Annual Consolidated Financial Statements of the ING Bank Śląski S.A. Group

for the year 2008

ING RENAULT F1 Team

ING BANK ŚLĄSKI

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Annual consolidated financial statements of the ING Bank Śląski S.A. Group

CONSOLIDATED PROFIT AND LOSS ACCOUNT (PLN '000)	*Note*	**the period from 01 Jan 2008 to 31 Dec 2008**	**the period from 01 Jan 2007 to 31 Dec 2007** *(comparable data)*
Interest income	*2*	*3 398 102*	*2 480 688*
Interest expenses	*2*	*2 246 085*	*1 432 818*
Net interest income	*2*	**1 152 017**	**1 047 870**
Commission income	*3*	*1 034 184*	*1 020 148*
Commission expenses	*3*	*144 461*	*121 385*
Net commission income	*3*	**889 723**	**898 763**
Net income on investment financial assets	*4*	44 723	25 780
Net income on instruments measured at fair value through profit and loss and revaluation	*5*	-26 012	36 121
Net income on other basic activities	*6*	19 013	20 770
Result on basic activities		**2 079 464**	**2 029 304**
General and administrative expenses	*7*	1 506 880	1 380 573
Result on other operating income and expenses	*8*	-7 848	8 537
Impairment losses and provisions for off-balance sheet liabilities	*9*	65 601	-103 197
Share in net profit (loss) of associated entities recognised under the equity method	*10*	48 232	43 598
Profit (loss) before tax		**563 063**	**786 989**
Income tax	*11*	117 645	150 167
Net profit (loss)		**445 418**	**636 822**
- assigned to shareholders of the holding company		**445 413**	**630 724**
- assigned to minority shareholders		5	6 098

Net profit (loss) assigned to shareholders of the holding company		**445 413**	**630 724**
Weighted average number of ordinary shares		**13 010 000**	**13 010 000**
Earnings per ordinary share (PLN)*)	*12*	**34,24**	**48,48**

SIGNATURES OF THE MEMBERS OF THE MANAGEMENT BOARD OF ING BANK ŚLĄSKI S.A.

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SIGNATURE OF THE PERSON ENTRUSTED WITH KEEPING THE ACCOUNTING BOOKS

Eugenia Sikora
Director of the Bank, Chief Accountant
Signed on the Polish original

Katowice, 25.02.2009

Consolidated Profit and Loss Account shall be analysed together with the notes to the financial statement being the integral part thereof

*) In the years 2008 and 2007 no dilution reasons were noted at the Group since the value of diluted profit per one share equals the value of core profit per one share.

CONSOLIDATED BALANCE SHEET

(PLN '000)	Note	as of 31 Dec 2008	as of 31 Dec 2007
A S S E T S			
- Cash in hand and balances with the Central Bank	*14*	1 369 795	1 841 725
- Loans and receivables to other banks	*15*	7 787 225	15 183 665
- Financial assets measured at fair value through profit and loss	*16*	15 128 584	7 907 564
- Investments	*17*	18 050 922	9 388 273
- available-for-sale	*17*	*10 739 090*	*8 547 497*
- held-to-maturity	*17*	*7 311 832*	*840 776*
- Derivative hedge instruments	*19*	197 003	4 572
- Loans and receivables to customers	*20*	25 742 839	16 379 138
- Investments in controlled entities recognised under the equity method	*22*	107 261	97 326
- Investment real estates	*23*	151 458	144 713
- Property, plant and equipment	*24*	544 163	532 938
- Intangible assets	*25*	316 187	318 825
- Property, plant and equipment held for sale	*26*	248	241
- Current tax asset		142	25 256
- Deferred tax asset	*27*	48 651	49 292
- Other assets	*28*	165 997	137 332
T o t a l a s s e t s		**69 610 475**	**52 010 860**

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Consolidated Balance Sheet shall be analysed together with the notes to the financial statement being the integral part thereof.

CONSOLIDATED BALANCE SHEET
(PLN '000)

	Note	as of 31 Dec 2008	as of 31 Dec 2007
EQUITY AND LIABILITIES			
LIABILITIES			
- Liabilities due to the Central Bank	*30*	5 932 116	0
- Liabilities due to other banks	*31*	6 060 868	1 810 195
- Financial liabilities measured at fair value through profit and loss	*32*	5 146 698	1 214 981
- Derivative hedge instruments	*19*	420 047	0
- Liabilities due to customers	*33*	47 066 918	44 501 837
- Provisions	*34*	50 579	72 507
- Current income tax liabilities		39 148	126
- Other liabilities	*35*	669 672	570 712
Total liabilities		**65 386 046**	**48 170 358**
EQUITY			
- Share capital	*36*	130 100	130 100
- Supplementary capital - issuance of shares over nominal value		956 250	956 250
- Revaluation reserve from measurement of available-for-sale financial assets	*37*	-100 981	-149 591
- Revaluation reserve from measurement of property, plant and equipment	*37*	52 864	57 998
- Revaluation reserve from measurement of cash flow hedging instruments	*37*	45 581	0
- Retained earnings	*38*	3 138 316	2 844 026
Equity attributed to the holding company		**4 222 130**	**3 838 783**
- Minority equity		**2 299**	**1 719**
Total equity		**4 224 429**	**3 840 502**
Total equity and liabilities		**69 610 475**	**52 010 860**

Solvency ratio	**10,39%**	**13,12%**

Book value	**4 222 130**	**3 838 783**
Number of shares	**13 010 000**	**13 010 000**
Book value per share (PLN)	**324,53**	**295,06**

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STATEMENT OF CHANGES IN CONSOLIDATED EQUITY (PLN '000)

the period from 01 Jan 2008 to 31 Dec 2008

	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	Revaluation reserve from measurement of cash flow hedging instruments	Retained earnings	Minority equity	**Total equity**
Opening balance of equity	**130 100**	**956 250**	**-149 591**	**57 998**	**0**	**2 844 026**	**1 719**	**3 840 502**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-	-	240 366	-	-	-	-	**240 366**
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-	-	-192 191	-	-	-	-	**-192 191**
- adjustment of valuation of securities re-classified from the available-for-sale portfolio to the portfolio of loans and receivables	-	-	435	-	-	-	-	**435**
- disposal of property, plant and equipment	-	-	-	-569	-	1 094	-	**525**
- remeasurement of property, plant and equipment	-	-	-	-4 565	-	-	575	**-3 990**
- effective part of cash flow hedging instruments revaluation	-	-	-	-	45 581	-	-	**45 581**
- dividends paid	-	-	-	-	-	-152 217	-	**-152 217**
Gains/losses recognised in equity	**0**	**0**	**48 610**	**-5 134**	**45 581**	**-151 123**	**575**	**-61 491**
Net result for the current period	**-**	**-**	**-**	**-**	**-**	**445 418**	**-**	**445 418**
Share of minority shareholders in the net financial result	**-**	**-**	**-**	**-**	**-**	**-5**	**5**	**0**
Closing balance of equity	**130 100**	**956 250**	**-100 981**	**52 864**	**45 581**	**3 138 316**	**2 299**	**4 224 429**

Note: 36,37,38

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	Revaluation reserve from measurement of cash flow hedging instruments	Retained earnings	Minority equity	**Total equity**
Opening balance of equity	**130 100**	**956 250**	**42 830**	**52 263**	**0**	**2 574 251**	**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**
Gains/losses recognised in equity	**0**	**0**	**-192 421**	**5 735**	**0**	**-360 949**	**-27 078**	**-574 713**
Net result for the current period	**-**	**-**	**-**	**-**	**-**	**636 822**	**-**	**636 822**
Share of minority shareholders in the net financial result	**-**	**-**	**-**	**-**	**-**	**-6 098**	**6 098**	**0**
Closing balance of equity	**0**	**0**	**-192 421**	**5 735**	**0**	**269 775**	**-20 980**	**62 109**

Note: 36,37,38

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Katowice, 25.02.2009

Consolidated Statement of Changes in Equity shall be analysed together with the notes to the financial statement being the integral part thereof

CONSOLIDATED CASH FLOW STATEMENT (PLN '000)	Note	the period from 01 Jan 2008 to 31 Dec 2008	the period from 01 Jan 2007 to 31 Dec 2007
OPERATING ACTIVITIES			
Net profit (loss)		**445 413**	**630 724**
Adjustments		**-891 097**	**-3 395 827**
- Minority shareholders' profit (loss)	*38*	5	6 098
- Share in net profit (loss) of associated entities	*10*	-48 232	-43 598
- Depreciation and amortisation	*7*	133 797	154 799
- Interest accrued (from the profit and loss account)	*2*	1 152 017	1 047 870
- Interest paid		2 142 243	1 425 679
- Interest received		-3 064 794	-2 480 177
- Dividends received	*4*	-7 235	-2 761
- Gains (losses) on investment activities		-671	6
- Income tax (from the profit and loss account)	*11*	117 645	150 167
- Income tax paid		-52 868	-253 989
- Change in provisions	*34*	-21 928	-17 817
- Change in loans and other receivables to other banks	*15*	7 651 699	-5 723 813
- Change in financial assets at fair value through profit or loss	*16*	-7 274 474	-887 290
- Change in available-for-sale financial assets	*17*	-4 759 887	3 976 334
- Change in held-to-maturity financial assets	*17*	-6 639 365	-850 837
- Change in derivative hedge instruments	*19*	273 197	-1 243
- Change in loans and other receivables to customers	*20*	-7 381 064	-3 495 251
- Change in other assets		6 429	4 760
- Change in liabilities due to other banks	*31*	10 198 857	-279 671
- Change in liabilities at fair value through profit or loss	*32*	3 931 717	-1 896 232
- Change in liabilities due to customers	*33*	2 652 855	5 961 332
- Change in other liabilities		98 960	-190 193
Net cash flow from operating activities		**-445 684**	**-2 765 103**
INVESTMENT ACTIVITIES			
- Purchase of property plant and equipment	*24*	-97 661	-71 216
- Disposal of property, plant and equipment		1 123	1 936
- Purchase of intangible assets	*25*	-52 705	-60 402
- Purchase of investments in subordinated entities		0	-18 971
- Disposal of fixed assets held for sale		516	4 416
- Dividends received	*4*	7 235	2 761
Net cash flow from investment activities		**-141 492**	**-141 476**
FINANCIAL ACTIVITIES			
- Long-term loans repaid		0	-19 140
- Interest on long-term loans repaid		0	-1 763
- Dividends paid	*13*	-152 217	-362 979
Net cash flow from financial activities		**-152 217**	**-383 882**
Effect of exchange rate changes on cash and cash equivalents		***283 545***	***-72 874***
Net increase/decrease in cash and cash equivalents		**-739 393**	**-3 290 461**
Opening balance of cash and cash equivalents		**4 872 755**	**8 163 216**
Closing balance of cash and cash equivalents	*47*	**4 133 362**	**4 872 755**

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Consolidated Cash Flow Statement shall be analysed together with the notes to the financial statement being the integral part thereof.

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, was entered into the entrepreneurs National Court Register managed by the Commercial Department of the Regional Court in Katowice under the reference number KRS 5459.

The Parent entity statistic number is REGON 271514909, and the taxation identification number is NIP 634-013-54-75. Entity authorised to audit financial statements is Ernst & Young Audit Sp. z o.o. having its registered office in Warsaw, 1 Rondo ONZ, entered into the list under number 130.

The life time of the Parent entity and other group entities are unlimited.

The share capital of ING Bank Śląski S.A. is PLN 130,100,000 and is divided in 13,010,000 ordinary bearer shares with a par value of PLN 10.00 each. Shares of the Bank are quoted on the Warsaw Stock Exchange (sector: banks).

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 December 2008 held 75% share in the initial capital of ING Bank Śląski and 75% shares in the total number of votes at the General Meeting of Shareholders. In 2008, the shareholding of the dominant entity did not materially change.

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.

ING Bank Śląski S.A. is the parent company of the ING Bank Śląski S.A. Group ("Group", "Capital Group"), of the following composition as at 31 December 2008:

- ING Securities S.A. (subsidiary, 100% share),
- ING Bank Hipoteczny S.A. (subsidiary, 100% share),
- ING BSK Development Sp. z o.o. (subsidiary, 100% share),
- Centrum Banku Śląskiego Sp. z o.o. in liquidation (subsidiary, 100% share),
- Solver Sp. z o.o. (subsidiary, 82,3% share).

As at the balance sheet date the Bank held the share of affiliated entity:

- ING Powszechne Towarzystwo Emerytalne S.A. (associate, 20% share).

The composition of the Capital Group did not change vis-à-vis the status as at 31 December 2007.

The consolidated financial statements of the Group for 2008 comprise the Bank and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The consolidated financial statements of the Group for 2007 were approved by the General Meeting of Shareholders of the Bank on 24 April 2008.

Selected financial data from the consolidated Financial Statements

	PLN thousand		EUR thousand	
	period from 01.01.2008 to 31.12.2008	*period from 01.01.2007 to 31.12.2007*	*period from 01.01.2008 to 31.12.2008*	*period from 01.01.2007 to 31.12.2007*
Interest income	3 398 102	2 480 688	962 063	656 823
Commission income	1 034 184	1 020 148	292 796	270 109
Result on basic activities	2 079 464	2 029 304	588 733	537 308
Result before tax	563 063	786 989	159 413	208 375
Net result of shareholders of the holding company	445 413	630 724	126 104	167 000
Net result of minority shareholders	5	6 098	1	1 615
Net cash flows	-739 393	-3 290 461	-209 335	-871 230
Earnings per ordinary share (PLN / EUR)	34.24	48.48	9.69	12.84

	PLN thousand		EUR thousand	
	as at 31.12.2008	*as at 31.12.2007*	*as at 31.12.2008*	*as at 31.12.2007*
Total assets	69 610 475	52 010 860	16 683 557	14 520 061
Equity of shareholders of the holding company	4 222 130	3 838 783	1 011 919	1 071 687
Share capital	130 100	130 100	31 181	36 320
Numer of shares	13 010 000	13 010 000	-	-
Book value per share (PLN / EUR)	324.53	295.06	77.78	82.37
Solvency ratio (%)	10.39%	13.12%	-	-

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

- for balance-sheet items – PLN 4.1724 NBP exchange rate of 31.12.2008; 3.5820 NBP exchange rate of 31.12.2007,
- for the profit and loss items and cash flow items for 31.12.2008 – PLN 3.5321 exchange rate calculated as the average of NBP exchange rates as at the last day of each month in 2008; 3.7768 exchange rate calculated as the average of NBP exchange rates as at the last day of each month in 2007.

Significant accounting policies

(a) Statement of compliance with International Financial Reporting Standards

This financial report was prepared in compliance with the International Financial Reporting Standards ("IFRS") and IFRS approved by the European Union. As at the date of the approval of this report for publication, taking into account the process of implementation of the IFRS in the EU, and the Company's operations, there are no differences as regards the accounting principles applied by the Company between the binding IFRS and IFRS approved by the EU. IFRS include standards and interpretations accepted by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC").

A consolidated balance sheet, consolidated profit and loss account, breakdown of changes in the consolidated equity and a consolidated cash flow account for the accounting year ended on 31 December 2008 together with comparable financial data were developed with the application of the same accounting principles for each of the periods.

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

In 2008, the Group took account of the following changes in the effective accounting standards and new interpretations:

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – effective as of 1 July 2008,
- Amendments to IFRS 7 Financial Instruments: Disclosures – effective as of 1 July 2008,
- Interpretation of IFRIC 11 – IFRS 2 Group and Treasury Share Transactions, applicable to yearly terms commencing after 1 March 2007
- IFRIC 12 Interpretation of Service Concession Arrangements, effective for annual periods commencing as of 1 January 2008,
- IFRIC 13 Interpretation of Customer Loyalty Programmes – effective as of 1 July 2008,
- IFRIC 14 Interpretation of IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – effective for annual periods commencing as of 1 January 2008.

The adoption of the abovementioned new interpretation of accounting standards did not cause any material changes in the Group's accounting, except for IAS 39 and IRFS 7 in the form of possible reclassification of the financial instruments held. The Group seized that opportunity.

(b) Term and scope of the report

These consolidated financial statements of the Capital Group of ING Bank Śląski S.A. cover the period from 1st January 2008 to 31st December 2008 and include the comparatives data:

- for the balance sheet as 31st December 2007 and financial year ending that day and as 31st December 2007,

- for the profit and loss account, movement on equity and cash flow statement for the period from 1st January 2007 till 31st December 2007.

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

The Group has not taken advantage of the earlier application of standards and interpretations that were approved by the European Union, but became or will become effective only upon the balance sheet date. As at the balance sheet date, the Group has not completed the process of estimating the impact of these standards and interpretations on consolidated financial statements for the period in which they will be applied for the first time:

- Amendments to IAS 1 Presentation of Financial Statements (revised in 2007) – effective for annual periods commencing as of 1 January 2009,
- Amendments to IAS 23 Borrowing Costs (revised in 2007) – effective for annual periods commencing as of 1 January 2009,
- Amendments to IFRS 2 Share-based Payment (revised in January 2008) – effective for annual periods commencing as of 1 January 2009,
- IFRS 8 Operating Segments – effective for annual periods commencing as of 1 January 2009.

The published Standards and Interpretations that were issued but are not effective yet as they have not been approved by the European Union and have not been previously applied by the Group include:

- Changes in IFRS 1 First-time Adoption of International Financial Reporting Standards (updated in May 2008) – applicable to yearly terms commencing after 1 January 2009,
- Changes in IFRS 1 First-time Adoption of International Financial Reporting Standards (updated in November 2008) – applicable to yearly terms commencing after 1 July 2009,
- Changes in IFRS 3 Business Combinations (updated in January 2008) – applicable to yearly terms commencing after 1 July 2009,
- Changes in IAS 1 Presentation of Financial Statements (updated in February 2008) – applicable to yearly terms commencing after 1 January 2009,
- Changes in IAS 27 Consolidated and Separate Financial Statements (updated in January 2008) – applicable to yearly terms commencing after 1 January 2009,
- Changes in IAS 27 Consolidated and Separate Financial Statements (updated in May 2008) – applicable to yearly terms commencing after 1 July 2009,
- Changes in IAS 32 Financial Instruments: Presentation (updated in February 2008) – applicable to yearly terms commencing after 1 January 2009,
- Changes in IAS 39 Financial Instruments: Recognition and Measurement (updated in July 2008) – applicable to yearly terms commencing after 1 July 2009,
- IFRIC 15 Interpretation of Agreements for the Construction of Real Estate – effective for annual periods commencing as of 1 January 2009,
- IFRIC 16 Interpretation of Hedges of a Net Investment in a Foreign Operation – effective for annual periods commencing as of 1 October 2008,
- IFRIC 17 Interpretation of Distributions of Non-cash Assets to Owners – effective for annual periods commencing as of 1 January 2009,
- IFRIC 18 Interpretation: Transfers of Assets from Customers – effective as of 1 July 2009.

(d) Going Concern

The consolidated financial statement was drafted on a going concern basis, assuming that the Group's entities (apart from the issue mentioned below) would continue operations in a foreseeable future, i.e. at least 1 year of the balance sheet date. As of the date of approval of this statement by the Bank Management Board, no circumstances posing threats to the continued operations of the Capital Group were identified.

On 23 December 2008, at the Extraordinary Shareholders Meeting of ING BSK Development Sp. z o.o. there was adopted resolution on winding up that Company and commencing its liquidation as of 1 January 2009.

(e) Basis for preparation of consolidated financial statements

The concept of fair value has been applied in the statements for real property and investment property as well as financial assets and liabilities measured at fair value, including derivative instruments, and financial assets classified as available-for-sale, excluding those for which the fair value cannot be determined in a reliable manner. Other items of financial assets (including loans and receivables) are presented at amortized cost less impairment charges or at purchase price less impairment charges.

Fixed assets for sale are recognised at the lower of their balance sheet value and the fair value minus sales costs.

(f) 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 consolidated 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 the 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 an 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 are 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 account up to the value of prior impairment.

The methodology and the assumptions, on the basis of which the estimated cash flows 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.

Credit risk connected with derivative instruments

In view of a considerable increase of credit risk in FX option transactions made by the Group with clients, the Group resolved to review a major part of the portfolio of those instruments. With the aim of having the risk level outlined in a precise manner the Group structured the approach as follows.

The approach adopted by the Group to estimation of the credit risk generated by derivative instruments with future settlement dates (active transactions, outstanding as at the balance sheet date) is in line with the approach adopted by the Group for the purpose of assessing the credit risk generated by credit receivables. valuation adjustments are estimated at the level of individual counterparties, using the formula based on PD, LGD and EAD ratios, where:

- PD (probability of default – in %) is the probability resulting from the appraisal of the risk assigned by the Group to the client based on the current assessment of the client's financial standing. To make the assessment as correct as possible, the clients' financial data take account of the effects of the measurements of derivatives concluded with the Group, and if it is known to the Group, the effects of the measurements of transactions concluded with other banks. The same PD parameter is used in the process of establishing provisions against credit risk.
- EAD (Exposure At Default – in PLN): valid - as of the estimates date - market measurement of the exposure resulting from the transaction on derivatives concluded with the Group. EAD is used to measure the client's exposure in the Group. Calculating EAD, the Group takes into account also whether the client signed a master agreement with the Group allowing for

netting transactions with positive and negative measurements when the agreement is terminated either by the Group or by the client. Such agreements lower EAD.

- LGD (loss given default – in %): this parameter is calculated taking into account the collateral (if any) presented by the client to the Group; whereas for each non-collateralized exposure, we use LGD for the non-collateralized exposure class (the same value that is used to assess provisions against the credit risk for credit exposures). In case of material value of receivables, the Group applies individual approach to LGD calculation.

