair value hedge instruments	4 572	0
Interest Rate Swap transaction	*4 572*	*0*
- Balance valuation of real estate fair value hedge instruments	0	3 329
currency forward transaction	*0*	*3 329*
Total	**4 572**	**3 329**

Positive amounts from this table are presented under "Hedging derivative instruments" in the balance sheet assets; whereas amounts with "-" refer to negative valuation and are presented under "Hedging derivative instruments" in the balance sheet liabilities.

20. Loans and advances to customers

	end of year 2007	end of year 2006
Loans and advances granted to entities from the financial sector other than banks		
- loans and advances	2 225 200	2 010 466
- in the current account	378 909	493 093
- term ones	1 846 291	1 517 373
- other receivables	110 040	52 171
- accrued interest	7 413	3 892
Total (gross)	**2 342 653**	**2 066 529**
Impairment losses	-5 840	-11 335
Total (net)	**2 336 813**	**2 055 194**
Loans and cash loans granted to entities from the non-financial sector		
- loans and advances granted to business entities	8 896 590	7 064 684
- in the current account	3 103 368	2 386 692
- term ones	5 793 222	4 677 992
- loans and advances granted to households	4 928 295	3 615 383
- in the current account	965 928	961 359
- term ones	3 962 367	2 654 024
- other receivables	57 128	115 687
- accrued interest	18 690	37 596
Total (gross)	**13 900 703**	**10 833 350**
Impairment losses	-526 101	-664 859
Total (net)	**13 374 602**	**10 168 491**
Loans and cash loans granted to entities from the government and self-government institutions' sector		
- loans and advances	695 188	668 637
- in the current account	9 871	2 575
- term ones	685 317	666 062
- accrued interest	2 031	2 459
Total (gross)	**697 219**	**671 096**
Impairment losses	-29 496	-26 707
Total (net)	**667 723**	**644 389**

Loans and advances granted to customers - total

- loans and advances	16 745 273	13 359 170
- other receivables	167 168	167 858
- accrued interest	28 134	43 947
Loans and advances granted to customers – gross	**16 940 575**	**13 570 975**
Impairment losses	-561 437	-702 901
Loans and advances granted to customers – net	**16 379 138**	**12 868 074**

Loans and advances to customers by maturity

	end of year 2007	end of year 2006
- Maturing:	16 912 441	13 527 028
- up to 1 month	6 181 971	5 458 257
- over 1 month and up to 3 months	1 304 595	1 016 968
- over 3 months and up to 1 year	2 427 656	1 985 465
- over 1 year and up to 5 years	4 066 683	3 076 505
- over 5 years	2 931 536	1 989 833
- Accrued interest	28 134	43 947
Total	**16 940 575**	**13 570 975**

Interest accrued as of 31 Dec 2007 includes the amount of PLN 7,436,000 (31 Dec 2006: 18,903,000) related to accrued interest unpaid at risk of impairment and recognised before 01 Jan 2005, fully written off.

Average effective interest rate for loans and advances in %

	end of year 2007	end of year 2006
- Average effective interest rate for loans and advances in PLN	6,47%	6,33%
- Average effective interest rate for loans and advances in foreign currencies	5,26%	4,24%

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. More information about collaterals is presented in the chapter "Risk Management in ING Bank Śląski S.A." in the point "Collateral and Other Forms of Credit Risk Mitigation".

Receivables due to financial leases

The Group discloses no such receivables.

21. Quality of portfolio of loans and receivables

	end of year 2007	end of year 2006
Loans and receivables granted to banks and customers (gross)	**32 124 931**	**27 085 299**
- impaired	506 707	688 444
- unimpaired	31 618 224	26 396 855
Impairment losses	**-562 128**	**-703 327**
- related to impaired portfolio	-464 637	-614 603
- related to unimpaired portfolio	-97 491	-88 724
Loans and receivables granted to banks and customers (net)	**31 562 803**	**26 381 972**

The item "Loans and other receivables to banks and customers" includes the value of interbank deposits.

Loans and receivables portfolio classified according to impairment estimation methods

	end of year 2007	end of year 2006
Loans and receivables granted to banks and customers (gross)	**32 124 931**	**27 085 299**
- measured individually	283 342	367 980
- measured as the portfolio	31 841 589	26 717 319
Impairment losses	**-562 128**	**-703 327**
- impairment loss pertaining to receivables measured individually	-276 387	-339 202
- impairment loss pertaining to receivables measured as the portfolio	-285 741	-364 125
Loans and receivables granted to banks and customers (net)	**31 562 803**	**26 381 972**

22. Movements in impairment losses

	end of year 2007	end of year 2006
Opening balance after changes in accounting principles	**703 327**	**805 376**
Movements in impairment losses:	-141 199	-102 049
Recognised during the period	*177 859*	*200 182*
Reversed during the period	*-280 014*	*-356 262*
Deductions written off	*-113 279*	*-69 692*
Amounts recovered from loans previously written off	*85 840*	*119 505*
FX differences	*-1 460*	*-2 095*
Unwinding interest	*-3 149*	*11 632*
Other	*-6 996*	*-5 319*
Closing balance	**562 128**	**703 327**
due to:		
- loans and other receivables to banks	*691*	*426*
- loans and advances to customers	*561 437*	*702 901*

The loans written-off comprise of redemptions of receivables and write-off receivables from the balance sheet.

23. Investments in controlled entities

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

	Domestic	Type of activities	Share in the capital	
			end of 2007	end of 2006
ING Nationale Nederlanden Polska PTE S.A.	Poland	establishment and management of the open pension fund	20%	20%

	end of year 2007	end of year 2006
- Opening balance	90 309	75 080
- Profit share	43 597	39 850
- Dividend paid	-36 580	-24 621
Closing balance	**97 326**	**90 309**

General financial information on an associated entity:

	Assets	Liabilities	Net assets	Revenues	Profit/(loss)
end of 2007					
ING Nationale Nederlanden Polska PTE S.A.	523 185	37 155	486 030	404 334	208 139
end of 2006					
ING Nationale Nederlanden Polska PTE S.A.	507 151	35 279	471 872	368 463	198 804

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

Name of entity	Type of capital relation	Carrying value of shares	
		end of 2007	end of 2006
- ING Securities S.A.	*subsidiary*	30 228	30 228
- ING Bank Hipoteczny S.A.	*subsidiary*	113 450	49 950
- ING BSK Development Sp. z o.o.	*subsidiary*	50	50
- Solver Sp. z o.o.	*subsidiary*	7 870	6 682
- Centrum Banku Śląskiego Sp. z o.o. w likwidacji	*subsidiary*	18 971	0
- ING Nationale Nederlanden Polska PTE S.A.	*associated company*	40 000	40 000
Total		**210 569**	**126 910**

ING BSK Development Sp. z o.o. (where ING Bank Śląski S.A. holds 100% of shares) has 60% of shares in the initial capital of Centrum Banku Śląskiego Sp. z o.o. (the carrying amount of these shares amounts to PLN 2,645,000). On 19 September 2007, ING Bank Śląski S.A. acquired from the minority shareholders the shares in Centrum Banku Śląskiego Sp. z o.o., equivalent to 40% of the company initial capital. As a result of the transaction ING Bank Śląski S.A. directly and indirectly controls 100% of the initial capital of Centrum Banku Śląskiego Sp. z o.o.

On 31 October 2007, the agreement was signed on purchasing by ING Bank Śląski S.A. the company Centrum Banku Śląskiego Sp. z o.o. as well as taking over by ING Bank Śląski S.A. the liabilities connected with operations of the purchased company. The company Centrum Banku Śląskiego Sp. z o.o was a seller.
On 23 November 2007, the Extraordinary General Partners Meeting of Centrum Banku Śląskiego Sp. z o.o. passed the resolution on dissolving this company and putting it into liquidation as of 1 December 2007.

On 10 April, the Bank acquired by way of closed subscription 270 B-shares of ING Bank Hipoteczny. The face value of one share is PLN 50,000, and the total value of the transaction is PLN 13.5m.
On 22 October 2007, the Bank acquired by way of closed subscription 1,000 C-shares of ING Bank Hipoteczny. The face value of one share is PLN 50,000, and the total value of transaction is PLN 50m.
Upon registration of the increase, the share capital of ING Bank Hipoteczny will total PLN 113.5m.

On 30 November 2007, the Extraordinary General Partners Meeting of Solver Sp. z o.o. was held, at which the resolution was passed on increasing the Company's initial capital from PLN 8,374,000 to PLN 9,562,000. All the newly-established shares were covered fully by ING Bank Śląski S.A. in the non-financial form (in-kind contribution). Increase of the initial capital resulted in a change of the ownership structure – the share of ING Bank Śląski S.A. in the initial capital of Solver grew from 79.79% to 82.30%.

24. Investment real estate

	end of year 2007	end of year 2006
a) value at the beginning of period	181 951	180 181
b) additions (due to)	4 102	1 821
- purchase	776	1 821
- other	3 326	0
c) disposals (due to)	0	-51
- sale and liquidation	0	0
- other	0	-51
d) value at the end of period	186 053	181 951
e) evaluation at the fair value at the begining of the period	-35 981	-39 633
- increases	0	3 652
- decreases	-5 359	0
f) evaluation at the fair value at the end of the period	-41 340	-35 981
g) net value at the end of period	**144 713**	**145 970**

The Group is the owner of one investment property, located in Katowice. The estate manager, being the Group member, earns income therefrom in the form of rent instalments. Under the accounting principles adopted by the Group, the property is measured at fair value. The fair value was determined by an independent appraiser. The appraisal was made based on the discounted cash flows over the term of 10 years and was made on the arm's length basis, considering the building occupancy level.
Since the investment property is measured in EUR (as at 31 Dec 2007, the estate value was EUR 40,400,000 versus EUR 38,100,000 as at 31 Dec 2006), its value is affected by foreign exchange differences.

	end of year 2007	end of year 2006
- Income rental from of the investment property	14 418	14 944
- Maintance expenses relating to the investment property	6 950	4 252

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

25. Property, plant and equipment

	end of year 2007	end of year 2006
- Real estate and investments in third-party non-current assets	404 223	426 017
- Computer hardware	43 273	60 851
- Vehicles	335	579
- Other fixtures and fittings	70 921	80 438
- Constructions in progress	14 186	3 180
Total	**532 938**	**571 065**

end of year 2007

	Real estate and investments in third-party non-current assets	Computer hardware	Vehicles	Other fixtures and fittings	Constructions in progress	TOTAL
a) gross value at the beginning of period	668 678	267 205	3 957	341 238	3 180	1 284 258
b) additions (due to)	21 961	17 000	231	24 685	46 290	110 167
- purchases	1 518	15 676	231	7 557	46 234	71 216
- investment take-overs	16 997	1 284	0	17 071	0	35 352
- other	3 446	40	0	57	56	3 599
c) disposals (due to)	-3 154	-58 341	-2 196	-14 019	-35 478	-113 188
- sale and liquidation	-1 002	-56 186	-1 854	-8 130		-67 172
- investment take-overs	0			-282	-35 112	-35 394
- other	-2 152	-2 155	-342	-5 607	-366	-10 622
- grants	*0*	*-49*	*-5*	*-19*	*0*	*-73*
- reclassified to real estate held for sale	*-2 152*	*-2 106*	*-32*	*-5 588*	*0*	*-9 878*
d) transfers	-2 351	0	0	19	194	-2 138
e) gross value of assets at the end of the period	685 134	225 864	1 992	351 923	14 186	1 279 099
f) accumulated depreciction at the begining of the period	-266 205	-206 354	-3 378	-260 800	0	-736 737
g) amortisation for the period (due to)	-30 280	23 763	1 721	-20 202	0	-24 998
- amortisation charges	-32 853	-29 689	-262	-33 706	0	-96 510
- sale and liquidation	414	55 738	1 722	8 440	0	66 314
- transfers	2 351	1 307	21	5 139	0	8 818
- other	-192	-3 593	240	-75	0	-3 620
- grants	*0*	*48*	*5*	*19*	*0*	*72*
- reclassified to real estate held for sale	*216*	*0*	*0*	*0*	*0*	*216*
h) accumulated depreciction at the end of the period	-296 485	-182 591	-1 657	-281 002	0	-761 735
i) evaluation at the fair value at the begining of the period	23 544	0	0	0	0	23 544
- increases	0	0	0	0	0	0
- decreases	-7 970	0	0	0	0	-7 970
j) evaluation at the fair value at the end of the period	15 574	0	0	0	0	15 574
k) closing balance of net value	**404 223**	**43 273**	**335**	**70 921**	**14 186**	**532 938**

end of year 2006

	Real estate and investments in third-party non-current assets	Computer hardware	Vehicles	Other fixtures and fittings	Constructions in progress	TOTAL
a) gross value at the beginning of period	665 532	307 171	6 231	335 185	13 881	1 328 000
b) additions (due to)	10 220	19 509	37	27 507	22 662	79 935
- purchases	564	18 592	2	8 958	22 662	50 778
- investment take-overs	9 656	916	0	18 171	0	28 743
- other	0	1	35	378	0	414
c) disposals (due to)	-7 074	-58 488	-2 311	-22 441	-33 363	-123 677
- sale and liquidation	-2 049	-57 941	-2 311	-20 407	0	-82 708
- investment take-overs	0	0	0	-2 035	-29 098	-31 133
- other	-5 025	-547	0	1	-4 265	-9 836
- grants	*0*	*-527*	*0*	*-92*	*0*	*-619*
- reclassified to real estate held for sale	*-3 066*	*0*	*0*	*0*	*0*	*-3 066*
d) transfers	0	-987	0	987	0	0
e) gross value of assets at the end of the period	668 678	267 205	3 957	341 238	3 180	1 284 258
f) accumulated depreciction at the begining of the period	-238 503	-228 462	-4 404	-248 693	0	-720 062
g) amortisation for the period (due to)	-27 702	22 108	1 026	-12 107	0	-16 675
- amortisation charges	-30 839	-34 492	-935	-32 434	0	-98 700
- sale and liquidation	1 529	55 766	1 987	19 437	0	78 719
- transfers	0	309	0	-309	0	0
- other	1 608	525	-26	1 199	0	3 306
- grants	*0*	*525*	*0*	*83*	*0*	*608*
- reclassified to real estate held for sale	*392*	*0*	*0*	*0*	*0*	*392*
h) accumulated depreciction at the end of the period	-266 205	-206 354	-3 378	-260 800	0	-736 737
i) evaluation at the fair value at the begining of the period	-7 087	0	0	0	0	-7 087
- increases	35 359	0	0	0	0	35 359
- reclassified to real estate held for sale	*486*	*0*	*0*	*0*	*0*	*486*
- decreases	-4 728	0	0	0	0	-4 728
j) evaluation at the fair value at the end of the period	23 544	0	0	0	0	23 544
k) closing balance of net value	**426 017**	**60 851**	**579**	**80 438**	**3 180**	**571 065**

The item "Real estate and leasehold improvements" comprises, among others, the land whose value considering the fair value measurement as at 31 Dec 2007 was PLN 4,745,000 (as of 31 Dec 2007: 5,022,000).

As at 31 Dec 2007, the value of fully depreciated tangible non-current assets is 323,338,000 as compared to 283,215,000 as at 31 Dec 2007.

As at 31 Dec 2007, PLN 57,998,000 - that refers to the real properties assessed at their fair value – is recognised in the revaluation reserve. As at 31 Dec 2006, the same item amounted to PLN 52,263,000.

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 332,594,000. In 2007, one of the Bank's recreation centres was appraised for the purpose of the available-for-sale assets valuation model.

There are no legal limitations on property, plant and equipment.

In 2007, the Group concluded agreements with the contractors for the future purchase of fixed assets of PLN 584,000, out of which PLN 308,000 shall be paid in future periods. These agreements refer to the façade renovation and installation of revolving gates in the buildings of the Bank's Head Office. The Group also concluded the framework agreements connected among others with the re-branding and renovation of branches and franchise outlets. Payments due to these agreements are not determined in advance – their value shall derive from the cost estimates calculated during the year separately for each outlet.

Net value of property, plant and equipment includes the net value of assets accepted under financial lease agreements

Net value of assets accepted under financial lease agreements

	end of year 2007	end of year 2006
- Real estate	3 288	7 615
- Vehicles	0	98
- Other fixtures and fittings	47	65
Total	**3 335**	**7 778**

26. Intangible assets

	end of year 2007	end of year 2006
- Goodwill	223 821	223 821
- Software	73 830	78 787
- Outlays for projects	6 587	9 890
- Other intangible assets	451	1 409
- Outlays for intangible assets	14 136	3 754
Total	**318 825**	**317 661**

end of year 2007

	Goodwill	Software	Outlays for projects	Other intangible assets	Outlays for intangible assets	TOTAL
a) Gross value at the begining of the period	223 821	193 465	9 890	9 415	3 754	440 345
b) additions (due to)	0	53 595	12 769	56	38 269	104 689
- purchases	0	9 697	12 500	66	38 140	60 403
- investment take-overs	0	43 898	0	-10	0	43 888
- other	0	0	269	0	129	398
c) disposals (due to)	0	-2 530	-16 072	0	-28 697	-47 299
- sale and liquidation	0	-2 530	0	0	0	-2 530
- investment take-overs	0	0	-15 585	0	-28 303	-43 888
- other	0	0	-487	0	-394	-881
d) transfers	0	41	0	-851	810	0
e) gross value at the end of the period	223 821	244 571	6 587	8 620	14 136	497 735
f) accumulated depreciction at the begining of the period	0	-114 678	0	-8 006	0	-122 684
g) amortisation for the period (due to)	0	-56 063	0	-163	0	-56 226
- amortisation charges	0	-58 167	0	-123	0	-58 290
- sale and liquidation	0	2 065	0	0	0	2 065
- transfers	0	39	0	-40	0	-1
- other	0	0	0	0	0	0
h) accumulated depreciction at the end of the period	0	-170 741	0	-8 169	0	-178 910
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 at the end of the period	**223 821**	**73 830**	**6 587**	**451**	**14 136**	**318 825**

end of year 2006

	Goodwill	Software	Outlays for projects	Other intangible assets	Outlays for intangible assets	TOTAL
a) Gross value at the begining of the period	223 821	162 996	27 179	8 500	8 759	431 255
b) additions (due to)	0	30 061	15 982	16	20 603	66 662
- purchases	0	5 564	15 870	16	19 349	40 799
- investment take-overs	0	24 493	112	0	445	25 050
- other	0	4	0	0	809	813
c) disposals (due to)	0	408	-33 271	-16	-24 693	-57 572
- sale and liquidation	0	-32 632	0	-16	0	-32 648
- investment take-overs	0	33 040	-33 040	0	-24 693	-24 693
- other	0	0	-231	0	0	-231
d) transfers	0	0	0	915	-915	0
e) gross value at the end of the period	223 821	193 465	9 890	9 415	3 754	440 345
f) accumulated depreciction at the begining of the period	0	-104 875	0	-7 523	0	-112 398
g) amortisation for the period (due to)	0	-9 803	0	-483	0	-10 286
- amortisation charges	0	-42 428	0	-497	0	-42 925
- sale and liquidation	0	32 625	0	15	0	32 640
- transfers	0	0	0	0	0	0
- other	0	0	0	-1	0	-1
h) accumulated depreciction at the end of the period	0	-114 678	0	-8 006	0	-122 684
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 at the end of the period	**223 821**	**78 787**	**9 890**	**1 409**	**3 754**	**317 661**

As of 31 Dec 2007, the value of fully depreciated intangible assets equalled PLN 82,208,000 vs. PLN 68,879,000 as of 31 Dec 2006.

In 2007, the Group concluded agreements with the contractors for the future purchase of intangible values of PLN 3,327,000, out of which PLN 664,000 shall be paid in future periods. These agreements refer to the purchase of licence and implementation of software.

