

**ING Bank Śląski S.A.**  
**Capital Group**  
Report supplementing  
the auditor's opinion  
on the consolidated financial  
statements  
Financial Year ended  
31 December 2007

KPMG Audyt Sp. z o.o.  
The report supplementing the auditor's opinion  
contains 13 pages  
Report supplementing the auditor's opinion  
on the consolidated financial statements  
for the financial year ended  
31 December 2007

*This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation*

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## **1 General**

### **1.1 Identification of the Group**

#### **1.1.1 Name of the Group**

ING Bank Śląski S.A. Capital Group

#### **1.1.2 Registered office of the Parent Company of the Group**

ul. Sokolska 34  
40-086 Katowice

#### **1.1.3 Registration of the Parent Company in the National Court Register**

Seat of the court: District Court in Katowice, Commercial Department of the National Court Register  
Date: 9 April 2001  
Registration number: KRS 0000005459

#### **1.1.4 Registration of the Parent Company in the Tax Office and Statistical Office**

NIP: 634-013-54-75  
REGON: 271514909

## **1.2 Information about companies comprising the Group**

### **1.2.1 Companies included in the consolidated financial statements**

As at 31 December 2007, the following companies were consolidated by the Group:

- ING Bank Śląski S.A.

Subsidiaries consolidated on the full consolidation basis:

- ING Securities S.A.
- ING Bank Hipoteczny S.A.
- Centrum Banku Śląskiego Sp. z o.o. w likwidacji
- ING BSK Development Sp. z o.o.
- Solver Sp. z o.o.

### 1.3 Auditor information

Name: KPMG Audyt Sp. z o.o.  
Registered office: Warsaw,  
Address: ul. Chłodna 51, 00-867 Warsaw  
Registration number: KRS 0000104753  
Registration court: District Court for the Capital City Warsaw in Warsaw,  
XII Commercial Department of the National Court Register;  
Share capital: PLN 125,000  
NIP number: 526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 458.

### 1.4 Legal status

#### 1.4.1 Share capital

The Parent Entity was established for an indefinite period under the terms of its Statute dated 8 October 1991.

The share capital of the Parent Entity amounted to PLN 130,100,000 as at 31 December 2007 divided into 13,010,000 ordinary shares each with a nominal value of PLN 10.

As at 31 December 2007, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Voting rights (%)	Nominal value of shares PLN '000	Percentage of share capital (%)
ING Bank N.V	9,757,500	75.00%	97,575,000	75.00%
Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK	696,926	5.36%	6,969,260	5.36%
Others <5%	2,555,574	19.64%	25,555,740	19.64%
	<b>13,010,000</b>	<b>100.00%</b>	<b>130,100,000</b>	<b>100.00%</b>

### **1.4.2 Management of the Parent Company**

The Management Board is responsible for management of the Parent Entity.

At 31 December 2007, the Management Board of the Parent Entity comprised of the following members:

- Mr Brunon Bartkiewicz – President of the Management Board
- Mr Mirosław Boda – Vice President of the Management Board
- Ms Maria Elisabeth van Elst – Vice President of the Management Board
- Mr Oscar Edward Swan – Vice President of the Management Board
- Mr Michał Szczurek – Vice President of the Management Board
- Mr Benjamin van de Vrie – Vice President of the Management Board

On 20 April 2007, at the meeting of the Supervisory Board of the Bank, Mr Maciej Węgrzyński resigned from a position of Vice-President of the Management Board of ING Bank Śląski S.A. as of the General Shareholders' Meeting i.e. 9 May 2007.

On 28 September 2007 at the meeting of the Supervisory Board of the Bank, Mr Ian B. Clyne informed the Board of his intention to resign from a position of Vice-President of the Management Board of ING Bank Śląski S.A. and at the same time the Supervisory Board of the Bank expressed their intention to appoint Mr Oscar Edward Swan to a position of Vice-President of the Management Board of ING Bank Śląski S.A. On 1 December 2007 Mr Ian B. Clyne resigned from the position of Vice-President of the Management Board and Mr Oscar Swan was appointed to the position of Vice-President of the Management Board.