In addition, for mature transactions or terminated and unsettled as at the balance sheet date, the Group made charges using the methodology for assessing the risk of impaired loans.
The two types of fair value adjustments, as mentioned above, were differently reflected in the consolidated financial statement. Fair value adjustments due to risk for non-matured transactions were presented under the item: *Result on financial instruments carried through the income statement and revaluation*, whereas the charges for matured transactions under the item: *Impairment charges for financial assets and provisions for off-balance-sheet liabilities.*

Uncertainty of the estimates

In 2008, the Group carried out an additional assessment of the level of the risk related to FX options. The appraisal was made as of the balance sheet date, assuming the measurement level as of that date, and taking into account the risk appraisal performed as of the same date. The Group will perform periodical appraisal of the financial standing of the clients holding similar instruments. The following key factors taken into account in case of changes of risk estimates are: (i) changes of measurement at the fair value of derivatives, (ii) changes in the scope of the credit risk appraisal of the contracting parties by the Group. However, considering the great volatility of the business environment, there still remains some uncertainty as to the Group's estimates

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 (or cash generating unit) 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 assumptions 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 including the assessment of counterparty risk.

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 counterparty risk, variables and market correlations). Any change in these assumptions may affect the fair value of some financial instruments. The change of assumptions concerning these factors may influence valuation 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.

The Group adopts a corridor approach to recognition of a determined portion of the cumulated net value of 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.

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 of the Group parent entity 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.

(g) Consolidation policies

(i) Subsidiaries

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

Control is presumed to exist when the parent owns more than 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.

(h) 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.

The measurement of financial assets carried at fair value through the income statement, resulting from the change in FX rates, is recognised in the income statement due to changes in fair value.

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.

(i) 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.

The category of loans and receivables include loans and cash loans extended to other banks and clients, including the debts purchased and debt securities reclassified from the portfolio of financial assets available for sale.

(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.

When irrevocability of financial assets is declared, the Group most frequently writes down receivables as impairment charges.

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) Reclassification

A particular financial asset classified as available-for-sale may be reclassified from this category should it fulfil the definition of loans and receivables and should the Group intend and be able to maintain this financial asset in the foreseeable future or until its maturity. Fair value of the financial asset on the reclassification date is deemed as its new cost or new depreciated cost, respectively.

In the event of a maturing financial asset, the profits or losses recognised as equity until the date of reclassification are amortised and carried through the income statement for the remaining term until maturity. All differences between the new amortised cost and the amortisation amount are amortised for the remaining term until the instrument's maturity, similarly to the amortisation of premium or discount. Amortisation is based on the effective interest rate method.

In the event of a non-maturing asset, the profits and losses remain with equity until the asset has been sold or disposed of otherwise when it is carried through the income statement.

(vi) 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 securities for which there is an active market is determined by the current bid price. The fair value of other financial assets/liabilities quoted in an active market is determined on the basis of the bid price for long position and offer price for short position. 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.

Based on the employed methods of determining the fair value, financial assets/liabilities are classified to the following categories:

Level I: financial assets/liabilities measured directly on the basis of prices quoted in the active market or measurement techniques based solely on market data.

Level II: financial assets/liabilities measured on the basis of measurement techniques based on assumptions using data from an active market or market observations.

Level III: financial assets/liabilities measured on the basis of measurement techniques commonly used by the market players, the assumptions of which are not based on data from an active market.

(j) 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.

(k) 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”.

Securities borrowed from other entities are not recognised in the Group’s consolidated financial statement. If sold by the Group, there will be generated financial assets in the form of cash from sales and the liability measured at fair value that reflects the need to return the borrowed securities. The fair value of the liability equals the fair value of borrowed securities.

(l) 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. Change in fair value of derivative instruments in foreign currencies represents the source of FX variations, carried through the income statement of the current period and present in the result on revaluation of balance sheet items.

(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 applies the fair value hedge accounting in order to hedge changes in fair value of fixed-rate debt instruments classified to the portfolio of available-for-sale assets and fixed-rate debt instruments classified to the portfolio of loans and receivables resulting from interest rate changes.

- *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.

(m) 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 stimated. 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. This approach allows specifically for: 1) detecting the losses that already occurred and 2) losses that occurred as at the impairment date, but have not been documented yet (incurred but not reported IBNR).

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.

(n) 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.

(o) 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.

(p) 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.

(q) 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

(r) 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.

(s) 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.

(t) 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.

(u) 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 charter and entry into the commercial register of the dominant entity.

(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 assigned to shareholders of the holding company 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.

(w) 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.

(x) 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

Group liabilities due to long-term employee benefits, other than pension schemes, constitute the amount of future benefits that will be obtained by an employee for performance of his/ her services in the current or previous periods which are not due in total within 12 months of work completion. Provisions for retirement severance pay granted under benefits due to regulations of the Labour Code are estimated on the basis of the actuarial valuation. The provisions being the result of an actuarial valuation are recognised and adjusted on an annual basis.

Provisions for long-term employee benefits are recognised in the balance sheet item "Provisions" in correspondence with costs of labour in the profit and loss account.

The Group adopts a corridor approach to recognition of a determined portion of the cumulated net value of 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. The Group changed the estimates in prospective terms in view of immateriality.

The Group is a participant of a long-term LEO (Long-term Equity Ownership) incentive system, introduced by ING Group. This system motivates employees of ING Group units by linking their financial results with financial results of the Group. LEO is addressed to Bank Management Board members, senior management and high-level specialists. The system operates in two variants:

1) Standard – an employee may become a holder of ING shares or receive cash benefit; two following instruments are offered in the Standard system:
   - Share options
   - Performance shares
2) Phantom – an employee may receive cash benefit; two following instruments are offered in the Phantom system:
   - Phantom options
   - Performance units

Share options / Phantom options have a 10-year maturity period and may be exercised after three years from their issue, provided that an option holder is a Bank employee (or employee of another unit of ING Group) or has retired. The exercise price is a difference between the exercise price determined by

Euronext Amsterdam as at the exercise date in the open period after the General Shareholders Meeting of ING Group and the strike price.

Performance shares/ Performance units are conditionally granted. The number of received instruments depends on ING Group results at the end of a 3-year period. To this purpose, a so-called Total Shareholder Return (TSR) is determined for each 3-year period against the ratio calculated for financial institutions similar to ING Group. Depending on the place of ING Group in the ranking, the number of Performance shares / Performance units available for exercise may total from 200% for 1-3 ranking to 0% for 18-20 ranking. The price of exercise is determined as for Share options / Phantom options.

As at the balance sheet date, the Group recognises in its books the measurement of options and performance shares held by the employees of the Group.

(y) 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.

As the committed unused credit lines for wholesale exposures are treated as equivalent of balance sheet exposures, the provisions against the exposures of that type are established and recognised together with impairment loss.

The Group accumulates provisions for restructuring costs only if the general criteria for recognition of provisions according to IAS 37 are fulfilled. The provisions cover only the direct and indispensable restructuring costs, not related to current operations.

(z) 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.

(aa) 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 (e.g. commission on overdrafts) 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.

(bb) 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.

(cc) 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.

The result on financial instruments carried through the income statement and revaluation also covers fair value adjustments for risk of unrealised FX Option transactions.

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.

(dd) Net income on other basic activities

Net income on other basic activities 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.

(ee) Net profit attributable to minority shareholders

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

(ff) Income tax

Income tax is recognized as current and deferred tax. Current income tax is recognized in the profit and loss account. Deferred income tax is recognized in profit and loss or equity depending on type of temporary differences.
Current tax is a liability calculated based on taxable income at the binding tax rate at the balance sheet date including adjustments of prior year tax liability.

(gg) Deferred income tax

The Group creates a provision for deferred tax in respect of all taxable temporary difference and deferred tax asset with regard to all deductible temporary differences to extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised according to accounting regulations and according to legal regulations concerning corporate income taxation. A positive net difference is recognized in liabilities as "Deferred tax reserve". A negative net difference is recognized under "Deferred tax assets".
The deferred tax reserve is created by using the balance sheet method for all positive temporary differences as of the balance sheet date arising between tax value of assets and liabilities and their carrying value disclosed in the financial report, except for situations where deferred tax reserve arises from:

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

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

Deferred tax assets and deferred tax reserves are estimated with the use of the tax rates which are expected to be in force when the asset is realized or reserve eliminated, assuming the tax rates (and tax provisions) legally or factually in force as of the balance sheet date.
Income tax pertaining to items directly presented in equity is presented in equity.
Deferred tax assets and reserves are recognized by the Group in the balance sheet after offsetting at level of each entity included in consolidation. The Group offsets deferred tax assets and deferred tax reserves, where it has legal title to effect such offsetting, and the deferred assets and reserves pertain to the same taxpayer.

(hh) Other taxes

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

In the consolidated financial statements covering the period from 1 January 2008 to 31 December 2008, the Group introduced changes compared with the statements for the period from 1 January 2007 to 31 December 2007 with regard to the presentation of some items of the income statement.
The changes derive from an in-depth analysis of the economic contents for individual operations as well as their assignment to relevant items of the income statement.
The most important change consists in moving the missing part of the transactional margin in the amount of PLN 30.7 million from the “Commission income” to the “Foreign exchange result”.

Detailed specification of modifications is presented in the table below.

CONSOLIDATED PROFIT AND LOSS ACCOUNT *(PLN '000)*	**2007** *In consolidated financial report for the 2008*	**2008** *In the approved consolidated financial report for the 2007*	***CHANGES***	*Carry forward of the commission on sales of services for other Group units*	*Carry forward of the non-product account related to interest*	*Carry forward of the transactional margin adjustment on FX transactions*	*Carry forward of the realised result adjustment - FX forward –proprietary trading*	*Presentation of the net commission income and costs related to agency*	*Carry forward of the commission on loans under debt collection procedure*	*Carry forward of writing off non-credit receivables*	*Carry forward of costs due to shortages and damage to property, plant and equipment*	*Carry forward of costs of tax-related fines and penalties*	*Carry forward of costs related to investment property maintenance*	*Carry forward of the commission for other Group units*	*Total*
Interest income	2 480 688	2 481 433	*-745*	*-745*											*-745*
Interest expenses	-1 432 818	-1 432 840	*22*	*-92*	*70*										*-22*
Commission income	1 020 148	1 058 997	*-38 849*	*745*		*-30 706*	*-1 861*	*-7 037*	*28*					*-18*	*-38 849*
Commission expenses	-121 385	-128 239	*6 854*	*92*	*-70*			*-7 037*	*161*						*-6 854*
Net income on instruments measured at fair value through profit and loss and revaluation	36 121	3 554	*32 567*			*30 706*	*1 861*								*32 567*
Net income on other basic activities	20 770	17 388	*3 382*						*161*	*582*	*-452*		*3 051*	*40*	*3 382*
General and administrative expenses	-1 380 573	-1 377 292	*-3 281*									*222*	*3 051*	*8*	*3 281*
Result on other operating income and expenses	-8 537	-9 201	*664*						*28*	*-10*	*-452*	*-222*		*-8*	*-664*
Impairment losses and provisions for off-balance sheet liabilities	103 197	103 811	*-614*							*592*				*22*	*614*

Notes to the consolidated financial statements

1. Segment reporting

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.

Segments of operation (business lines)

The management of the ING Bank Śląski Group is conducted through breaking down the operations into the following business segments:

- retail banking,
- corporate banking,
- own operations.

Wholesale and retail segments are separated based on the financial criterion (especially turnover, level of collected assets) and subject related criterion specified by internal regulations of the dominant entity of the Group.

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 ING Bank Hipoteczny, deposit products (current accounts, term deposits, savings accounts), ING fund units, brokerage services provided by ING Securities SA, and bank cards.

The wholesale activity includes services to institutional clients, including strategic clients, large corporate entities and mid-sized companies. 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.

Proprietary operations are carried out by Financial Markets and ALCO.

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.

Geographical segments

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

Segment reporting – continued

PLN thousand	**The year ended 31.12.2008**						**The year ended 31.12.2007**					
	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	**1 271 880**	**814 076**	**59 181**	**-17 441**		**2 127 696**	**1 208 801**	**749 677**	**42 281**	**72 142**		**2 072 902**
Core business	**1 247 092**	**768 612**	**44 061**	**67 931**		**2 127 696**	**1 191 807**	**720 423**	**34 023**	**126 649**		**2 072 902**
Income on lending	282 024	236 214				518 238	223 791	207 662				431 454
Interest income external	*539 622*	*1 002 992*					*339 182*	*638 137*				
Interest cost internal	*-334 816*	*-840 003*					*-173 522*	*-512 229*				
Income on fees/other income	*77 218*	*73 224*					*58 131*	*81 754*				
Income on deposits	640 919	309 728				950 647	616 007	276 522				892 529
Interest,costs external	*-1 248 955*	*-369 972*					*-719 888*	*-368 122*				
Interest income internal	*1 601 967*	*571 880*					*1 091 432*	*534 934*				
Income on fees/ other income	*287 907*	*107 820*					*244 462*	*109 710*				
Income on mutual funds	108 728					108 728	203 096					203 096
Income on brokerage and custody	30 173	57 977				88 150	47 184	87 490				134 675
Other income on core business	-22 241	-7 599	375 610	67 931		413 701	-10 950	-2 077	253 929	126 649		367 551
FM products sales	159 257	172 293	-331 549			0	69 081	150 825	-219 906			0
Income on Pension Funds Shares	48 232					48 232	43 598					43 598
Result on economic capital	24 788	45 464	15 120	-85 373		0	16 994	29 255	8 259	-54 507		0
Expenses total	**956 686**	**484 827**	**58 531**	**3 331**	**-4 343**	**1 499 032**	**884 173**	**451 646**	**54 850**	**2 561**	**-4 119**	**1 389 110**
Operational costs	956 686	484 827	58 531	3 331	-4 343	1 499 032	884 173	451 646	54 850	2 561	-4 119	1 389 110
including depreciation	*99 509*	*27 268*	*6 605*	*415*		*133 797*	*115 129*	*31 549*	*7 642*	*480*		*154 799*
Result before risk	**315 195**	**329 249**	**650**	**-20 772**	**4 343**	**628 664**	**324 629**	**298 032**	**-12 569**	**69 581**	**4 119**	**683 792**
Risk cost	10 181	55 420	0	0		65 601	-40 020	-63 177	0	0		-103 197
Result before tax	**305 014**	**273 829**	**650**	**-20 772**	**4 343**	**563 063**	**364 649**	**361 209**	**-12 569**	**69 581**	**4 119**	**786 989**
CIT						117 645						150 167
Result after tax						**445 418**						**636 822**
- assigned to shareholders of the holding company						**445 413**						**630 724**
- assigned to minority shareholders						5						6 098

	31.12.2008						31.12.2007					
	Retail customers segment	Corporate customers segment	Proprietary trading	ALCO	Non-allocated items	Total	Retail customers segment	Corporate customers segment	Proprietary trading	ALCO	Non-allocated items	Total
Assets and liabilities												
Assets of the segment	7 159 738	21 741 527	39 129 655	245 448		68 276 368	4 519 063	13 994 252	31 535 951	655 671		50 704 937
Segment investments in subordinates	107 261					107 261	97 326					97 326
Other assets (not allocated to segments)					1 226 846	1 226 846					1 208 597	1 208 597
Total assets						**69 610 475**						**52 010 860**
Segment liabilities	32 047 707	19 663 611	12 915 329			64 626 647	27 453 096	17 224 624	2 849 293			47 527 013
Rother liabilities (not allocated to segments)					759 399	759 399					643 345	643 345
Equity				4 224 429		4 224 429				3 840 502		3 840 502
Total liabilities						**69 610 475**						**52 010 860**
Capital expenditure	164 338	83 283	9 881	0		257 501	134 212	68 557	8 089	0		210 859
Depreciation	99 509	27 268	6 605	415		133 797	115 129	31 549	7 642	479		154 799
Total net cash from operating activity	**1 259 156**	**-5 281 745**	**-14 461 557**	**17 786 309**	**252 153**	**-445 684**	**3 114 459**	**224 158**	**335 805**	**-5 972 903**	**-466 622**	**-2 765 103**
Net cash flow from inwesting activity	**-94 918**	**-48 102**	**-5 707**	**7 235**		**-141 492**	**-91 807**	**-46 896**	**-5 533**	**2 761**		**-141 476**
Net cash flow from finacial activity	**0**	**0**	**0**	**-152 217**		**-152 217**	**0**	**-20 903**	**0**	**-**	**-362 979**	**-383 882**

2. Net interest income

Interest and similar income

	2008	2007
Interest on deposits, loans and advances to banks	664 248	869 739
Interest on loans and advances to customers	1 483 360	923 330
- interest on entities from the financial sector other than banks	*167 608*	*101 752*
- interest on entities from the non-financial sector	*1 268 283*	*784 342*
- interest on entities from the government and self-government institutions' sector	*47 469*	*37 236*
Interest on debt securities held for trading	230 906	176 769
Interest on available-for-sale debt securities	669 515	492 095
Interest on held-to-maturity debt securities	320 864	13 922
Reverse repos	27 754	3 148
Rother	1 455	1 685
Total	**3 398 102**	**2 480 688**

With regard to interest revenue for the year 2008, the amount of PLN 19,967,000 represents revenue from financial assets for which impairment loss was recognised. In the year 2007, respectively, the amount reached PLN 21,925,000. Interest revenue related to financial assets is calculated using the net exposure amounts; i.e. the amounts including effective impairment losses.

Interest expense and similar charges

	2008	2007
Interest on deposits from banks	191 565	109 445
Interest on deposits from customers	1 973 320	1 231 297
- interest on entities from the financial sector other than banks	*97 633*	*103 184*
- interest on entities from the non-financial sector	*1 761 492*	*1 062 981*
- interest on entities from the government and self-government institutions' sector	*114 195*	*65 132*
Interest on Loans and advances received	258	2 319
Repos	80 942	89 757
Total	**2 246 085**	**1 432 818**

Net interest income	**1 152 017**	**1 047 870**

3. Net commission income

Commission income

	2008	2007
Commission related to brokerage activity	75 410	124 861
Commission and fees related to customer accounts	287 793	266 495
Commission for loans and advances	122 882	109 915
Commission for loans and advances insurance	17 625	0
Commission and fees for payment and credit cards	184 979	142 871
Commission and fees due to distribution of participation units	98 549	213 206
Fiduciary and custodian fees	29 145	26 879
Foreign commercial business	15 800	21 603
Commission related to subscription of structured products	23 506	0
The transaction margin on currency exchange transactions	139 391	98 795
Commission on intermediation in the financial products sale	19 362	4 209
Other	19 742	11 314
Total	**1 034 184**	**1 020 148**

Commission expense

	2008	2007
Brokerage fees	25 343	28 392
Commission paid on cards	51 203	38 347
Commission paid on intermediation in selling deposit products	15 336	8 727
Commission paid on loan insurance	8 861	0
Commission paid on trading in securities	10 159	7 438
Commission paid on disclosing credit information	6 428	5 008
Commission paid on electronic banking services	4 929	0
Costs of the Bank Guarantee Fund (BFG)	4 684	4 037
Costs of the National Clearing House (KIR)	4 490	4 599
Other	13 028	24 837
Total	**144 461**	**121 385**
Net commission income	**889 723**	**898 763**

4. Net income on investment financial assets

	2008	2007
Equity instruments	27 974	14 640
Debt instruments	-4 388	7 600
Dividend income	7 235	2 761
Valuation of the transaction hedged under the fair value hedge accounting for securities, of which:	326 958	-5 317
- regarding debt securities reclassified from the available-for-sale portfolio to the loans and other receivables one	*113 253*	*0*
Valuation of the hedging transaction under the fair value hedge accounting for securities	-313 056	6 096
Net income on investment financial assets	**44 723**	**25 780**

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

	2008	2007
Net income on financial assets and liabilities held for trading	**20 073**	**371 973**
Net income on equity instruments	-18 853	-3 127
Net income on debt instruments	-82 583	-49 096
Net income on derivatives	121 509	424 196
- Currency derivatives	*426 999*	*438 538*
- Exchange rate derivatives	*-337 420*	*-31 775*
- Securities derivatives	*31 930*	*17 433*
Net income on financial assets and liabilities measured at fair value upon initial recognition	**2 838**	**6 345**
Net income on debt instruments	528	6 345
Net income on the measurement of the deposits designated to be measured at their fair value	2 310	0
Ineffectiveness recognised in profit and loss account that arises from cash flow hedges	**5**	**0**
Result on the revaluation of balance sheet items	**-48 928**	**-342 197**
Net income on instruments measured at fair value through profit and loss and revaluation	**-26 012**	**36 121**

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

Net income on debt instruments includes net income on trading in 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 – swaps and options, as well as stock exchange index options.

Interest net income on debt securities is presented as part of interest result.

The results presented in the note were considerably affected by a number of factors. The result on valuation at fair value of available-for-sale instruments in the year 2008 was subject to:

– valuation of the portfolio of State Treasury Eurobonds classified to the portfolio of financial assets valued at fair value when initially recognised (FVO):

Those instruments were purchased by the Group in the years 2007-2008 for EUR 417 million and hedged at the same time against the interest rate risk by Interest Rate Swap (IRS) contracts having similar characteristics, transacted at the same time. In the year 2008 the valuation of those instruments was considerably affected the lower market liquidity, which resulted in reducing the bonds' fair value vis-à-vis the face value or negative valuation at PLN 223 million.

– valuation of the State Treasury bonds and the other financial instruments:

Negative impact on the result on fair value valuation of available-for-sale instruments was made by valuations of the State Treasury bonds and the other financial instruments held by the Group. Following the unfavourable changes in parameters used for valuation purposes and material deterioration of the market liquidity, the prices of those instruments considerably fell. It generated an additional effect in the form of negative valuation of PLN 70 million.

– valuation of derivatives (among others FX Options) transacted with the Group's clients:

Valuation of non-matured derivatives transacted with the Group's clients was adjusted with the counterparty risk charge. It was determined by the assessment of the financial standing of Group's clients and assessment of the clients' ratings reflecting the exposure risk. The valuation of derivatives transacted by the client was adjusted pro rata to the risk assessment. The total amount of derivatives valuation adjustments, referred to the result on financial instruments carried through the income statement was PLN 163 million.
The Group's approach to estimates of valuations of the abovementioned transactions was described in significant accounting principles under item "accounting estimates".

There is a certain uncertainty as to the future settlements due to the abovementioned derivative transactions and the level of actual losses will depend on the future FX rates' movements and the standing of counterparties.