Impairment test of cash generating units with respective goodwill

The goodwill impairment test is carries out at least twice yearly, irrespective of detecting any objective evidence of impairment.
In the Bank, the impairment test is applied to the goodwill created as the result of the in-kind contribution of ING Bank NV. The smallest identifiable income generating centre was determined and goodwill of PLN 285,119,000 gross (PLN 223,343,000 net) was assigned to it. No other additional elements of intangible value of unspecified usage period were identified that could be assigned to the identified income generating centre. The test is performed based on the model that calculates and compares the current value of free funds from the centre to the estimated book value of the centre's funds. The free funds of the centre are defined as net profit decreased by capital needed to maintain the solvency ratio at the required level. To discount the cashflows, discount rate is used that represents the cost of capital calculated by ING Bank.

The recoverable value was determined based on the estimation of the useable value of the assets component taking into account the estimated forecast of expected future cashflow generated during the continued use. The cashflow forecasts are based on rational assumptions that reflect the most accurate appraisal of the management regarding all the conditions that will appear during the remaining lifetime of the assets. The cashflow forecasts are based on Medium Term Plan approved by the Bank and Bank strategy covering the maximum period of the three years. The data regarding subsequent two years are the result of extrapolation. Extrapolation assumes that the cashflow generating centre will maintain the gross profit to risk weighted assets ratio at the level from the last year of the Bank's forecast increasing its profits by previously determined growth rate. Legitimacy of the assumptions made is verified periodically, and the divergence between the cashflows estimated based on the future cashflows and actual cashflows is analysed.

A 3-month WIBOR is assumed for the needs of cashflow discounting.

27. Property, plant and equipment held for sale

	end of year 2007	end of year 2006
a) value at the beginning of period	224	5 889
b) additions (due to)	3 174	2 721
- reclassification from property, plant and equipment	3 139	2 721
- other	35	0
c) disposals (due to)	-3 157	-8 386
- sale and liquidation	-3 157	-8 386
- inne	0	0
d) value at the end of period	241	224
e) evaluation at the fair value at the begining of the period	0	80
- increases	0	406
- reclassification from property, plant and equipment	*0*	*406*
- decreases	0	-486
- reclassification from property, plant and equipment	*0*	*-486*
f) evaluation at the fair value at the end of the period	0	0
g) Net value at the end of year the period	**241**	**224**

As at 31 Dec 2007, the amount of assets available for sale includes vehicles taken over under the recovery process or no longer used. The Group intends to sell them by tender procedure.

28. Deferred tax assets and reserves

Movements in temporary differences during the year

end of year 2007

Deferred tax assets

	Balance as of 31 December 2006	Changes charged to the financial result	Changes charged to equity	Balance as of 31 December 2007
- Interest accrued (expense)	-15 678	-1 442	0	**-17 120**
- Securities available-for-sale	-1 146	0	-38 785	**-39 931**
- Provisions for receivables due to loans	-92 536	31 667	0	**-60 869**
- Other provisions	-6 213	375	0	**-5 838**
- Employee benefits	-11 365	-8 144	0	**-19 509**
- Retirement and holiday benefits	-4 328	716	0	**-3 612**
- Accumulated losses settled	-359	1 206	0	**847**
- Evaluation of own and investment real estate	0	-6 038	0	**-6 038**
- Correction due to effective interest rate	-12 337	0	0	**-12 337**
- Other	-22 277	2 449	0	**-19 828**
	-166 239	**20 789**	**-38 785**	**-184 235**

Deferred tax reserve

	Balance as of 31 December 2006	Changes charged to the financial result	Changes charged to equity	Balance as of 31 December 2007
- Interest accrued (expense)	80 987	9 032	0	**90 019**
- Settlement of the difference between tax and balance sheet depreciation	15 016	-5 052	0	**9 964**
- Settlement of prepayments/accruals due to depreciation/amortisation resulting from the investment relief enjoyed	11 126	-448	0	**10 678**
- Revaluation of tangible assets	9 490	0	-776	**8 714**
- Securities available-for-sale	7 000	0	-2 983	**4 017**
- Evaluation of own and investment real estate	0	0	6 038	**6 038**
- Other	4 488	1 025	0	**5 513**
	128 107	**4 557**	**2 279**	**134 943**
Deferred tax disclosed in the balance sheet	**-38 132**	**25 346**	**-36 506**	**-49 292**

end of year 2006

Deferred tax assets

	Balance as of 31 December 2006	Changes charged to the financial result	Changes charged to equity	Balance as of 31 December 2007
- Interest accrued (expense)	-14 412	-1 266	0	**-15 678**
- Securities available-for-sale	-1 146	0	0	**-1 146**
- Provisions for receivables due to loans	-120 620	28 084	0	**-92 536**
- Other provisions	-5 816	-397	0	**-6 213**
- Employee benefits	-7 559	-3 806	0	**-11 365**
- Retirement and holiday benefits	-3 920	-408	0	**-4 328**
- Accumulated losses settled	-498	139	0	**-359**
- Correction due to effective interest rate	-12 337	0	0	**-12 337**
- Other	-21 409	-868	0	**-22 277**
	-187 717	**21 478**	**0**	**-166 239**

Deferred tax reserve

	Balance as of 31 December 2006	Changes charged to the financial result	Changes charged to equity	Balance as of 31 December 2007
- Interest accrued (income)	48 412	32 575	0	**80 987**
- Settlement of the difference between tax and balance sheet depreciation	15 234	-218	0	**15 016**
- Settlement of prepayments/accruals due to depreciation/amortisation resulting from the investment relief enjoyed	13 641	-2 515	0	**11 126**
- Revaluation of tangible assets	7 441	0	2 049	**9 490**
- Securities available-for-sale	19 519	0	-12 519	**7 000**
- Other	5 345	-857	0	**4 488**
	109 592	**28 985**	**-10 470**	**128 107**
Deferred tax disclosed in the balance sheet	**-78 125**	**50 463**	**-10 470**	**-38 132**

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

Deferred tax assets

	end of year 2007	end of year 2006
- Interest accrued (expense)	-1 442	-1 266
- Provisions for loans	31 667	28 084
- Other provisions	375	-397
- Employee benefits	-8 144	-3 806
- Retirement and holiday benefits	717	-408
- Accumulated losses settled	1 206	139
- Settelment of purchase the enterpise	-6 038	0
- Other	2 449	-868
	20 790	**21 478**

Deferred tax reserve

	end of year 2007	end of year 2006
- Interest accrued (income)	9 032	32 575
- Settlement of the difference between tax and balance sheet	-5 052	-218
- Prepayment/accrual due to depreciation resulting from the investment relief applied	-448	-2 515
- Other	1 025	-857
	4 557	**28 985**
Deferred tax for the reporting period	**25 347**	**50 463**

Unrecognised deferred tax assets

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

	end of year 2007	end of year 2006
- Specific provisions whose recoverability will not be proved	1 232	21 866
- Tax losses	487	2 917
Total	**1 719**	**24 783**

Year of expiration of temporary differences:

	difference amount end of year 2007	difference amount end of year 2006
2007	0	23 923
2008	747	621
2009	662	46
2010	0	193
2011	198	0
2012	112	0
Total	**1 719**	**24 783**

Deferred tax recognised directly in equity

	end of year 2007	end of year 2006
- Measurement of available-for-sale securities	-35 914	5 855
- Measurement of property, plant and equipment	8 715	9 490
- Settelment of purchase the enterprise	6 038	0
Razem	**-21 161**	**15 345**

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 associated 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 8,284,000.

29. Other assets

	end of year 2007	end of year 2006
- Prepayments	**43 936**	**39 974**
- prepaid bank operating expenses	*4 642*	*4 026*
- prepayments due to insurance with NN	*1 535*	*1 530*
- materials and goods in the warehouse	*4 275*	*3 426*
- expenses to be settled	*783*	*31*
- accrued income	*30 586*	*21 655*
- other	*2 115*	*9 306*
- Other assets	**95 313**	**60 536**
- interbank settlements	*3 623*	*1 937*
- interbranch settlements	*2 147*	*305*
- public and legal settlements	*15 868*	*14 930*
- loans from the Company's Social Benefits Fund	*15 961*	*17 845*
- settlements with off-takers	*20 744*	*12 401*
- settlements due to purchase of materials	*17 618*	*0*
- other	*19 352*	*13 118*
Total other assets (gross)	**139 249**	**100 510**
- provision for other assets	-1 917	-3 396
Total other assets (net)	**137 332**	**97 114**

The amount of receivables resulting from the EU Guarantee Fund was presented under "public – private settlements" item. The amount equalled to:
- PLN 9,023,000 as at 31 Dec 2007,
- PLN 12,777,000 as at 31 Dec 2006.

30. Employee benefits

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

Share options have a maturity of 10 years and can be exercised after three years from their issue, provided that the option holder is the Bank's employee (or an employee of another entity from ING Group) or is retired. The option exercise price is the difference between the original price and the option exercise price determined by Euronext Amsterdam on the day of realisation in the so-called open period after the General Meeting of Shareholders of ING Group NV.
Performance shares are assigned on certain conditions. The number of received performance shares depends on results achieved by ING Group at the end of a three-year period. To this end, the so-called Total Shareholder Return (TSR) is calculated for every three-year period and compared with the ratio calculated for a group of financial institutions similar to ING. Depending on the position of ING in the ranking, the number of shares to be received can range from 200% in the case of first to third position and 0% for ranging from 18th to 20th position. The exercise price is set according to the same principles as for share options.

To operate the aforementioned incentive scheme, the Bank incurs costs of financing options and system administration, which amounted to PLN 4.8 million compared with PLN 2.7 million in 2006.
The Bank measures granted share options and performance shares at fair value. The value measured for the period from 1 January 2007 to 31 December 2007 equalled PLN 3.6 million and was charged to the financial result of the Bank (in 2006 measurement result reached PLN 2.9 million).

31. Liabilities due to other banks

	end of year 2007	end of year 2006
- Current accounts	82 357	178 315
- Interbank deposits	1 707 059	951 544
- Transactions with the buy-back commitment	0	105 805
- Other liabilities	9 457	161 446
- Accrued interest	11 322	4 039
Total	**1 810 195**	**1 401 149**

Repurchase transactions are shown under the item "Transactions with the buy-back commitment". The Group acquires funds by selling financial instruments with the future buy-back commitment at the same price, increased with the interest determined upfront.
Repurchase transactions are generally considered as a tool of short-term funding of interest assets, depending on the interest rates.

Liabilities due to other banks by maturity

	end of year 2007	end of year 2006
- Maturing:	1 798 873	1 397 110
- up to 1 month	1 630 823	1 046 122
- over 1 month and up to 3 months	123 050	74 836
- over 3 months and up to 1 year	45 000	129 395
- over 1 year and up to 5 years	0	146 757
- Accrued interest	11 322	4 039
Total	**1 810 195**	**1 401 149**

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

end of 2006

	Repurchase date	Nominal value	Carrying amount	interest
Assets from available-for sale portfolio	2007-12-10	66 000	65 337	3 173
Assets from available-for sale portfolio	2007-02-06	20 680	20 462	7
Assets from available-for sale portfolio	2007-02-02	20 220	20 006	6
		106 900	**105 805**	**3 186**

32. Financial liabilities at fair value

	end of year 2007	end of year 2006
- Financial liabilities held for trading	1 057 294	828 922
Derivative financial instruments	*1 057 294*	*828 922*
- Financial liabilities designated as at fair value upon initial recognition	102 716	2 282 291
Sell-buy-back transactions	*102 716*	*2 282 291*
- Book short position in trading securities	54 971	9 307
Total financial liabilities at fair value	**1 214 981**	**3 120 520**

The Group designated the following components of financial assets and liabilities for fair value measurement based on the profit and loss statement: debt securities in the form of bonds issued by one of non-financial entity and all buy-sell-back and sell-buy-back transactions.
The Group of sell-buy-back and buy-sell-back transactions was designated for fair value measurement on the basis of the profit and loss statement due to their classification to the portfolio managed by Financial Markets. According to the principles of risk management and the investment strategy in force at the Bank, the items of financial assets and liabilities as part of this portfolio are measured and managed on the basis of fair value.

33. Liabilities due to customers

	end of year 2007	end of year 2006
Liabilities due to entities from the financial sector other than banks		
- Deposits	2 226 226	2 881 573
- current accounts	1 229 825	2 265 816
- term deposit	996 401	615 757
- Transactions with the buy-back commitment	725 974	1 429 242
- Other liabilities	115 359	45 344
- Accrued interest	1 650	1 688
Total	**3 069 209**	**4 357 847**
Liabilities due to entities from the non-financial sector		
- Business entities' deposits	12 746 659	10 375 275
- current accounts	7 970 381	5 885 516
- term deposit	4 776 278	4 489 759
- Households' deposits	25 356 471	21 472 352
- current accounts	2 603 797	3 095 615
- savings accounts	19 069 974	15 421 774
- term deposit	3 682 700	2 954 963
- Transactions with the buy-back commitment	128 000	371 824
- Other liabilities	571 867	407 010
- Accrued interest	50 559	46 306
Total	**38 853 556**	**32 672 767**
Liabilities due to entities from the government and self-government institutions' sector		
- Deposits	2 571 234	1 528 107
- current accounts	2 028 882	1 190 267
- term deposit	542 352	337 840
- Other liabilities	6 683	714
- Accrued interest	1 155	1 988
Total	**2 579 072**	**1 530 809**
Liabilities due to customers – total		
- Deposits	42 900 590	36 257 307
- Transactions with the buy-back commitment	853 974	1 801 066
- Other liabilities	693 909	453 068
- Accrued interest	53 364	49 982
Liabilities due to customers – total	**44 501 837**	**38 561 423**

Repurchase transactions are shown under the item "Transactions with the buy-back commitment". The Group acquires funds by selling financial instruments with the future buy-back commitment at the same price, increased with the interest determined upfront.
Repurchase transactions are generally considered as a tool of short-term funding of interest assets, depending on the interest rates.

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

end of year 2007

	Repurchase date	Nominal value	Carrying amount	interest
Assets from available-for sale portfolio	2008-01-02	474 668	461 618	270
Assets from available-for sale portfolio	2008-01-03	21 000	20 248	24
Assets from available-for sale portfolio	2008-01-04	16 000	15 418	14
Assets from available-for sale portfolio	2008-01-07	7 000	6 740	11
Assets from available-for sale portfolio	2008-01-08	267 827	273 999	810
Assets from available-for sale portfolio	2008-03-05	37 568	36 165	134
Assets from available-for sale portfolio	2008-03-19	41 294	39 786	119
		865 357	**853 974**	**1 382**

end of year 2006

	Repurchase date	Nominal value	Carrying amount	interest
Assets from available-for sale portfolio	2007-01-02	190 260	186 704	96
Assets from available-for sale portfolio	2007-01-05	238 821	232 749	83
Assets from available-for sale portfolio	2007-01-08	50 000	49 413	21
Assets from available-for sale portfolio	2007-01-10	35 392	33 000	11
Assets from available-for sale portfolio	2007-01-11	40 781	38 085	18
Assets from available-for sale portfolio	2007-01-12	1 064 243	1 002 994	326
Assets from available-for sale portfolio	2007-01-15	9 870	9 750	18
Assets from available-for sale portfolio	2007-01-18	6 724	6 251	10
Assets from available-for sale portfolio	2007-01-22	95 550	90 277	109
Assets from available-for sale portfolio	2007-01-24	37 297	34 678	46
Assets from available-for sale portfolio	2007-01-29	7 167	6 679	2
Assets from available-for sale portfolio	2007-02-09	61 234	57 499	313
Assets from available-for sale portfolio	2007-02-26	53 830	52 987	223
		1 891 169	**1 801 066**	**1 276**

Liabilities due to customers by maturity

	end of year 2007	end of year 2006
- Maturing:	44 448 473	38 511 441
- up to 1 month	40 308 079	34 389 022
- over 1 month and up to 3 months	1 699 354	1 521 061
- over 3 months and up to 1 year	1 594 030	1 945 281
- over 1 year and up to 5 years	789 143	584 159
- over 5 years	57 867	71 918
- Accrued interest	53 364	49 982
Total	**44 501 837**	**38 561 423**

Average effective interest rate for deposits in %

	end of year 2007	end of year 2006
- Average effective interest rate for deposits in PLN	2,92%	2,76%
- Average effective interest rate for deposits in foreign currencies	2,00%	1,58%

34. Provisions

	end of year 2007	end of year 2006
- provision for disputes	29 294	42 262
- provision for off-balance sheet liabilities	23 933	25 015
- provision for retirement benefits	11 839	10 899
- provision for unused holidays	7 441	12 148
- provision for employment restructuring	0	0
Total	**72 507**	**90 324**

end of year 2007

	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	**42 262**	**25 015**	**10 899**	**12 148**	**0**	**90 324**
Provisions recognised	3 493	-	940	310	-	**4 743**
Provisions applied	-2 148	-1 082	-	-	-	**-3 230**
Provisions reversed	-14 313	-	-	-5 017	-	**-19 330**
Closing balance	**29 294**	**23 933**	**11 839**	**7 441**	**0**	**72 507**
expected provision settlement period						
- up to 1 year	*5 551*	*-*	*-*	*7 441*	*-*	***12 992***
- more than 1 year	*23 743*	*23 933*	*11 839*	*-*	*-*	***59 515***

end of year 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**	**29 638**	**11 063**	**9 824**	**10 654**	**80 519**
Provisions recognised	32 084	-	354	2 370	592	**35 400**
Provisions applied	-4 962	-	-	-30	-10 074	**-15 066**
Provisions reversed	-4 200	-4 623	-518	-16	-1 172	**-10 529**
Closing balance	**42 262**	**25 015**	**10 899**	**12 148**	**0**	**90 324**
expected provision settlement period						
- up to 1 year	*42 262*	*-*	*-*	*12 148*	*-*	***54 410***
- more than 1 year	*-*	*25 015*	*10 899*	*-*	*-*	***35 914***

Provision for issues in dispute

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

The recognised amount of provisions comprises:

1) disputable cases connected with negligent performance of agreements: PLN 27,340,000,
2) crime cases: PLN 1,916,000,
3) cases relating to claims filed by former employees: PLN 38,000.

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

Provision for retirement benefits

The Group recognises provisions for retirement benefits in accordance with IAS 19. Provisions for retirement benefits granted as a part of benefits required by the Labour Code are estimated based on actuarial valuation. The provision resulting from actuarial valuation is recognised and remeasured on an annual basis. Additionally, the provision is adjusted on a quarterly basis based on estimations performed. As of 31 Dec 2007, the value of future liabilities due to retirement benefits equalled PLN 11,839,000 (PLN 10,899,000 as of 31 Dec 2006).

Starting 2007, the Group changed the accounting methodology as to the recognition of provisions for retirement allowance by adopting the corridor approach for recognising a specific part of the cumulated net actuarial gains and losses. Under this method, when determining an obligation due to certain benefits, the Group recognises some actuarial gains and losses as revenue or costs, when the net value of accumulated unrecognised actuarial gains and losses as at the end of the previous reporting period exceeds the higher of the following two values:

a) 10% of the current value of the obligation due to certain benefits as at that day (before deduction of the plan's assets)
b) 10% of the fair value of the plan's assets as at that day.

A portion of the actuarial gains and losses above the said limit is recognised in the profit and loss account as the quotient of the above named excess and the average expected remaining working life of the Group employees. Following that change, the Group presents in the balance sheet the net value of the liability comprising the current value of the liability and unrecognised actuarial gains/ losses.

Provision for retirement allowances – a revision of the balance-sheet liability

		end of year 2007
	Opening balance	**10 899**
-	Costs included in the profit and loss account, out of which:	1 516
	- regular employment costs	*962*
	- costs of interest	*554*
-	Paid benefits	-576
	Closing balance, including:	**11 839**
	- current value of the liability	11 187
	- not included actuarial gains/ losses	652

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 the Bank to reduce employment by 354 persons.