### **1.4.3 Scope of activities**

The business activities listed in the Parent Entity's Statute include the following:

- opening and maintaining bank accounts;
- accepting current and term placements;
- issuing and trading on own securities;
- granting and taking loans, co-operation and intermediary services in respect of loans;
- financial and operational participation in international projects and undertakings;
- placing and accepting money placements with domestic and foreign banks;
- custodian services;
- providing leasing, factoring, underwriting services;
- intermediary services for Open Pension Funds;
- other services as specified in the Bank's Statute

The business activities of subsidiaries of the Group, include the following:

- granting mortgage loans;
- trading mortgage-backed securities;
- brokerage services;

- financial consulting and intermediary;
- financial intermediary, market research and analysis;
- real estate rental services;
- real estate agency and related services

## **1.5 Prior period consolidated financial statements**

The consolidated financial statements for the financial year ended 31 December 2006 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements were approved at the General Shareholder's Meeting on 9 May 2007.

The closing balances as at 31 December 2006 have been properly recorded as the opening balances of the audited year.

The consolidated financial statements were submitted to the Registry Court on 24 May 2007 and were published in Monitor Polski B No. 1456 item 8419 dated 3 September, 2007.

## **1.6 Audit scope and responsibilities**

This report was prepared for Shareholders' Meeting of ING Bank Śląski S.A. seated in Katowice, ul. Sokolska 34 and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2007, with total assets and total liabilities and equity of PLN 52,010,860 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 636,822 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 62,109 thousand, the consolidated cash flow statement for the year then ended with a decrease in cash amounting to PLN 3,380,608 thousand, and the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

The audited Company prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the resolution of the General Shareholders' Meeting dated 23 December 2004.

The consolidated financial statements have been audited in accordance with the contract dated 12 August 2005, concluded on the basis of the Resolution of the Supervisory Board of ING Bank Śląski S.A. dated 29 April 2005 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the consolidated financial statements in the Parent Company's head office during the period from 3 January 2008 to 7 March 2008

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

Our responsibility is to express an opinion, and to prepare a supplementing report, on the financial statements.

The Management Board of the Parent Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of the consolidated financial statements fulfil independence requirements from the companies included in the Group. The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Sp. z o.o.

## **1.7 Information on audits of the financial statements of the consolidated companies**

### **1.7.1 Parent Entity**

The financial statements of the Parent Entity for the year ended 31 December 2007 were audited by KPMG Audyt Sp. z o.o., certified auditor number 458, and received an unqualified opinion.

### **1.7.2 Other consolidated entities**

<u>Entity's name</u>	<u>Authorised auditor</u>	<u>Financial year end</u>	<u>Type of auditor's opinion</u>
ING Securities S.A.	KPMG Audyt Sp. z o.o.	31 December 2007	Unqualified opinion
ING Bank Hipoteczny S.A.	KPMG Audyt Sp. z o.o.	31 December 2007	In progress

The financial statements of other entities from the Group were not required to be audited for the financial year ended 31 December 2007.

The following subsidiaries were consolidated until the date control by the Parent ceased:

- Centrum Banku Śląskiego Sp. z o.o. – subject to consolidation for the period from 1.01.2007 to 31.10.2007.