6. Net income on other basic activities

	2008	2007
Received indemnities, penalties and fines	-630	-368
Income from sales of other services	4 683	5 043
Net income on available-for-sale assets and assets held for sale	331	-107
Result on disposal of assets (fixed and intangible assets and own properties)	293	101
Impairment losses on other non financial assets	-175	-2 395
Net income on the investment properties:	13 704	5 172
- income rental from of the investment property	*12 966*	*14 391*
- maintance expenses relating to the investment property	*-4 896*	*-3 899*
- measurement of the investment property at the fair value	*5 634*	*-5 320*
Fair value adjustment in hedge accounting	0	-8 214
Valuation of the hedging transaction under the fair value hedge accounting for properties	0	7 813
Other, of which:	807	13 725
- mortgage loans insurance premiums	*-2 359*	*1 924*
- returned amounts, material and personnel-related costs	*855*	*826*
- interest received, calculated on an off-balance basis	*377*	*1 841*
- other	*1 934*	*9 134*
Total	**19 013**	**20 770**

The item "Income from sales of other services" primarily includes the sales of services at the recreation centres of one of the Group's subsidiaries.

7. General and administrative expenses

	2008	2007
Personnel expenses	**782 539**	**700 442**
wages and salaries, including:	640 640	582 372
special and retirement benefits	*1 611*	*2 894*
employee benefits, including:	141 899	118 070
training expenses	*28 974*	*21 220*
General and administrative expenses	**590 544**	**525 332**
on property, plant and equipment	114 470	103 541
taxes and charges (including PFRON)	3 132	2 963
maintenance and rental of buildings	145 442	137 620
communication services	69 604	63 596
leasing services	14 415	12 022
refurbishment services	33 039	30 560
licences and patents	18 151	17 198
consulting	72 756	82 965
lease of computer resources	23 341	19 314
other external services	96 194	55 553
Depreciation and amortisation	**133 797**	**154 799**
on property, plant and equipment	79 964	96 509
on intangible assets	53 833	58 290
Total	**1 506 880**	**1 380 573**

8. Result on other operating income and expenses

	2008	2007
Donations made	3 002	2 492
Other operating expenses due to disputed claims	-14 509	1 348
Measurement of fixed assets at fair value	-565	4 357
Other	4 224	340
Total	**-7 848**	**8 537**

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

	2008	**2007**
Impairment losses on loans and advances and other receivables	508 423	194 403
Reversed impairment losses on loans and advances and other receivables	-347 374	-217 486
Net impairment losses on loans and advances and other receivables, of which:	**161 049**	**-23 083**
- losses on loans and other receivables at risk of impairment	*172 641*	*-29 943*
- IBNR	*-11 592*	*6 860*
Impairment losses on bad debts	48 221	79 118
Reversed impairment of amounts recovered from loans previously written off	-129 017	-161 012
Net impairment losses on bad debts	**-80 796**	**-81 894**
Impairment losses on available-for-sale financial assets	0	0
Reversed impairment losses on available-for-sale financial assets	0	-6
Net impairment losses on available-for-sale financial assets	**0**	**-6**
Recognised provisions for off-balance sheet liabilities	7 506	14 651
Reversed provision for off-balance sheet liabilities	-22 158	-12 865
Net provisions for off-balance sheet liabilities recognized, of which:	**-14 652**	**1 786**
- on the portfolio at risk of impairment	*-436*	*1 786*
- IBNR	*-14 216*	*0*
Total impairment losses	**564 150**	**288 172**
Total reversed impairment losses	**-498 549**	**-391 369**
Net impairment losses and provisions for off-balance sheet liabilities	**65 601**	**-103 197**

The level of 2008 charges was impacted by the higher than previously impairment losses on the credit receivables and provisions against the risk related to the derivative transactions (mostly FX Options) – a provision of PLN 71.6 million was established. It was partly compensated by release the amount of the PLN 43.0 million of the provisions in relation to the sales of debt in the irregular situation in 1H 2008 (agreement with Bison Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty and Bison II Sp. z o.o.).

The amounts of established and dissolved impairment charges for loans and other receivables are presented in the table below per classes of receivables.

	2008	**2007**
Impairment losses on loans and advances and other receivables, of which:	**508 423**	**194 403**
- banks	*2 514*	*68*
- entities from the financial sector other than banks	*237*	*2 737*
- entities from the non-financial sector, of which:	*504 565*	*188 023*
- business entities	*417 402*	*151 351*
- households	*87 163*	*36 672*
- entities from the government and self-government institutions' sector	*1 107*	*3 575*
Reversed impairment losses on loans and advances and other receivables, of which:	**-347 374**	**-217 486**
- banks	*-243*	*-113*
- entities from the financial sector other than banks	*-3 208*	*-6 241*
- entities from the non-financial sector, of which:	*-331 279*	*-210 326*
- business entities	*-198 493*	*-136 978*
- households	*-132 786*	*-73 348*
- entities from the government and self-government institutions' sector	*-12 644*	*-806*
Net impairment losses on loans and advances and other receivables, of which:	**161 049**	**-23 083**
- banks	*2 271*	*-45*
- entities from the financial sector other than banks	*-2 971*	*-3 504*
- entities from the non-financial sector, of which:	*173 286*	*-22 303*
- business entities	*218 909*	*14 373*
- households	*-45 623*	*-36 676*
- entities from the government and self-government institutions' sector	*-11 537*	*2 769*

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

	2008	**2007**
ING Powszechne Towarzystwo Emerytalne S.A.	48 232	43 598
Total	**48 232**	**43 598**

11. Income tax

Recognised in the profit and loss account

	2008	2007
Current portion	**137 746**	**123 550**
Current year	*129 436*	*117 218*
Adjustment of last-year tax settlement	*8 310*	*6 332*
Deferred tax	**-20 708**	**25 347**
Recognised and reversed temporary differences	*-20 708*	*25 347*
Increases/decreases of the receivables due to 8% relief related to provisions for receivables	**607**	**1 270**
Total income tax recognised in the profit and loss account	**117 645**	**150 167**

Effective tax rate calculation

	2008	2007
Profit before tax	**563 063**	**786 989**
19% income tax	**106 982**	**149 528**
Increases – non-deductible expenses	**26 035**	**12 008**
- setting up a provision against disputable debt claims	1 353	657
- PFRON	971	915
- provisions / impairment for the receivables in a part not covered with the deferred tax	311	96
- representation expenses	1 783	1 477
- expenses due to foreign payments	202	264
- expenses due to loan and non-loan receivables written off	1 868	6 384
- tax loss on the sale of the portfolio of receivables	7 875	0
- debt amortization related to derivatives	2 216	0
- thin capitalisation	7 964	0
- other	1 492	2 215
Decreases – tax exempt income	**15 979**	**12 639**
- income exempt due to the entity	777	592
- dividend income	423	523
- release of provisions against disputable debt claims	3 929	424
- depreciation on real estate	0	2 073
- share in net profit (loss) of associated entities	9 164	8 284
- settlement of tax loss	898	0
- other	788	743
19% income tax /+/ increases /-/ decreases	**117 038**	**148 897**
Increases/decreases of the receivable due to 8% relief related to provisions for receivables	607	1 270
Income tax from profit and loss account	**117 645**	**150 167**
Effective tax rate	**20,89%**	**19,08%**

12. Earnings per ordinary share (PLN)

Basic earnings per share

The calculation of basic earnings per one share of the parent company as for the year 2008 was based on net profit amounting to PLN 445,413,000 (in the year 2007, it was PLN 630,724,000) and weighted average number of ordinary shares in the same period, equalling 13,010,000 (year 2007: 13,010,000).

	2008	2007
Net profit (loss) assigned to shareholders of the holding company	445 413	630 724
Weighted average number of ordinary shares	13 010 000	13 010 000
Earnings per ordinary share (PLN)	**34,24**	**48,48**

Diluted earnings per share

During the year 2008 and throughout 2007, the number of shares making up the share capital of the Group remained unchanged. In the analysed period, the Group issued neither convertible bonds nor share options. The entire share capital is divided into ordinary shares (there are no preference shares). Consequently, diluted earnings per share are the same as basic earnings.

13. Dividends paid/proposed

On 24 April 2008, the General Shareholders' Meeting accepted the dividend payout for 2007 in the gross amount of PLN 11.70 per share, or PLN 152,217,000 in total. The dividend was paid on 2 June 2008.

The Management Board of ING Bank Śląski S.A. decided to make a recommendation to the General Shareholders' Meeting to allocate the entire 2008 net profit of the parent company for raising shareholders' equity.

14. Cash in hand and balances with the Central Bank

	end of 2008	end of 2007
Cash in hand	946 212	678 072
Balances with the Central Bank	423 583	1 163 653
Total	**1 369 795**	**1 841 725**

The parent company of the Group maintains a mandatory provision - at the level of 3.5% of the value of deposits received by the Bank - in its current account kept with the National Bank of Poland. The amount of the calculated provision is reduced by an equivalent of EUR 500,000, which represented:

- PLN 1,879,000 as of 28 November 2008,
- PLN 1,813,000 as of 30 November 2007.

The arithmetic mean of balances of the mandatory reserve that the Group's dominant entity is obliged to maintain during a given period in the current account with NBP amounts to:

- PLN 1,831,271,000 for the period from 31 December 2008 to 01 February 2009,
- PLN 1,497,935,000 for the period from 31 December 2007 to 30 January 2008,

The Group may utilise the credit limit with the National Bank of Poland representing 85% of the face value of Treasury securities subject to pledge, which as at 31 December 2008 represented PLN 11,076,025,000; compared with PLN 9,388,779,000 as at 31 December 2007.

15. Loans and receivables to other banks

	end of 2008	**end of 2007**
current accounts	276 550	359 874
interbank deposits, of which:	5 699 110	14 452 714
- overnight deposits	*2 447 474*	*2 605 695*
other receivables	1 814 232	371 768
- loans and advances	*459 114*	*305 938*
- reverse repo transactions	*796 138*	*0*
- debt securities reclassified from available-for-sale portfolio	*518 910*	*0*
- other receivables	*40 070*	*65 830*
Total (gross)	**7 789 892**	**15 184 356**
Impairment losses	-2 667	-691
Total (net)	**7 787 225**	**15 183 665**

Reverse purchase transactions are shown under the item "reverse repo transactions". The Group acquires funds by selling financial instruments with the future buy-back commitment at the same price, increased with the interest determined upfront.

Reverse repo transactions are meant as a liquidity management tool for short-term investment of surplus funds.

The following assets were bought under reverse repo transactions concluded with banks:

end of 2008

	Repurchase date	Nominal value	Carrying amount	interest
Assets from available-for sale portfolio	2009-01-12	792 210	793 247	2 891
Total		**792 210**	**793 247**	**2 891**

In 2008, the Group reclassified a part of the debt securities from the available-for-sale financial assets to the loans and other receivables category. The said securities included – but were not limited to – NBP bonds that after reclassification are presented herein. Specific disclosures on reclassification are presented in the note no. 17.

Loans and receivables to other banks by maturity

	end of 2008	end of 2007
up to 1 month	5 975 339	11 932 736
over 1 month and up to 3 months	535 270	737 561
over 3 months and up to 1 year	150 000	2 512 354
over 1 year and up to 5 years	1 129 283	1 705
Total	**7 789 892**	**15 184 356**

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

	end of 2008	end of 2007
Financial assets held for trading	10 696 683	6 062 786
Financial assets designated as at fair value upon initial recognition	4 431 901	1 844 778
Total	**15 128 584**	**7 907 564**

Financial assets held for trading

	end of 2008	end of 2007
Debt instruments, of which:	**6 115 950**	**4 373 230**
- Bonds and bills issued by:	6 115 950	4 373 230
- State Treasury	*6 114 950*	*4 373 230*
- NBP	*1 000*	*0*
Total debt instruments, of which:	6 115 950	4 373 230
- listed instruments	*4 990 831*	*4 292 647*
- unlisted instruments	*1 125 119*	*80 583*
Equity instruments, of which:	**968**	**38 530**
- listed instruments	968	38 530
- unlisted instruments	0	0
Derivative financial instruments	**4 579 765**	**1 651 026**
Total	**10 696 683**	**6 062 786**

Financial assets designated as at fair value upon initial recognition

	end of 2008	end of 2007
Deposits	**2 246 725**	**0**
Debt instruments, of which:	**1 822 654**	**1 513 211**
- Bonds and bills issued by:	1 822 654	1 513 211
- State Treasury	*1 630 504*	*1 381 685*
- Non financial sector	*192 150*	*131 526*
Total debt instruments, of which:	**1 822 654**	**1 513 211**
- listed instruments	*1 695 294*	*1 381 685*
- unlisted instruments	*127 360*	*131 526*
Transactions with the buy-back commitment	**362 522**	**331 567**
Total	**4 431 901**	**1 844 778**

The Group designated the following components of financial assets and liabilities for fair value measurement through profit and loss: debt securities in the form of bonds issued by a non-financial entity, all buy-sell-back and sell-buy-back transactions, as well as selected interbanking deposits.

By eliminating accounting mismatch, designation of the above mentioned bonds for fair value measurement through profit and loss allows the bank to obtain more useful information. The "mismatch" would involve inconsistencies in the recognition of the effects of measurement of an investment item in the form of above bonds and IRS transactions, which is measured as fair value through the financial result, and securing the interest rate risk from the transaction.

A group of sell-buy-back and buy-sell-back transactions was designated for fair value measurement through profit and loss due to their classification to the portfolio managed by the Financial Markets Operations and Strategic Clients Department. According to the principles of risk management and the investment strategy in force at the Bank, financial assets and liabilities within 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.

By designating interbanking deposits for measurement at fair value through profit and loss, the Group intends to eliminate, or at least reduce considerably, the accounting mismatch resulting from different measurement of interbanking deposits and financial instruments with which the relation is identified, notably derivative transactions such as FX SWAP, FX Forward, IRS and OIS.

The amount of valuation as at the balance sheet date of deposits / interbank deposits to be measured at fair value through the income statement did not include the amount of changes in fair value that may be attributed to changes in credit risk. In the opinion of the Group, the whole amount of changes in fair value resulted from the volatile market conditions giving rise to market risk.

Financial assets at fair value through profit or loss by maturity

	end of 2008	end of 2007
up to 1 month	2 944 296	872 840
over 1 month and up to 3 months	691 349	192 738
over 3 months and up to 1 year	3 944 112	743 798
over 1 year and up to 5 years	5 563 257	4 382 511
over 5 years	1 985 570	1 715 677
Total	**15 128 584**	**7 907 564**

Movements in financial assets at fair value through profit or loss

	2008	2007
Opening balance	**7 907 564**	**7 067 422**
Increases	**367 588 500**	**419 485 442**
- purchase of debt securities	*360 675 061*	*417 766 495*
- purchase shares in other parties	*1 161 831*	*823 811*
- increase in the value of securities	*576 145*	*205 353*
- measurement of off-balance sheet derivative instruments	*2 928 738*	*689 783*
- designation of interbank deposits to valuation through profit and loss	*2 246 725*	*0*
Decreases	**360 367 480**	**418 645 300**
- sales of debt securities	*331 494 315*	*362 666 224*
- repurchase of debt securities	*27 207 064*	*50 683 369*
- sales of shares in other parties	*1 200 031*	*801 632*
- drop in the value of securities	*466 070*	*4 494 075*
Closing balance	**15 128 584**	**7 907 564**

Interest revenue from debt instruments is recognised under interest result.

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 measured at fair value through profit and loss and revaluation'.

Detailed information regarding nominal value of specific types of the off-balance sheet financial instruments whose measurement is presented herein under ”derivative financial instruments”, and information on the outstanding maturities – is presented in the note no. 42.

17. Investments

	end of 2008	**end of 2007**
Available-for-sale financial assets, including:	10 739 090	8 547 497
- fair value hedge - hedged items	*3 235 793*	*435 531*
Held-to-maturity financial assets	7 311 832	840 776
Total	**18 050 922**	**9 388 273**

Available-for-sale financial assets

	end of 2008	**end of 2007**
Debt securities, of which:	**10 730 536**	**8 524 148**
- Fixed rate debt instruments, of which:	10 057 405	7 365 286
- Treasury bonds	*9 811 957*	*7 224 265*
- Treasury bills	*245 448*	*141 021*
- Floating rate debt instruments, of which:	673 131	1 158 862
- Treasury bonds	*673 131*	*389 829*
- NBP bonds	*0*	*514 650*
- Other	*0*	*254 383*
Total debt instruments	10 730 536	8 524 148
- listed instruments	*10 485 088*	*7 614 094*
- unlisted instruments	*245 448*	*910 054*
Equity instruments	**8 554**	**23 349**
- Equity instruments at cost	9 195	15 441
- Market value evaluation	1 902	21 142
- Impairment	-2 543	-13 234
Equity instruments – carrying value	8 554	23 349
- listed instruments	*1 607*	*78*
- unlisted instruments	*6 947*	*23 271*
Total	**10 739 090**	**8 547 497**

The item “Equity instruments” shows the shares and participations of about a dozen entities that are not quoted on the stock exchange. The Bank does not measure them at fair value. The shares of two companies held by the Group are exception to the rule as they are not quoted on the stock exchange, whereas the measurement is made based on the price of the shares of the series quoted on the stock exchange.

Due to the operations of its units, the Group holds certain shares and participations such as 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 2008	end of 2007
Fixed rate debt instruments, of which:	**3 235 793**	**435 531**
- Bonds issued by:	3 235 793	435 531
- *State treasury*	*3 235 793*	*435 531*
Total	**3 235 793**	**435 531**

Specific information on the hedge accounting applied in the Group is presented later in the report in the note no. 44 "Hedge accounting".

Held-to-maturity financial assets

	end of 2008	end of 2007
Fixed rate debt instruments, of which:	**7 311 832**	**840 776**
- Bonds issued by:	7 311 832	840 776
- *State treasury*	*7 311 832*	*840 776*
Total	**7 311 832**	**840 776**

Investments by maturity

	end of 2008	end of 2007
up to 1 month	0	7 976
over 1 month and up to 3 months	19 810	0
over 3 months and up to 1 year	892 464	1 877 186
over 1 year and up to 5 years	13 725 453	4 928 319
over 5 years	3 413 195	2 574 792
Total	**18 050 922**	**9 388 273**

Movements in investments

	2008	2007
Opening balance	**9 388 273**	**12 614 914**
Increases	**21 137 721**	**4 099 684**
- purchase of debt securities	19 778 964	*3 586 939*
- increase in the value of securities	1 358 295	*512 729*
- purchase of shares	462	*10*
- reversed provision for shares	0	*6*
Decreases	**12 475 072**	**7 326 325**
- sales of debt securities	8 657 366	*5 975 318*
- repurchase of debt securities	491 869	*465 489*
- drop in the value of securities	820 516	*873 536*
- sales of shares	3 883	*11 982*
- reclassification to loans and receivables portfolio	2 501 438	*0*
Closing balance	**18 050 922**	**9 388 273**

In 2008, the Group sold shares worth PLN 3,882,000 at the purchase price. That amount comprised the value of shareholding in the following entities:

- Master Card Inc.
- Mostostal Zabrze S.A.
- Centrozap S.A. (sale of a part of the shares held)

The Group generated profit on the sale of the above shares totalling PLN 27,974,000.

In 2007, the Group sold shares of 2 companies whose value as at purchase price totalled PLN 11,982,000; the revenue earned on the transaction totalled PLN 15,036,000.

Reclassification of the debt securities

In 2008, the Group reclassified a part of the debt securities from the available-for-sale financial assets to the loans and other receivables category.

The reason for reclassification was the lack or inactiveness of the market, which in the opinion of the Group makes the above securities classify as matching the definition of loans and receivables according to IAS, namely they “are financial assets other than derivatives, with the determined or impossible to determine payments, and which are not quoted on active market”, and the Bank’s intention pertaining thereto, i.e. Bank’s intention and possibility to hold them in a foreseeable future, did not change.

The reclassification resulted in the change of the principles of the debt securities measurement, that is from the securities measured at their fair value to the ones measured at amortised cost. Fair value of debt securities as of reclassification date constituted their new amortised cost.

Debt securities reclassified from available-for-sale category to loans and receivables

Name of security	Date of reclassification	Fair value as of the date of reclassification	Carrying amount as of 31 Dec 2008	Fair value as of 31 Dec 2008	Item in financial statements
T-eurobonds	01.10.2008	1 242 866	1 654 003	1 620 049	Loans and receivables to customers
NBP bonds	19.12.2008	518 870	518 910	518 910	Loans and receivables to other banks
Corporate bonds	19.12.2008	294 163	294 184	294 184	Loans and receivables to customers
Municipal bonds	19.12.2008	34 402	34 404	34 404	Loans and receivables to customers
Total		**2 090 301**	**2 501 501**	**2 467 547**	

T-bonds denominated in EUR (euro-bonds) classified as of their purchase date to the available-for-sale financial assets were the base instruments secured in the fair value hedge accounting against the interest rate risk. As of reclassification date, the original strategy of hedging the securities from the available-for-sale portfolio was closed. Due to the fact that the intention of the Group was to sustain the hedging connection, as of the reclassification date a new hedging strategy was started, i.e. the strategy which hedged the fair value against the interest rate risk related to the securities classified to loans and other receivables category.

The table below shows the fair value of profit or loss related to reclassified securities that was recognised in equity and through the profit and loss account of the Group for the year ended 31 December 2008.

Fair value recognised in equity and profit or loss for the year ended 31 December 2008

Name of security	Fair value recognised in equity	Fair value recognised in profit or loss	*of which the amounts resulting from the hedge accounting*
T-eurobonds	2 196	13 652	*13 652*
NBP bonds	-3 875	0	*0*
Corporate bonds	2 659	0	*0*
Municipal bonds	-443	0	*0*
Total	**537**	**13 652**	***13 652***

Should the mentioned above securities not be reclassified to loans and other receivables category, and should they remain in the AFS financial assets, the amount of the measurement at fair value as at 31 December 2008 would have been PLN –33,954,000, and the entire amount would have been recognised in the revaluation capital. The above value was assessed without taking into account the impact of further application of the fair value hedge accounting on the Profit and Loss Account, and on capitals, because the Group is of the opinion that such a calculation would be erroneous, and it would be based on hypothetical, hard to verify assumptions.