35. Other liabilities

	end of year 2007	end of year 2006
- to employees	**25 486**	**20 457**
- due to leases	**3 291**	**11 161**
- accruals	**172 366**	**137 880**
- due to operating expenses	*1 497*	*5 796*
- due to employee benefits	*111 572*	*62 872*
- due to loans granted	*1 019*	*3 971*
- due to commission	*50 748*	*52 779*
- due to distribution of deposit-related funds	*1 061*	*5 582*
- other	*6 469*	*6 880*
- other liabilities	**369 569**	**591 173**
- interbank settlements	*212 533*	*441 194*
- interbranch settlements	*0*	*14 727*
- public and legal settlements	*36 334*	*30 583*
- settlment due to trading in securities	*1 701*	*0*
- settlements with suppliers	*63 663*	*51 342*
- other	*55 338*	*53 327*
Total	**570 712**	**760 671**

Gross liabilities due to financial leases by maturity

	end of year 2007	end of year 2006
- up to 1 year	3 241	7 672
- over 1 year and up to 5 years	59	3 530
Total	**3 300**	**11 202**

Present value of lease instalments due by maturity

	end of year 2007	end of year 2006
- up to 1 year	3 319	8 087
- over 1 year and up to 5 years	72	3 617
Total	**3 391**	**11 704**

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

	end of year 2007	end of year 2006
- Gross liabilities due to financial leases	3 300	11 202
- Unrealised financial expenses	91	502
- Present value of minimum lease instalments	**3 391**	**11 704**

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

36. Share capital

The share capital includes 130,100,000 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.

Each 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 of 2007 and 2006.

37. Revaluation reserve

	end of year 2007	end of year 2006
- Revaluation reserve from measurement of available-for-sale financial assets	-149 591	42 830
- including deferred tax	*35 914*	*-5 855*
- Revaluation reserve from measurement of property, plant and equipment	57 998	52 263
- including deferred tax	*-13 604*	*-9 490*
Total	**-91 593**	**95 093**

end of year 2007

	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	**42 830**	***-5 855***	**52 263**	***-9 490***	**95 093**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-174 090	*37 469*	-	-	**-174 090**
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-18 331	*4 300*	-	-	**-18 331**
- disposal of property, plant and equipment	-	-	-257	*62*	**-257**
- remeasurement of property, plant and equipment	-	-	-2 979	*-3 084*	**-2 979**
- purchase of shares in subsidiary entity from the minority shareholders	-	-	8 971	*-1 092*	**8 971**
Closing balance of revaluation reserve	**-149 591**	***35 914***	**57 998**	***-13 604***	**-91 593**

end of year 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	**85 797**	***-18 374***	**38 055**	***-7 442***	**123 852**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-28 755	*9 819*	-	-	**-28 755**
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-14 212	*2 700*	-	-	**-14 212**
- disposal of property, plant and equipment	-	-	-2 132	*169*	**-2 132**
- remeasurement of property, plant and equipment	-	-	16 340	*-2 217*	**16 340**
Closing balance of revaluation reserve	**42 830**	***-5 855***	**52 263**	***-9 490***	**95 093**

38. Retained earnings

	end of year 2007	end of year 2006
- Other supplementary capital	36 325	35 468
- Reserve capital	1 505 970	1 378 377
- General risk fund	530 179	480 179
- Retained earnings	103 328	51 372
- Result for the current year	630 724	591 355
Total	**2 806 526**	**2 536 751**

end of year 2007

	other supplementary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Opening balance of retained earnings	**35 468**	**1 378 377**	**480 179**	**642 727**	**0**	**2 536 751**
- disposal of property, plant and equipment	713	-	-	1 317	-	**2 030**
- profit allocation, including:	144	127 593	50 000	-540 716	-	**-362 979**
- profit written off to supplementary capital	*144*	-	-	*-144*	-	***0***
- profit written off to reserve capital	-	*127 593*	-	*-127 593*	-	***0***
- profit written off to general risk fund	-	-	*50 000*	*-50 000*	-	***0***
- dividends paid	-	-	-	*-362 979*	-	***-362 979***
- net result for the current period	-	-	-	-	636 822	**636 822**
- share of minority shareholders in the net financial result	-	-	-	-	-6 098	**-6 098**
Closing balance of retained earnings at the end of the current period	**36 325**	**1 505 970**	**530 179**	**103 328**	**630 724**	**2 806 526**

end of year 2006

	other supplementary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Opening balance of retained earnings	**31 396**	**1 231 839**	**430 179**	**607 523**	**0**	**2 300 937**
- disposal of property, plant and equipment	-	-	-	2 234	-	**2 234**
- remeasurement of property, plant and equipment	1 411	-	-	-1 411	-	**0**
- profit allocation, including:	2 661	146 538	50 000	-556 974	-	**-357 775**
- profit written off to supplementary capital	*2 661*	-	-	*-2 661*	-	***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	-	-	-	-	597 951	**597 951**
- share of minority shareholders in the net financial result	-	-	-	-	-6 596	**-6 596**
Closing balance of retained earnings at the end of the current period	**35 468**	**1 378 377**	**480 179**	**51 372**	**591 355**	**2 536 751**

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.

39. Hyperinflation

In accordance with the requirements of IFRS 1 (First-time Adoption of International Financial Reporting Standards), the Capital Group must retrospectively apply IAS 29 (Financial Reporting in Hyperinflation Economies) at the preparation of financial statements.
Pursuant to paragraph 24 of IAS 29 "Financial Reporting in Hyperinflation Economies", the shareholders' equity items (except for retained earnings and all asset revaluation gains) should be restated with the use of the general price index, starting from the date on which the given entity operates was a hyperinflationary economy within the meaning of IAS 29.
The effect of recalculation of the respective shareholders equity items with the use of the inflation ratios should be disclosed on the other side in the retained earnings from the previous years. Application of the provisions of paragraph 24 of IAS 29 would result in an increase in the issued capital and supplementary capital - a surplus of the issue price of the shares over their par value by PLN 460,500 thousand and at the same time would charge to the same amount the retained earnings from the previous years.
Full implementation of IAS 29 requirements would result in legal effects related to the necessity to change the share capital on the basis of the Code of Companies and the Banking Law. At the same time, due to the fact that the effects of overestimation discussed above do not have any effect on the change in the value of the net assets of the Capital Group, the Bank Management Board believes 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.

40. Balance sheet currency structure

end of 2007

CONSOLIDATED BALANCE SHEET (PLN'000)	PLN	EUR after translation into PLN	EUR in currency	USD after translation into PLN	USD in currency	CHF after translation into PLN	CHF in currency	other currencies (after translation into PLN)	TOTAL
ASSETS									
- Cash in hand and balances with the Central Bank	1 719 097	94 542	*26 394*	18 412	*7 561*	154	*71*	9 520	**1 841 725**
- Deposit accounts in other banks as well as loans and advances to other banks	5 021 231	4 862 469	*1 357 473*	5 090 746	*2 090 655*	19 199	*8 883*	190 020	**15 183 665**
- Financial assets at fair value	6 278 968	1 483 043	*414 027*	134 972	*55 430*	83	*38*	10 498	**7 907 564**
- Investments	9 366 941	258	*72*	21 074	*8 655*	0	*0*	0	**9 388 273**
- Derivative hedge instruments	4 572	0	*0*	0	*0*	0	*0*	0	**4 572**
- Loans and advances to customers	14 559 637	1 565 152	*436 949*	169 233	*69 500*	65 723	*30 408*	19 393	**16 379 138**
- Investments in controlled entities	97 326	0	*0*	0	*0*	0	*0*	0	**97 326**
- Investment real estates	144 713	0	*0*	0	*0*	0	*0*	0	**144 713**
- Property, plant and equipment	532 938	0	*0*	0	*0*	0	*0*	0	**532 938**
- Intangible assets	318 825	0	*0*	0	*0*	0	*0*	0	**318 825**
- Property, plant and equipment held for sale	241	0	*0*	0	*0*	0	*0*	0	**241**
- Current tax asset	25 256	0	*0*	0	*0*	0	*0*	0	**25 256**
- Deferred tax asset	49 292	0	*0*	0	*0*	0	*0*	0	**49 292**
- Other assets	136 970	296	*83*	41	*17*	1	*0*	24	**137 332**
Total assets	**38 256 007**	**8 005 760**	***2 234 998***	**5 434 478**	***2 231 818***	**85 160**	***39 400***	**229 455**	**52 010 860**
EQUITY AND LIABILITIES									
LIABILITIES									
- Liabilities due to other banks	998 330	214 427	*59 862*	376 838	*154 759*	113 397	*52 465*	107 203	**1 810 195**
- Financial liabilities at fair value	577 818	352 293	*98 351*	265 860	*109 183*	319	*148*	18 691	**1 214 981**
- Liabilities due to customers	38 945 763	3 897 724	*1 088 142*	1 534 834	*630 322*	1 311	*607*	122 205	**44 501 837**
- Provisions	68 730	3 278	*915*	491	*202*	7	*3*	1	**72 507**
- Current income tax liabilities	126	0	*0*	0	*0*	0	*0*	0	**126**
- Other liabilities	555 891	14 134	*3 946*	609	*250*	0	*0*	78	**570 712**
Total liabilities	**41 146 658**	**4 481 856**	***1 251 216***	**2 178 632**	***894 716***	**115 034**	***53 223***	**248 178**	**48 170 358**
EQUITY									
- Share capital	130 100	0	*0*	0	*0*	0	*0*	0	**130 100**
- Supplementary capital - issuance of shares over nominal value	993 750	0	*0*	0	*0*	0	*0*	0	**993 750**
- Revaluation reserve from measurement of available-for-sale financial assets	-170 664	0	*0*	21 073	*8 654*	0	*0*	0	**-149 591**
- Revaluation reserve from measurement of property, plant and equipment	57 998	0	*0*	0	*0*	0	*0*	0	**57 998**
- Retained earnings	2 806 526	0	*0*	0	*0*	0	*0*	0	**2 806 526**
Equity assigned to shareholders of the holding company	**3 817 710**	**0**	***0***	**21 073**	***8 654***	**0**	***0***	**0**	**3 838 783**
- Minority equity	1 719	0	*0*	0	*0*	0	*0*	0	**1 719**
Total equity	**3 819 429**	**0**	***0***	**21 073**	***8 654***	**0**	***0***	**0**	**3 840 502**
Total equity and liabilities	**44 966 087**	**4 481 856**	***1 251 216***	**2 199 705**	***903 370***	**115 034**	***53 223***	**248 178**	**52 010 860**

end of 2006

CONSOLIDATED BALANCE SHEET (PLN'000)	PLN	EUR		USD		CHF		other currencies (after translation into PLN)	TOTAL
		after translation into PLN	*in currency*	after translation into PLN	*in currency*	after translation into PLN	*in currency*		
ASSETS									
- Cash in hand and balances with the Central Bank	1 025 567	103 993	*27 144*	16 077	*5 524*	169	*71*	2 094	**1 147 900**
- Deposit accounts in other banks as well as loans and advances to other banks	2 434 761	1 986 393	*518 478*	9 016 203	*3 097 819*	26 358	*11 055*	50 183	**13 513 898**
- Financial assets at fair value	6 970 592	38 398	*10 022*	58 079	*19 955*	225	*94*	128	**7 067 422**
- Investments	12 602 770	276	*72*	11 868	*4 078*	0	*0*	0	**12 614 914**
- Derivative hedge instruments	3 329	0	*0*	0	*0*	0	*0*	0	**3 329**
- Loans and advances to customers	11 140 757	1 476 828	*385 474*	154 212	*52 985*	71 831	*30 128*	24 446	**12 868 074**
- Investments in controlled entities	90 309	0	*0*	0	*0*	0	*0*	0	**90 309**
- Investment real estates	145 970	0	*0*	0	*0*	0	*0*	0	**145 970**
- Property, plant and equipment	571 065	0	*0*	0	*0*	0	*0*	0	**571 065**
- Intangible assets	317 661	0	*0*	0	*0*	0	*0*	0	**317 661**
- Property, plant and equipment held for sale	224	0	*0*	0	*0*	0	*0*	0	**224**
- Deferred tax asset	38 132	0	*0*	0	*0*	0	*0*	0	**38 132**
- Other assets	90 900	5 904	*1 541*	225	*77*	3	*1*	82	**97 114**
Total assets	**35 432 037**	**3 611 792**	***942 731***	**9 256 664**	***3 180 438***	**98 586**	***41 349***	**76 933**	**48 476 012**
EQUITY AND LIABILITIES									
LIABILITIES									
- Liabilities due to the Central Bank	696 000	0	*0*	0	*0*	0	*0*	0	**696 000**
- Liabilities due to other banks	1 066 839	27 488	*7 175*	295 075	*101 383*	1 884	*790*	9 863	**1 401 149**
- Financial liabilities at fair value	3 035 966	19 332	*5 046*	63 813	*21 925*	192	*81*	1 217	**3 120 520**
- Liabilities due to customers	38 252 565	137 154	*35 799*	151 351	*52 002*	726	*305*	19 627	**38 561 423**
- Provisions	90 324	0	*0*	0	*0*	0	*0*	0	**90 324**
- Current income tax liabilities	67 532	0	*0*	0	*0*	0	*0*	0	**67 532**
- Other liabilities	751 766	8 373	*2 185*	527	*181*	5	*2*	0	**760 671**
Total liabilities	**43 960 992**	**192 347**	***50 205***	**510 766**	***175 491***	**2 807**	***1 178***	**30 707**	**44 697 619**
EQUITY									
- Share capital	130 100	0	*0*	0	*0*	0	*0*	0	**130 100**
- Supplementary capital - issuance of shares over nominal value	993 750	0	*0*	0	*0*	0	*0*	0	**993 750**
- Revaluation reserve from measurement of available-for-sale financial assets	42 830	0	*0*	0	*0*	0	*0*	0	**42 830**
- Revaluation reserve from measurement of property, plant and equipment	52 263	0	*0*	0	*0*	0	*0*	0	**52 263**
- Retained earnings	2 536 751	0	*0*	0	*0*	0	*0*	0	**2 536 751**
Equity assigned to shareholders of the holding company	**3 755 694**	**0**	***0***	**0**	***0***	**0**	***0***	**0**	**3 755 694**
- Minority equity	22 699	0	*0*	0	*0*	0	*0*	0	**22 699**
Total equity	**3 778 393**	**0**	***0***	**0**	***0***	**0**	***0***	**0**	**3 778 393**
Total equity and liabilities	**47 739 385**	**192 347**	***50 205***	**510 766**	***175 491***	**2 807**	***1 178***	**30 707**	**48 476 012**

41. *Consolidated off-balance sheet items*

	end of year 2007	end of year 2006
- Contingent liabilities granted	12 833 876	13 817 539
- Contingent liabilities received	10 686 817	10 530 245
- Off-balance sheet financial instruments	207 320 201	157 144 424
Total	**230 840 894**	**181 492 208**

42. Contingent liabilities

Liabilities granted

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

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

	end of year 2007	end of year 2006
- Credit card limits	590 568	660 563
- Undrawn credit facilities	6 615 924	6 217 846
- Undrawn overdrafts in current account	2 334 841	1 790 166
- Guarantees and letters of credit	2 079 315	1 442 839
- Deposits to be issued	1 213 228	3 706 125
Total	**12 833 876**	**13 817 539**

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. 34.

Liabilities received

	end of year 2007	end of year 2006
Guarantee conditioned liabilities	9 446 144	10 418 776
Financing liabilities	1 240 673	111 469
Total	**10 686 817**	**10 530 245**

Information on issue guarantees granted to other issuers

In 2007, the Group acted as a guarantor for the issue of commercial securities by two budgetary entities, one entity from the fuel sector as well as one from the power generation sector. The guarantee totalled PLN 228.7 million out of which PLN 228.2 million was drawn.
In 2006, the Group was the guarantor for the issue of commercial papers of two budget entities and one entity from the fuel sector. The total guarantee amount is PLN 58.5 million, PLN 6 million of which were used.

43. Off-balance sheet financial instruments

end of year 2007

	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)	8 250 000	43 336 550	500 000	52 086 550	29 335	26 411
Interest rate swaps (IRS)	24 036 359	36 724 226	20 540 206	81 300 791	446 405	318 229
CAP options	0	0	542 219	542 219	1 964	1 964
Total	**32 286 359**	**80 060 776**	**21 582 425**	**133 929 560**	**477 704**	**346 604**
FX derivatives						
FX contracts (swap, forward)	39 954 013	15 174 652	1 293 146	56 421 811	938 541	542 023
CIRS	0	0	0	0	91 843	11 163
Currency options (purchased)	1 412 204	1 569 845	133 870	3 115 919	73 968	0
Currency options (sold)	1 673 213	1 822 910	68 684	3 564 807	0	85 199
Total	**43 039 430**	**18 567 407**	**1 495 700**	**63 102 537**	**1 104 352**	**638 385**
Current off-balance sheet transactions						
FX operations	8 081 443	0	0	8 081 443	5 808	3 944
Securities operations	1 158 065	0	0	1 158 065	-166	474
Total	**9 239 508**	**0**	**0**	**9 239 508**	**5 642**	**4 418**
Stock market derivatives						
Options for stock market (buy)	0	57 629	466 684	524 313	67 900	0
Options for stock market (sold)	0	57 629	466 654	524 283	0	67 887
Total	**0**	**115 258**	**933 338**	**1 048 596**	**67 900**	**67 887**
Total	**84 565 297**	**98 743 441**	**24 011 463**	**207 320 201**	**1 655 598**	**1 057 294**

end of year 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	9 881	0
Currency options (sold)	315 268	940 759	1 118	1 257 145	0	15 501
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**

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.

	end of year 2007	end of year 2006
PLN		
Up to 3 months	15 768 441	17 491 056
From 3 months to 1 year	7 314 538	8 787 456
Over 1 year	708 971	1 117 934
EUR		
Up to 3 months	13 713 816	3 089 703
From 3 months to 1 year	5 281 947	3 336 287
Over 1 year	559 217	704 936
USD		
Up to 3 months	12 292 308	5 621 511
From 3 months to 1 year	5 883 226	1 940 650
Over 1 year	200 375	230 030
GBP		
Up to 3 months	556 491	61 176
From 3 months to 1 year	55 504	3 211
Over 1 year	0	0
other currencies		
Up to 3 months	708 373	225 599
From 3 months to 1 year	32 193	2 609
Over 1 year	27 137	0
Total	**63 102 537**	**42 612 158**

Embedded derivatives

The Group has deposits in PLN and USD, in which derivative instruments are embedded. These are FX options and stock exchange indices, commodity indices and trust units in investment funds. As at 31 Dec 2007, the embedded instruments were valued at PLN 48,486,000 (as of 31 Dec 2006: PLN 32,900,000).

44. Hedge accounting

Fair value hedge accounting

In the financial statements as of 31 December 2007, the Group uses fair value hedge accounting for securities and properties.

Fair value hedge for securities

The risk which is hedged is a change in the fair value of the financial asset following a shift in the interest rates. The hedged item is the fair value of a fixed-interest bearing PLN debt paper; i.e. the position (a part of the position) on a given security from the portfolio of the assets available for sale (AFS), which at the inception time of a hedging relation defines the fair value carried through the valuation allowance. The fair value of that financial asset is hedged against a change in interest rates.

The PLN Interest Rate Swap is the hedging instrument whereby the fixed interest rate is converted into the variable one. In consequence, the fair value of the hedging instrument shows a reverse trend to the fair value of the hedged position. Therefore, by establishing a hedge relationship, in the income statement we see the netting effect of changes to the fair value of the hedging instrument and the hedged position due to the risk hedged. Since, only one type of risk (interest rate risk) is hedged, changes to the fair value of the position hedged which follow other unhedged risks are carried through the valuation allowance.