## 2 Financial analysis of the Group

### 2.1 Summary of the consolidated financial statements

#### 2.1.1 Consolidated balance sheet

ASSETS	31.12.2007 PLN '000	% of total	31.12.2006 PLN '000	% of total
Cash in hand and balances with the Central Bank	1,841,725	3.54	1,147,900	2.37
Deposit accounts in other banks as well as loans and advances to other banks	15,183,665	29.19	13,513,898	27.86
Financial assets measured at fair value through profit and loss	7,907,564	15.20	7,067,422	14.58
Investment financial assets	9,388,273	18.05	12,614,914	26.02
Hedging derivatives	4,572	0.01	3,329	0.01
Loans and advances to customers	16,379,138	31.51	12,868,074	26.55
Investments in controlled entities	97,326	0.19	90,309	0.19
Investment property	144,713	0.28	145,970	0.30
Tangible assets	532,938	1.02	571,065	1.18
Intangible assets	318,825	0.61	317,661	0.66
Property, plant and equipment held for sale	241	-	224	-
Current tax assets	25,256	0.05	-	-
Deferred tax assets	49,292	0.09	38,132	0.08
Other assets	137,332	0.26	97,114	0.20
<b>TOTAL ASSETS</b>	<b>52,010,860</b>	<b>100.00</b>	<b>48,476,012</b>	<b>100.00</b>
<b>LIABILITIES</b>	<b>31.12.2007 PLN '000</b>	<b>% of total</b>	<b>31.12.2006 PLN '000</b>	<b>% of total</b>
<b>Liabilities</b>				
Liabilities due to the Central Bank	-	-	696,000	1.43
Liabilities due to other banks	1,810,195	3.48	1,401,149	2.89
Financial liabilities measured at fair value through profit and loss	1,214,981	2.34	3,120,520	6.44
Liabilities due to customers	44,501,837	85.56	38,561,423	79.54
Provisions	72,507	0.14	90,324	0.19
Current income tax liabilities	126	-	67,532	0.14
Deferred income tax liabilities	-	-	-	-
Other liabilities	570,712	1.10	760,671	1.57
<b>Total liabilities</b>	<b>48,170,358</b>	<b>92.62</b>	<b>44,697,619</b>	<b>92.20</b>
<b>Equity</b>				
Share capital	130,100	0.25	130,100	0.27
Supplementary capital - issuance of shares over nominal value	993,750	1.91	993,750	2.05
Revaluation reserve from financial assets available for sale	-149,591	-0.29	42,830	0.09
Revaluation reserve from fixed assets	57,998	0.11	52,263	0.11
Retained earnings	2,806,526	5.40	2,536,751	5.23
<b>Total equity attributable to equity holders of the parent</b>	<b>3,838,783</b>	<b>7.38</b>	<b>3,755,694</b>	<b>7.75</b>
Minority interest	1,719	-	22,699	0.05
<b>Total equity</b>	<b>3,840,502</b>	<b>7.38</b>	<b>3,778,393</b>	<b>7.80</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>52,010,860</b>	<b>100.00</b>	<b>48,476,012</b>	<b>100.00</b>

## 2.1.2 Consolidated profit and loss account

	<b>1.01.2007 - 31.12.2007</b>	<b>1.01.2006 - 31.12.2006</b>
	<b>PLN '000</b>	<b>PLN '000</b>
Interest income	2,481,433	2,003,220
Interest expenses	1,432,840	1,066,916
<b>Net interest income</b>	<b>1,048,593</b>	<b>936,304</b>
Fee and commission income	1,058,997	825,188
Fee and commission expenses	128,239	89,905
<b>Net fee and commission income</b>	<b>930,758</b>	<b>735,283</b>
Net income on investment financial assets	25,780	22,578
Net income on instruments measured at fair value through profit and loss and revaluation	3,554	57,814
Other operating income and expenses	17,388	29,454
<b>Result on basic activities</b>	<b>2,026,073</b>	<b>1,781,433</b>
General and administrative expenses	1,377,292	1,223,316
Other expenses	9,201	10,531
Impairment losses and provisions for off-balance sheet liabilities	-103,811	-165,895
Share in net profit (loss) of subsidiaries and associated entities recognized under the equity method	43,598	39,850
<b>Profit (loss) before tax</b>	<b>786,989</b>	<b>753,331</b>
Income tax	150,167	155,380
<b>Net profit (loss)</b>	<b>636,822</b>	<b>597,951</b>
- assigned to shareholders of the holding company	630,724	591,355
- assigned to minority shareholders	6,098	6,596
<b>Earnings per ordinary share (PLN)</b>	<b>48.48</b>	<b>45.45</b>