Income and expense recognised in profit or loss for the year ended 31 December 2008

Name of security	accrued interests (coupon)	amortised discount	amortised premium
T-eurobonds	39 807	1 326	-555
NBP bonds	24 182	0	0
Corporate bonds	2 547	166	0
Municipal bonds	147	0	0
Total	**66 683**	**1 492**	**-555**

Effective interest rate and estimated amounts of cash flows the Group expects to recover as of a date of reclassification of the financial assets

Name of security	up to 1 month	over 1 month and up to 3 months	over 3 months and up to 1 year	over 1 year and up to 5 years	over 5 years	effective interest rate
T-eurobonds *)	0	11 871	74 136	464 551	0	5,12%
Corporate bonds	207	2 432	140 257	176 359	12 804	7,34%
Municipal bonds	4	0	2 149	18 052	29 647	6,68%
NBP bonds **)	0	5 685	0	585 139	0	5,89%

**) for Euro-bonds the cash flow amounts are in EUR thousand*
***) in connection with the actions aimed at the increase of the banks' liquidity, the National Bank of Poland took a decision on NBP bonds redemption before their maturity date. The redemption was on 22 January 2009.*

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 2008: PLN 8,802,000;
- as at 31 Dec 2007: - PLN 298,000.

The liabilities secured with the above assets amounted to:

- as at 31 Dec 2008: PLN 644,102,000;
- as at 31 Dec 2007: PLN 103,014,000.

Nominal value of assets that are collateral for liabilities

	end of 2008	end of 2007
The portfolio of financial assets held for trading:		
- treasury bonds collateralising the liabilities due to securities sold with a promise of repurchase	661 534	102 939
- treasury bonds constituting a collateral for the lombard loan	1 750 000	0
The portfolio of financial assets available-for-sale:		
- treasury bills constituting a collateral to Bank Guarantee Fund	133 200	117 900

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 hedge accounting

Positive valuation

	end of 2008	end of 2007
Balance sheet valuation of securities fair value hedge instruments	0	4 572
- Interest Rate Swap	*0*	*4 572*
Balance sheet valuation of instruments hedging the cash flows	197 003	0
- Interest Rate Swap	*197 003*	*0*
Total	**197 003**	**4 572**

Negative valuation

	end of 2008	end of 2007
Balance sheet valuation of securities fair value hedge instruments	420 047	0
- Interest Rate Swap	*420 047*	*0*
Total	**420 047**	**0**

Positive amounts from this table are presented under “Derivative hedge instruments” in the balance sheet assets; whereas amounts with “-“ refer to negative valuation and are presented under “Derivative hedge instruments” in the balance sheet liabilities.

20. Loans and receivables to customers

Loans and other receivables to entities from the financial sector other than banks

	end of 2008	end of 2007
Loans and advances	2 925 110	2 232 613
- in the current account	*382 674*	*378 971*
- term ones	*2 542 436*	*1 853 642*
Reverse repo transactions	158 159	0
Other receivables	98 173	110 040
Total (gross)	**3 181 442**	**2 342 653**
Impairment losses	-2 045	-5 840
Total (net)	**3 179 397**	**2 336 813**

Loans and other receivables to entities from the non-financial sector

	end of 2008	end of 2007
Loans and advances granted to business entities	12 286 418	8 905 640
- in the current account	*3 931 464*	*3 104 227*
- term ones	*8 354 954*	*5 801 413*
Loans and advances granted to households	7 439 430	4 937 935
- in the current account	*1 091 580*	*968 528*
- term ones	*6 347 850*	*3 969 407*
Debt securities, of which:	559 378	0
- reclassified from available-for-sale portfolio	*294 184*	*0*
Other receivables	69 436	57 128
Total (gross)	**20 354 662**	**13 900 703**
Impairment losses	-482 274	-526 101
Total (net)	**19 872 388**	**13 374 602**

Loans and other receivables to entities from the government and self-government institutions' sector

	end of 2008	**end of 2007**
Loans and advances	973 899	697 219
- in the current account	*11 854*	*9 872*
- term ones	*962 045*	*687 347*
Debt securities, of which:	1 735 062	0
- reclassified from available-for-sale portfolio, of which:	*1 688 407*	*0*
- hedged items in fair value hedging	*1 654 003*	*0*
Other receivables	32	0
Total (gross)	**2 708 993**	**697 219**
Impairment losses	-17 939	-29 496
Total (net)	**2 691 054**	**667 723**

Loans and other receivables to customers - TOTAL

	end of 2008	**end of 2007**
Loans and advances	23 624 857	16 773 407
Reverse repo transactions	158 159	0
Debt securities	2 294 440	0
Other receivables	167 641	167 168
Loans and other receivables to customers – gross	**26 245 097**	**16 940 575**
Impairment losses	-502 258	-561 437
Loans and other receivables to customers – net	**25 742 839**	**16 379 138**

Reverse purchase transactions are shown under the item "reverse repo transactions". The Group acquires funds by selling financial instruments with the future buy-back commitment at the same price, increased with the interest determined upfront.

Reverse repo transactions are meant as a liquidity management tool for short-term investment of surplus funds.

The following assets were bought under reverse repo transactions concluded with customers:

end of 2008

	Repurchase date	Nominal value	Carrying amount	interest
Assets from available-for sale portfolio	2009-01-06	160 316	158 011	148
Total		**160 316**	**158 011**	**148**

In 2008, the Group reclassified a part of the debt securities from the AFS financial assets to the loans and other receivables category. The said securities included, but were not limited to, T-bonds (euro-bonds), commercial papers, and municipal bonds that after reclassification are presented herein. T-bonds are hedged against IR risk in the fair value hedge accounting. Specific disclosures on reclassification are presented in the note no. 17.

Fair value hedge - hedged items

	end of 2008	end of 2007
Fixed rate debt instruments, of which:	**1 654 003**	**0**
- Bonds issued by:	1 654 003	0
- *State treasury*	*1 654 003*	*0*
Total	**1 654 003**	**0**

Specific information on the hedge accounting applied in the Group is presented later in the report in the note no. 44 ”Hedge accounting”.

Loans and receivables to customers by maturity

	end of 2008	end of 2007
up to 1 month	8 864 988	5 467 893
over 1 month and up to 3 months	1 725 986	1 304 595
over 3 months and up to 1 year	2 789 392	2 427 656
over 1 year and up to 5 years	5 730 145	4 066 683
over 5 years	6 275 259	2 931 536
overdue	859 327	742 212
Total	**26 245 097**	**16 940 575**

Interest accrued as at 31 December 2008 includes the amount of PLN 6,055,000 (PLN 7,436,000 as at 30 December 2007) related to accrued unpaid interest at risk of impairment, recognised before 01 January 2005, fully written off.

Average effective interest rate for loans and advances in %

	end of 2008	end of 2007
Average effective interest rate for loans and advances in PLN	7,81%	6,47%
Average effective interest rate for loans and advances in foreign currencies	5,27%	5,26%

In line with the credit policy, the Group accepts collateral to secure 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 Capital Group of ING Bank Śląski S.A.", item "Repayment Security 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

Loans and receivables portfolio

end of 2008

	gross value	**impairment losses**	**net value**
Loans and receivables to other banks	7 789 892	-2 667	7 787 225
Loans and receivables to customers, of which:	26 245 097	-502 258	25 742 839
- to entities from the financial sector other than banks	3 181 442	-2 045	*3 179 397*
- to entities from the non-financial sector	20 354 662	-482 274	*19 872 388*
- to entities from the government and self-government institutions' sector	2 708 993	-17 939	*2 691 054*
Total	**34 034 989**	**-504 925**	**33 530 064**

end of 2007

	gross value	**impairment losses**	**net value**
Loans and receivables to other banks	15 184 356	-691	15 183 665
Loans and receivables to customers, of which:	16 940 575	-561 437	16 379 138
- to entities from the financial sector other than banks	2 342 653	-5 840	*2 336 813*
- to entities from the non-financial sector	13 900 703	-526 101	*13 374 602*
- to entities from the government and self-government institutions' sector	697 219	-29 496	*667 723*
Total	**32 124 931**	**-562 128**	**31 562 803**

Loans and receivables portfolio classified according to impaired / unimpaired

	end of 2008	**end of 2007**
Loans and receivables (gross)	34 034 989	32 124 931
- impaired	487 304	506 707
- unimpaired	33 547 685	31 618 224
Impairment losses	-504 925	-562 128
- related to impaired portfolio	-386 226	-464 637
- related to unimpaired portfolio	-118 699	-97 491
Loans and receivables (net)	**33 530 064**	**31 562 803**

Loans and receivables portfolio classified according to impairment estimation methods

	end of 2008	end of 2007
Loans and receivables (gross)	34 034 989	32 124 931
- measured individually	276 476	283 342
- measured as the portfolio	33 758 513	31 841 589
Impairment losses	-504 925	-562 128
- impairment loss pertaining to receivables measured individually	-225 214	-276 387
- impairment loss pertaining to receivables measured as the portfolio	-279 711	-285 741
Loans and receivables (net)	**33 530 064**	**31 562 803**

Movements in impairment losses

	2008	2007
Opening balance	**562 128**	**703 327**
Movements in impairment losses:	**-57 203**	**-141 199**
- Recognised during the period	*556 644*	*288 172*
- Reversed during the period	*-477 703*	*-390 327*
- Utilised writte-offs	*-233 339*	*-113 279*
- Amounts recovered from loans previously written off	*84 869*	*85 840*
- FX differences	*382*	*-1 460*
- Unwinding interest	*12 747*	*-3 149*
- Other	*-803*	*-6 996*
Closing balance	**504 925**	**562 128**

The utilised write-offs comprise redemptions of receivables and write-offs of receivables from the balance sheet.

The level of 2008 charges was impacted by the higher than previously provisions for the credit receivables and provisions against the risk related to the derivative transactions (mostly FX Options) – a provision of PLN 71.6 million was established.

It was partly compensated by release the amount PLN 43,0 million of the provisions in relation to the sales of debt in the irregular situation in 1H 2008 (agreement with Bison Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty and Bison II Sp. z o.o.).

22. Investments in controlled entities recognised under the equity method

The Group has shares in the associated entity ING Powszechne Towarzystwo Emerytalne S.A.:

General financial information on an associated entity:

Name of the entity	ING Powszechne Towarzystwo Emerytalne S.A.
Domestic	Poland
Type of activities	establishment and management of the open pension fund

	end of 2008	**end of 2007**
Share in the equity	20%	20%
Assets	598 195	523 185
Liabilities	59 000	37 155
Net assets	539 195	486 030
Revenues	471 978	404 334
Net profit (loss)	237 733	208 139

Carrying value of the share in associated entity

	end of 2008	**end of 2007**
Opening balance	97 326	90 309
Profit share	48 232	43 597
Dividend paid	-38 297	-36 580
Closing balance	**107 261**	**97 326**

In the standalone financial statements, the Bank discloses shares in the following subsidiaries and associated entities:

Name of entity	**Type of capital relation**	**Bank's percentage share in the business's equity**	**Carrying value of shares (at cost)**	
			end of 2008	**end of 2007**
ING Securities S.A.	subsidiary	100,00%	30 228	30 228
ING Bank Hipoteczny S.A.	subsidiary	100,00%	113 450	113 450
ING BSK Development Sp. z o.o.	subsidiary	100,00%	50	50
Solver Sp. z o.o.	subsidiary	82,30%	7 870	7 870
Centrum Banku Śląskiego Sp. z o.o. under liquidation	subsidiary	100,00%	18 971	18 971
ING Powszechne Towarzystwo Emerytalne S.A.	associated company	20,00%	40 000	40 000
Total			**210 569**	**210 569**

ING Bank Śląski S.A. controls 100% of the equity of Centrum Banku Śląskiego Sp. z o.o. under liquidation, holding 40% direct interest in the company's equity, and 60% indirect interest via ING BSK Development Sp. z o.o. (the balance sheet value of the shares held by ING BSK Development Sp. z o.o. in the equity of Centrum Banku Śląskiego Sp. z o.o. under liquidation is PLN 2,645,000).

On 23 December 2008, the Extraordinary General Meeting of Centrum Banku Śląskiego Sp. z o.o. under liquidation passed a resolution on further operation of the Company, based on which the General Meeting decided to rescind the resolution of 23 November 2007 on the company's dissolution as of 01 January 2009.

Also on 23 December 2008, the Extraordinary General Meeting of ING BSK Development Sp. z o.o. passed a resolution on the company's dissolution and starting its winding-up process as of 01 January 2009.

The above activities result from the optimisation of the Capital Group of ING Bank Śląski S.A. and from the change of the Bank's approach to the real property management.

On 23 January 2009, ING Bank Śląski S.A. acquired in closed subscription 500 shares of D series of ING Bank Hipoteczny S.A. of the nominal value of PLN 50,000 each for the total amount of PLN 25 million. This operation will result in the increase of the ING Bank Śląski interest in the equity of ING Bank Hipoteczny from PLN 113.5 million to PLN 138.5 million.

23. Investment real estates

	2008	**2007**
Value at the beginning of period	144 713	145 970
Additions	1 111	4 063
Evaluation at the fair value	5 634	-5 320
Value at the end of period	**151 458**	**144 713**

The Group is the owner of one investment property located in Katowice. The Group 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. Generally adopted market parameters were applied for the appraisal while considering the building occupancy level.

The investment property is measured in EUR (as at 31 Dec 2008, the estate value was EUR 36,300,000 versus EUR 40,400,000 as at 31 December 2007.

	end of 2008	**end of 2007**
Income rental from of the investment property	12 966	14 391
Maintance expenses relating to the investment property	-4 896	-3 899

There are no legal constraints on the investment property, or contractual obligations related to purchase thereof.

24. Property, plant and equipment

	end of 2008	end of 2007
Real estate and leasehold improvements	390 086	404 223
Computer hardware	40 978	43 273
Vehicles	316	335
Other fixtures and fittings	89 649	70 921
Constructions in progress	23 134	14 186
Total	**544 163**	**532 938**

2008

	Real estate and leasehold improvements	Computer hardware	Vehicles	Other fixtures and fittings	Constructions in progress	**TOTAL**
Gross value at the beginning of period	700 708	225 864	1 992	351 923	14 186	**1 294 673**
Additions, due to:	25 847	21 147	193	41 857	66 513	**155 557**
- purchases	*2 498*	*18 371*	*193*	*10 086*	*66 513*	***97 661***
- investment take-overs	*23 280*	*2 756*	*0*	*31 771*	*0*	***57 807***
- other	*69*	*20*	*0*	*0*	*0*	***89***
Disposals, due to:	-3 716	-49 567	-862	-18 163	-58 106	**-130 414**
- sale and liquidation	*-2 795*	*-49 410*	*-833*	*-18 120*	*-67*	***-71 225***
- investment take-overs	*0*	*0*	*0*	*0*	*-57 936*	***-57 936***
- other, of which:	*-921*	*-157*	*-29*	*-43*	*-103*	***-1 253***
- grants	*0*	*-157*	*0*	*0*	*0*	***-157***
- reclassified to real estate held for sale	*-854*	*0*	*0*	*0*	*0*	***-854***
Evaluation at the fair value	-5 025	0	0	0	0	**-5 025**
Transfers	2 243	-118	0	-2 646	541	**20**
Gross value at the end of period	**720 057**	**197 326**	**1 323**	**372 971**	**23 134**	**1 314 811**
Accumulated depreciation at the begining of the period	-296 485	-182 591	-1 657	-281 002	0	**-761 735**
Amortisation for the period (due to)	-33 486	26 243	650	-2 320	0	**-8 913**
- amortisation charges	*-34 252*	*-23 402*	*-116*	*-22 194*	*0*	***-79 964***
- sale and liquidation	*2 393*	*49 488*	*741*	*17 894*	*0*	***70 516***
- transfers	*-1 704*	*0*	*-4*	*1 701*	*0*	***-7***
- other, of which:	*77*	*157*	*29*	*279*	*0*	***542***
- grants	*0*	*157*	*0*	*0*	*0*	***157***
- reclassified to real estate held for sale	*71*	*0*	*0*	*0*	*0*	***71***
Accumulated depreciation at the end of the period	**-329 971**	**-156 348**	**-1 007**	**-283 322**	**0**	**-770 648**
Net value at the end of period	**390 086**	**40 978**	**316**	**89 649**	**23 134**	**544 163**

2007

	Real estate and leasehold improvements	Computer hardware	Vehicles	Other fixtures and fittings	Constructions in progress	**TOTAL**
Gross value at the beginning of period	692 222	267 205	3 957	341 238	3 180	**1 307 802**
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***
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*	*0*	***-67 172***
- investment take-overs	*0*	*0*	*0*	*-282*	*-35 112*	***-35 394***
- other, of which:	*-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***
Evaluation at the fair value	-7 970	0	0	0	0	**-7 970**
Transfers	-2 351	0	0	19	194	**-2 138**
Gross value at the end of period	**700 708**	**225 864**	**1 992**	**351 923**	**14 186**	**1 294 673**
Accumulated depreciation at the begining of the period	-266 205	-206 354	-3 378	-260 800	0	**-736 737**
Amortisation for the period (due to)	-30 280	23 763	1 721	-20 202	0	**-24 998**
- amortisation charges	*-32 853*	*-29 689*	*-262*	*-33 705*	*0*	***-96 509***
- 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, of which:	*-192*	*-3 593*	*240*	*-76*	*0*	***-3 621***
- grants	*0*	*48*	*5*	*18*	*0*	***71***
- reclassified to real estate held for sale	*216*	*0*	*0*	*0*	*0*	***216***
Accumulated depreciation at the end of the period	**-296 485**	**-182 591**	**-1 657**	**-281 002**	**0**	**-761 735**
Net value at the end of period	**404 223**	**43 273**	**335**	**70 921**	**14 186**	**532 938**

The item "Real estate and leasehold improvements" comprises, among others, land whose value considering the fair value measurement as at 31 Dec 2008 was PLN 4,041,000 (as at 31 December 2007, it was PLN 4,745,000).

As at 31 Dec 2008, the value of fully depreciated tangible non-current assets was PLN 272,154,000 as compared to 323,338,000 as at 31 December 2007.

As at 31 Dec 2008, PLN 52,864,000, which amount (including deferred tax) refers to the real properties assessed at fair value, is recognised in the revaluation reserve. As at 31 December 2007 the same item amounted to PLN 57,998,000.

The real properties were assessed in December 2006 by an independent appraiser. The assessment was carried out in line with the binding principles of the real property appraisal depending on the character of the building (for administrative buildings – reconstruction method was applied, and 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 328,085,000. In the year 2007, one of the Group's leisure centres was subject to appraisal. In the year 2008, the remaining leisure centres owned by the Group were appraised as well as the building of the Head Office of ING Bank Śląski S.A. in Katowice. As at 31.12.2008, the value of that real property stood at PLN 177,744,000. The change in value of the said real property 2008 charged the revaluation capital by 8,238,000 (PLN 6,673,000 upon consideration of deferred tax)

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

In 2008, the Group concluded agreements with the contracting parties for the future purchase of non-current assets for the amount of PLN 5,237,000. The said agreements pertain to the purchase and modernisation of non-current assets in the branches of ING Bank Śląski, like air-conditioning modernisation, installation of queuing systems, and interior lighting. Furthermore, the Group concluded master agreements on the building and installation works, and on the repairs of the branches. Amounts payable under the said agreements are not set in advance – they will result from the cost estimates calculated during the year separately for each branch.

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

Net value of assets accepted under financial lease agreements

	end of 2008	**end of 2007**
Real estate	3	3 288
Vehicles	0	0
Other fixtures and fittings	3	47
Total	**6**	**3 335**

25. Intangible assets

	end of 2008	end of 2007
Goodwill	223 821	223 821
Software	82 580	73 830
Other intangible assets	356	451
Outlays for intangible assets	9 430	20 723
Total	**316 187**	**318 825**

2008

	Goodwill	Software	Other intangible assets	Outlays for intangible assets	**TOTAL**
Gross value at the beginning of period	223 821	244 571	8 620	20 723	**497 735**
Additions, due to:	0	62 446	0	40 219	**102 665**
- purchases	*0*	*12 547*	*0*	*40 158*	***52 705***
- investment take-overs	*0*	*49 328*	*0*	*0*	***49 328***
- other	*0*	*571*	*0*	*61*	***632***
Disposals, due to:	0	-23 494	297	-51 090	**-74 287**
- sale and liquidation	*0*	*-23 434*	*0*	*0*	***-23 434***
- investment take-overs	*0*	*0*	*297*	*-49 625*	***-49 328***
- other	*0*	*-60*		*-1 465*	***-1 525***
Transfers	0	718	-1 035	-422	**-739**
Gross value at the end of period	**223 821**	**284 241**	**7 882**	**9 430**	**525 374**
Accumulated depreciation at the begining of the period	0	-170 741	-8 169	0	-178 910
Amortisation for the period (due to)	0	-30 920	643	0	-30 277
- amortisation charges	*0*	*-53 696*	*-137*	*0*	*-53 833*
- sale and liquidation	*0*	*23 433*	*0*	*0*	*23 433*
- transfers	*0*	*-718*	*718*	*0*	*0*
- other	*0*	*61*	*62*	*0*	*123*
Accumulated depreciation at the end of the period	**0**	**-201 661**	**-7 526**	**0**	**-209 187**
Net value at the end of period	**223 821**	**82 580**	**356**	**9 430**	**316 187**

2007

	Goodwill	Software	Other intangible assets	Outlays for intangible assets	**TOTAL**
Gross value at the beginning of period	223 821	193 465	9 415	13 644	**440 345**
Additions, due to:	0	53 595	56	51 038	**104 689**
- purchases	*0*	*9 697*	*66*	*50 640*	***60 403***
- investment take-overs	*0*	*43 898*	*-10*	*0*	***43 888***
- other	*0*	*0*	*0*	*398*	***398***
Disposals, due to:	0	-2 530	0	-44 769	**-47 299**
- sale and liquidation	*0*	*-2 530*	*0*	*0*	***-2 530***
- investment take-overs	*0*	*0*	*0*	*-43 888*	***-43 888***
- other	*0*	*0*	*0*	*-881*	***-881***
Transfers	0	41	-851	810	**0**
Gross value at the end of period	**223 821**	**244 571**	**8 620**	**20 723**	497 735
Accumulated depreciation at the begining of the period	0	-114 678	-8 006	0	-122 684
Amortisation for the period (due to)	0	-56 063	-163	0	-56 226
- amortisation charges	*0*	*-58 167*	*-123*	*0*	*-58 290*
- sale and liquidation	*0*	*2 065*	*0*	*0*	*2 065*
- transfers	*0*	*39*	*-40*	*0*	*-1*
- other	*0*	*0*	*0*	*0*	*0*
Accumulated depreciation at the end of the period	**0**	**-170 741**	**-8 169**	**0**	**-178 910**
Net value at the end of period	**223 821**	**73 830**	**451**	**20 723**	**318 825**

As at 31 Dec 2008, the value of fully depreciated intangible assets equalled PLN 83,101,000 versus PLN 82,208,000 as at 31 Dec 2007.