The hedging and hedged transactions is shown in the income statement under the note: "Result on financial instruments carried through profit and loss and revaluation".

The hedged transaction is shown in the balance sheet under the item "Investment financial assets".

Fair value of instruments under the fair value hedge accounting for securities

end of year 2007

	Carrying amount	Fair value
Hedged items		
- Debt securities available-for-sale	437 000	435 531
- Treasury bonds	*437 000*	*435 531*
Hedging instruments		
- Interest Rate Swap	437 000	4 572

For the hedging instrument the fair value was given as the balance valuation.

Hedging the real estate fair value

In the financial statements drawn as per 31 Dec 2006, the Group applied the accounting of hedging the real estate fair value. The hedged risk was a change of the real estate fair value (the subsidiary's building - Centrum Banku Śląskiego Sp. z o.o. accommodating the Head Office of ING Bank Śląski w Katowicach) due to a change of the EUR/PLN spot exchange rate, while FX forward was a hedging instrument. The face value of the hedging transaction was updated appropriately to the current value of the building as indicated by an independent appraiser.
As per 31 Dec 2006, the loss on evaluation of the hedged item of PLN 8,214,000 minus the deferred income tax of PLN 1,561,000 decreased the Group's financial result.
As per 31 Dec 2006, the hedging transaction was evaluated positively as PLN 7,813,000.

The hedging and hedged transaction is shown in the income statement under the item "Other operating income and expenses".
The hedged transaction is presented in the item "Property, plant and equipment" in the balance-sheet.

Cash flow hedge accounting

In the financial statements as of 31 December 2007, the Group did not use cash flow hedge accounting.

45. Fair values

Fair values of financial assets and liabilities

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in a direct transaction, other than forced sale or liquidation, which is best reflected by the market price, if available.

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

end of year 2007

	Carrying amount	Fair value
Assets		
- Cash in hand and balances with the Central Bank	1 841 725	1 841 725
- Loans and receivables to other banks	15 183 665	15 183 665
- Financial assets at fair value through profit or loss	7 907 564	7 907 564
- Investment	9 388 273	9 388 273
- Derivative hedge instruments	4 572	4 572
- Loans and advances to customers	16 379 138	16 407 744
- Investments in controlled entities	97 326	97 326
Liabilities		
- Liabilities due to other banks	1 810 195	1 810 195
- Financial liabilities at fair value through profit or loss	1 214 981	1 214 981
- Liabilities due to customers	44 501 837	44 497 087

end of year 2006

	Carrying amount	Fair value
Assets		
- Cash in hand and balances with the Central Bank	1 147 900	1 147 900
- Loans and receivables to other banks	13 513 898	13 513 898
- Financial assets at fair value through profit or loss	7 067 422	7 067 422
- Investment	12 614 914	12 614 914
- Derivative hedge instruments	3 329	3 329
- Loans and advances to customers	12 868 074	12 956 099
- Investments in controlled entities	90 309	90 309
Liabilities		
- Liabilities due to the Central Bank	696 000	696 000
- Liabilities due to other banks	1 401 149	1 401 149
- Financial liabilities at fair value through profit or loss	3 120 520	3 120 520
- Liabilities due to customers	38 561 423	38 553 466

Fair value determination

The Bank discloses the data on the fair value of loans and deposits recognised respectively in the groups of financial assets and financial liabilities carried at amortised cost considering the effective interest rate.

In calculations, the yield curve is used; it takes account of the transfer prices calculated based on:

- PLN: up to 1Y – as the average of BID quotations (WIBID and brokers' BID listings) collected at 9.00, 11.00, 12.30 and 14.00; above 1Y – the average of OFFER quotations for IRS contracts converted into the effective rate,
- USD and CHF: up to 1Y on the basis of adequate LIBOR quotations, from 1Y on – on the basis of OFFER quotations for IRS contracts converted into the effective rate,
- EUR: up to 1Y - on the basis of adequate EURIBOR quotations, from 1Y on – on the basis of OFFER quotations for IRS contracts converted into the effective rate.

Credit loss estimations reflect the loan loss provisioning model in place at the Bank. In certain aspects, the model adopted by the Bank is based on the assumptions not confirmed by the prices of verifiable current market transactions referring to the same instrument – the model takes account of neither prepayments nor restructuring-based changes.

Deposits at other banks and loans and cash loans granted to other banks

The fair value of loans and cash loans granted to other banks is their balance-sheet value.

Loans and cash loans granted to clients

The credit portfolio is divided into sub-portfolios according to the registration system, the type of product, the client's segment and the currency. In case of loans without any repayment schedules and loans from the impaired group, it is assumed that for those loans the fair value equals the book value thereof. In case of those sub-portfolios the discounting factor is used for each cashflow. The result is the fair value as the sum of the net present value of cashflows of a single loan.

The sum of the fair value of individual loans represents the fair value of the portfolio of reviewed loans.

For loans the discounting factor is assumed as a sum of:

- the market rate based on the yield curve as of the balance sheet date, and
- the average margin based on the portfolio of loans granted in the last semi-annual period.

For that purpose the following assumptions are adopted:

- use of the loans granted in the last year-half for calculation,
- division into the abovementioned product groups,
- the spot at the yield curve on the basis of which the relevant market rate is set is reflected by the revaluation date for each loan.

Investment in controlled entities
In the case of financila assets being investments in controlled entities, equity method was applied for their measurement.

Liabilities towards other banks
The fair value of deposits at other banks is their balance-sheet value.

Liabilities towards clients
The deposit portfolio is divided according to the type of product, the client's segment and the currency. For deposits paid on demand, it is assumed that for those the fair value equals their book value.
Another phase involves the calculation of future cashflows as the sum of principal and interest cashflows. After that, by applying the discounting factor for each cashflow one receives the fair value of individual deposits. The sum of fair values of individual deposits represents the fair value of the portfolio of deposits reviewed.
For deposits the discounting factor represents the sum of:
- the market rate based on the yield curve as at the balance sheet date, and
- the average margin based on the portfolio of deposits accepted in two last months.
For that purpose the following assumptions are adopted:
- use of the deposits accepted in the last two months for calculation,
- division into the abovementioned product groups,
- the spot at the yield curve on the basis of which the relevant market rate is set is reflected by the revaluation date for each deposit.

46. Custody activities

On 31 Dec 2007 ING Bank Śląski S.A. maintained 3,196 securities accounts for its customers. At the end of 2007 ING Bank Śląski S.A. was a deposit bank for 60 investment funds and 1 employee fund.
The Bank was also selected to exercise this function for 39 newly-established investment funds/sub-funds which did not start their operations at the end of 2007. From 1 January 2007 to 31 Dec 2007, the Bank co-operated with 22 Polish brokerage houses.

47. Operating leases

Group as a lessee

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

Lease payments by maturity are disclosed in the table below:

	end of year 2007	**end of year 2006**
up to 1 year	92 452	69 052
over 1 year and up to 5 years	201 759	79 744
over 5 years – annual payment amount	20 580	10 845

Group as a lessor

The Group obtains an income from renting investment real estate. Those agreements are treated as operating lease agreements. Those agreements do not provide for any contingent fees to be paid by the lessee; any limitations do not arise from the provisions of the lease agreements. In some cases the agreements provide for the possibility of prolonging the agreement or changing the price; however they do not provide for the possibility of purchase.

Lease payments by maturity are disclosed in the table below:

	end of year 2007	end of year 2006
up to 1 year	12 130	18 449
over 1 year and up to 5 years	26 888	77 180
over 5 years – annual payment amount	1 438	21 376

Lease payments include only the rent for the building of the Head Office of ING Bank Śląski S.A.. They do not include any payments due to the rent of parking spaces, additional rent for investment outlays, or fees for services and electric energy.

48. 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 year 2007	end of year 2006
- Cash in hand and balances with the Central Bank (presented in note 14)	678 072	508 254
- Accounts with other banks (presented in note 14)	1 163 653	639 646
- Current accounts with other banks (presented in note 15)	335 563	267 842
- O/N deposits with other banks (presented in note 15)	2 605 320	6 747 474
Total	**4 782 608**	**8 163 216**

49. 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.

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

end of year 2007

	changes		differences, of which:	1)	2)	3)	4)	5)	6)
	in balance sheet	in cash flow							
- Change in loans and other receivables to other banks	-1 669 767	-5 813 960	-4 144 193	*-69 760*	*-4 074 433*				
- Change in financial assets at fair value through profit or loss	-840 142	-877 983	-37 841	*-37 841*					
- Change in available-for-sale financial assets	4 067 417	3 976 334	-91 083	*101 338*		*-192 421*			
- Change in held-to-maturity financial assets	-840 776	-850 837	-10 061	*-10 061*					
- Change in loans and other receivables to customers	-3 511 064	-3 495 251	15 813	*15 813*					
- Change in liabilities due to other banks	409 046	-279 671	-688 717	*7 283*			*-696 000*		
- Change in liabilities due to customers	5 940 414	5 961 332	20 918	*1 619*				*19 299*	*0*

end of year 2006

	changes		differences, of which:	1)	2)	3)	4)	5)	6)
	in balance sheet	in cash flow							
- Change in loans and other receivables to other banks	-940 250	2 258 975	3 199 225	*-12 967*	*3 212 192*				
- Change in financial assets at fair value through profit or loss	-912 182	-930 637	-18 455	*-18 455*					
- Change in available-for-sale financial assets	-1 691 995	-1 610 474	81 521	*124 487*		*-42 966*			
- Change in loans and other receivables to customers	-3 048 865	-3 054 940	-6 075	*-6 075*					
- Change in liabilities due to other banks	535 848	763 480	227 632	*-4 368*			*232 000*		
- Change in liabilities due to customers	5 737 827	5 779 909	42 082	*-9 668*				*51 607*	*143*

Explanations

1) Changes in the individual assets and liabilities were adjusted with interest disclosed in the position “Interest received/ paid”.
2) From the position “Change in loans and other receivables extended to other banks” a change in the receivables being an equivalent of cash (current accounts and O/N deposits at other banks) was excluded; it was disclosed in the position “Net cash increase / decrease”.
3) “Change in financial assets available for sale” does not account for the part of financial assets valuation that was carried through equity (valuation allowance for financial assets available for sale).
4) In the position “Change in amounts due to other banks”, a change in the amounts due to the Central Bank was recognised.
5) From the position “Change in amounts due to clients” a change in amounts due under long-term loans (above 1Y) received from other financial institutions was excluded; it was disclosed in the part concerning the financial activity in the position “Repayment of long-term loans”.
6) From the position “Change in amounts due to clients” a change in amounts due under long-term loans received from other financial institutions following fx differences was excluded; it was disclosed in the position “Unrealised profit (loss) due to fx differences”.

51. Related entities

Subsidiaries and Related Entities of ING Bank Śląski:
- ING Securities S.A.
- ING BSK Development Sp. z o.o.
- Solver Sp. z o.o.
- ING NN Polska PTE S.A.
- Centrum Banku Śląskiego (CBS) Sp. z o.o. in liquidation
- ING Bank Hipoteczny S.A.

as part of their business hold current accounts at ING Bank Śląski, via which they perform standard clearing operations and also invest cash funds using term deposits. Furthermore, ING Bank Hipoteczny took loans from ING Bank Śląski. Similarly, ING Bank Śląski maintains bank accounts of other members of ING Group, for instance ING Lease (Poland), ING Car Lease, ING Nationale-Nederlanden and ING Real Estate. The transactions with the above entities are performed on an arm's length basis.

ING Bank Śląski performs operations with ING Bank NV and its subsidiaries on the inter-bank market. These are both short-term deposits and loans, as well as operations in derivatives: Forex Spot and Forex Forward, FX options and SWAP transactions. They are all performed on the arm's length basis.

There were also other transactions between the associated entities and ING Bank Śląski. They originated from agreements concluded as to co-operation, sublease of premises, lease of equipment, data processing, employees' insurance contributions, leasing of non-current assets and intangible assets as well as car fleet leasing and management.

In the period 1.01.2007 – 31.12.2007 the following transactions were made of the total value exceeding EURO 500,000:

- In connection with execution of the Co-operation Agreement concluded by ING Bank Śląski S.A. and ING Bank NV the remuneration for the services provided as to financial consulting in 12 months 2007 amounted to PLN 44.7 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 fee for data processing and financial information analysis services used by ING Bank Śląski amounted to PLN 10.9 million (net).

- Under the agreement of lease of office rooms in the building owned by CBS until the end of October 2007, ING Bank Śląski paid a rent for 10 months of 2007 (through ING BSK Development) of PLN 17.9 million (gross) in monthly instalments. In addition, the Bank paid PLN 1.6 million for adaptation works.

- ING Services Polska provides services to ING Bank Śląski in regard to lease of hardware resources. The costs of service were PLN 18.7 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 11.3 million in 12 months 2007.

Transactions with related parties (in PLN thousands) **31.12.2007**

	Parent company	Other ING Group entities	Subsidiary undertakings	Associated undertakings
Balances of receivables and payables				
Deposits given	5 648 202	759 199	-	-
Loans	-	1 239 202	111 420	-
Deposits taken (current & term)	475 584	147 160	260 077	25 186
Securities	-	-	30 306	-
Other receivables	74 836	19 267	2 891	-
Other liabilities	-	3 586	218	-
Off-balance sheet commitments and transactions				
Guarantees issued	297 158	266 516	-	-
Guarantees received	1 548 243		-	-
Undrawn credit lines granted	215 489	1 539 597	172 027	-
FX spot	18 324 755	3 567 716	-	-
FX forward	697 396	284 620	-	-
IRS/CIRS	28 436 925	507 509	-	-
FRA	1 551 148	300 088	-	-
Options	886 291	311 857	-	-
Income and expenses				
Income	711 268	40 103	17 058	202
Expenses	858 629	57 888	29 585	2 408

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	-	950 817	370 983	-
Deposits taken (current & term)	236 360	225 935	359 137	123 129
Securities	-	-	41 959	-
Other receivables	15 923	2 007	2 715	-
Other liabilities	-	13 419	14	-
Off-balance sheet commitments and transactions				
Guarantees issued	482 517	206 155	-	202
Guarantees received	1 850 580	-	-	-
Undrawn credit lines granted	230 339	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	795 005	31 242	16 109	341
Expenses	696 191	28 141	30 590	2 943

52. Transactions with the management staff and employees

Employees of the ING Bank Śląski S.A. Group are granted loans on the same terms and conditions as the customers of the Bank (no preferential loans for employees exist). Loans for employees disclosed in the amount of loans for customers as of 31.12.2007 amounted to PLN 58,226 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 2007 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 20,373 thousand.

The employees may use various forms of social assistance within the framework of Internal Social Benefit Funds established in the entities of the Group. The balance of money advances granted from the Internal Social Benefit Funds as of 31.12.2007 amounts to PLN 15,961 thousand.

Remuneration paid in 2007 to the Members of the Management Board and Supervisory Board of ING Bank Śląski S.A.

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

Year	Emoluments and bonuses	Benefits	Total
2007	10 610	4 052	14 662
2006	11 640	4 567	16 207

The total amount of remuneration and bonuses paid or due for 2007 presented above constitutes the gross amount of remuneration paid or due and payable for the period from January to December 2007 and the 2006 bonus, which was paid out in 2007 at the total amount of PLN 3,743 thousand.

The members of the Management Board have signed non-competition agreements after they stop holding their function on the Bank's Management Board. In the event that a Management Board is not renominated for another term of office or is recalled from his/ her function, he or she is entitled to severance pay. Information on allowances owing to the Management Board Members is contained in their employment contracts and shall be paid only in case of termination of the employment contract by the Bank due to other reasons than those giving rise to termination without notice.

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

Year	Remuneration and bonuses	Benefits	Total
2007	548	0	548
2006	931	0	931

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.

53. Events after the balance sheet date

On 29.02.2008, the Bank was advised that at the end of 2007 Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK owned 696,926 shares of ING Bank Śląski S.A., representing 5.36% shares and votes at the General Shareholders Meeting. Before that, the Bank was in the possession of information to the effect that the Company owned 800,000 shares, representing 6.15% of the overall number of shares and votes at GSM.

54. Changes to the Business Entity / Capital Group Structure

On 19 September 2007, ING Bank Śląski S.A. concluded an agreement to purchase the shares of Centrum Banku Śląskiego Sp. z o.o. from BUILDCO SA, Avenue Pasteur 3,L-2311 Luxembourg. The subject of the agreement was 36,716 shares of face value PLN 1,000 each, and total value of PLN 36,716,000, or 40% of the initial capital of Centrum Banku Śląskiego Spółka z ograniczoną odpowiedzialnością. ING Bank Śląski S.A. holds 100% of shares in the company ING BSK Development Sp. z o.o. ING BSK Development Sp. z o.o. holds 60% of shares in the company Centrum Banku Śląskiego Sp. z o.o. Upon the transaction conclusion, ING Bank Śląski S.A. controls, directly and indirectly, 100% of the initial capital of Centrum Banku Śląskiego Sp. z o.o.

On October 31, 2007 the ING Bank Śląski S.A. ("the Bank") has signed an agreement to purchase business enterprise of Centrum Banku Śląskiego Sp. z o. o. ("Company", "Entity") together with all liabilities inseparably connected with the operations of the Entity. The seller is Centrum Banku Śląskiego Sp. z o. o. and the subject of the agreement constitutes the business enterprise of Centrum Banku Śląskiego Sp. z o. o., Chorzowska St., 50, Katowice. The entity's enterprise comprises of i.e. two real estate properties located in Katowice: office building "Chorzowska 50" and headquarters of ING Bank Śląski S.A. located at Sokolska St., 34.

At the Extraordinary Meeting of Partners of Centrum Banku Śląskiego Sp. z o.o. held on 23 November 2007, a resolution was passed on dissolving and putting the Company into the state of liquidation as of 1 December 2007.

The Extraordinary Partners Meeting of Solver Sp. z o.o. was held on 30 November 2007. The Partners resolved to increase the Company's share capital by PLN 1,188,000, from PLN 8,374,000.00 to PLN 9,562,000.00 by issuing 2,376 new equal and indivisible shares with face value of PLN 500 each. One of the partners, the ING for Children Foundation, waived its pre-emption right to the new shares in the increased share capital of the Company. All new shares were covered in full by ING Bank Śląski S.A. with an in-kind contribution of the Recreation Centre in Głębinów (Province of Opole). The market value of the Recreation Centre as at the contribution date was PLN 1,188,000.00. The raise of the share capital changed the ownership structure of the Company – the share of ING Bank Śląski S.A. in the share capital of Solver went up from 79.79% to 82.30%.

Risk Management in Capital Group of ING Bank Śląski S.A.

All of the Group's operations involve the analysis, assessment and management of certain types of risk or their combination. The most important types of risk generated by financial assets include: the credit risk, liquidity risk and market risk that incorporates the FX risk, interest rate risk and pricing risk. Presented below is a description of management of all the risk types that are significant from the Group's perspective.

I. Credit Risk Management

1. Definition of Credit Risk

Credit risk is the possibility of non-collection of amounts due to the Bank under extended credit and credit-related facilities, leading to lack of income and/ or a financial loss.

The credit losses are a derivative of risk and measures taken by the Bank to reduce them. The Bank influences the level of losses by the level of risk it accepts, the amount of exposure at risk, the security against the risk borne and also – in case of risk materialisation – by direct actions taken to minimise the losses.

In view of the above, credit risk management covers the following elements:

- Risk identification and assessment.
- Risk measurement and monitoring.
- Risk mitigation and prevention.
- Development of tools supporting risk identification and measurement.
- Provisioning policy.