## 2.2 Selected financial ratios

	2007	2006
Total assets (in PLN'000)	52,010,860	48,476,012
Gross profit (in PLN'000)	786,989	753,331
Net profit (in PLN'000)	636,822	597 951
Shareholders' equity (in PLN'000) *	3,203,680	3,180,442
Return on equity	19.88%	18.80%
Capital adequacy ratio	13.12%	15.74%
Receivables to total assets	60.69%	54.42%
Income generating assets to total assets	93.94%	95.02%
Interest bearing liabilities to total liabilities	91.38%	90.31%

\* excluding current-year net profit

## 2.3 Interpretation of selected financial ratios

The most significant changes in the consolidated balance sheet and the profit and loss account items are analysed below:

The total balance sheet increased by PLN 3,534,848 thousand during the year, i.e. 7.29%. The main growth in total liabilities was an increase in due to customers. Loans and advances to customers and deposits with other banks accounted for the main increase in total assets.

Gross profit before tax for the year ended 31 December 2007 amounted to PLN 786,989 thousand and was higher in comparison to the previous year by PLN 33,658 thousand i.e. by 4.47%. The main reason for the increase in gross profit was higher result from net interest income and net commissions and fees income, compensated by the higher general expenses

### **3 Detailed report**

#### **3.1 Accounting principles**

The Parent Entity maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Entity.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

In view of the fact that not all entities being part of the Group apply common accounting principles consistent with the accounting principles applied by the Parent Entity, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the same balance sheet date as the financial statements of the Parent Entity.

#### **3.2 Basis of preparation of the consolidated financial statements**

The consolidated financial statements of the ING Bank Śląski S.A. Capital Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements of the Decree of the Ministry of Finance dated 12 December 2001 regarding the consolidated financial statements of banks and consolidated financial statements of financial holding companies (Official Journal from 2001, No.152, item 1728).

#### **3.3 Method of consolidation**

The method of consolidation is described in point (f) of the notes to the consolidated financial statements.

#### **3.4 Goodwill arising on consolidation**

The method of calculating goodwill arising on consolidation is described in point (f) of the notes to the consolidated financial statements.

#### **3.5 Consolidation of equity and calculation of minority interest**

The share capital of the Group is equal to the share capital of the Parent Entity.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent

Entity's share in the subsidiaries' equity as at the balance sheet date to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Entity obtained control of the subsidiary is included in the equity of the Group.

Minority interests in subsidiaries included in the consolidated financial statements were determined based on the minority shareholders' share in the subsidiaries' equity as at the balance sheet date.

### **3.6 Consolidation eliminations**

Intercompany balances within the Group were eliminated on consolidation.

Income between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of the ING Bank Śląski S.A. Capital Group (or subsidiary entities) and agreed with information received from the subsidiaries.

### **3.7 Compliance with banking regulations**

Base on our audit we have not identified any significant deviations in the ING Bank Śląski S.A. Capital Group compliance with the banking regulatory norm relating to among other to loan concentration, obligatory reserve and capital adequacy ratio.

### **3.8 Audit materiality**

We have planned and applied an appropriate level of precision in conducting our audit procedures in order to obtain reasonable assurance about whether the consolidated financial statements taken as a whole are free of material misstatements.

### **3.9 Notes to the consolidated financial statements**

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes, is, in all material respects, presented accurately and completely. This information should be read in conjunction with the consolidated financial statements taken as a whole.

### **3.10 Report of the Management Board of the Parent Entity on the Group's activities**

The Report of the Management Board of the Parent Entity on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information



provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the consolidated financial statements.

### **3.11 Information on the opinion of the independent auditor**

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2007, we have issued an unqualified opinion.

*Signed on the Polish original*

.....  
Certified Auditor No. 796/1670  
Bogdan Dębicki,  
Member of the Management Board

*Signed on the Polish original*

.....  
For KPMG Audyt Sp. z o.o.  
ul. Chłodna 51, 00-867 Warsaw  
Certified Auditor No. 796/1670  
Bogdan Dębicki,  
Member of the Management Board

*Signed on the Polish original*

.....  
For KPMG Audyt Sp. z o.o.  
ul. Chłodna 51, 00-867 Warsaw  
Robert J. Widdowson  
Partner

Warsaw, 27 March 2008