In the year 2008, the Group concluded agreements with the contractors for the future purchase of intangible assets to the amount of:

– PLN 5,682,000
– EUR 212,000
– USD 1,862,000

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 carried 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 223,343,000 was assigned thereto. No other additional elements of intangible value and unspecified usage period were identified that could be assigned to the identified income generating centre. The input data for the test's needs cover the economic capital, risk-weighted assets and profit before tax per segments. The test is performed based on the model that calculates and compares the current value of free cashflow from the centre to the estimated book value of the centre's funds. The free cashflows of the centre are defined as net profits less 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 remaining assumptions include: forecasts of income tax rate, nominal growth rate after the forecast period and predicted 3 M WIBOR rate.

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 mid-term plan approved by the Bank and the strategy covering the maximum period of the next three years. The data regarding the 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 and its profits will increase by previously determined growth rate. Legitimacy of the assumptions made is verified periodically, and any divergence between the cashflows estimated based on the future cashflows and the actual ones is analysed as appropriate.

The test carried out as at 31 December 2008 showed the surplus of present value over the net book value of the asset generating cash flow of PLN 1,018 million, and thus no impairment thereof was determined.

For the discount rate lower by 1% the surplus of present value of cashflows over the net book value of the centre generating cashflows would amount to PLN 1,434 million, for the rate higher by 1% the surplus of the present value of cashflows over the net book value of the centre generating cashflows would be PLN 736 million.

26. Property, plant and equipment held for sale

	2008	**2007**
Value at the beginning of period	241	224
Additions, due to:	833	10 015
- reclassification from property, plant and equipment	*783*	*9 980*
- other	*50*	*35*
Disposals, due to:	-826	-9 998
- sale and liquidation	*-826*	*-9 998*
Value at the end of period	**248**	**241**

As at 31 Dec 2008, the amount of "Property, plant and equipment held for sale" includes mainly real properties and means of transportation taken over under the recovery process. The Group intends to sell them by way of tender procedure.

27. Deferred tax asset and provision

Movements in temporary differences during the year

2008

Deferred tax assets

	Balance as of 31 Dec 2007	Changes charged to the financial result	Changes charged to equity	Changes charged to retained earnings	Changes charged to minority equity	**Balance as of 31 Dec 2008**
Interest accrued (expense)	-17 120	-180	0	0	0	**-17 300**
Revaluation of available-for-sale financial assets	-39 932	0	13 757	0	0	**-26 175**
Provisions for receivables due to loans	-60 869	7 042	0	0	0	**-53 827**
Other provisions	-5 838	-3 671	0	0	0	**-9 509**
Employee benefits	-19 509	-3 383	0	0	0	**-22 892**
Retirement and holiday benefits	-3 612	-240	0	0	0	**-3 852**
Accumulated losses settled	847	-1 223	0	0	0	**-376**
Evaluation of own and investment real estate	-6 038	1 564	0	0	0	**-4 474**
Correction due to effective interest rate	-12 337	0	0	0	0	**-12 337**
Other	-19 827	89	0	0	0	**-19 738**
Total	**-184 235**	**-2**	**13 757**	**0**	**0**	**-170 480**

Deferred tax provision

	Balance as of 31 Dec 2007	Changes charged to the financial result	Changes charged to equity	Changes charged to retained earnings	Changes charged to minority equity	**Balance as of 31 Dec 2008**
Interest accrued (expense)	90 019	-20 190	0	0	0	**69 829**
Settlement of the difference between tax and balance sheet depreciation	9 964	-1 544	0	0	0	**8 420**
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief enjoyed	10 678	-317	0	0	0	**10 361**
Revaluation of property, plant and equipment	13 604	0	-1 205	0	0	**12 399**
Revaluation of available-for-sale financial assets	4 017	0	-2 131	0	0	**1 886**
Revaluation of cash flow hedging instruments	0	0	10 692	0	0	**10 692**
Evaluation of own and investment real estate	1 148	183	0	134	0	**1 465**
Sale of property, plant and equipment held for sale	0	0	0	0	102	**102**
Other	5 513	1 162	0	0	0	**6 675**
Total	**134 943**	**-20 706**	**7 356**	**134**	**102**	**121 829**

Deferred tax disclosed in the balance sheet	**-49 292**	**-20 708**	**21 113**	**134**	**102**	**-48 651**

2007

Deferred tax assets

	Balance as of 31 Dec 2006	Changes charged to the financial result	Changes charged to equity	Changes charged to retained earnings	**Balance as of 31 Dec 2007**
Interest accrued (expense)	-15 678	-1 442	0	0	**-17 120**
Revaluation of available-for-sale financial assets	-1 146	0	-38 786	0	**-39 932**
Provisions for receivables due to loans	-92 536	31 667	0	0	**-60 869**
Other provisions	-6 213	375	0	0	**-5 838**
Employee benefits	-11 365	-8 144	0	0	**-19 509**
Retirement and holiday benefits	-4 328	716	0	0	**-3 612**
Accumulated losses settled	-359	1 206	0	0	**847**
Evaluation of own and investment real estate	0	-6 038	0	0	**-6 038**
Correction due to effective interest rate	-12 337	0	0	0	**-12 337**
Other	-22 277	2 450	0	0	**-19 827**
Total	**-166 239**	**20 790**	**-38 786**	**0**	**-184 235**

Deferred tax provision

	Balance as of 31 Dec 2006	Changes charged to the financial result	Changes charged to equity	Changes charged to retained earnings	**Balance as of 31 Dec 2007**
Interest accrued (expense)	80 987	9 032	0	0	**90 019**
Settlement of the difference between tax and balance sheet depreciation	15 016	-5 052	0	0	**9 964**
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief enjoyed	11 126	-448	0	0	**10 678**
Revaluation of property, plant and equipment	9 490	0	4 114	0	**13 604**
Revaluation of available-for-sale financial assets	7 000	0	-2 983	0	**4 017**
Evaluation of own and investment real estate	0	1 148	0	0	**1 148**
Other	4 488	1 025	0	0	**5 513**
Total	**128 107**	**5 705**	**1 131**	**0**	**134 943**

Deferred tax disclosed in the balance sheet	**-38 132**	**26 495**	**-37 655**	**0**	**-49 292**

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

	end of 2008	**end of 2007**
Deferred tax assets		
Interest accrued (expense)	-180	-1 442
Provisions for receivables due to loans	7 042	31 667
Other provisions	-3 671	375
Employee benefits	-3 383	-8 144
Retirement and holiday benefits	-240	716
Accumulated losses settled	-1 223	1 206
Evaluation of own and investment real estate	1 564	-6 038
Other	89	2 450
Total	**-2**	**20 790**
Deferred tax provisions		
Interest accrued (expense)	-20 190	9 032
Settlement of the difference between tax and balance sheet depreciation	-1 544	-5 052
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief enjoyed	-317	-448
Evaluation of own and investment real estate	183	1 148
Other	1 162	1 025
Total	**-20 706**	**5 705**
Deferred tax for the reporting period	**-20 708**	**26 495**

Unrecognised deferred tax assets

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

	end of 2008	**end of 2007**
Specific provisions whose recoverability will not be proved	721	1 232
Tax losses	3 856	487
Total	**4 577**	**1 719**

Year of expiration of temporary differences:

	difference amount end of 2008	**difference amount end of 2007**
year 2008	0	747
year 2009	360	662
year 2010	407	0
year 2011	3 678	198
year 2012	132	112
Total	**4 577**	**1 719**

Deferred tax recognised directly in equity

	end of 2008	**end of 2007**
Revaluation of available-for-sale financial assets	-24 289	-35 914
Revaluation of property, plant and equipment	12 399	13 604
Revaluation of cash flow hedging instruments	10 692	0
Total	**-1 198**	**-22 310**

Temporary differences concerning the measurement of shares in an affiliated company

The parent entity did not establish any deferred tax on the measurement of the share in associated company, ING Powszechne Towarzystwo Emerytalne S.A. The total amount of temporary differences relating to investments in the associated company, for which provisions due to deferred tax were not established, as at 31 December 2008 was PLN 9,164,000 in comparison with PLN 8,284,000 as at 31 December 2007.

28. Other assets

	end of 2008	end of 2007
Prepayments	52 557	43 936
- prepaid bank operating expenses	*4 664*	*4 642*
- prepayments due to insurance with NN	*15*	*1 535*
- materials and goods in the warehouse	*2 444*	*4 275*
- expenses to be settled	*910*	*783*
- accrued income	*26 225*	*30 586*
- commission-related settlements	*11 297*	*0*
- other	*7 002*	*2 115*
Other assets	152 668	95 313
- interbank settlements	*14 439*	*3 623*
- interbranch settlements	*31 947*	*2 147*
- public and legal settlements	*23 254*	*15 868*
- loans from the Company's Social Benefits Fund	*17 451*	*15 961*
- settlements with off-takers	*5 528*	*20 744*
- settlements due to purchase of materials	*1 068*	*17 618*
- receivables from the non-settled FX transactions	*41 559*	*0*
- other	*17 422*	*19 352*
Total other assets (gross)	**205 225**	**139 249**
Impairment losses	-39 228	-1 917
Total other assets (net)	**165 997**	**137 332**

The amount of receivables resulting from the EU Guarantee Fund was presented under the item "Public and legal settlements". The amount equalled to:

- PLN 8,122,000 as at 31 Dec 2008,
- PLN 11,506,000 as at 31 Dec 2007.

Receivables from Lehman Brothers Inc. and its related entities are presented under the "receivables from the non-settled FX transactions" item. A write-down of PLN 33,346,000 was established for these receivables under the "impairment loss" item.

29. Employee benefits

The Group participates in the Long-term Equity Ownership (LEO) incentive programme carried out by ING Group.

To execute the above incentive programme the Group bears the costs of option funding and system administration that in 2008 were PLN 0.9 million as compared to 4.8 million in 2007.

The Group measures the awarded options at their fair value. For 2008, the said measurement was -PLN 3.3 million (as compared to -PLN 3.6 million for 2007) and it was charged to P/L of the Group.

30. Liabilities due to the Central Bank

	end of 2008	end of 2007
Lombard loan	1 400 249	0
Transactions with the buy-back commitment	4 531 867	0
Total	**5 932 116**	**0**

Repurchase transactions (repo) 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 Central Bank:

end of 2008

	Repurchase date	Nominal value	Carrying amount	interest
Assets from available-for sale portfolio	2009-02-12	1 772 000	1 677 623	14 271
Assets from held-to-maturity portfolio	2009-02-12	1 400 000	1 323 000	11 255
Assets from available-for sale portfolio	2009-03-12	814 000	727 445	2 546
Assets from held-to-maturity portfolio	2009-03-12	865 000	773 021	2 706
Total		**4 851 000**	**4 501 089**	**30 778**

31. Liabilities due to other banks

	end of 2008	end of 2007
Current accounts	177 596	82 357
Interbank deposits	3 108 831	1 718 061
Transactions with the buy-back commitment	2 760 763	0
Other liabilities	13 678	9 777
Total	**6 060 868**	**1 810 195**

Repurchase transactions (repo) 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 other banks:

end of 2008

	Repurchase date	Nominal value	Carrying amount	interest
Debt securities from loans and other receivables portfolio	2009-02-12	1 489 547	1 267 681	5 694
Debt securities from financial assets measured at fair value through profit and loss portfolio	2009-02-12	1 739 891	1 480 737	6 651
Total		**3 229 438**	**2 748 418**	**12 345**

Liabilities due to other banks by maturity

	end of 2008	end of 2007
up to 1 month	2 967 592	1 642 145
over 1 month and up to 3 months	2 852 728	123 050
over 3 months and up to 1 year	208 727	45 000
over 1 year and up to 5 years	31 821	0
Total	**6 060 868**	**1 810 195**

32. Financial liabilities measured at fair value through profit and loss

	end of 2008	end of 2007
Financial liabilities held for trading	4 321 638	1 057 294
Derivative financial instruments	*4 321 638*	*1 057 294*
Financial liabilities designated as at fair value upon initial recognition	652 904	102 716
Transactions with the buy-back commitment	*652 904*	*102 716*
Book short position in trading securities	172 156	54 971
Total	**5 146 698**	**1 214 981**

The Group designated the following components of financial assets and liabilities for fair value measurement through profit and loss: debt securities in the form of bonds issued by a non-financial entity, all buy-sell-back and sell-buy-back transactions, as well as selected interbanking deposits.

By eliminating accounting mismatch, designation of the above mentioned bonds for fair value measurement through profit and loss allows the bank to obtain more useful information. The "mismatch" would involve inconsistencies in the recognition of the effects of measurement of an investment item in the form of above bonds and IRS transactions, which is measured as fair value through the financial result, and securing the interest rate risk from the transaction.

The measurement of financial assets and liabilities designated for fair value measurement on the basis of the profit and loss statement, as of the balance sheet date, did not include the value of liabilities to be attributed to the changes of credit risk the source of which is the Bank as borrower. In the opinion of the Bank, the whole amount of the change of value of financial liabilities results from the changes of market conditions giving rise to market risk.

Detailed information regarding nominal value of specific types of the off-balance sheet financial instruments whose measurement is presented herein under "derivative financial instruments", and information on the terms still to be executed – is presented in the note no. 42.

Financial liabilities measured at fair value through profit and loss by maturity

	end of 2008	end of 2007
up to 1 month	2 341 011	248 935
over 1 month and up to 3 months	309 626	155 453
over 3 months and up to 1 year	1 086 157	431 412
over 1 year and up to 5 years	952 665	340 199
over 5 years	457 239	38 982
Total	**5 146 698**	**1 214 981**

33. Liabilities due to customers

Liabilities due to entities from the financial sector other than banks

	end of 2008	end of 2007
Deposits	4 267 492	2 226 653
- current accounts	*1 268 135*	*1 229 766*
- term deposit	*2 999 357*	*996 887*
Transactions with the buy-back commitment	163 543	727 036
Other liabilities	83 864	115 520
Total	**4 514 899**	**3 069 209**

Liabilities due to entities from the non-financial sector

	end of 2008	end of 2007
Business entities' deposits	11 173 552	12 760 753
- current accounts	*7 292 099*	*7 970 381*
- term deposit	*3 881 453*	*4 790 372*
Households' deposits	27 945 689	25 392 616
- current accounts	*3 796 117*	*2 603 797*
- savings accounts	*18 835 053*	*19 069 974*
- term deposit	*5 314 519*	*3 718 845*
Transactions with the buy-back commitment	18 272	128 320
Other liabilities	492 090	571 867
Total	**39 629 603**	**38 853 556**

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

	end of 2008	end of 2007
Deposits	2 886 223	2 572 389
- current accounts	*2 400 751*	*2 028 882*
- term deposit	*485 472*	*543 507*
Transactions with the buy-back commitment	20 209	0
Other liabilities	15 984	6 683
Total	**2 922 416**	**2 579 072**

Liabilities due to customers – total

	end of 2008	end of 2007
Deposits	46 272 956	42 952 411
Transactions with the buy-back commitment	202 024	855 356
Other liabilities	591 938	694 070
Total	**47 066 918**	**44 501 837**

Repurchase transactions (repo) 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 2008

	Repurchase date	Nominal value	Carrying amount	interest
Assets from available-for sale portfolio	2009-01-06	158 886	168 046	58
Assets from available-for sale portfolio	2009-01-07	7 000	6 413	2
Assets from available-for sale portfolio	2009-01-22	8 000	7 284	11
Assets from available-for sale portfolio	2009-01-30	22 440	20 001	208
Total		**196 326**	**201 744**	**279**

end of 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
Total		**865 357**	**853 974**	**1 382**

Liabilities due to customers by maturity

	end of 2008	end of 2007
up to 1 month	38 803 201	40 361 443
over 1 month and up to 3 months	3 944 514	1 699 354
over 3 months and up to 1 year	3 318 544	1 594 030
over 1 year and up to 5 years	995 736	789 143
over 5 years	4 923	57 867
Total	**47 066 918**	**44 501 837**

Average effective interest rate for deposits in %

	end of 2008	end of 2007
Average effective interest rate for deposits in PLN	4,01%	2,92%
Average effective interest rate for deposits in foreign currencies	1,88%	2,00%

34. Provisions

	end of 2008	end of 2007
Provision for issues in dispute	16 722	29 294
Provision for off-balance sheet liabilities	9 281	23 933
Provision for retirement benefits	12 544	11 839
Provision for unused holidays	7 993	7 441
Provision for employment restructuring	4 039	0
Total	**50 579**	**72 507**

2008

	Provision for issues in dispute	Provision for off-balance sheet liabilities	Provision for retirement benefits	Provision for unused holidays	Provision for employment restructuring	**TOTAL**
Opening balance	29 294	23 933	11 839	7 441	0	**72 507**
- provisions recognised	10 212	7 506	707	2 437	4 039	**24 901**
- provisions applied	-2 398	0	0	0	0	**-2 398**
- provisions reversed	-20 386	-22 158	-2	-1 885	0	**-44 431**
Closing balance	**16 722**	**9 281**	**12 544**	**7 993**	**4 039**	**50 579**
expected provision settlement period:						
- up to 1 year	*3 240*	*0*	*0*	*7 993*	*4 039*	***15 272***
- more than 1 year	*13 482*	*9 281*	*12 544*	*0*	*0*	***35 307***

2007

	Provision for issues in dispute	Provision for off-balance sheet liabilities	Provision for retirement benefits	Provision for unused holidays	Provision for employment restructuring	**TOTAL**
Opening balance	42 262	25 015	10 899	12 148	0	**90 324**
- provisions recognised	3 493	0	940	310	0	**4 743**
- provisions applied	-2 148	-1 082	0	0	0	**-3 230**
- provisions reversed	-14 313	0	0	-5 017	0	**-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*	*0*	*0*	*7 441*	*0*	***12 992***
- more than 1 year	*23 743*	*23 933*	*11 839*	*0*	*0*	***59 515***

Provision for issues in dispute

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

The recognised amount of provisions as at 31 December 2008 comprises:

1) disputable cases connected with negligent performance of agreements: PLN 11,449,000 (PLN 27,340,000 as at 31 December 2007),
2) criminal cases: PLN 5,220,000 (PLN 1,916,000 as at 31 December 2007),
3) cases relating to claims filed by former employees: PLN 53,000 (PLN 38,000 as at 31 December 2007).

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

In 2008, parent company of the Group released the provision against forecast losses of PLN 14,088,000 that was established in 2006 in connection with imposing a fine on 20 banks by the Office of Competition and Consumer Protection (UOKiK) for reaching an agreement on the commissions charged for the payment card transactions. With the judgement of 12 November 2008, the Court of Competition and Consumer Protection did not find out any proof for the application of any practice harmful for the competition related to the commission charged for the payment cards transactions. Thus, the provision that was established in 2006 was released.

After the end of the reporting term, the Group received notice of the appeal filed by the Chairman of UOKiK and MasterCard against the abovementioned court decision. The probability of the liability's materialisation is estimated by the Management Board of the Group's dominant entity at less than 50%.

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 re-measured on an annual basis.

The Group adopts 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 benefits – a revision of the balance-sheet liability

	2008	**2007**
Opening balance	11 839	10 899
Costs included in the profit and loss account, out of which:	1 337	1 516
- regular employment costs	*719*	*962*
- costs of interest	*618*	*554*
Paid benefits	-634	-576
Actuarial gains / losses recognised in the profit and loss account	2	0
Closing balance, including:	**12 544**	**11 839**
- current value of the liability	*15 950*	*11 187*
- not included actuarial gains/ losses	*-3 406*	*652*

Provision for employment restructuring

A provision for restructuring is recognised when the Group 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.

In connection with the group lay-off procedure started in 2008, a provision for employment restructuring totalling PLN 4,039,000 was established. The employment restructuring results from projects carried on at the Group, aimed at optimising the operating area (centralisation of selected functions, consolidation of operating units and limitation of co-operation with intermediaries).