The credit risk management area refers to: the preparation and launch of a credit product, the end-to-end lending process and all units involved in those processes.

<u>Maximum exposure to credit risk</u>

	31 Dec 2007	**31 Dec 2006**
- Loans and receivables to other banks	15 183 665	13 513 898
- Financial assets measured at fair value through profit and loss	7 907 564	7 067 422
- Investments	9 388 273	12 614 914
- Derivative hedge instruments	4 572	3 329
- Loans and receivables to customers	16 379 138	12 868 074
- Extended contingent liabilities, including:	12 833 876	13 817 539
- credit card limits	*590 568*	*660 563*
- unutilised credit lines	*6 615 924*	*6 217 846*
- unutilised overdraft facilities	*2 334 841*	*1 790 166*
- guarantees and letters of credit	*2 079 315*	*1 442 839*
- third-party deposits	*1 213 228*	*3 706 125*
Total	**61 697 088**	**59 885 176**

2. Organisational Structure of Risk Management

For credit risk management, the organisational structure of the Bank includes the following organisational units:

- Supervisory Board of the Bank,
- Management Board of the Bank together with the Credit Policy Committee that approve certain internal risk-related normative acts as part of their powers,
- Credit Policy, Procedures and Strategic Projects Department,
- Risk Modelling, Monitoring and Reporting Department,
- Transactions Management and Approval Strategic Clients and Country Risk Management Department,
- Transaction Approval and Management for North Department
- Transaction Approval and Management for South Department
- Retail Credit Risk Management Department,
- Problems Loans Department,
- Credit Risk Inspection Department,
- Operational units and credit analysts,
- Internal Audit Department.

The mission of these units is to ensure proper balance between the commercial objectives of ING Bank Śląski S.A. and a risk appetite level that is acceptable for the Bank, while taking account of the existing economic environment.

This objective is achieved by taking the following actions:

- developing the principles of credit policy, as well as processes and procedures for acceptance of the permissible credit risk level towards entrepreneurs and business partners; supporting the development of tools for risk identification and measurement; enforcing the implementation of credit decisions; establishing provisions for credit risk, and initiating changes that may be necessary to manage the credit process,
- conducting credit analysis and taking credit decisions,
- raising the level of credit- and counterparty risk awareness among the Bank's employees in order to mitigate those risks,
- managing problem loans to minimise the risk and losses of the Bank,
- conducting an independent and objective assessment of the effectiveness, appropriateness and efficiency of the Bank's internal audit system, while ensuring the identification of weaknesses or gaps in its organisation and functioning.

The commercial functions are separated from the functions assessing the transaction- and client risk (the four-eye control principles).

Presented below in more detail are the roles and responsibilities of the individual organisational units involved in the credit risk management process at ING Bank Śląski S.A.

1.1 Supervisory Board

The Supervisory Board assess on a periodic basis the accomplishment by the Management Board of the Bank's credit risk management assumptions and strategy.

1.2 Management Board

The Management Board of ING Bank Śląski S.A.:

- approve the Credit Policy that defines the strategic approach to credit risk and the acceptable risk level,
- appoint and approve the composition of the Credit Policy Committee through which it ensures ongoing oversight of the credit risk management process,
- provide periodic reports, at least once a year, to the Bank's Supervisory Board regarding the risk level and profile, as well as amendments to the Credit Policy,
- promote implementation and execution of the Credit Policy by actions taken by the individual members of the Management Board in charge of their respective subordinate areas. Among the members of the Management Board, there is a Chief Risk Officer who oversees the credit- and market risk management.
- review the efficiency of methods used for identifying impaired credit exposures and defining the related write-offs; assess the adequacy and sensitivity of the methods to changes of external conditions,
- review the processes and the methods of monitoring the quality of credit exposures.

1.3 Committees

The following permanent committees are in place at the Bank whose powers include the credit risk areas:

- Credit Policy Committee (or KPK) whose key objective is to oversee the implementation and control the adherence of the organisational units of ING Bank Śląski S.A. to the "Credit Policy Rules",
- Credit Committees:
  - of ING Bank Śląski S.A. (the Bank Credit Committee, or KKB),
  - of the Bank Head Office (the Head Office Credit Committee, or KKC),
  - of the Region,
  - the Restructuring Committee.

In the strategic clients area decisions are taken by two individuals authorised by the Credit Policy Committee, or KPK.

1.4 Credit- and Market Risk Management Division

There is a separate division for the credit- and market risk management in the organisational structure of the Bank.

The mission of the Credit- and Market Risk Management Division is to maintain an adequate level of the credit- and market risk at the Bank.

The division is headed by the Bank Executive Director subordinated and reporting to the Chief Risk Officer.

The Bank Executive Director (Division Director) oversees, among other things, departments whose function includes system management of the Bank's credit risk, including:

- Credit Policy, Procedures and Strategic Projects Department,
- Risk Modelling, Monitoring and Reporting Department,
- Retail Credit Risk Management Department,

Within the above departments, there are units/ teams responsible for the policy and procedures, examination and modelling of the credit risk, as well as the monitoring and reporting of the credit risk of the portfolio.

The tasks of the individual departments involved in the credit risk management process are as follows:

1.5 Credit Policy, Procedures and Strategic Projects Policy Department

- to develop effective systems for credit risk management by maintenance and expansion of the credit policy principles and description of processes and procedures in order to ensure a proper balance between the current commercial objectives of the Bank and the adequate awareness level/ risk appetite level, while taking account of the market conditions in Poland,
- to ensure effective functioning of the risk area and process, in line with the current conditions, by management, participation in projects, modelling the organisation, review of processes, reacting to the needs of the front office, operations, implementation of the requests of the Bank Management Board and ING Group Head Office.

1.6 Risk Modelling, Monitoring and Reporting Department

- to define and produce management reporting in the risk area.
- to support the management of the client and counterparty credit risk and the transaction risk by developing tools used for the risk identification and measurement, monitoring and reporting in respect of the credit portfolio quality, making recommendations concerning the provisions for credit risk; supporting the units managing the client and counterparty credit risk and the transaction risk in regard to the legal and administration items.

1.7 Transactions Management and Approval Strategic Clients and Country Risk Management Department, Transaction Approval and Management for North Department/ Transaction Approval and Management for South Department

- to manage the credit risk related to client funding by providing advice in respect of the risk in the process of taking credit decisions, executing credit decisions, recommending required changes in the credit process management.
- to supply important data for the credit policy principles as well as processes and procedures in order to accept the acceptable level of the wholesale client risk.
- to raise the level of credit- and counterparty risk awareness among the Bank's employees in order to mitigate those risks.
- to recommend the level of provisions and necessary changes in the management of credit processes and defining products and credit policy in order to mitigate the risk.

1.8 Retail Credit Risk Management Department

- managing the credit risk via: measurement of risk level, defining the criteria of risk acceptance, monitoring the quality of credit portfolio, evaluating potential losses, recommending the financial provisions and necessary changes in managing the credit process, definitions of products, credit policy having in view decreasing the risk,
- valuing current and expected risk level for fixing the risk appetite,
- development and up-dating calculation models of credit capacity,
- initiating the preparing and up-dating of statistic acceptance models (scoring cards for retail credits) and its implementation,
- creating and implementing the impairment rules,
- increasing, among Bank employees, credit risk consciousness, possibilities and methods of its reducing.

1.9 Problem Loans Department

- to manage problem (wholesale) loans aimed at minimisation of risk and losses for the Bank, resulting from the non-performing portfolio,
- to co-operate with the Regional Risk Management Sections (WZR) and Front Office units in respect of debt recovery and restructuring of problem loans,
- to exercise functional supervision over the Regional Risk Management Sections (WZR) in respect for restructuring and recovery of problem loans.

1.10 Credit Risk Inspection Department

- to verify on a regular basis the credit documentation and assess the functioning of the credit process at ING Bank Śląski S.A. at the front-office and back-office levels (the ability to recommend changes to the existing policies and processes to the Credit Policy Committee),
- to analyse selected loans and adequacy of local Risk Management during regular inspections at the Bank organisational units;
- to identify potentially problematic areas and respond to the signals coming from the organisation;
- to control the adherence to the transaction approval criteria; the process of loan disbursement; behaviour patters/ statistics regarding repayments; statistics of overdue repayments; adequacy of monitoring of exposures and risk categories; and correctness of the credit data entered in the IT system and debt collection.

1.11 Operational Units and Credit Analysts

They represent expert knowledge on the risk characteristics of clients

1.12 Internal Audit Department (IAD)

The key mission of IAD is to provide the Bank Management Board with an independent and objective assessment of the appropriateness and efficiency of the Bank's internal audit system, ensuring the identification of weaknesses or gaps in its organisation and functioning.

The Internal Audit Department carries out regular audits of the Corporate Governance Model, credit risk policy and procedures. Its observations (together with the proposed changes to the policy and procedures) are then translated into a plan of actions that need to be taken before approval by the Credit Policy Committee.

The predominant objective of IAD is to identify the risks existing in the Bank's operations and to assess and propose actions enhancing control and management of those risks. By its activities, IAD contributes to improving the organisation and management of the Bank and to accomplishing the objectives set by the Bank.

The scope of IAD operations covers the whole business operations conducted by ING BSK, all of its organisational cells and units, as well as the organisational units of the capital group of ING BSK.

3. Credit Decision – Making Process

Decision-taking powers in the individual credit cases (credit committees at different levels) are separated from the decisions concerning the credit policy and risk management.

Decisions at all levels (except Strategic Clients) are taken jointly by credit committees whose operations are defined in more detail in their respective by-laws; joint decision-taking does not release any member of the decision-taking process from personal responsibility for the decisions taken. As regards the Strategic Clients, credit decisions concerning that area are taken by two authorised individuals (SAP), as set out in the Credit Instruction for Strategic Clients.

The authority level is co-related with the level of credit risk arising from the client risk and from the transaction risk. As the credit risk rises, the decisions are taken by collective bodies who – by their nature – have more extensive experience, and thus the ability of broad and thorough risk identification; it is also permitted that credit decisions be taken by two authorised individuals for lower exposures in areas other than Strategic Clients.

Decision-taking level for credit decisions concerning regular credit exposures is determined based on the client's risk grade and the following elements:

- the total exposure of ING Bank Śląski SA Group towards the debtor and the members of the capital group (within Article 3 paragraph 1 item 44 of the Accounting Act of 29 September 1994) of which the debtor is also the member, as well as entities related to the debtor by personal ties by spouses (only when the Bank funds an entrepreneur who is a private individual),
- the subject matter of the credit decision in question.

4. Reviews and Credit Risk Rating

Commercial functions who grant credits are separated from the process of transaction- and client risk rating (four-eye control principle). Credit risk is rated (by the Risk Manager) based on the principle of separation from the commercial functions (Relationship Manager).

The following parties are involved in the process of risk rating: Rating Owner (Relationship Manager) and Risk Manager.

The Rating Owner inputs the financial data related to the client and has exclusive responsibility for the correctness of the risk rating, including Review.

There is only one owner of a borrower's risk rating. The credit restructuring unit may become a rating owner for borrowers rated 18 to 22. The Rating Owner creates a draft rating, using the appropriate Rating Model for a specific target client group. The user may deviate from the suggested model if he or she provides the appropriate written justification.

The final rating is determined by the Risk Manager, or by the Appeal Committee if an appeal has been made.

The Risk Manager is responsible for:

- Verifying that the appropriate rating model has been used for the borrower;
- Verifying that financial and non-financial data entered are correct;
- Challenging un-audited financial data;
- Finalizing the rating.

The outcomes of specific models may be subjects to arbitrary adjustments in that the ultimate rating grades are determined as part of the appeal process.

A one notch difference (positive or negative) between the rating calculated by the rating model and the view of the appellant (the person initiating an appeal) is sufficient to start a rating appeal.

Reasons for a rating appeal are for example:

- The rating model is not appropriate for the Borrower; and/or
- Circumstances that may not (yet) be captured by the rating model but which are likely to have a (usually negative) effect on the borrower's PD, especially if:
    - Borrower has or is expected to default on any financial obligation to any party;
    - Major disruption of activities;
    - Change in legislation that will seriously impact the financial performance.

By the end of 2007 Bank introduced model dedicated to assessment of credit risk inferring from specialized lending in terms of financing income-producing real estates (IPRE Model). On the basis of the model, each credit transaction, fulfilling specified criteria, is to be assigned to one of five supervisory risk category

Additionally, in December 2007 the implementation of IT system in corporate network, utilized in whole ING Group, was completed. The system supports credit risk assessment process and enables, as well, centralized gathering data on risk rating grades of obligors.

4.1 Frequency of Risk Rating Reviews and Updates (if any)

Only the Rating Owner can review the risk rating. The following rules will apply to rating reviews:

- A risk rating must be reviewed at least annually. A risk rating is considered overdue after 12 months from the last approval date of the risk rating (18 months for Strategic Clients),
- The Rating Owner should take appropriate action to either review or cancel the risk rating if the Bank has terminated the relationship with the Borrower and no credit risk remains. The Rating Owner should perform an interim re-rating when the value of one or more risk drivers has materially changed. Events that could cause a consideration for a re-rating are for example a change of risk rating of the influencing parent or a change of any of the qualitative risk drivers,
- Without a review, a risk rating will automatically expire,
- The following risk ratings are excluded from automatic expiry:
    - Manually set risk ratings;
    - Risk ratings 14 - 22;
    - Central Government and Country risk ratings;
    - Risk ratings of ING Group, ING Insurance, and ING Bank entities.

5. Concentration Limits

To mitigate the concentration risk, the Bank observes the following exposure concentration limits as defined in Article 71 of the Banking Law Act:

- 20% of the Bank's own funds – for exposures to entities related to the Bank,
- 25% of the Bank's own funds – for exposures to other entities,
- 800% of the Bank's own funds – for the aggregate amount of the Bank's "large" exposures, i.e. exposures exceeding 10% of the Bank's own funds.

Furthermore, in keeping with the statutory rules and recommendations of the Banking Regulator, the Bank sets internal concentration limits for exposures to specific sectors, the collaterals accepted, and it monitors on a regular basis the concentration levels in the geographical areas of its operations (the Regions).

The Bank sets the statutory concentration limits on a monthly basis. Based on the data verified, the Bank prepares a report covering the up-to-date balance of the Bank's own funds and the individual statutory limits. The report is then distributed among the Bank units concerned, including among others: the Corporate Banking Centres, the Regional Branches, the departments of the Credit Division, Risk Division and the Internal Audit Department. The Regional Branches re-distribute the report among their respective subordinate units.

The Bank monitors the utilisation of limits by preparing a specification of clients and groups of related clients, and by comparing their existing exposure to the current limits.

On the operational level, the control of concentration limits is performed during the writing of credit applications, approving specific transactions and periodic reviews.

To avoid excessive credit risk concentration in the sectors, the Bank monitors the exposures in the individual economy sectors. Based on analyses, the Bank sets the desired directions where its exposure should increase, and the sectors with unfavourable development perspectives in which the exposure should be lowered.

The above tasks also include among other things the determination of limits for groups of sectors with a material share in the Bank's portfolio, i.e. whose total share in the entire credit portfolio is around 60%, and the individual share of a given sector in the corporate portfolio is in excess of 5%. Limits for the individual sectors are determined by the Credit Policy Committee.

Exposure concentration in the geographical areas is monitored according to the regional division into the branch network. A 20% limit of the Bank's total portfolio is adopted for controlling concentration at the level of Regions. Exceeding this limit may trigger setting a geographical limit.

However, since geographical concentration is minor and does not increase the credit risk, so far there has been no need for ING Bank Śląski to set geographical limits.

Considering the potential risk level, the Bank introduced limits for mortgage loans in accordance with Recommendation S of the Banking Supervision Commission for the following types of facilities:

- loans with low down-payment (insured)
- newly granted loans indexed to foreign exchange rate
- loans secured with mortgage
- housing loans

Adherence to the statutory and internal concentration standards is the subject of a monthly risk report distributed among the Management Board, Credit Policy Committee and Regional Managers. The report is also presented to the Supervisory Board of the Bank on a periodic basis.

6. Repayment Security and Other Forms of Credit Risk Mitigation

Even though repayment security is a major factor that allows the Bank to mitigate the lending risk, it is the Group's policy to extend loans in amounts and on terms that allow for regular repayment without the need to recover the receivables by liquidating the security.

The Bank accepts all types of repayment security permitted by the law; however, the choice in specific cases is conditioned by various factors, including in particular:

- the client's ability to offer specific types of security
- the type and duration of exposure
- the level of client's risk
- the level of transaction's risk
- the liquidity of security offered (the ability to cash it easily)
- the collateral value

Following the changes resulting from introducing into the Polish Law - by virtue of the Banking Supervision Commission (KNB) Resolution No. 1/2007 dated 13 March 2007 - the precepts of the New Capital Agreement, the Bank's internal regulations have been adjusted to the requirements of the Resolution and, concurrently, also the techniques of credit risk reduction. The new *Collateral Policy* implemented within the Bank covers, among others, the following areas:

- indicates the criteria for accepting the collateral in *the capital requirement for credit risk calculation process*,
- lays down the general rules for the Bank to observe when choosing the collateral forms, inclusive of the acceptable credit risk level,
- adjusts the collateral-related procedures to the requirements of the new LGD models that are in harmony with the advanced internal ratings' method (the so-called AIRB).

The Collateral Policy takes into account in particular those aspects of the Resolution No. 1/2007 which concern the application of LGD models, legal reliability of security and its monitoring. The process of security review according to the new regulations takes place gradually and shall be finished in the first half of 2008.

The LGD models developed for corporate assets are based on statistically estimated recovery ratios for specific groups of security. The estimations are based on an analysis of historical recovery processes at the Bank. The rates of recover for specific types of security determine their fair value.

The recovery rate for a specific type of security depends on the character of the security item, the legal form of the security and the efficiency of the security liquidation process. The final level of the recovery is also influenced by the costs of debt-collection and the costs of keeping a classified exposure in the Bank's books (until the debt is recovered or cancelled).

Apart from the classic types of security (tangible and personal), the Bank also applies additional instruments to mitigate the risk of loss, namely additional covenants in loan agreements. As part of the basic, or standard, covenants, the Bank applies protective and financial clauses. The scope of the covenant or combination of covenants to be applied depends on: the term, type of lending product, the specific organisational and legal form or the business objects of the borrower, the risk rating of the client. By including certain covenants in the credit agreements, the Bank is sometimes able to give up some or all of the repayment security.

The structure of individual security types is diversified.

The following types of collateral have the biggest share:

- suretyships and corporate guarantees – there are guarantors from different industry sectors with different economic and financial standing within this group. Therefore, there is no significant risk in terms of concentration. In case of assuming a specific recovery ratio from collateral, greater than 0%, it is necessary to examine the economic and financial standing of the guarantor and determine the risk rating as investment or speculative.
- mortgages – this is due to the fact that mortgages usually secure long-term investment loans. Furthermore, mortgages are the main security for loans to finance commercial real estate.

7. Exposure Classification Methodology

7.1 Corporate Client Credit Receivables

Credit Impairment Recognition

The events that provide the basis for credit impairment recognition are the events that occurred in respect of a certain asset or a group of assets and that affected in a negative manner the amount of expected cash flows. The Bank adopted the following list of impairment events for corporate credit receivables:

- Bankruptcy/ threat of bankruptcy: the Borrower was announced or will soon be announced bankrupt (whether by the Bank, by third party or on its own initiative), which will result in failure to repay or delay in repayment;
- Default in repayment: the Borrower stopped to repay the principal or interest/ commission and the said default lasts:
  - For corporate clients (apart from financial institutions) – above 90 days;
  - For financial institutions and government authorities – 0 days or more; however, in that case a 14-day explanation term is applied to determine whether the default in payment is caused by deterioration of the financial institution's credit standing or operational reasons. Default in payment for operational reasons is not considered an impairment event..
- The Bank assesses that the borrower will face difficulty in repaying the debt: the Borrower has such material financial problems that they can be of a negative impact (probability of at least 50%)

on future cash flows under a given credit receivable (the 1Y perspective is considered in the assessment);

- Credit receivable restructuring not resulting for commercial reasons: due to the borrower's financial problems, the Bank restructured the credit exposure, by granting facilities and exceptions to the borrower, which resulted in reduction of the present value of expected future cash flows from the credit receivable below its balance value.

The case where occurrence of at least one of the aforementioned events is declared stands for appearance of impairment.

Customer Risk Class Determination

Each entity with the Bank's credit exposure must have a rating assigned as is used in a standard manner at the Bank. Determination of the customer risk class forms an integral part of the Bank's credit risk evaluation process for corporate clients.

For entrepreneurs' exposures, the Bank uses a 22 grade rating, employed throughout ING Group. Its classes present the debtor-related risk. The customer is assigned to a given risk class based on the:

- financial model, using the data from the debtors' financial reports,
- evaluation of qualitative factors,
- financial standing of the parent company.

Investment Grade 1-10

Investment grade comprises the entities which we assess as encumbered with a relatively low risk; however, in making risk classification, we take account of the threats arising from economic and business conditions.

Speculative Grade 11- 17

It is a group of a relatively large bucket of risk levels, and thus the characteristics of extreme classes within this group varies considerably. In general, we may say that:

- the entities from top classes under this group are fulfilling their financial obligations at present, however the debt cover ratio (principal and interest) over a longer term is not certain, and thus the safety margin is limited; there is real threat of credit risk growth due to unfavourable business or economic conditions;
- the borrowers assigned to the top risk classes (the worst classes from that group) can be characterised by uncertain income perspectives, worse quality of assets and over a longer term the risk of equity mismatch and possibility of loss occurrence.

Problem Loan Grade 18- 22

This risk group comprises the Borrowers who showed explicit symptoms of problems with debt service or who are in the default situation.

Borrowers from the risk group (and also the ones assigned to class 17 or better, whose exposures are covered by regulations are classified by Intensive Care Units only, managing a given client exposure.

For:

- strategic clients the global ING Group model is applied – the debtor is assigned to one of 17 corporate client risk classes in the brackets from 1 to 17,

- corporate clients the local SME PD model is applied – the debtor is assigned to one of 10 corporate client risk classes in the brackets from 8 to 17.

Corporate Credit Risk Management Tools

Further to the implementation of the Resolution No. 1/2007 by the Banking Supervision Commission, whereby the stipulations of the CRD Directive in terms of bank's capital adequacy, compliant with the New Capital Accord (Basel II) were instituted, the Bank took several actions in the credit risk management area in respect of the scope and detailed principles of capital requirements determination. Following the ING Group's decision to implement the Advanced Internal Rating Based Approach (or AIRB), the Bank prepared and implemented local and global models for basic risk parameters:

- PD (probability of default),
- LGD (loss given default),
- EAD (exposure at default)

for various classes of assets in line with AIRB.

Among others, the Bank uses the following rating models for corporate exposure classes:

- For local segment of Strategic clients recognised as customers with annual revenues above EUR 100M
    - Global risk rating model (statistical PD model), based on the global ING Group approach,
    - Global LGD and EAD models (hybrid statistical-expert models), built on the ING Group level.

- For local segments of Mid-sized and Big companies (SME asset class) with annual revenues from PLN 800 ths. to EUR 100M):
    - Local risk rating model (statistical SME PD model), developed in the Bank for Polish companies,
    - Local LGD and EAD models (hybrid statistical-expert models), built in the Bank on the basis of internal data and ING Group's methodology.

Besides above, the Bank uses also global models for exposures to banks and other financial institutions and to sovereigns and local governments.

The models are employed to calculate the economic capital allowing its level to be optimised. They contribute to a better quantification of the credit risk for the Bank's portfolio. It is on their basis that the provisions under IFRS, the efficiency of Bank's performance (RAROC, economic profit, goodwill management) and credit prices are estimated, among other positions.

While employing the risk models, the Bank makes use of advanced IT systems supporting the client and transaction risk rating process. An integrated ING Group's environment is the primary IT tool used to manage credit risk. As this tool combines all applications needed to fully meet the New Capital Accord requirements, it enables the Bank to manage risk effectively not only on the Bank's Branch level, but also on the level of individual relationship manager's portfolio.

Credit exposure to corporate clients by risk grades

Risk rating	Exposure in PLN million			
	31 Dec 2007		31 Dec 2006	
	on-balance	*off-balance*	*on-balance*	*off-balance*
01	0,0	0,0	0,0	0,0
02	0,0	2,3	0,0	0,0
03	1 548,4	409,2	1 389,0	621,1
04	0,0	2,0	0,0	45,8
05	0,0	4,7	0,0	0,0
06	56,7	3,3	247,2	53,1
07	420,0	470,6	10,4	4,1
08	1 017,9	596,7	251,9	681,9
09	1 116,2	1 104,9	248,1	725,0
10	792,3	1 501,2	1 357,8	1 821,6
11	860,8	1 094,6	655,1	704,1
12	1 030,7	1 273,9	879,0	1 075,5
13	1 444,2	1 327,9	1 261,0	860,9
14	1 423,8	791,6	1 816,1	778,1
15	1 343,4	611,8	1 256,3	522,5
16	542,8	268,1	415,7	288,5
17	287,7	66,8	161,3	65,9
18	41,6	23,1	54,5	27,2
19	23,3	3,9	34,8	5,9
20	87,9	4,3	104,8	5,2
21	4,0	0,0	5,5	0,0
22	281,3	0,0	343,1	0,4
Total	**12 323,0**	**9 560,9**	**10 491,6**	**8 286,8**

Credit exposures to corporate clients by overdue days

Number of days overdue	Exposure in PLN million			
	31 Dec 2007		31 Dec 2006	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	11 929,4	9 542,3	10 067,7	8 270,4
1-30	40,8	14,6	43,1	14,7
31-60	28,2	4,0	10,8	1,0
61-90	16,3	0,0	3,7	0,1
91-180	22,1	0,0	7,7	0,1
181-365	19,9	0,0	7,6	0,0
>365	266,3	0,0	351,0	0,5
Total	**12 323,0**	**9 560,9**	**10 491,6**	**8 286,8**

Credit exposure to corporate clients under IBNR (Incurred But Not Reported) impairment provisions by overdue days

Number of days overdue	Exposure in PLN million			
	31 Dec 2007		31 Dec 2006	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	11 882,7	9 540,9	9 976,9	8 266,8
1-30	39,0	14,6	42,3	13,3
31-60	3,3	1,1	4,9	1,0
61-90	10,6	0,0	0,3	0,0
91-180	0,1	0,0	4,1	0,1
181-365	13,3	0,0	0,2	0,0
>365	0,8	0,0	9,5	0,0
Total	**11 949,8**	**9 556,6**	**10 038,2**	**8 281,2**

Credit exposure to corporate clients under ISFA (Individually Significant Financial Asset) impairment provision by risk grades

Risk rating	Exposure in PLN million			
	31 Dec 2007		31 Dec 2006	
	on-balance	*off-balance*	*on-balance*	*off-balance*
20	75,8	3,0	83,0	1,6
22	195,0	0,0	258,6	0,0
Total	**270,8**	**3,0**	**341,6**	**1,6**

Credit exposure to corporate clients under ISFA (Individually Significant Financial Asset) impairment provision by overdue days

Number of days overdue	Exposure in PLN million			
	31 Dec 2007		31 Dec 2006	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	41,4	0,0	76,8	0,2
1-30	0,8	0,0	0,0	1,4
31-60	22,3	3,0	5,2	0,0
61-90	0,0	0,0	0,0	0,0
91-180	17,5	0,0	0,0	0,0
181-365	4,5	0,0	0,0	0,0
>365	184,3	0,0	259,6	0,0
Total	**270,8**	**3,0**	**341,6**	**1,6**

Credit exposure to corporate clients under INSFA (Individually Not-Significant Financial Asset) impairment provision by risk grades

Risk rating	Exposure in PLN million			
	31 Dec 2007		31 Dec 2006	
	on-balance	off-balance	on-balance	off-balance
20	12,1	1,4	21,7	3,6
21	4,0	0,0	5,4	0,0
22	86,3	0,0	84,6	0,4
Total	**102,4**	**1,4**	**111,7**	**4,0**

Credit exposure to corporate clients under INSFA (Individually Not-Significant Financial Asset) impairment provision by overdue days

Number of days overdue	Exposure in PLN million			
	31 Dec 2007		31 Dec 2006	
	on-balance	off-balance	on-balance	off-balance
0	5,2	1,4	14,0	3,4
1-30	1,0	0,0	0,9	0,0
31-60	2,6	0,0	0,7	0,0
61-90	5,7	0,0	3,4	0,1
91-180	4,5	0,0	3,5	0,0
181-365	2,2	0,0	7,4	0,0
>365	81,2	0,0	81,8	0,5
Total	**102,4**	**1,4**	**111,7**	**4,0**

7.2 Credit Receivables of Retail Clients

The Bank regards all the retail receivables (from individual and small business clients) as individually non-significant as well as calculates and makes relevant charges and provisions pursuant to the collective approach.

The expert methodology for estimation of charges and provisions, inclusive of parameters used for their calculation, is admissible if one of the following prerequisites arises:

– the portfolio size and age and/or number of cases subject to impairment in the period under analysis is not sufficient for statistical or mathematical estimation,
– the data quality is insufficient for adequate estimation of charges or provisions,
– an essential change took place in the Bank's economic environment, level of risk appetite, strategies adopted for receivables recovery,
– adopted statistical or mathematical methods of estimation do not correspond to the regulatory requirements or those set by ING Group.

The justification behind the expert methodology and assessment of its results is verified separately for each case and is subject to approval by the Credit Policy Committee. The same principles are applied for the use of data and observations obtained from other institutions, inclusive of the data source acceptance.

Loan impairment triggers

- the Borrower has stopped repaying the principal or interest/ commission and the delay in repayment continues over 90 days. In case of overdraft facilities (personal accounts and current accounts of small business clients) this condition is applicable only for exposures over PLN 200;
- with regard to consumer loans: the Borrower (individual) has exposures other than the exposure in question, which demonstrate the premises of impartment under item 1 and all these exposures belong to the group of consumer loans (non-housing/ mortgage);
- with regard to housing/mortgage loans: the Borrower (individual) has exposures other than the exposure in question, which demonstrate the premises of impartment under item 1 and all these exposures belong to the group of housing/ mortgage loans (non-consumer);
- the Borrower (small business) has exposures other than the exposure in question, which demonstrate the premises of impartment under item 1;
- upon impairment the Borrower correctly services the debt; however, the period of correct service is shorter than 3 months (for debt overdue by no longer than 6 months);
- upon impairment the Borrower correctly services the debt; however, the period of correct service is shorter than 6 months (for debt overdue by longer than 6 months);
- the Borrower has been or will be declared bankrupt soon, which shall result in the failure to repay the debt or delay in its repayment (the premise applies in particular to the borrowers from small business segment);
- the credit agreement has been terminated;
- the credit receivables are covered with restructuring. Due to financial difficulties experienced by the borrower, the Bank restructured the credit exposure by providing the borrower with convenient solutions or concessions which result in reducing the current value of expected future cash flows due to the credit receivables to the level below the balance sheet value of these receivables. On the other hand, the revision of lending terms for commercial reasons (inclusive of interest rate change due to market conditions) does not constitute the premise for impairment. The restructuring principles and method of their treatment from the point of view of impairment charges (provisions) are determined by separate procedures.

The starting point for grouping exposures into portfolios pursuant to the collective approach are the principles introduced by the New Capital Accord (the so-called Basel II), which distinguish three basic groups of retail products: renewable, mortgage and consumer loans. The risk drivers contingency within a group constitutes the basis for grouping. The product and its features function as the basic grouping criteria. Criteria of the premises for impairment based on the Basle concept of "default" derive from the product definition. Since the Bank applies the scoring cards (statistical acceptance models), the existing acceptance model constitutes an additional premise for grouping.

Additionally, the grouping is based on:

- type and definition of product,
- type of collateral,
- business positioning of product (e.g. separation of products not offered),
- other elements of acceptance model,
- organisation of credit process.

The separated portfolio should be characterised by a relevant number of cases to ensure the statistical recurrence of phenomena. For the purpose of statistical models development it is assumed the minimum number of cases in a given category (e.g. default) should amount to 300 per portfolio. For the parameters adopted based on historical observations, this value should not be lower than 100. The parameters accepted on the basis of smaller portfolios are subject to verification by experts.

For each portfolio we distinguish:

- IBNR part,
- impaired part,
- impaired – non risk part, also referred to as the B portfolio (no further recovery expected).

The Bank applies the following criteria for distinguishing the B portfolio:

- the following period has passed since the impairment premises emergence: 24 months for the portfolio of consumer and small business loans, 36 months for housing loans,
- there are no premises of the debtor having either the income sufficient to repay arrears or assets from which the Bank could recover the receivables and there are no premises that this situation would change in foreseeable future,
- the debtor is covered with bankruptcy procedures and there are justified premises that the Bank shall not recover any amount or shall recover insignificant amounts within this process.

The collective approach to estimation and creation of charges (provisions) is based on the principles introduced by the New Capital Accord (the so-called Basel II) and the concept of expected loss. In view of the fact that pursuant to IAS the provisions are established for the actually incurred loss and not the expected one, the Basle model parameters are subject to modification. The following parameters are used for calculating the provisions:

- PD, or probability of default by the client determined for each sub-portfolio of retail and Small Business receivables,
- LGD, or loss given default recorded for receivables as a result of their incomplete recovery, determined for each sub-portfolio of retail and Small Business receivables,
- EAD, or exposure at default – the amount of current balance sheet exposure increased by the balance sheet equivalents of unutilised credit lines.

The parameter modification derives from the fact that the Basle model defines the probability of expected loss in the period of next 12 months, whereas pursuant to IAS the provisions are established for actual losses. The modification is related to the period assumed for the loss to be recognised (revealed, identified).

PD parameter is modified based on the concept of emergence period, which generally is shorter than 12 months. The emergence period depends among others on the following factors:

- segment to which the borrower is classified;
- type of product.

Adjustment of PD to the IAS requirements consists in reducing the parameter's time horizon and pushing it closer to the current balance sheet date.

For the retail and small business portfolio, the PD definition for product groups is based on the estimation of probability for one of the following cases:

- the Borrower has stopped repaying the principal or interest for longer than 90 days;
- the Borrower will be declared bankrupt (applicable to Small Business);
- the credit agreement is terminated;
- the receivables will be subject to restructuring;

PD calculated in this manner is mapped (allocated) to individual rating grades.

According to Basel II, LGD parameter signifies the loss to be incurred by the Bank at a given credit exposure in case of the borrower's solvency. LGD is given as a percentage of the exposure at the moment of the borrower becoming insolvent (EAD). LGD is a derivative of the adopted legal collateral, i.e. type of collateral and its value (liquidation).

LGD for the retail portfolio is calculated based on the quotient of discounted cash flows on account as of the impairment till the report date and the sum of principal and interest due at the moment of impairment.

The LGD parameter calculated in this manner is adjusted by the estimated debt collection costs that the Bank will have to incur due to the collateral liquidation.

Cash flows upon the impairment date are discounted with interest rate adopted for the entire portfolio.

EAD in the Basle Model stands for the value of credit exposure that shall arise in case of the client's insolvency. In calculation of the expected loss pursuant to Basel II, EAD means the sum of current balance sheet exposure and statistically estimated part of the off balance sheet exposure that the client shall draw by the insolvency date.

For needs of IAS, EAD at the client's level is a current balance sheet exposure at the balance sheet date, increased by the balance sheet equivalents of current off balance sheet items.

The provisions value depends on the amount of exposure as well as PD and LGD parameters (PD for the impaired portfolio is 100% and LGD for the B portfolio is 100 %).

Credit exposure to retail clients (individuals and small business) by overdue days

Number of days overdue	**Exposure in PLN million**			
	31 Dec 2007		**31 Dec 2006**	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	4 228,9	2 178,2	2 870,6	1 630,6
1-30	202,3	22,3	149,9	10,2
31-60	16,3	2,4	12,9	1,0
61-90	41,6	8,3	47,4	6,5
91-120	4,3	0,1	5,1	0,2
121-150	3,8	0,4	4,3	0,5
151-180	2,7	0,1	4,7	0,1
>180	77,6	0,7	148,3	0,6
Total	**4 577,5**	**2 212,5**	**3 243,2**	**1 649,7**

Credit exposure to retail clients (individuals and small business) under IBNR (Incurred But Not Reported) impairment provision by product type

Type of product	**Exposure in PLN million**			
	31 Dec 2007		**31 Dec 2006**	
	on-balance	*off-balance*	*on-balance*	*off-balance*
Mortgage loans	2 544,2	478,1	1 418,7	237,0
SME Loans	773,9	538,3	530,6	353,0
Other loans	1 134,0	1 187,2	1 086,8	1 052,0
Total	**4 452,1**	**2 203,6**	**3 036,1**	**1 642,0**

Credit exposure to retail clients (individuals and small business) under IBNR (Incurred But Not Reported) impairment provision by overdue days

Number of days overdue	Exposure in PLN million			
	31 Dec 2007		31 Dec 2006	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	4 228,9	2 178,2	2 870,6	1 630,6
1-30	202,3	22,3	149,9	10,2
31-60	16,3	2,4	12,9	1,0
61-90	4,6	0,7	2,7	0,2
Total	**4 452,1**	**2 203,6**	**3 036,1**	**1 642,0**

Credit exposure to retail clients (individuals and small business) under INSFA (Individually Not-Significant Financial Asset) impairment provision by overdue days

Number of days overdue	Exposure in PLN million			
	31 Dec 2007		31 Dec 2006	
	on-balance	*off-balance*	*on-balance*	*off-balance*
<90	37,0	7,6	44,7	6,3
91-120	4,3	0,1	5,1	0,2
121-150	3,8	0,4	4,3	0,5
151-180	2,7	0,1	4,7	0,1
>180	77,6	0,7	148,3	0,6
Total	**125,4**	**8,9**	**207,1**	**7,7**

8. Restructuring of credit exposures

In some cases, ING Bank Śląski S.A. will work with an obligor and its other creditors (if any) to restructure the obligor's business and its financial obligations in order to minimize any financial losses to the creditors as a whole, and ING Bank Śląski S.A. in particular. This can be accomplished through many means available to the creditors, the most common of which are:

- extending the repayment period,
- selling assets,
- selling business lines of the obligor,
- forgoing part of the financial obligations,
- a combination of the above.

The decision to enter into such a restructuring is done only after careful internal assessment and approval by the appropriate (internal) delegated authorities. Once a restructuring is completed, the obligor is again subject to normal credit risk monitoring procedures.

During 2007, ING Bank Śląski S.A. restructured impaired Wholesale clients' loans totaling PLN 9,4 million, which as a result of the restructuring are now considered to be performing. Additionally, ING Bank Śląski S.A. restructured performing loans totaling PLN 80,2 million, that we believe would have become impaired if we had not restructured them.

9. Compliance Reviews

The basic compliance reviews in the credit risk management area are performed by:

- Credit Risk Inspection Department,
- Internal Audit Department,

in the scope defined under items 1.10 and 1.12.