35. Other liabilities

	end of 2008	end of 2007
to employees	22 160	25 486
due to leases	9	3 291
accruals	210 555	172 366
- due to operating expenses	*1 394*	*1 497*
- due to employee benefits	*133 495*	*111 572*
- due to loans granted	*276*	*1 019*
- due to commission	*60 336*	*50 748*
- due to distribution of deposit-related funds	*613*	*1 061*
- other	*14 441*	*6 469*
other liabilities	436 948	369 569
- interbank settlements	*204 984*	*212 533*
- public and legal settlements	*71 737*	*36 334*
- settlment due to trading in securities	*263*	*1 701*
- settlements with suppliers	*139 916*	*63 663*
- other	*20 048*	*55 338*
Total	**669 672**	**570 712**

Gross liabilities due to financial leases by maturity

	end of 2008	end of 2007
up to 1 year	3	3 241
over 1 year and up to 5 years	6	59
over 5 years	0	0
Total	**9**	**3 300**

Present value of lease instalments due by maturity

	end of 2008	end of 2007
up to 1 year	5	3 319
over 1 year and up to 5 years	5	72
over 5 years	0	0
Total	**10**	**3 391**

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

	end of 2008	end of 2007
Gross liabilities due to financial leases	9	3 300
Unrealised financial expenses	1	91
Present value of minimum lease instalments	**10**	**3 391**

The Group is a lessee in financial lease agreements concerning a part of the hardware and premises used by the Group. Those agreements do not provide for any contingent fees to be paid by the lessee; no constraints 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 parent entity's share capital includes 130,100,000 ordinary shares, and is sub-divided into:

- 9,260,000 A-series ordinary bearer's shares with face value of PLN 10.00 each,
- 3,750,000 B-series ordinary bearer's shares with 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 in 2008 and throughout 2007.

37. Revaluation reserve

	end of 2008	end of 2007
Revaluation reserve from measurement of available-for-sale financial assets	-100 981	-149 591
- including deferred tax	*24 289*	*35 914*
Revaluation reserve from measurement of property, plant and equipment	52 864	57 998
- including deferred tax	*-12 399*	*-13 604*
Revaluation reserve from measurement of cash flow hedging instruments	45 581	0
- including deferred tax	*-10 692*	*0*
Total	**-2 536**	**-91 593**

2008

	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*	Revaluation reserve from measurement of cash flow hedging instruments	*including deferred tax*	TOTAL
Opening balance of revaluation reserve	**-149 591**	***35 914***	**57 998**	***-13 604***	**0**	***0***	**-91 593**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	240 366	*-56 605*	0	*0*	0	*0*	**240 366**
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-192 191	*45 082*	0	*0*	0	*0*	**-192 191**
- correction of the measurement of the securities reclassified from the AFS portfolio to the loans and receivables one	435	*-102*	0	*0*	0	*0*	**435**
- disposal of property, plant and equipment	0	*0*	-569	*134*	0	*0*	**-569**
- remeasurement of property, plant and equipment	0	*0*	-4 565	*1 071*	0	*0*	**-4 565**
- effective part of cash flow hedging instruments revaluation	0	*0*	0	*0*	45 581	*-10 692*	**45 581**
Closing balance of revaluation reserve	**-100 981**	***24 289***	**52 864**	***-12 399***	**45 581**	***-10 692***	**-2 536**

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*	Revaluation reserve from measurement of cash flow hedging instruments	*including deferred tax*	TOTAL
Opening balance of revaluation reserve	**42 830**	***-5 855***	**52 263**	***-9 490***	**0**	***0***	**95 093**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-174 090	*37 469*	-	-	0	*0*	**-174 090**
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-18 331	*4 300*	-	-	0	*0*	**-18 331**
- disposal of property, plant and equipment	-	-	-257	*62*	0	*0*	**-257**
- remeasurement of property, plant and equipment	-	-	-2 979	*-3 084*	0	*0*	**-2 979**
- purchase of shares in subsidiary entity from the minority shareholders	-	-	8 971	*-1 092*	0	*0*	**8 971**
Closing balance of revaluation reserve	**-149 591**	***35 914***	**57 998**	***-13 604***	**0**	***0***	**-91 593**

38. Retained earnings

	end of 2008	end of 2007
Other supplementary capital	74 889	73 825
Reserve capital	1 763 929	1 505 970
General risk fund	730 179	530 179
Retained earnings	123 906	103 328
Result for the current year	445 413	630 724
Total	**3 138 316**	**2 844 026**

2008

	other supplementary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Opening balance of retained earnings	**73 825**	**1 505 970**	**530 179**	**734 052**	**0**	**2 844 026**
- disposal of property, plant and equipment	1 038	0	0	56	0	**1 094**
- profit allocation, including:	26	257 959	200 000	-610 202	0	**-152 217**
- profit written off to supplementary capital	*26*	*0*	*0*	*-26*	*0*	***0***
- profit written off to reserve capital	*0*	*257 959*	*0*	*-257 959*	*0*	***0***
- profit written off to general risk fund	*0*		*200 000*	*-200 000*	*0*	***0***
- dividends paid	*0*			*-152 217*	*0*	***-152 217***
- net result for the current period	0	0	0	0	445 418	**445 418**
- share of minority shareholders in the net financial result	0	0	0	0	-5	**-5**
Closing balance of retained earnings	**74 889**	**1 763 929**	**730 179**	**123 906**	**445 413**	**3 138 316**

2007

	other supplementary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Opening balance of retained earnings	**72 968**	**1 378 377**	**480 179**	**642 727**	**0**	**2 574 251**
- disposal of property, plant and equipment	713	0	0	1 317	0	**2 030**
- profit allocation, including:	144	127 593	50 000	-540 716	0	**-362 979**
- profit written off to supplementary capital	*144*	*0*	*0*	*-144*	*0*	***0***
- profit written off to reserve capital	*0*	*127 593*	*0*	*-127 593*	*0*	***0***
- profit written off to general risk fund	*0*	*0*	*50 000*	*-50 000*	*0*	***0***
- dividends paid	*0*	*0*	*0*	*-362 979*	*0*	***-362 979***
- net result for the current period	0	0	0	0	636 822	**636 822**
- share of minority shareholders in the net financial result	0	0	0	0	-6 098	**-6 098**
Closing balance of retained earnings	**73 825**	**1 505 970**	**530 179**	**103 328**	**630 724**	**2 844 026**

Supplementary capital

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

Reserves

Reserves are established regardless of the supplementary capital created from the appropriations from profit after tax, in the amount resolved at the General 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.

Dividend payout limitations

The statutory statements of subsidiaries are drafted in accordance with the Polish accounting standards. Dividend may be paid out on the basis of the financial result determined in the stand-alone annual financial statements produced for statutory purposes.

Pursuant to the Commercial Companies Code, the dominant entity is obliged to establish supplementary capital for loss coverage. The appropriation of the supplementary and reserve capital will be decided by the General Meeting; however, a portion of the supplementary capital representing one third of the initial capital may be used to cover the loss recognised in the stand-alone financial statements of the dominant entity and it will not be further divided for other purposes.

As of 31 December 2008, no other dividend payout limitations are evident.

39. Balance sheet currency structure

Herein below, a consolidated balance sheet of the Capital Group was presented per base currencies. The following currency rates were applied to calculate values in original currency:

	31 Dec 2008	31 Dec 2007
EUR	4,1724	3,5820
USD	2,9618	2,4350
CHF	2,8014	2,1614

end of 2008

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	1 028 440	292 883	*70 195*	36 104	*12 190*	516	*184*	11 852	**1 369 795**
- Loans and receivables to other banks	2 403 053	4 579 191	*1 097 496*	539 961	*182 308*	1 456	*520*	263 564	**7 787 225**
- Financial assets measured at fair value through profit and loss	7 606 442	4 580 090	*1 097 711*	2 853 931	*963 580*	10 995	*3 925*	77 126	**15 128 584**
- Investments	18 046 375	301	*72*	4 246	*1 434*	0	*0*	0	**18 050 922**
- Derivative hedge instruments	197 003	0	*0*	0	*0*	0	*0*	0	**197 003**
- Loans and receivables to customers	19 885 621	4 217 449	*1 010 797*	326 433	*110 214*	1 275 092	*455 162*	38 244	**25 742 839**
- Investments in controlled entities recognised under the equity method	107 261	0	*0*	0	*0*	0	*0*	0	**107 261**
- Investment real estates	151 458	0	*0*	0	*0*	0	*0*	0	**151 458**
- Property, plant and equipment	544 163	0	*0*	0	*0*	0	*0*	0	**544 163**
- Intangible assets	316 187	0	*0*	0	*0*	0	*0*	0	**316 187**
- Property, plant and equipment held for sale	248	0	*0*	0	*0*	0	*0*	0	**248**
- Current tax asset	142	0	*0*	0	*0*	0	*0*	0	**142**
- Deferred tax asset	48 651	0	*0*	0	*0*	0	*0*	0	**48 651**
- Other assets	153 465	12 392	*2 970*	79	*27*	22	*8*	39	**165 997**
Total assets	**50 488 509**	**13 682 306**	***3 279 241***	**3 760 754**	***1 269 753***	**1 288 081**	***459 799***	**390 825**	**69 610 475**
EQUITY AND LIABILITIES									
LIABILITIES									
- Liabilities due to the Central Bank	5 932 116	0	*0*	0	*0*	0	*0*	0	**5 932 116**
- Liabilities due to other banks	891 989	3 122 349	*748 334*	1 641 200	*554 122*	383 924	*137 047*	21 406	**6 060 868**
- Financial liabilities measured at fair value through profit and loss	4 015 457	863 201	*206 884*	218 766	*73 863*	2 773	*990*	46 501	**5 146 698**
- Derivative hedge instruments	261 483	158 564	*38 003*	0	*0*	0	*0*	0	**420 047**
- Liabilities due to customers	41 859 867	3 663 319	*877 988*	1 397 497	*471 840*	26 056	*9 301*	120 179	**47 066 918**
- Provisions	47 441	2 728	*654*	399	*135*	0	*0*	11	**50 579**
- Current income tax liabilities	39 148	0	*0*	0	*0*	0	*0*	0	**39 148**
- Other liabilities	636 900	32 141	*7 703*	601	*203*	12	*4*	18	**669 672**
Total liabilities	**53 684 401**	**7 842 302**	***1 879 566***	**3 258 463**	***1 100 163***	**412 765**	***147 342***	**188 115**	**65 386 046**
EQUITY									
- Share capital	130 100	0	*0*	0	*0*	0	*0*	0	**130 100**
- Supplementary capital - issuance of shares over nominal value	956 250	0	*0*	0	*0*	0	*0*	0	**956 250**
- Revaluation reserve from measurement of available-for-sale financial assets	-107 423	2 196	*526*	4 246	*1 434*	0	*0*	0	**-100 981**
- Revaluation reserve from measurement of property, plant and equipment	52 864	0	*0*	0	*0*	0	*0*	0	**52 864**
- Revaluation reserve from measurement of cash flow hedging instruments	45 581	0	*0*	0	*0*	0	*0*	0	**45 581**
- Retained earnings	3 138 316	0	*0*	0	*0*	0	*0*	0	**3 138 316**
Equity attributed to the holding company	**4 215 688**	**2 196**	***526***	**4 246**	***1 434***	**0**	***0***	**0**	**4 222 130**
- Minority equity	2 299	0	*0*	0	*0*	0	*0*	0	**2 299**
Total equity	**4 217 987**	**2 196**	***526***	**4 246**	***1 434***	**0**	***0***	**0**	**4 224 429**
Total equity and liabilities	**57 902 388**	**7 844 498**	***1 880 092***	**3 262 709**	***1 101 597***	**412 765**	***147 342***	**188 115**	**69 610 475**

end of 2007

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	1 719 097	94 542	*26 394*	18 412	*7 561*	154	*71*	9 520	**1 841 725**
- Loans and receivables 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 measured at fair value through profit and loss	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 receivables 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 recognised under the equity method	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 measured at fair value through profit and loss	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	956 250	0	*0*	0	*0*	0	*0*	0	**956 250**
- 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	2 844 026	0	*0*	0	*0*	0	*0*	0	**2 844 026**
Equity attributed to 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**

40. Off-balance sheet items

	end of 2008	end of 2007
Contingent liabilities granted	14 100 914	12 833 876
Contingent liabilities received	15 310 545	14 092 965
Off-balance sheet financial instruments	262 720 990	207 320 201
Total	**292 132 449**	**234 247 042**

41. Contingent liabilities

Contingent liabilities granted

	end of 2008	end of 2007
Credit card limits	685 445	590 568
Undrawn credit facilities	9 300 616	6 615 924
Undrawn overdrafts in current account	1 280 767	2 334 841
Guarantees and letters of credit	2 797 993	2 079 315
Deposits to be issued	36 093	1 213 228
Total	**14 100 914**	**12 833 876**

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

The Group issues guarantees and letters of credits to secure fulfilment of obligations of the Group's customers to third parties. The value of guarantees and letters of credit disclosed abowve reflects maximum loss that can be incurred, and that would be disclosed as at the balance sheet date should the customers fail to fulfil their obligations in full.

The Group charges commissions for contingent liabilities granted, which are settled in line with the specific nature of the particular instrument.

Contingent liabilities granted by maturity

	end of 2008	end of 2007
up to 1 month	3 159 885	10 242 326
over 1 month and up to 3 months	495 316	168 129
over 3 months and up to 1 year	4 683 466	781 701
over 1 year and up to 5 years	3 843 752	1 575 802
over 5 years	1 918 495	65 918
Total	**14 100 914**	**12 833 876**

Contingent liabilities received

	end of 2008	end of 2007
Guarantee conditioned liabilities	14 566 738	12 835 455
Financing liabilities	743 807	1 257 510
Total	**15 310 545**	**14 092 965**

Information on issue guarantees granted to other issuers

In 2008, the Group acted as a guarantor for the issue of commercial securities by five budgetary entities, one entity from the power generation sector as well as one from the sector of financial institutions. The guarantee totalled PLN 502,2 million. The Group purchased the securities for total amount of guarantee.

In 2007, the Group was the guarantor for the issue of commercial papers of two budget entities, one entity from the fuel sector and one entity from the power generation sector. The guarantee totalled PLN 228.7 million. The Group purchased the securities for the amount of PLN 228.2 million.

42. Off-balance sheet financial instruments

end of 2008

	Nominal value of instruments with the period remaining to maturity				Fair value measurement	
	up to 3 months	over 3 months and up to 1 year	over 1 year	Total	Assets	Equity and liabilities
Interest rate derivatives, of which:	**19 209 223**	**83 624 657**	**43 128 114**	**145 961 994**	**1 414 263**	**1 805 035**
Forward rate agreements (FRA)	2 000 000	51 993 000	1 700 000	**55 693 000**	105 326	90 134
Interest rate swaps (IRS)	17 209 223	31 196 937	40 278 258	**88 684 418**	1 300 444	1 706 408
CAP options	0	434 720	1 149 856	**1 584 576**	8 493	8 493
FX derivatives, of which:	**59 458 719**	**25 922 044**	**4 677 433**	**90 058 196**	**3 262 197**	**2 876 418**
FX contracts (swap, forward)	53 702 038	17 017 645	1 504 048	**72 223 731**	1 604 621	2 357 264
CIRS	0	0	0	**0**	148 692	139 517
Currency options (purchased)	3 098 190	4 969 119	1 767 769	**9 835 078**	1 508 884	0
Currency options (sold)	2 658 491	3 935 280	1 405 616	**7 999 387**	0	379 637
Current off-balance sheet transactions, of which:	**23 886 387**	**0**	**0**	**23 886 387**	**45 655**	**5 583**
FX operations	13 462 008	0	0	**13 462 008**	34 913	10 009
Securities operations	10 424 379	0	0	**10 424 379**	10 742	-4 426
Stock market derivatives, of which:	**448 334**	**582 083**	**1 783 996**	**2 814 413**	**54 574**	**54 465**
Options for stock market (buy)	225 405	291 267	892 078	**1 408 750**	54 574	0
Options for stock market (sold)	222 929	290 816	891 918	**1 405 663**	0	54 465
Fair value measurement of other financial instruments	-	-	-	-	**79**	**184**
Total	**103 002 663**	**110 128 784**	**49 589 543**	**262 720 990**	**4 776 768**	**4 741 685**

end of 2007

	Nominal value of instruments with the period remaining to maturity				Fair value measurement	
	up to 3 months	over 3 months and up to 1 year	over 1 year	Total	Assets	Equity and liabilities
Interest rate derivatives, of which:	**32 286 359**	**80 060 776**	**21 582 425**	**133 929 560**	**477 704**	**346 604**
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
FX derivatives, of which:	**43 039 430**	**18 567 407**	**1 495 700**	**63 102 537**	**1 104 352**	**638 385**
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
Current off-balance sheet transactions, of which:	**9 239 508**	**0**	**0**	**9 239 508**	**5 642**	**4 418**
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
Stock market derivatives, of which:	**0**	**115 258**	**933 338**	**1 048 596**	**67 900**	**67 887**
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	**84 565 297**	**98 743 441**	**24 011 463**	**207 320 201**	**1 655 598**	**1 057 294**

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 2008	**end of 2007**
PLN		
- up to 3 months	24 106 974	15 768 441
- from 3 months to 1 year	8 242 550	7 314 538
- over 1 year	648 155	708 971
EUR		
- up to 3 months	24 696 360	13 713 816
- from 3 months to 1 year	14 730 643	5 281 947
- over 1 year	3 344 485	559 217
USD		
- up to 3 months	9 483 737	12 292 308
- from 3 months to 1 year	2 447 442	5 883 226
- over 1 year	615 948	200 375

GBP		
- up to 3 months	34 253	556 491
- from 3 months to 1 year	12 505	55 504
- over 1 year	0	0
other currencies		
- up to 3 months	1 137 396	708 373
- from 3 months to 1 year	488 903	32 193
- over 1 year	68 845	27 137
Total	**90 058 196**	**63 102 537**

Embedded derivatives

The Group has deposits in PLN and USD with embedded derivative instruments, such as FX options and stock exchange indices, commodity indices and trust units in investment funds. As at 31 December 2008, the embedded instruments were valued at PLN 76,237,000 in comparison with PLN 48,486,000 as at 31 December 2007.

43. Hedge accounting

Fair value hedge accounting

In the consolidated financial statements as at 31 December 2008, the Group used fair value hedge accounting for securities.

The hedged risk is the risk of the change of the fair value of the financial asset resulting from the change of the interest rates. The subject of hedging is the fair value of the fixed interest rate debt instrument, namely the position (or its part) on a given security in the AFS portfolio, that as of establishing of the hedging relationship has a specific fair value recognised through the revaluation fund, and position (or its part) on a given security in the loans and other receivables portfolio as the result of reclassification from the AFS portfolio.

Interest Rate Swap is the hedging instrument that changes the fixed interest rate into variable one. The above leads to the situation that the fair value of the hedging instrument shows a trend reverse to the fair value of the hedged item. Thus, thanks to the established hedging relationship, we have the effect of the mutual set-off of the changes in the fair value of the hedging instrument and hedged item in the P/L under the hedge risk. As only one type of the risk is hedged (the risk of the interest rate change), the changes of the fair vale of the hedged item from the AFS portfolio that result from other risks that are not hedged are recognised through the revaluation fund.

The measurement of the hedging and hedged transactions is shown in the income statement under the note: “Net income on investment financial assets”.

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

	end of 2008		end of 2007	
	Nominal value	Fair value	Nominal value	Fair value
Hedged items	**3 035 000**	**3 235 793**	**437 000**	**435 531**
- Debt securities from available-for-sale portfolio, of which:	3 035 000	3 235 793	437 000	435 531
- *Treasury bonds*	*3 035 000*	*3 235 793*	*437 000*	*435 531*
- Debt securities from loans and other receivables portfolio, of which:	1 489 547	1 654 003	0	0
- *Treasury bonds*	*1 489 547*	*1 654 003*	*0*	*0*
Hedging instruments	**4 514 502**	**-420 047**	**437 000**	**4 572**
- Interest Rate Swap	4 514 502	-420 047	437 000	4 572

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

Cash flow hedge accounting

In the consolidated financial statements as at 31 December 2008, the Group followed the principles of cash flow hedge accounting for a specific portfolio of assets/ liabilities/ highly likely planned financial transactions of the Group (e.g. extrapolation of cashflows resulting from revolving deposits/ overdrafts) from the risk of changes to the future cashflows due to the interest rate risk.

The hedged item includes a specific portfolio of assets and/ or financial liabilities or a portfolio of planned transactions, which includes financial instruments with variable interest rate (financial products based on the WIBOR market interest rate), and is therefore exposed to the risk of changes to the future cashflows due to the change of WIBOR.

Interest rate swaps of the type “pay variable, get fixed” are used as hedging instruments for assets, and interest rate swaps of the type “pay fixed, get variable” are used to secure liabilities.

The measurement of the hedging transactions is shown in the income statement under the note: “Net income on instruments measured at fair value through profit and loss and revaluation”.

In 2008, the amount of PLN 45,581,000 (inclusive of deferred tax) referring to the effective part of the hedging relationship in hedge accounting of cashflow was recognised through the revaluation equity, whereas the ineffective part of the hedging relationship recognised through P/L totalled PLN 5,000.

Fair value of hedging instruments under the cash flow hedge accounting

	end of 2008		end of 2007	
	Nominal value	Fair value	Nominal value	Fair value
Hedging instruments	**4 998 000**	**197 003**	**0**	**0**
- Interest Rate Swap	4 998 000	197 003	0	0

Periods when the Group expects that the cash flows hedged in the hedge accounting will appear, by which they will have an impact on the P/L are presented in the below "future cashflow high probability test".