10. Management of Credit Risk of the Group Companies

The Capital Group of ING Bank Śląski comprises the following entities:
Subsidiaries:

- ING BSK Development Sp. z o.o. – operating since 2004 (100% of shares),
- ING Bank Hipoteczny S.A. (until December 16, 2007 - Śląski Bank Hipoteczny S.A.) – the company established in November 2000, in September 2001 it obtained the consent of the Banking Supervision Commission to start of the operational activity. SBH S.A. is the third mortgage bank in Poland, (100% of shares),
- ING Securities S.A. – the company began its operations in 1996 as Dom Maklerski Banku Śląskiego S.A. In December 2001, the brokerage houses of ING operating in Poland - Dom Maklerski BSK S.A. and ING Baring Securities (Poland) S.A. (100% of shares) merged to form one company,
- Solver sp. z o.o. - the company established in 2002 (79.79% of shares),
- Centrum Banku Śląskiego Sp. z o.o. – the company established in 1997 (60% of shares),

Affiliated entities:

- ING Nationale-Nederlanden Powszechne Towarzystwo Emerytalne Polska S.A. – operating since 2000. (20% of shares)

In view of the character of operations, the credit risk management is applicable to the following entities from the Capital Group of ING Bank Śląski: ING Bank Hipoteczny S.A. and ING Securities S.A. Risk management is realised in line with the ING Group standards in terms of structure and processes (tools) to ensure realization of business targets from risk point of view.

11. Identification of Credit Risk Connected with Derivatives

Each client concluding a derivative transaction with the Bank must be assigned a relevant transaction limit by the Bank. The transaction limits are assigned pursuant to the credit procedures and authorities binding in the Bank, as for all other credit exposures.

CRS system is used to monitor the risk connected with transactions concluded by the Bank's counterparties. CRS is a global system, used by the entire ING Group in which all the FM ("Financial Markets") limits and transactions concluded by dealers are registered.

The transactions that generate risk on the counterparty's side (settlement and pre-settlement risk), and that are input to the system, require registration in CRS.

The risk connected with the Treasury Department products, such as derivatives, deposits and transactions in securities, is monitored online at the Bank.

From the perspective of risk measurement, it may be divided into:

- pre-settlement – arising for FX and derivative transactions as well as transactions in securities as a result of exchanging the transaction on the market at a potentially unfavourable price,
- credit risk – connected with placing money on the market (deposits).

Pre-settlement Risk

The pre-settlement risk derives from a breach of transaction terms by the Counterparty, before its settlement, which makes necessary to exchange this transaction with a transaction with another Counterparty, according to the market price (potentially unfavourable).

To control the Counterparty's risk, not only the cost of exchange in case of breach is determined (current market value "MtM"), but also the growth of MtM during the transaction duration.

Since the financial markets are not fully predictable and one cannot be 100% sure about the set maximum MtM, the statistical models are used to define the level of trust. Pursuant to the policy of ING Group, this trust level is 97.5%.

Money Market Risk

The Money Market Risk arises when the Bank places deposits with another counterparty (bank). The Bank loses funds in case of terms being breached by the counterparty. Due to this, the risk is measured simply as the deposit face value.

Settlement Risk

The settlement risk is a risk at which the counterparty will not deliver the assets that they are obliged to deliver due to the transaction settlement and the Bank may lose up to 100% of the expected value. This risk arises when the exchange of value is to take place (funds or other instruments) on the same or different delivery date and this delivery is unchecked or expected till the moment when the Bank delivers an irrevocable instruction of payment or the Bank has paid itself or delivered its part of the liability deriving from the transaction.

Some products always generate the settlement risk, some never do, and there are also such products for which the occurrence of this risk is connected with the mechanism of settlements. The settlement risk always arises when the transaction involves a bilateral exchange of funds/ securities but this exchange is not made on the DVP basis (Delivery Versus Payment).

Risk Connected with Securities Purchase/ Sales

The risk connected with securities purchase/sales emerges when the exchange of funds into securities does not take place on the DVP basis. Then the settlement risk arises on the day of transaction settlement, unless the settlement is made in such a way that the Bank can control the transactions so as not to allow the flow of funds/ securities before confirming the obligation execution by the Counterparty.

Risk Weights

Risk Weights used to monitor the utilisation of individual limits are defined for single products, currencies and transaction duration at the level of ING Group. Risk Weights constitute an estimation of the potential future exposure (PFE) for the "at-the-money" contract, as a percentage of the transaction face value in the period of time remaining till its settlement.

Pre-settlement risk at the transaction level is calculated as:

Pre-settlement risk = Market Value + Face Value x Risk Weight,
where risk weight is based on the period of time remaining till the transaction settlement.
Risk weights are "used" by CRS system to monitor the level of the counterparty limits utilisation.

The portfolio of transactions concluded with the Bank's counterparties, covered by CRS (unsettled transactions), is as follows (all data in EUR million):

	31 Dec 2007	**31 Dec 2006**
Money Market	4 363,8	4 352,6
MtM	3 156,4	3 067,6
PFE	1 190,1	900,4
Present Value + FM Value	5 692,0	4 445,2

II. Market Risk Management

1. General Information

The main goals of Market Risk Management in ING Bank Śląski are to ensure that the Bank's exposure to market risk is understood, properly managed, and - where applicable - within approved limits.

The Bank defines market risk as the potential loss due to unfavourable changes in market prices (e.g. yields, FX rates, equity prices, etc.) and/or market parameters (e.g. volatility of market prices and the correlation between moves in market prices) and/or customer behaviour (e.g. early loan repayments).

The market risk management process within the Bank covers the identification, measurement, monitoring, and reporting of risk. The MRM department provides FM Management, selected Board and ALCO Committee members with regular risk updates. Additionally ALCO, Management Board and Supervisory Board receive periodic updates containing the most important market risk metrics. The MRM department is staffed with trained specialists and the independence of this department is ensured by its separation from the Bank units which generate market risk. An important consultative role in the market risk management process is performed by the Bank's majority shareholder – ING Bank NV.

The market risk management process in the Bank also includes the Product Control function which assures correctness of Financial Markets products valuation. It covers independent assessment (comparison to market) of revaluation prices and parameters used for fair market value calculation and proper P&L and valuation reporting in financial system. Decisions about issues related to valuation process e.g. sources of market data used, pricing model reserves calculation etc. are taken by the Parameters Committee which is chaired by Product Control and also includes representatives from the Financial Markets and Finance divisions.

The management of market risk in the Bank is primarily focused on potential changes in the economic result of the Bank (i.e. changes in the present value of expected future cash flows) but attention is also paid to cases where – due to accounting asymmetries – the effect of market rate changes on reported financial results are different from the effect of such changes on economic results.

2. Bank's Book Structure in Context of Market Risk Management

The Bank maintains an intention-based book structure which drives many processes, including the management of market risk. The book structure reflects what kind of market risk is expected and acceptable in which parts of the Bank and where market risk should be internally transferred/hedged within the Bank. Specifically, books are categorized based on intention as *"trading"* (positions are taken in expectation of short-term financial gain from market movements) or *"banking"* (all other positions). A high-level view of the Bank's book structure is as follows:

Whole Bank
- |___ Trading Books
- |___ Banking Books
  - |___Commercial Banking Books
  - |___ FM Banking Books

Trading Books

These are Financial Markets ("FM") books (FX, FX Options and Interest Rate Trading) and ING Securities (the Bank's brokerage house) - equity market-making and arbitrage activities (reported under FM structure). These books include positions held intentionally for short-term resale and/or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits, and include, for example, proprietary positions, positions arising from client servicing and/or market making. The market risks of open positions in trading books are limited by various Trading VaR limits or - for the equity market-making and arbitrage activities of ING Securities - volume limits.

Commercial Banking Books

These are Retail and Wholesale Banking books containing commercial loans and deposits. The risks of these positions are internally hedged as well as possible to FM Banking books via internal contracts, which ensures that these books do not contain material levels of economic market risk. However, as described later in more detail, the short-term financial results of these books *are* sensitive to changes in market rates.

FM Banking Books

These are Liquidity Management & Funding ("LMF") and ALM ("ALM") books. Their primary responsibility is the liquidity and interest rate management of the positions of Banking – Commercial – Books. Open positions are allowed within approved VaR limits. Like Commercial Banking books, there is usually a difference between the sensitivity of economic and financial results to changes in market rates.

3. Approach to market risk management in subsidiaries

It is the policy of ING Bank Śląski S.A. for its subsidiaries to maintain market risk at low levels. The main categories of market risk which can arise as a result of subsidiaries' activities are Foreign Exchange risk and Interest Rate risk. This policy is ensured by periodic measurements and monitoring of the market risks of the bank's subsidiaries. The Management Board, ALCO Committee, Market Risk Management Department and Accounting Department and subsidiaries are involved in the management risk process. One of the major element of the management risk process on the capital group of ING Bank Śląski level is the determination of the limits constrain the risk of each subsidiaries and on the capital group level. The market risk is measured by the same techniques and methods as in the ING Bank Śląski. According to bank's policy the monitoring of the level of market risks and the comparison of these risks to low limits are done on monthly basis.

4. Value at Risk ("VaR") Concept

The Value at Risk (VaR) is the main methodology used to calculate market risk in FM books, both "Trading" and "Banking". The VaR gives the potential loss that is expected not to be exceeded assuming certain confidence (probability) level. The Bank calculated VaR separately for individual interest rate, FX and FX options portfolios. The following assumptions for VaR calculation are taken: 99% confidence interval and 250 daily market observations are used for volatility and correlation calculation. The VaR measurements done by the Bank are performed in accordance to ING Group standards and market best practice. The VaR model accuracy for "Trading" books is checked in daily back-testing process. P&L figures, both "actual" and "hypothetical or theoretical P&L" (change in end-of-day market value of the positions in a trading portfolio over 1 day, so excluding all intra-day activities that occurred during that day) are compared to the VaR. Any model outliers (large positive and all negative) are investigated and explained.

Event VaR ("stress-tests")

The Bank is aware that normal VaR does not present a full picture of market risk of a portfolio as it does not give an indication of potential losses in extreme cases. Therefore event risk (stress testing) calculations as performed. They cover evaluation of the Bank portfolios against a number of stress scenarios for one or more of the market parameters that determine the value of the portfolios. The worst result from the scenarios is reported as the final event VaR number.

Trading Books Market Risk (VaR statistics)*

VaR numbers in 2007 (in PLN)

Area	Limit	As at 31.12.2007	Average	Min	Max
Interest Rate	3,405,870	672,818	359,267	175,953	1,424,258
FX**	2,119,208	16,692	506,475	16,692	1,185,349
FX Options	1,892,150	222,084	359,047	135,679	982,722

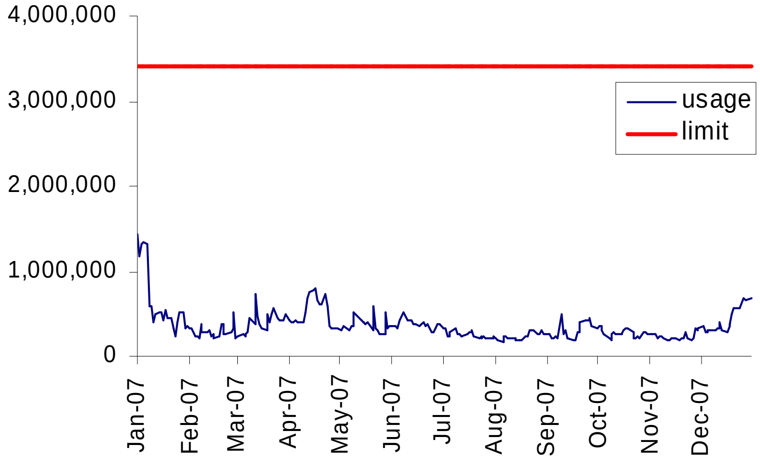
VaR numbers in 2006 (in PLN)

Area	Limit	As at 31.12.2006	Average	Min	Max
Interest Rate	3,506,400	1,253,270	973,864	304,322	2,439,333
FX**	2,181,760	565,179	428,417	62,232	1,039,353
FX Options	1,948,000	505,718	494,367	180,424	1,302,511

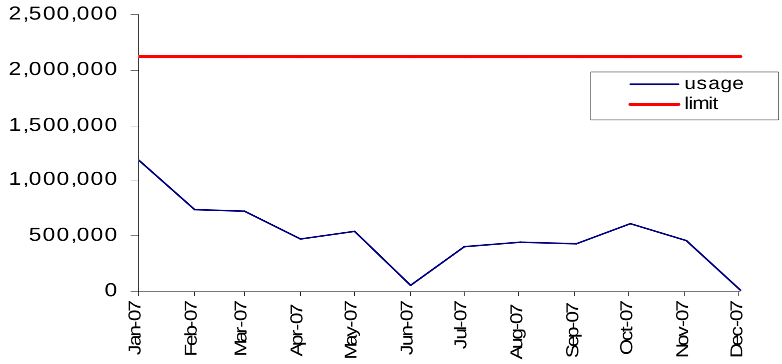
* *All VaR limits and their usage in ING Bank Śląski are denominated in EUR. Limit levels in tables and graphs PLN for the purpose of this document were converted into PLN using average NBP fixing rate. The usage is converted into PLN using daily NBP fixing rates.*

*** including subsidiaries, based on monthly measurement*

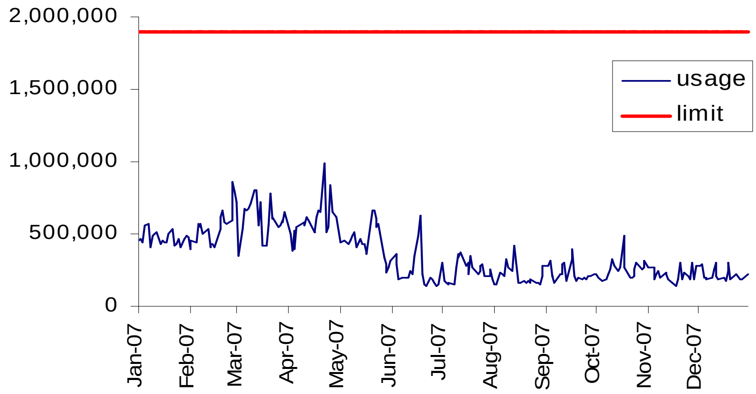
Interest Rate VaR (PLN)



FX VaR (PLN)



FX Options VaR (PLN)



Financial Markets Banking Books Market Risk (VaR statistics)**

VaR numbers in 2007 (in PLN)

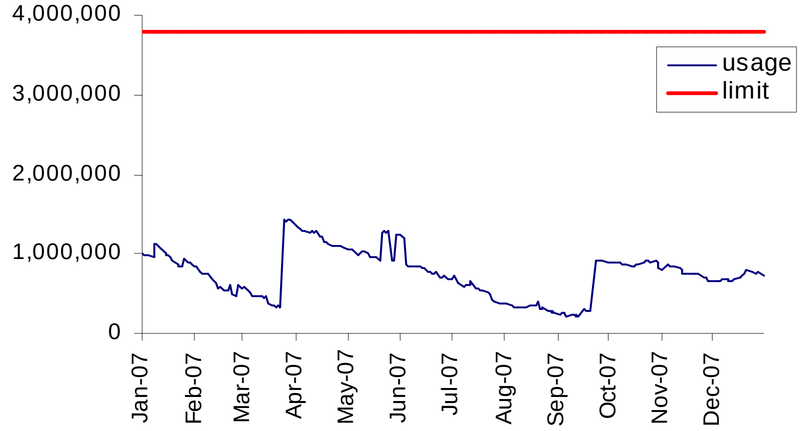
Area	Limit	As at 31.12.2007	Average	Min	Max
LMF	3,784,300	714,276	749,507	214,458	1,432,153
ALM	3,784,300	1,395,945	533,356	144,281	1,755,009

VaR numbers in 2006 (in PLN)

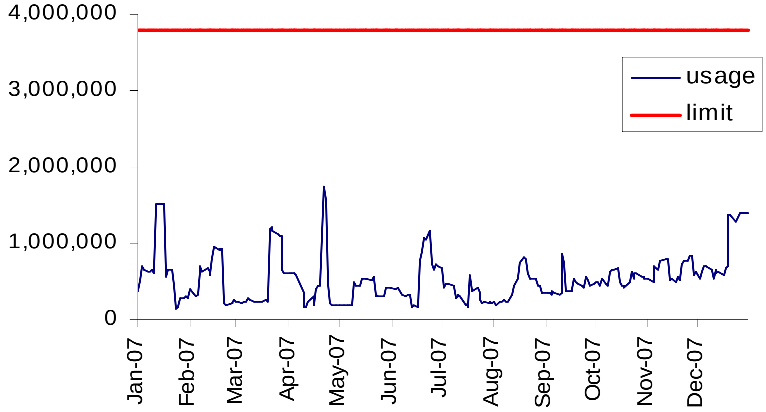
Area	Limit	As at 31.12.2006	Average	Min	Max
LMF	3,896,000	1,005,460	1,302,275	819, 956	2,420,937
ALM	3,896,000	209,950	1,105,424	99,810	3,627,633

*** In case of LMF (Liquidity Management & Funding) numbers represent Total VaR (including both swap curve changes and spread risk) whereas for ALM it represents Delta VaR as this measure is formally limited (delta VaR takes into account swap curve changes only).*

LMF VaR (PLN)



ALM VaR (PLN)



Non Financial Markets Banking Books VaR statistics*

VaR numbers in 2007 (in PLN)

Area	Limit	As at 31.12.2007	Average	Min	Max
Interest Rate	756,860	34,573	25,278	12,642	50,593

VaR numbers in 2006 (in PLN)

Area	Limit	As at 31.12.2006	Average	Min	Max
Interest Rate	779,200	99,305	62,572	24,906	113,478

** including subsidiary positions*

Commercial Banking Books Market Risk

As these books are materially hedged against changes in economic results, the main indication of the interest rate exposure of Commercial Banking books are Earnings at Risk "EaR" measurements (results of these measurements are presented later in the interest rate sensitivity analysis tables). The positions in Commercial Banking books are also subject to measurements of non-linear interest rate risk. Specifically, the Bank measures optionality risk (the potential losses on these positions given early-withdrawal of deposits and/or early re-payment of loans) and basis risk (the potential losses on these positions arising from non-standard rate-setting mechanisms). The Bank is of the opinion that both of these risks are not material (potential losses typically represent a very small share of historical or projected results).

5. Earnings at Risk (EAR) Concept

EaR measurements are used for the (parts of) banking book positions which are accrual-accounted. Two approaches are used, as detailed below; both approaches cover a 1-year time horizon and provide the possible changes in accrual results given shock changes of +/-1% and +/- 2%. The two approaches taken are as follows:

- A "basic" approach is used for positions comprised of term transactions and/or small volumes of demand positions. This approach assumes that any future funding gaps or surpluses will be financed or invested with a tenor of one month.
- An "advanced" approach is used for material volumes of demand positions (at present: the Bank's PLN demand deposit base and its internal investment into FM banking books. The measurements simulate the changes in the Bank's results coming from the combination of:
  - Current (internal) investment of these funds and replenishment of these investments as previous investments mature and/or new volumes are attracted. Future (re-) investments are predicted based on continued use of current investment rules.
  - An assessment of the relation between changes in market rates and the rates that the Bank must pay its clients in order to maintain volumes.

Overall Interest Rate Sensitivity

The following tables provide a good overview of the sensitivity of the consolidated Bank to changes in interest rates. Full data is only available as at the end of December 2007; future financial statements will include comparisons to previous periods.