Test of high probability of future cash flows

Time bucket	ASSETS		Effectiveness test (hedge is effectiv if (b)-(a)>0)
	Hedging item IRS (a)	**Hedged item loans (b)**	
3 M	82 527	209 013	hedge is effective
6 M	68 357	210 898	hedge is effective
9 M	38 369	112 652	hedge is effective
12 M	23 815	143 118	hedge is effective
15 M	20 120	100 445	hedge is effective
18 M	18 691	139 318	hedge is effective
21 M	2 739	121 499	hedge is effective
24 M	1 469	129 668	hedge is effective
27 M	0	119 480	hedge is effective
30 M	1 486	117 678	hedge is effective
33 M	0	115 855	hedge is effective
36 M	1 451	114 084	hedge is effective
39 M	0	109 199	hedge is effective
42 M	1 462	108 468	hedge is effective
45 M	0	107 743	hedge is effective
48 M	1 474	107 077	hedge is effective
51 M	0	106 782	hedge is effective
54 M	1 525	107 077	hedge is effective
57 M	0	107 376	hedge is effective
60 M	1 588	107 729	hedge is effective

44. Fair values

The fair value of financial assets and financial liabilities

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

Below, balance sheet values and fair values are summarised for respective groups of assets and liabilities. In the event of short-term financial assets and liabilities it is assumed that the balance sheet value of those instruments equals approximately their fair value

end of 2008

	Carrying amount	Fair value
Assets		
Cash in hand and balances with the Central Bank	1 369 795	1 369 795
Loans and receivables to other banks	7 787 225	7 787 225
Financial assets measured at fair value through profit and loss	15 128 584	15 128 584
Investments	18 050 922	18 245 059
Derivative hedge instruments	197 003	197 003
Loans and receivables to customers	25 742 839	26 111 928
Investments in controlled entities recognised under the equity method	107 261	107 261
Liabilities		
Liabilities due to the Central Bank	5 932 116	5 932 116
Liabilities due to other banks	6 060 868	6 060 868
Financial liabilities measured at fair value through profit and loss	5 146 698	5 146 698
Derivative hedge instruments	420 047	420 047
Liabilities due to customers	47 066 918	47 066 761

end of 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 measured at fair value through profit and loss	7 907 564	7 907 564
Investments	9 388 273	9 373 554
Derivative hedge instruments	4 572	4 572
Loans and receivables to customers	16 379 138	16 407 744
Investments in controlled entities recognised under the equity method	97 326	97 326
Liabilities		
Liabilities due to other banks	1 810 195	1 810 195
Financial liabilities measured at fair value through profit and loss	1 214 981	1 214 981
Liabilities due to customers	44 501 837	44 497 087

Determination of fair value

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 9.00am, 11.00am, 12.30pm and 2.00pm; 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 onwards – 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 onwards – 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 that do not confirm the prices of verifiable current market transactions referring to the same instrument – the model takes account of neither prepayments nor restructuring-based changes.

Loans and receivables to other banks

Due to the short-term nature of the major part of loans and other receivables granted to other banks, it was assumed that the fair value of these instruments is close to their balance sheet value.

Loans and receivables to customers

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 the fair value for those loans equals their book value. 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 six month period.

For that purpose the following assumptions are adopted:

- use of the loans granted in the last six 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 loan.

Investment in controlled entities

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

Liabilities due to other banks

Due to the short-term nature of the major part of liabilities towards other banks, it was assumed that the fair value of these instruments is close to their balance sheet value.

Liabilities due to customers

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 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 the last two 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.

Fair value measurement categories for financial assets and liabilities

Based on the employed methods of determining the fair value, financial assets/liabilities are classified to the following categories:

- Level I: financial assets/liabilities measured directly on the basis of prices quoted in the active market or measurement techniques based solely on market data.
- Level II: financial assets/liabilities measured on the basis of measurement techniques based on assumptions using data from an active market or market observations.
- Level III: financial assets/liabilities measured on the basis of measurement techniques commonly used by the market players, the assumptions of which are not based on data from an active market.

The table below presents the balance sheet figures for financial assets and liabilities per individual measurement levels.

end of 2008

	Level I	Level II	Level III	Total
Financial assets, of which:	**11 496 672**	**14 373 155**	**194 850**	**26 064 677**
- Financial assets measured at fair value through profit and loss	1 684 715	13 251 719	192 150	15 128 584
- Financial assets available-for sale	9 811 957	924 433	2 700	10 739 090
- Derivative hedge instruments	0	197 003	0	197 003
Financial liabilities, of which:	**371 873**	**5 194 872**	**0**	**5 566 745**
- Financial liabilities measured at fair value through profit and loss	371 873	4 774 825	0	5 146 698
- Derivative hedge instruments	0	420 047	0	420 047

end of 2007

	Level I	Level II	Level III	Total
Financial assets, of which:	**8 187 234**	**7 884 294**	**388 105**	**16 459 633**
- Financial assets measured at fair value through profit and loss	962 970	6 813 068	131 526	7 907 564
- Financial assets available-for sale	7 224 264	1 066 654	256 579	8 547 497
- Derivative hedge instruments	0	4 572	0	4 572
Financial liabilities, of which:	**54 971**	**1 160 010**	**0**	**1 214 981**
- Financial liabilities measured at fair value through profit and loss	54 971	1 160 010	0	1 214 981

45. Custody activities

As at 31 December 2008, the parent company of the Group maintained 3,509 (3,196 as at 31 December 2007) securities accounts for its customers. As at the end of 2008, parent company of the Group was the depository bank for 81 investment funds and 1 employee pension fund (as at 31 December 2007 respectively 60 and 1).

As at 31 December 2008, parent company of the Group co-operated with 23 Polish brokerage houses (22 as at 31 December 2007).

46. 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 costs 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; no constraints 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 2008	**end of 2007**
up to 1 year	176 305	92 452
over 1 year and up to 5 years	396 842	201 759
over 5 years – annual payment amount	36 473	20 580

Group as a lessor

The Group earns 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; no constraints 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 2008	**end of 2007**
up to 1 year	18 058	12 130
over 1 year and up to 5 years	41 010	26 888
over 5 years – annual payment amount	46	1 438

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.

47. Cash and cash equivalents

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

	end of 2008	**end of 2007**
Cash in hand *(presented in note 14)*	946 212	678 072
Balances with the Central Bank *(presented in note 14)*	423 583	1 163 653
Current accounts in other banks *(presented in note 15)*	276 337	359 874
Overnight deposits in other banks *(presented in note 15)*	2 447 337	2 605 329
Other receivables *(presented in note 15)*	39 893	65 827
Total	**4 133 362**	**4 872 755**

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

Operating activities include core activities of the Group, not classified as investment or 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 concern also the dividend received.

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

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

end of 2008

	changes							
	in balance sheet	in cash flow statement	*differences, of which:*	*1)*	*2)*	*3)*	*4)*	*5)*
- Change in loans and other receivables to other banks	7 396 440	7 651 699	*255 259*	*3 812*	*-267 463*			*518 910*
- Change in financial assets at fair value through profit or loss	-7 221 020	-7 274 474	*-53 454*	*-53 454*				
- Change in available-for-sale financial assets	-2 191 593	-4 759 887	*-2 568 294*	*-95 217*		*48 610*		*-2 521 687*
- Change in held-to-maturity financial assets	-6 471 056	-6 639 365	*-168 309*	*-168 309*				
- Change in loans and other receivables to customers	-9 363 701	-7 381 064	*1 982 637*	*-20 140*				*2 002 777*
- Change in liabilities due to other banks	4 250 673	10 198 857	*5 948 184*	*16 068*			*5 932 116*	
- Change in liabilities due to customers	2 565 081	2 652 855	*87 774*	*87 774*				

end of 2007

	changes							
	in balance sheet	in cash flow statement	*differences, of which:*	*1)*	*2)*	*3)*	*4)*	*6)*
- Change in loans and other receivables to other banks	-1 669 767	-5 763 762	*-4 093 995*	*-69 760*	*-4 024 235*			
- 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*

Explanations:
1) Changes in the individual assets and liabilities were adjusted with interest disclosed in the position "Interest received/ paid".
2) Change in the receivables being an equivalent of cash (current accounts and O/N deposits at other banks) was excluded from the position "Change in loans and other receivables to other banks"; it was disclosed in the position "Net increase / decrease in cash and cash equivalents".
3) "Change in available-for-sale financial assets" 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 liabilities due to other banks", a change in the amounts due to the Central Bank was recognised.
5) Reclassification of the AFS assets to the "Loans and other receivables granted to clients" was recognised under "Change of AFS financial assets" and "Change of loans and other receivables granted to clients".
6) Change in amounts due under long-term loans (above 1Y) received from other financial institutions was excluded from the position "Change in liabilities due to customers"; it was disclosed in the part concerning the financial activity in the position "Long-term loans rapaid".

50. Related entities

Subsidiaries and Related Entities of ING Bank Śląski:

- ING Securities S.A.,
- ING Bank Hipoteczny S.A.,
- ING BSK Development Sp. z o.o.,
- Centrum Banku Śląskiego (CBS) Sp. z o.o. in liquidation,
- Solver Sp. z o.o.,
- ING Powszechne Towarzystwo Emerytalne 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 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. The abovementioned transactions are carried out on an 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 1.01.2008 – 31.12.2008 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 of 2008 amounted to PLN 32.8 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 10.3 million (net).

- ING Services Polska provides services to ING Bank Śląski with regard to lease of hardware resources. The costs of service were PLN 23.4 million (gross).

- ING Bank Śląski made a transaction with ING Lease due to sublease of functional rooms totalling PLN 14.9 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 14.5 million in 12 months of 2008 (gross).

Transactions with related entities (in PLN thousands):

31.12.2008

	ING Bank NV	Other ING Group entities	Subsidiary undertakings	Associated undertakings
Receivables				
Deposits placed	7 862 990	-	-	-
Nostro accounts	42 117	275 267	-	
Loans	-	1 500 219	322 367	-
Securities	-	-	20 011	-
Other receivables	5 302	23 037	2 922	-
Liabilities				
Deposits received, repo transaction	5 040 020	285 669	237 634	26 405
Loro accounts	95 026	54 750	-	-
Other liabilities	8 259	-	144	-
Off-balance-sheet operations				
Contingent liabilities	-	1 189 935	158 431	-
FX transactions	40 369 528	13 904 385	-	-
Forward transactions	673 840	1 727 057	-	-
IRS/CIRS	39 590 399	6 928 296	-	-
Options	1 499 774	1 096 749	-	-
Revenue and costs				
Revenue	187 894	46 061	11 933	213
Costs	65 668	56 184	14 051	3 094

31.12.2007

	ING Bank NV	Other ING Group entities	Subsidiary undertakings	Associated undertakings
Receivables				
Deposits placed	5 591 481	430 723	-	-
Nostro accounts	56 722	328 476	-	-
Loans	-	1 239 202	111 420	-
Securities	-	-	30 306	-
Other receivables	74 836	19 267	2 891	-
Liabilities				
Deposits received	463 686	125 301	260 077	25 186
Loro accounts	11 703	21 858	-	-
Other liabilities	194	3 586	218	-
Off-balance-sheet operations				
Contingent liabilities	-	54 119	172 027	-
FX transactions	18 324 755	3 567 716	-	-
Forward transactions	697 396	284 620	-	-
IRS/CIRS	28 436 925	507 509	-	-
FRA	1 551 148	300 088	-	-
Options	886 291	311 857	-	-
Revenue and costs				
Revenue	208 140	49 711	17 058	202
Costs	103 292	45 078	29 585	2 408

51. 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 31.12.2008 amounted to PLN 75,380 thousand. As at 31.12.2007, their value 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 2008 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 30,090 thousand. As at 31.12.2007, their value amounted 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 31.12.2008 amounts to PLN 17,451 thousand versus 15,961 thousand as at 31.12.2007.
The balance of the In-house Social Benefits Fund as at 31.12.2008 was PLN 4,639 thousand vis-à-vis PLN 9,505 thousand as at 31.12.2007.

Remuneration paid in 2008 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)

	31.12.2008	31.12.2007
Remuneration and bonuses	10 677	10 610
Benefits	2 159	4 052
TOTAL	12 836	14 662

The total amount of remuneration and bonuses paid or due for 2008 presented above constitutes the gross amount of remuneration paid or due and payable for the period from January to December 2008 and the 2007 bonus, which was paid out in 2008 at the total amount of PLN 3,205 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)

	31.12.2008	31.12.2007
Remuneration and bonuses	10 677	10 610
Benefits	2 159	4 052
TOTAL	12 836	14 662

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

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

52. Headcount

The headcount in the Capital Group was as follows:

Headcount	31.12.2008	31.12.2007
Individuals	8 577	8 074
FTEs	8 413.9	7 842.1

53. Events after the balance sheet date

Resignation of the Bank Management Board Member

The Supervisory Board of ING Bank Śląski S.A. was informed by Mr Michał Szczurek about his resignation from the position of the Vice-President of Management Board of ING Bank Śląski S.A. as of 16 March 2009. His resignation is connected with the transfer to Retail Banking structures of ING Group in Asia.

Rating change

On 28 January 2009, the ratings of ING Bank Śląski S.A. ("ING BSK") assigned by Fitch Ratings Ltd. ("Fitch") and Moody's Investors Service Ltd. ("Moody's") rating agencies were reviewed. The information in this regard can be found in item V. 1. *Information about the Bank and Capital Group.*

Euro-bonds sale and purchase

In January 2009, the Bank sold Eurobonds classified as of 31 December 2008 to the FVO portfolio. The face value of the sold Eurobonds was EUR 417 million. The sale was transacted with an independent counterparty at an arm's length.

After repurchasing, the instruments were classified to the loans and receivables portfolio, and at the same time hedging connection (FVH) with the IRS instruments held by the Bank was created.

The result on the Eurobonds sales and purchase transactions was negative and amounted to PLN 533 thousand.

54. Changes to the Business Entity / Capital Group Structure

None.

On 23 December 2008, at the Extraordinary Shareholders Meeting of ING BSK Development Sp. z o.o., a resolution on dissolution of this Company and putting it into liquidation as of 1 January 2009, was adopted.

On 23 December 2008, at the Extraordinary Shareholders Meeting of Centrum Banku Śląskiego Sp. z o.o. w likwidacji (in liquidation) there was a resolution adopted on further operation of this Company, whereunder the Shareholders Meeting decided to repeal as of 1 January 2009, the Resolution No. 2/2007 of 23.11.2007 on dissolution of this Company and thus to stop its liquidation and decide on the further Company's operation.

55. Approval of the report

The consolidated financial report has been approved at the Bank Management Board meeting held on 25 February 2009.

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 Group 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.

Maximum exposure to credit risk

	31 Dec 2008	**31 Dec 2007**
- Loans and receivables to other banks	7 787 225	15 183 665
- Financial assets measured at fair value through profit and loss	15 128 584	7 907 564
- Investments	18 050 922	9 388 273
- Derivative hedge instruments	197 003	4 572
- Loans and receivables to customers	25 742 839	16 379 138
- Receivables presented in other assets	8 213	0
- Extended contingent liabilities, including:	14 100 914	12 833 876
- credit card limits	*685 445*	*590 568*
- unutilised credit lines	*9 300 616*	*6 615 924*
- unutilised overdraft facilities	*1 280 767*	*2 334 841*
- guarantees and letters of credit	*2 797 993*	*2 079 315*
- third-party deposits	*36 093*	*1 213 228*
Total	**81 007 487**	**61 697 088**

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 credit 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,
- Monitoring and Collection 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 the Group and a risk appetite level that is acceptable for the Group, 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.

2.1 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.

2.2 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.

2.3 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),
  - the Restructuring Committee.

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

2.4 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 corporate credit risk.

With regard to the department responsible for retail credit risk management (Retail Credit Risk Management Department) reporting is performed directly to the Chief Risk Officer.

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:

2.5 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.

2.6 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.

2.7 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.

2.8 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.

2.9 Monitoring and Collection Departament

- collection of the delinquent retail loans to minimize credit risk and losses for all retail segments by conducting collection actions for delinquent customers,

- co-operation with Retail Credit Risk Management to identify adverse trends and non-performing segments in retail asset portfolios,
- supervision of outsourced collection entities and legal agencies.

2.10 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.

2.11 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.

2.12 Operational Units and Credit Analysts

They represent expert knowledge on the risk characteristics of clients

2.13 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.

The credit decisions in credit process for regular portfolio are exercised by two Approval Signatories (SAP) and taken in Signatory Approval Process (SAP) shown in Credit Manual. Some exceptions apply to:

- decisions taken by Bank Credit Committee (KKB) – apply to the largest credit exposures mentioned in Credit Manual,
- decisions taken by one Approval Signatory – apply to "FAST TRACK" credit process.

The delegated 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 individuals who – by their nature – have more extensive experience, and thus the ability of broad and thorough risk identification.

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. Management of corporate credit risk approach

4.1. 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 Judge 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.

IT system in Bank, utilized also in whole ING Group, supports credit risk assessment process and enables, as well, centralized gathering data on risk rating grades of clients.

4.2. 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,
- 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 till the end of 18 months from the last approval date of the risk rating, a risk rating will automatically expire,

4.3. 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.

Bank's greatest exposures (exceeding 10% of own funds)

	exposure in PLN million	
	31 Dec 2008	**31 Dec 2007**
Client 1 (group)	2 384.4	1 133.3
Client 2	800.4	410.2
Client 3 (group)	736.8	484.1
Client 4 (group)	725.4	363.4
Client 5	617.0	0.0
Client 6	534.3	427.3
Client 7 (group)	509.9	362.4
Client 8	501.0	300.8
Client 9 (group)	411.4	0.0
Client 10	367.1	335.3
Client 11	0.0	276.6
Client 12	0.0	351.5

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.

Industry concentration of exposures to corporate clients

industry	exposure (on-balance and off-balance)			
	31 Dec 2008		**31 Dec 2007**	
	exposure in PLN million	*share in total exposure (%)*	*exposure in PLN million*	*share in total exposure (%)*
financial intermediation	4 026.8	14.1%	3 234.2	14.8%
wholesale trade	3 698.9	12.9%	2 885.2	13.2%
constructions industry	1 795.7	6.3%	1 382.5	6.3%
real estate services	1 581.2	5.5%	1 499.6	6.9%
retail trade	1 441.0	5.0%	1 038.5	4.7%
remaining services connected with running business	1 314.8	4.6%	798.5	3.6%
foodstuff and beverage production	1 186.1	4.1%	1 273.5	5.8%
power industry	1 132.6	4.0%	930.0	4.3%
public administration and national defense	1 114.3	3.9%	714.9	3.3%
fuel industry	943.9	3.3%	529.1	2.4%
tabacco industry	915.3	3.2%	347.7	1.6%
ready-made metal goods production	762.4	2.7%	468.9	2.1%
mechanical vehicles sale, repair and service	746.4	2.6%	508.2	2.3%
equipment rent	744.2	2.6%	0.0	0.0%
engineering industry	648.6	2.3%	707.5	3.2%
post office and telecommunications	605.0	2.1%	464.1	2.1%
remaining non-metal raw materials industries	603.5	2.1%	495.9	2.3%
chemicals and chemical goods production	528.9	1.9%	415.9	1.9%
rubber industry	474.2	1.7%	423.6	1.9%
metals production	355.9	1.2%	413.1	1.9%
wood and paper industry	339.8	1.2%	233.6	1.1%
auxiliary service for transportation	303.7	1.1%	103.8	0.5%
agriculture, forestry, fishery	294.5	1.0%	341.9	1.6%
other	3 021.5	10.6%	2 673.8	12.2%
Total	**28 579.2**	**100.0%**	**21 884.0**	**100.0%**

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.

Over the year 2008, the exposure concentration limits were not overrun.

4.4. 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

The Bank *Collateral Policy* covers, among others, the following areas:

- indications of the criteria for accepting the collateral in the capital requirement for credit risk calculation process,
- setting the general rules for the Bank to observe when choosing the collateral forms, inclusive of the acceptable credit risk level,
- adjustment to 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).

Moreover the Collateral Policy of the Bank 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.

Collaterals accepted from wholesale clients at fair value per the main four types of collaterals

Type of collateral	**Fair value of collaterals in PLN million**
	31 Dec 2008
Mortgages	2 408.2
Pledges	955.7
Guarantees, of which:	778.5
- banking guarantees	*65.2*
- governmental guarantees	*35.2*
Cash collaterals	244.3
Assignment of debt claims	134.5
Total	**4 521.2**

4.5. Exposure Classification Methodology

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 in case of regular portfolio

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 9 corporate client risk classes in the brackets from 9 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, in the years 2007-2008 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), built 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 2008		31 Dec 2007	
	on-balance	*off-balance*	*on-balance*	*off-balance*
01	0.0	0.0	0.0	0.0
02	0.0	0.1	0.0	2.3
03	1 758.0	1 414.5	1 548.4	409.2
04	1.2	4.0	0.0	2.0
05	431.6	11.9	0.0	4.7
06	381.8	233.4	56.7	3.3
07	227.9	159.6	420.0	470.6
08	1 328.7	764.3	1 017.9	596.7
09	1 623.1	1 758.0	1 116.2	1 104.9
10	1 060.3	957.0	792.3	1 501.2
11	2 066.9	2 025.8	860.8	1 094.6
12	1 367.0	1 584.4	1 030.7	1 273.9
13	2 158.5	1 261.5	1 444.2	1 327.9
14	1 368.2	619.7	1 423.8	791.6
15	1 111.5	575.6	1 343.4	611.8
16	867.4	364.1	542.8	268.1
17	473.2	110.4	287.7	66.8
18	56.9	30.1	41.6	23.1
19	95.7	13.6	23.3	3.9
20	167.4	4.9	87.9	4.3
21	4.0	0.0	4.0	0.0
22	136.8	0.2	281.3	0.0
Total	**16 686.1**	**11 893.1**	**12 323.0**	**9 560.9**

Credit exposures to corporate clients by overdue days

number of days overdue	exposure in PLN million			
	31 Dec 2008		31 Dec 2007	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	16 301.3	11 885.8	11 929.4	9 542.3
1-30	143.4	6.9	40.8	14.6
31-60	15.7	0.0	28.2	4.0
61-90	14.4	0.4	16.3	0.0
91-180	54.5	0.0	22.1	0.0
181-365	34.0	0.0	19.9	0.0
>365	122.8	0.0	266.3	0.0
Total	**16 686.1**	**11 893.1**	**12 323.0**	**9 560.9**

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 2008		31 Dec 2007	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	16 228.6	11 880.7	11 882.7	9 540.9
1-30	125.6	6.9	39.0	14.6
31-60	13.2	0.0	3.3	1.1
61-90	7.5	0.4	10.6	0.0
91-180	0.9	0.0	0.1	0.0
181-365	1.4	0.0	13.3	0.0
>365	0.7	0.0	0.8	0.0
Total	**16 377.9**	**11 888.0**	**11 949.8**	**9 556.6**

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

risk rating	exposure in PLN million			
	31 Dec 2008		31 Dec 2007	
	on-balance	*off-balance*	*on-balance*	*off-balance*
20	147.4	1.8	75.8	3.0
21	3.9	0.0	0.0	0.0
22	103.3	0.1	195.0	0.0
Total	**254.6**	**1.9**	**270.8**	**3.0**

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 2008		31 Dec 2007	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	64.2	1.9	41.4	0.0
1-30	14.4	0.0	0.8	0.0
31-60	0.1	0.0	22.3	3.0
61-90	4.6	0.0	0.0	0.0
91-180	51.2	0.0	17.5	0.0
181-365	27.1	0.0	4.5	0.0
>365	93.0	0.0	184.3	0.0
Total	**254.6**	**1.9**	**270.8**	**3.0**

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 2008		31 Dec 2007	
	on-balance	*off-balance*	*on-balance*	*off-balance*
20	20.0	3.1	12.1	1.4
21	0.1	0.0	4.0	0.0
22	33.5	0.1	86.3	0.0
Total	**53.6**	**3.2**	**102.4**	**1.4**

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 2008		31 Dec 2007	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	8.5	3.2	5.2	1.4
1-30	3.4	0.0	1.0	0.0
31-60	2.4	0.0	2.6	0.0
61-90	2.3	0.0	5.7	0.0
91-180	2.4	0.0	4.5	0.0
181-365	5.5	0.0	2.2	0.0
>365	29.1	0.0	81.2	0.0
Total	**53.6**	**3.2**	**102.4**	**1.4**

4.6. 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 2008 ING Bank Śląski S.A. restructured performing loans totaling PLN 98.56 million, that we believe would have become impaired if we had not restructured them.