The first table shows the sensitivity of the Bank's results to changes in interest rates; the following should be noted:

- Positions are divided into banking book vs. trading book. Positions include all material currencies; PLN positions represent the vast majority of the interest rate sensitivity of the Bank.
- A basis point value ("BPV") is shown for each (sub-) position; by BPV we mean the change in the economic value of a position for a 0.01% parallel increase in yields.
- Positions are further split where relevant by accounting method: accrual or MTM. MTM positions' economic and financial sensitivity to a given change in market rates is the same; changes in the market value are fully and immediately reflected in reported results. Accrual-accounted positions display an asymmetry between the economic and financial effect of a given yield curve shift; this is an unavoidable result of accounting regulations. The financial effects of yield curve shifts are calculated in line with the definition of EaR presented earlier. The "advanced" EaR approach is used for PLN demand deposits; the "basic" EaR approach is used for all other accrual-accounted positions. The economic result shown is the predicted change in the present value of future earnings, calculated over a long time horizon.
- As can be seen in the table in case of banking book there is a large difference between the economic and financial sensitivity. Although the bank is aware of the sensitivity of its short-term

financial results to changes in interest rates, the most important metric is – in line with the ING Group's "Managing For Value" approach – the sensitivity of the long-term economic results of the bank.

The second table shows the sensitivity of the Bank's capital base to changes in the market value of debt securities classified as Available-for-Sale ("AFS") in FM (the vast majority of AFS-classified securities in the consolidated Bank). It is important to note that the potential changes in capital base shown here are relevant only for the Bank's *regulatory* capital base. The Bank's calculations of its *economic* capital base do not include positive or negative revaluations of AFS-classified debt securities. This is because AFS-classified debt securities positions largely arise from the investment of portions of PLN demand deposit volumes in line with the Bank's economic modelling of these demand deposits.

Sensitivity of consolidated results to Changes in Interest Rates

Book	Accounting Category	BPV	Change in Economic Result for Yield Curve Move				Change in Reported Financial Result for Yield Curve Move			
			-2%	-1%	1%	2%	-2%	-1%	1%	2%
BANKING	MTM	-0.83	172.22	84.61	-81.79	-160.95	172.22	84.61	-81.79	-160.95
	Accrual	0.82	-168.54	-83.07	80.75	159.26	-18.21	-9.00	9.00	18.00
	Total	*-0.01*	*3.69*	*1.54*	*-1.04*	*-1.69*	*154.02*	*75.61*	*-72.80*	*-142.96*
TRADING	MTM	0.04	-8.94	-4.47	4.47	8.94	-8.94	-4.47	4.47	8.94
BANK TOTAL	MTM	-0.79	163.28	80.13	-77.32	-152.01	163.28	80.13	-77.32	-152.01
	Accrual	0.82	-168.54	-83.07	80.75	159.26	-18.21	-9.00	9.00	18.00
ALL		**0.03**	**-5.26**	**-2.94**	**3.43**	**7.25**	**145.07**	**71.14**	**-68.32**	**-134.01**

All figures in PLN millions

Sensitivity of Capital Accounts to Changes in Interest Rates

2007

Position	BPV	Approximate Change in Regulatory Capital Base for Yield Curve Move			
		-2%	-1%	+1%	+2%
FM AFS Portfolio	-2.24	447.50	223.75	-223.75	-447.50

2006

Position	BPV	Approximate Change in Regulatory Capital Base for Yield Curve Move			
		-2%	-1%	+1%	+2%
FM AFS Portfolio	-2.59	518.09	259.04	-259.04	-518.09

All figures in PLN millions

III. Liquidity Risk Management

Liquidity Risk is understood by ING Bank Śląski as being the risk of not being able to meet at a reasonable price the cash obligations arising from on- and off-balance sheet positions. It is the policy of the Bank to maintain its liquidity positions in such a way that the cash obligations of the Bank may always be met by cash on hand, inflows from maturing transactions and/or from the liquidation of marketable assets.

This policy is ensured by the following processes, as defined in detail in the *ING Bank Śląski's Liquidity and Funding Policy:*

- production and review of internally-defined liquidity and funding reports and adherence to any formal limits placed thereupon.
- existence of a clear governance structure assigning roles and responsibilities in normal and stressed liquidity circumstances.
- production and review of regulatory liquidity reports defined by the Polish and Dutch national Banks ("NBP", "DNB") and adherence to any formal limits placed thereupon.
- activities ensuring proper supply of banknotes at branches, and
- activation, in certain defined circumstances, of a contingency funding plan.

The formal limits are placed by regulators or the Bank on the various reported metrics. ALCO may decide to include metrics in its KRI (Key risk Indicators) report wherein liquidity metrics are classified as "acceptable", "under observation" or "not acceptable" based on pre-defined thresholds. The ALCO KRI report is also presented to the Bank's Management and Supervisory Boards.

In case of excesses of hard limits and/or KRI liquidity metrics classified as "unacceptable", the following actions are performed:

- MRM – with help from other departments as necessary – ensures that a real breach has occurred (and not a reporting error).
- MRM informs local and regional ALCO of the limit or KRI breach, the cause of the breach, and proposed remedial actions.
- An ad hoc ALCO meeting is held to agree on remedial actions and responsibilities for carrying out these actions. Regional ALCO is informed of decisions taken.

One of the most imported processes of the management liquidity risk is the contingency funding plan. The Bank's Contingency Funding Plan (CFP) serves to provide guidance as regards identifying a liquidity crisis and, in case such identification is made, as regards the actions to be taken to survive the crisis.

The actions taken in line with the CFP depend on the nature and severity and of the liquidity crisis.

It is worthwhile to expand on the internally-defined reports as this gives good insight into the Bank's approach to measuring and managing risk and these reports are the basis for the explanatory tables presented in this section.

The most important of these internally-defined reports are as listed below.

Liquidity Cash Profile

On the following pages we present the bank's liquidity profile as of the end of December, 2007. The reports are presented in two contexts: contractual liquidity positions and stressed liquidity positions, as described below:

Contractual Liquidity Positions: These reports include all balance sheet positions which are exposed to liquidity risk. The reports are reconciled to the balance sheet of the bank. Positions are allocated to time intervals based on contractual maturity or – where there is no contractual maturity (for example, current and savings accounts) – to the first time interval.

Stress Liquidity Position: In the opinion of the bank, this report – made in line with the bank's Liquidity Risk Management policy - provides much more insight into the liquidity risk of the bank. The main differences vis-à-vis the contractual liquidity reports are as follows:

- Off-balance sheet positions are included if they have potential liquidity implications. For example, the report assumes that financing may be needed for an estimated level of potential draw-downs under unused credit lines.
- Some balance sheet positions are excluded if they do not have an effect on the bank's liquidity position. To give some examples: 1) fixed assets are not included as they are not considered to be a ready source of cash, 2) capital is not included as we do not expect the withdrawal of this liability, 3) PLN nostro balances up to the minimum required balance are not included as the maintenance of the required minimum balance means that in effect this asset is "frozen" and can not be seen as a structural source of cash to cover maturing liabilities.
- Some balance sheet positions are adjusted to give an accurate picture of the bank's liquidity position during a stress situation; these adjustments can effect both the allocation of positions to time intervals as well as the total amounts of positions. To give some examples: 1) the allocation of non-bank demand and term deposits to time intervals is done according to assumptions about deposit withdrawals and rollovers in a liquidity stress situation, 2) marketable securities are allocated to the first time interval based on a haircut to market value to simulate the bank's forced sale of these assets in a liquidity stress situation.

Unadjusted Liquidity Gap Positions (in PLN millions)

2007 year-end

	1M	*1- 3 M*	*3 - 12 M*	*Over 1Y*	***TOTAL***
BALANCE SHEET ASSETS					
- Cash in hand and balances with the Central Bank	1 841,7	0,0	0,0	0,0	**1 841,7**
- Loans and receivables to other banks	11 932,0	737,6	2 512,4	1,7	**15 183,7**
- Financial assets measured at fair value through profit and loss	872,9	192,7	743,8	6 098,2	**7 907,6**
- Investments	8,0	0,0	1 877,2	7 503,1	**9 388,3**
- Derivative hedge instruments	0,0	0,0	0,0	4,6	**4,6**
- Loans and receivables to customers	5 648,7	1 304,6	2 427,6	6 998,2	**16 379,1**
BALANCE SHEET LIABILITIES					
- Liabilities due to the Central Bank	0,0	0,0	0,0	0,0	**0,0**
- Liabilities due to other banks	1 642,1	123,1	45,0	0,0	**1 810,2**
- Financial liabilities measured at fair value through profit and loss	248,9	155,5	431,4	379,2	**1 215,0**
- Liabilities due to customers	40 361,4	1 699,4	1 594,0	847,0	**44 501,8**
OFF BALANCE SHEET ITEMS					
- Contingent liabilities granted	10 242,5	168,1	781,7	1 641,6	**12 833,9**
NET GAP	**-32 191,6**	**88,8**	**4 708,9**	**17 738,0**	**X**
CUMULATIVE GAP	**-32 191,6**	**-32 102,8**	**-27 393,9**	**-9 655,9**	**X**

2006 year-end

	1M	*1- 3 M*	*3 - 12 M*	*Over 1Y*	***TOTAL***
BALANCE SHEET ASSETS					
- Cash in hand and balances with the Central Bank	1 147,9	0,0	0,0	0,0	**1 147,9**
- Loans and receivables to other banks	11 370,3	2 027,0	110,5	6,1	**13 513,9**
- Financial assets measured at fair value through profit and loss	149,2	1 197,0	669,0	5 052,2	**7 067,4**
- Investments	50,4	730,4	2 652,3	9 181,8	**12 614,9**
- Derivative hedge instruments	0,0	0,0	3,3	0,0	**3,3**
- Loans and receivables to customers	4 799,3	1 017,0	1 985,5	5 066,3	**12 868,1**
BALANCE SHEET LIABILITIES					
- Liabilities due to the Central Bank	696,0	0,0	0,0	0,0	**696,0**
- Liabilities due to other banks	1 050,2	74,8	129,4	146,7	**1 401,1**
- Financial liabilities measured at fair value through profit and loss	2 236,9	165,3	274,1	444,2	**3 120,5**
- Liabilities due to customers	34 439,0	1 521,0	1 945,3	656,1	**38 561,4**
OFF BALANCE SHEET ITEMS					
- Contingent liabilities granted	11 729,3	162,7	642,3	1 283,2	**13 817,5**
NET GAP	**-32 634,3**	**3 047,6**	**2 429,5**	**16 776,2**	**X**
CUMULATIVE GAP	**-32 634,3**	**-29 586,7**	**-27 157,2**	**-10 381,0**	**X**

Liquidity Gap Positions In Bank-Defined Stress Scenarios According to Bank Models (in PLN millions)

2007 year-end

	1M	*1- 3 M*	*3 - 12 M*	*Over 1Y*
BALANCE-SHEET				
ASSETS				
- Securities	12 883,8	0,0	94,7	319,3
- Money market (given)	11 024,0	760,1	2 410,7	0,0
- Term/demand loans	2 639,4	1 048,4	2 189,5	10 700,0
- Other assets	114,6	0,0	0,0	1 371,8
LIABILITIES				
- Money market (taken)	1 390,6	123,1	45,0	0,0
- Term deposits	12 407,4	1 313,9	928,1	1 961,9
- Demand deposits	2 213,7	1 710,9	3 832,9	843,2
- Savings accounts retail	3 193,9	2 221,4	8 642,4	5 013,7
- Other liabilities	76,9	0,0	0,0	0,0
OFF BALANCE SHEET ITEMS				
ASSETS				
- FX SWAPS / CC-IRS	14 355,0	3 282,1	5 866,2	380,5
- Money market / depo strategic clients	2 358,7	0,0	0,0	0,0
- Repayment of contingent assets	937,3	115,8	252,7	1 571,2
LIABILITIES				
- FX SWAPS / CC-IRS	14 059,4	3 249,4	5 501,2	466,3
- Money market / depo strategic clients	2 358,6	0,0	0,0	0,0
- Funding of contingent assets	2 876,9	0,0	0,0	0,0
NET GAP	**5 735,5**	**-3 412,3**	**-8 135,8**	**6 057,6**
CUMULATIVE GAP	**5 735,5**	**2 323,2**	**-5 812,6**	**245,0**

2006 year-end

	1M	*1- 3 M*	*3 - 12 M*	*Over 1Y*
BALANCE-SHEET				
ASSETS				
- Securities	13,566.7	172.3	118.3	827.3
- Money market (given)	10,940.9	2,032.8	0.0	0.0
- Term/demand loans	2,470.0	627.2	1,684.3	8,948.3
- Other assets	511.5	0.0	0.0	771.2
LIABILITIES				
- Money market (taken)	961.5	50.5	136.8	0.0
- Term deposits	11,388.8	944.9	879.2	2,579.9
- Demand deposits	1,450.3	1,794.0	3,302.0	705.2
- Savings accounts retail	3,090.0	1,297.0	7,001.3	4,061.7
- Other liabilities	854.9	0.0	19.2	690.2
OFF BALANCE SHEET ITEMS				
ASSETS				
- FX SWAPS / CC-IRS	13,742.8	4,994.2	5,579.9	830.1
- Money market / depo strategic clients	3,816.9	0.0	0.0	0.0
- Repayment of contingent assets	706.3	56.8	143.7	1,088.2
LIABILITIES				
- FX SWAPS / CC-IRS	13,758.4	4,947.1	5,474.4	926.8
- Money market / depo strategic clients	3,814.3	2.6	0.0	0.0
- Funding of contingent assets	1,995.1	0.0	0.0	0.0
NET GAP	**8,441.8**	**-1,152.8**	**-9,286.7**	**3,501.3**
CUMULATIVE GAP	**8,441.8**	**7,289.0**	**-1,997.7**	**1,503.6**

As regards the Capital Group of ING Bank Śląski S.A. the Bank's approach to the liquidity risk management, the liquidity characteristics of the specific balance sheet items with difficult liquidity-related standing, are calculated in line with the regulatory reporting requirements for the liquidity risk of the Dutch Central Bank. In order to measure the Group's liquidity risk there are set obligatory limits for the weekly and monthly liquidity gap for capital group and the subsidiaries as well. Below there are presented the weekly and monthly liquidity gaps at the consolidated level.

Liquidity risk in the year 2007

Area	As at 31.12.2007	Average	Min	Max
1week gap	19 734 014	11 642 737	7 404 877	19 734 014
1month gap	19 282 546	11 678 353	8 439 852	18 544 512

In thousand PLN

Liquidity risk in the year 2006

Area	As at 31.12.2007	Average	Min	Max
1week gap	17 697 012	14 412 429	11 115 305	19 015 475
1month gap	15 809 716	13 684 106	9 267 162	15 940 627

In thousand PLN

IV. Regulatory and Economic Capital Management

In accordance with capital policy Bank maintains a capital base which is sufficient in terms of regulatory and economic capital requirements. Capital base for comparison reasons is calculated following current methods while regulatory capital requirements are calculated according to (Resolution 1/2007 KNB form 13th of March 2007). Economic capital requirements and economic capital base are largely bank-determined.

For the purpose of capital management the Bank distinguishes items of the banking book and of the trading one. This division is of key importance for calculation of the regulatory capital while not affecting the economic capital.

The scope of the capital management process covers the Bank and all companies of the Group of ING Bank Śląski, however the capital requirements of subsidiaries are not material in view of the total level of the capital requirement for ING Bank Śląski S.A.

Division of the Bank's assets into items of the Banking Book and of the Trading Book

The division into the banking and trading books is important not only due to regulatory issues, as it is also reflected in management accounting maintained by the Bank and in the risk management area. The above mentioned elements represent an immanent feature of the process of regulatory capital management while not affecting the calculation of the economic capital. The aforesaid division may be characterised in the following manner:

- The Banking Book covers items resulting from the commercial lending and deposit activity as well as financial markets items, representing the outcome of management and financing of those items.
- The Trading Book covers short-term items (speculation, arbitration) and trading ones.

Capital Base in Regulatory aspect

The table below present the detailed calculation of base figures and regulatory capital and solvency ratio as at 31 December 2006 and 31 December 2007.

The more stringent regulatory capital requirements are connected with the growing size of the credit portfolio which is in line with the Bank's strategic objective and which translates into the size of the regulatory capital base. In the current situation, the Bank maintains an adequate capital level which is illustrated by the solvency ratio (an 8% regulatory requirement).

Consolidated regulatory capital base and solvency ratio

	31 Dec 2007	31 Dec 2006
Capital components		
Share capital	130 100	130 100
Supplementary capital - issuance of shares over nominal value	993 750	993 750
Other supplementary capital	36 325	23 582
Capital reserve	1 505 970	1 359 501
General risk	530 179	480 152
Retained profit/loss of past years	103 328	82 162
Revaluation reserve from measurement of available-for-sale financial assets	-149 591	42 830
Revaluation reserve from measurement of property, plant and equipment	57 998	52 263
Adjustment for intangible assets	-318 825	-317 661
Minority equity	1 719	22 699
Short-term capital	91 761	120 556
Total own funds	**2 982 714**	**2 989 934**
Capital requirements		
Credit risk	1 727 660	1 378 219
Credit concentration risk	0	720
Market risk	64 078	121 361
Risk of delivery settlement and of counterparty	27 683	19 351
Total capital requirement	**1 819 421**	**1 519 651**
Solvency ratio	**13,12%**	**15,74%**

Regulatory and economic capital requirements

The process of the Bank's preparations for Basel II includes, among others, comprehensive assessment of all risks run by the Bank. This process results in calculating the capital requirements, thus allowing the Bank to protect itself against the risk. The value of capital requirements differs depending on the regulatory or economic approaches. Two key reasons for differences may be distinguished:

– The methods used for assessment and measurement of regulatory capital requirements are determined by NBP/KNB, whereas the methodology of measurement of the economic capital requirements is based on internal Banks' models.

– The legal regulations precisely define the risks for which the regulatory capital requirement should be calculated; this does not apply to the estimations of the economic capital calculated in a manner defined by the Bank. Thus, the economic capital covers a broader scope of risks, including those that are significant (material), but not included in regulatory capital.

Changes connected with implementation of the New Capital Accord/Basel II (Directive 2006/48/EC of the European Parliament and the Council of 14 June 2006 and Directive 2006/49/EC of the European Parliament and the Council of 14 June 2006)

Bank achieved compliance with Basle II requirements. These requirements, and the bank's progress in compliance therewith, are divided into the three "pillars" of Basle II:

- Pillar 1 of reflects regulatory requirements. The most important changes that occur in this area during 2007 are:
  - Introduction of regulatory capital requirements for operational risk. In this area, the Bank uses the Basic Indicator Approach (BIA) method. The Operational Risk Management and Compliance Department is responsible for management and monitoring of that risk.
  - The stipulation of the New Capital Accord do not impose significant changes in respect of the measurement, management and modelling of market risk. All requirements of the new regulations were implemented and are currently realised by the market Risk Management Department.

  For the purpose of 2008 and 2009 reporting Standardised Approach including the use of regulatory parameters set in the abovementioned Directives and in Resolution 1/2007 KNB is to be used. This area is managed and monitored by Departments from the Risk Division.

  Works are continued on compliance with the requirements of A-IRB approach (Advanced Internal Rating Based Approach). The A-IRB approach will be used commencing from August 2009. Compliance with Basel II requirements was achieved by the implementation of:

  - Global models developed at the Group level and accepted by the Dutch Central Bank (DNB).
  - Local models developed at the ING Bank Śląski's level and accepted by the National Bank of Poland.
- Pillar 2 imposes new requirements in respect of the economic capital calculation as well as supervision and management, especially in the area of risks. The Bank's organisational structure and the model of the institution's management are in line with the guidelines of the New Capital Accord. This compliance is understood as the appropriate segregation of duties and the internal reporting mechanism ensuring that the Management Board and the Supervisory Board are informed about the type and level of risks the Bank is exposed to. This pillar covers both the risks of Pillar 1 and the risks not contained therein, including business risk, transfer risk, residual risk, model or stress risks.
- Pillar 3 imposes new reporting requirements and demands publishing the information policy in regard to the scope, frequency and form of disclosure and presentation of reporting information. The Bank achieved compliance with Basel II requirements by building Financial Data Mart (FDM) and implementation of Finrep and Corep reporting towards NBP.