5. Management of retail credit risk approach

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 2008		31 Dec 2007	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	6 755.8	2 410.6	4 228.9	2 178.2
1-30	288.2	36.2	202.3	22.3
31-60	29.9	5.0	16.3	2.4
61-90	46.7	8.8	41.6	8.3
91-120	4.1	0.1	4.3	0.1
121-150	5.6	0.5	3.8	0.4
151-180	4.6	0.1	2.7	0.1
>180	95.4	0.4	77.6	0.7
Total	**7 230.3**	**2 461.7**	**4 577.5**	**2 212.5**

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 2008		**31 Dec 2007**	
	on-balance	*off-balance*	*on-balance*	*off-balance*
Mortgage loans	4 480.1	521.3	2 544.2	478.1
SME Loans	1 126.3	694.3	773.9	538.3
Other loans	1 477.8	1 238.8	1 134.0	1 187.2
Total	**7 084.2**	**2 454.4**	**4 452.1**	**2 203.6**

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 2008		**31 Dec 2007**	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	6 755.8	2 410.6	4 228.9	2 178.2
1-30	288.2	36.2	202.3	22.3
31-60	29.9	5.0	16.3	2.4
61-90	10.3	2.6	4.6	0.7
Total	**7 084.2**	**2 454.4**	**4 452.1**	**2 203.6**

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 2008		**31 Dec 2007**	
	on-balance	*off-balance*	*on-balance*	*off-balance*
<90	36.4	6.2	37.0	7.6
91-120	4.1	0.1	4.3	0.1
121-150	5.6	0.5	3.8	0.4
151-180	4.6	0.1	2.7	0.1
>180	95.4	0.4	77.6	0.7
Total	**146.1**	**7.3**	**125.4**	**8.9**

6. 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 2.10 and 2.12.

7. Management of Credit Risk of the Group Companies

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

Subsidiaries:

- 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,
- ING BSK Development Sp. z o.o. – operating since 2004 (100% of shares),
- Centrum Banku Śląskiego Sp. z o.o. in liquidation – the company was established in 1997 and its liquidation was declared in 2007 (100% shares),
- Solver sp. z o.o. - the company established in 2002 (82,3% of shares).

Affiliated entities:

- ING Powszechne Towarzystwo Emerytalne 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.

8. 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 (Credient Risk 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 Bank systems, 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 part 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 2008*)	**31 Dec 2007**
Money Market	1 873.6	4 363.8
MtM	1 145.7** / 91.7***	3 156.4
PFE	1 607.0	1 190.1
Present Value + FM Value	2 170.7	5 692.0

**) In the year 2008, the Group changed approach to the risk monitoring, therefore the data regarding MtM Value, presented in the table above as at 31 Dec 2008 are not comparable with the figures for previous terms.*

***) Gross amount - transactions where the bank is "in-the-money,", only.*

****) Net amount – transactions where the bank is "in-the-money" are netted with those "out-of-the-money".*

Credit risk connected with derivative instruments

In view of a considerable increase of credit risk in derivatives transactions (mainly FX options) made by the Group with clients, the Group resolved to review a major part of the portfolio of those instruments. With the aim of having the risk level outlined in a precise manner the Group structured the approach.

The approach adopted by the Group to estimation of the credit risk generated by derivative instruments with future settlement dates (active transactions, outstanding as at the balance sheet date) is in line with the approach adopted by the Group for the purpose of assessing the credit risk generated by credit receivables. valuation adjustments are estimated at the level of individual counterparties, using the formula based on PD, LGD and EAD ratios, which is described in detail in "significant accounting policies" in the point "accounting estimates".

The total amount of derivatives valuation adjustments, referred to the result on financial instruments carried through the income statement was PLN 163 million.

In addition, for mature transactions or terminated and unsettled as at the balance sheet date, the Group made charges using the methodology for assessing the risk of impaired loans. As at 31 December 2008 the value of impairment losses amounted to PLN 71.6 million was presented in consolidated financial statements in the item "impairment losses and provisions for off-balance sheet liabilities".

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 2008 (in PLN)

Area	Limit	As at 31 Dec 2008	Average	Min	Max
Interest Rate	2 920 680	1 370 337	645 336	290 239	1 555 432
FX**	2 127 924	380 740	154 898	15 930	492 077
FX Options	3 129 300	1 118 203	878 934	158 730	3 720 330

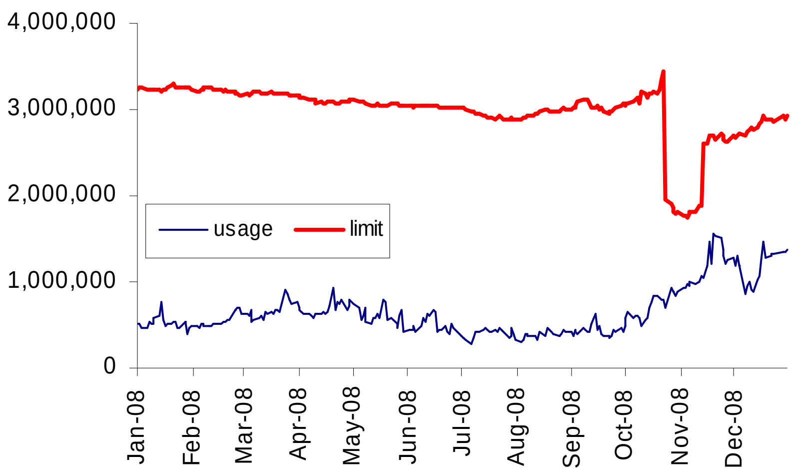
VaR numbers in 2007 (in PLN)

Area	Limit	As at 31 Dec 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

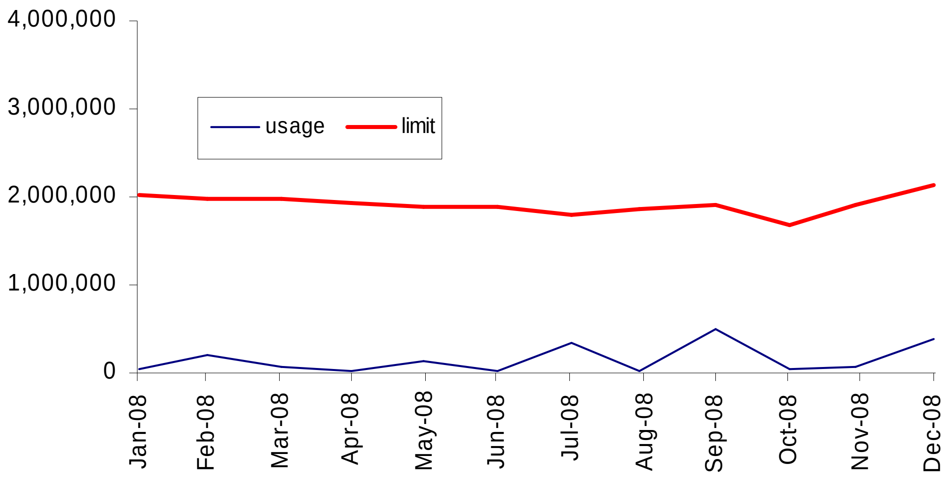
** All VaR limits and their usage in ING Bank Śląski are denominated in EUR. Limit levels and usage in tables and graphs for the purpose of this document were converted into PLN using daily NBP fixing rate.*

*** including subsidiaries, based on monthly measurement*

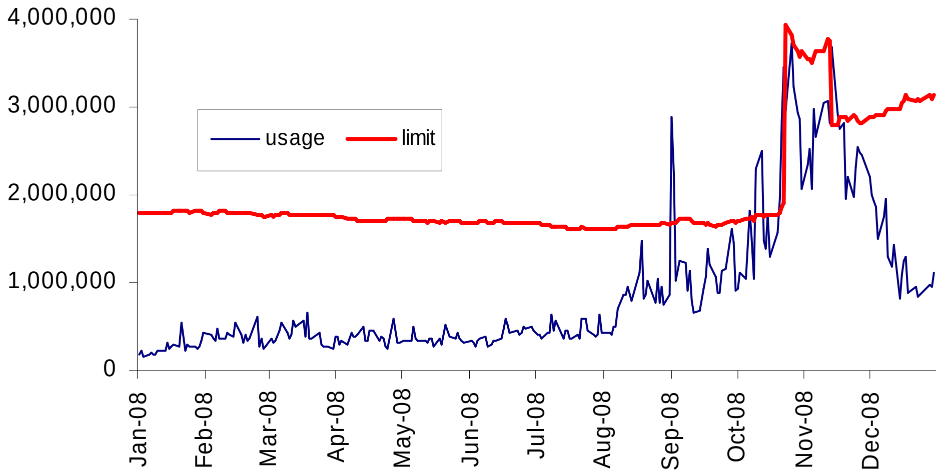
Interest Rate VaR (PLN)



FX VaR (PLN)



FX Options VaR (PLN)



The excesses of VaR limit for FX options resulted from situation on the market in the 2nd half of the 2008. Due to financial crisis we observed unusual movements of spot rates and implied volatilities. As a result spot volatilities and volatilities of volatilities increased extending VaR area covered by model. On the other hand the liquidity on the market was extremely limited – the number of potential counterparties decreased and the spreads became huge. Financial Markets had very limited possibilities to hedge the portfolio. The portfolio consisted in majority the barriers which are very sensitive to changed market conditions. There were reallocations done within trading areas in order to increase VaR limit for FX Options while keeping the total allowed risk exposure at the same level. This together with FM actions to mitigate risk resulted in liquidating the excesses.

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

VaR numbers in 2008 (in PLN)

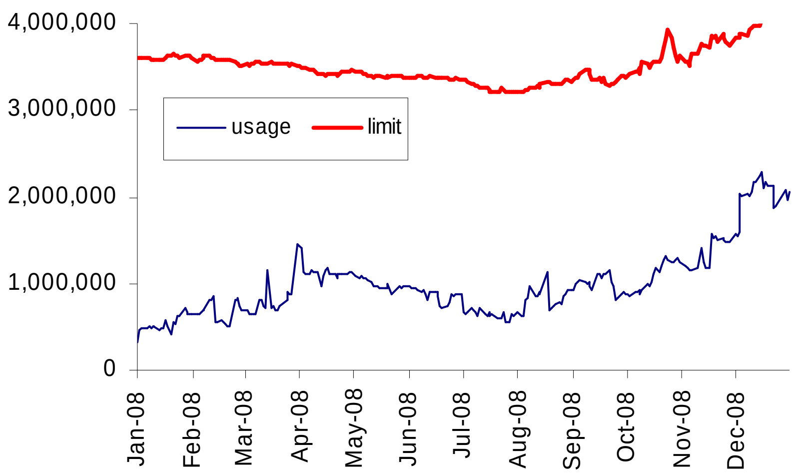
Area	Limit	As at 31 Dec 2008	Average	Min	Max
LMF	4 172 400	2 068 676	987 948	315 386	2 278 421
ALM	4 172 400	3 044 730	1 599 531	510 465	4 467 401

VaR numbers in 2007 (in PLN)

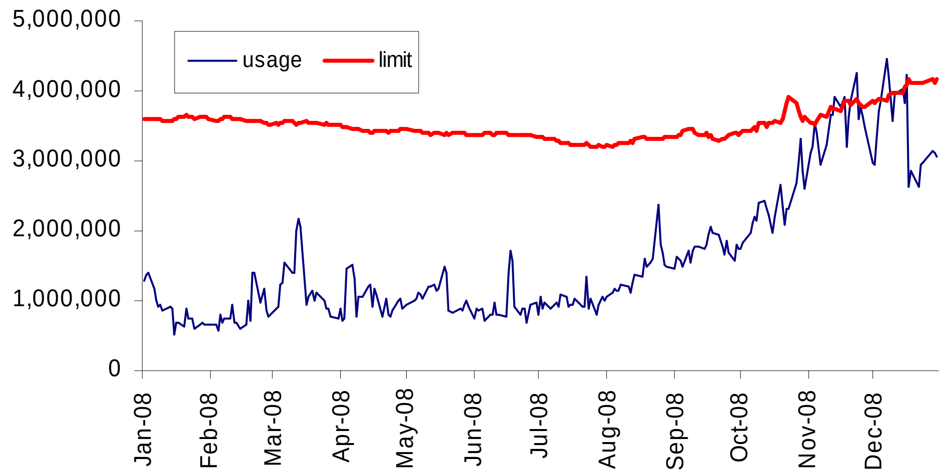
Area	Limit	As at 31 Dec 2007	Average	Min	Max
LMF	3 784 300	714 276	749 507	214 458	1 432 153
ALM	3 784 300	1 395 945	533 356	144 281	1 755 009

**** In case of LMF (Liquidity Management & Funding) and ALM numbers represent Delta VaR as this measure is formally limited (delta VaR takes into account swap curve changes only).*

LMF VaR (PLN)



ALM VaR (PLN)



The excesses within ALM area resulted from the differences between the way internal deposits were taken into account in VaR measurement and its valuation in Front Office system. ALM takes internally deposits from areas beyond Financial Markets. ALM invests the money primarily into Polish Treasury papers. This is why both sides of ALM's balance sheet are valued in FO system using the same bond curve. At the same time in the risk measurement standard default curves allocation was used to different products e.g. bond curve for bonds and swap for deposits. This problem was solved by the end of the year.

Non Financial Markes Banking Books VaR statistics*

VaR numbers in 2008 (in PLN)

Area	Limit	As at 31 Dec 2008	Average	Min	Max
Interest Rate	834 480	243 268	95 385	40 877	243 268

VaR numbers in 2007 (in PLN)

Area	Limit	As at 31 Dec 2007	Average	Min	Max
Interest Rate	756 860	34 573	25 278	12 642	50 593

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. 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

December 2008

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	-0.57	118.57	58.05	-56.36	-111.33	118.57	58.05	-56.36	-111.33
	Accrual	0.10	-42.58	-12.30	9.15	17.37	361.90	180.95	-180.95	-361.90
	Total	-0.47	75.99	45.75	-47.21	-93.96	480.47	239.00	-237.31	-473.23
TRADING	MTM	-0.06	11.91	5.95	-5.95	-11.91	11.91	5.95	-5.95	-11.91
BANK TOTAL	MTM	-0.63	130.48	64.00	-62.31	-123.24	130.48	64.00	-62.31	-123.24
	Accrual	0.10	-42.58	-12.30	9.15	17.37	361.90	180.95	-180.95	-361.90
ALL		**-0.53**	**87.90**	**51.70**	**-53.16**	**-105.87**	**492.38**	**244.95**	**-243.26**	**-485.14**

All figures in PLN millions, including subsidiaries

December 2007

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, including subsidiaries

Sensitivity of Capital Accounts to Changes in Interest Rates

December 2008

Position	BPV	Approximate Change in Regulatory Capital Base for Yield Curve Move			
		-2%	-1%	+1%	+2%
FM AFS Portfolio	-1.88	376.29	188.15	-188.15	-376.29
IRS classified to macro cash flow hedge portfolio	-0.34	67.48	33.74	-33.74	-67.48
All	**-2.22**	**443.78**	**221.89**	**-221.89**	**-443.78**

All figures in PLN millions

December 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

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 structure of funding and concentration of funds according to clients segment and products reports, 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 existing *ING Bank Śląski's Liquidity and Funding Policy* was updated and widen based on:
- Internal Audit recommendations following the internal audit on the liquidity risk management process,
- New liquidity regulation from National Bank of Poland, by NBP 9/2007 resolution in case of obligatory liquidity norms introduction for the banks,
- The introduction of a new "Cash and collateral report" by ING Bank NV as of April 2008.

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.

The last quarter of 2008 year was the time when we can test the process of the contingency funding plan according to our policy. Taking into account the current international market situation, financial credit crisis and in order to monitoring the nature and severity of the liquidity profile of the bank and taking the adequate decisions in that area MB to appoint The Liquidity Crisis Team.

Polish Financial Supervision Authority regulation number 9/2007 dated 13, March 2007 regarding the liquidity risk came into effect at January 2008. Above-mentioned regulation introduced 4 liquidity measures: short term liquidity gap (minimum: zero), short term liquidity ratio (minimum amount: 1.00), own funds to non-liquid assets ratio (minimum amount: 1.00) and own funds and core deposits to non-liquid and semi-liquid assets ratio (minimum amount: 1.00). The bank is obliged to measure monitor above ratios on daily basis and keep these ratios with predefined limits in the PFSA regulation.. In the transitory period of being in force of the regulation and also as of 30, June 2008 the bank kept all liquidity measures over their minimum amounts. As of 31 December 2008 liquidity measures of ING Bank Śląski amounted as follows:

Liquidity measurement		Minimum	Amounts
M1	Short term liquidity gap (in PLN mio)	0.00	14 947.02
M2	Short term liquidity ratio	1.00	1.33
M3	Own Funds to Non-Liquid Assets Ratio	1.00	3.17
M4	Own Funds and Core Deposits to Non-Liquid and Semi-Liquid Assets Ratio	1.00	1.99

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, 2008. The reports are presented in two contexts: contractual liquidity positions and stressed liquidity positions, as described below:

<u>Contractual Liquidity Positions</u>: 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.

<u>Stress Liquidity Position</u>: 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)

2008 year end

	1M	*1- 3 M*	*3 - 12 M*	*Over 1Y*	***TOTAL***
BALANCE SHEET ASSETS					
- Cash in hand and balances with the Central Bank	1 888.7	0.0	0.0	0.0	**1 888.7**
- Loans and receivables to other banks	5 975.3	535.3	150.0	607.7	**7 268.3**
- Financial assets measured at fair value through profit and loss	2 944.3	691.3	3 944.1	7 548.9	**15 128.6**
- Investments	0.0	19.8	892.4	17 138.7	**18 050.9**
- Derivative hedge instruments	8.8	0.0	92.9	95.3	**197.0**
- Loans and receivables to customers	9 371.3	1 726.0	2 789.4	11 856.1	**25 742.8**
BALANCE SHEET LIABILITIES					
- Liabilities due to Central Bank	1 400.2	4 531.9	0.0	0.0	**5 932.1**
- Liabilities due to other banks	2 967.6	2 852.8	208.7	31.8	**6 060.9**
- Financial liabilities measured at fair value through profit and loss	2 341.0	309.6	1 086.2	1 409.9	**5 146.7**
- Derivative hedge instruments	0.0	0.0	0.0	420.0	**420.0**
- Liabilities due to customers	38 803.2	3 944.5	3 318.5	1 000.7	**47 066.9**
OFF BALANCE SHEET ITEMS					
- Contingent liabilities granted	3 159.9	495.3	4 683.5	5 762.2	**14 100.9**

NET GAP	**-28 483.5**	**-9 161.7**	**-1 428.1**	**28 622.1**	**X**
CUMULATIVE GAP	**-28 483.5**	**-37 645.2**	**-39 073.3**	**-10 451.2**	**X**

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 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**

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

2008 year end

	1M	**1- 3 M**	**3 - 12 M**	**Over 1Y**
BALANCE-SHEET				
ASSETS				
- Securities	21 326.1	0.0	392.3	5 093.8
- Money market (given)	7 617.8	468.6	0.0	313.6
- Term/demand loans	2 945.2	1 334.5	2 587.6	18 291.9
- Other assets	277.2	0.0	0.0	260.3
LIABILITIES				
- Money market (taken)	2 824.5	7 353.8	208.6	179.4
- Term deposits	9 667.5	3 304.1	1 650.3	3 274.5
- Demand deposits	3 369.3	817.2	4 071.5	897.3
- Savings accounts retail	5 971.0	0.0	8 606.0	5 198.9
- Other liabilities	1 543.2	0.0	0.0	0.0
OFF BALANCE SHEET ITEMS				
ASSETS				
- FX SWAPS / CC-IRS	26 271.5	3 724.0	6 286.5	1 373.6
- Money market / depo strategic clients	722.2	0.0	0.0	0.0
- Repayment of contingent assets	2 240.5	277.5	593.7	2 659.8
LIABILITIES				
- FX SWAPS / CC-IRS	27 446.9	3 614.4	6 041.3	1 427.3
- Money market / depo strategic clients	722.2	0.0	0.0	0.0
- Funding of contingent assets	5 597.4	0.0	0.0	0.0
NET GAP	**4 258.5**	**-9 284.8**	**-10 717.6**	**17 015.7**
CUMULATIVE GAP	**4 258.5**	**-5 026.3**	**-15 743.9**	**1 271.8**

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**

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 2008

Area	As at 31 Dec 2008	Average	Min	Max
1week gap	18 487 548	18 141 805	15 208 830	22 493 168
1month gap	17 414 358	14 170 666	11 102 852	17 536 133

In thousand PLN

Liquidity risk in the year 2007

Area	As at 31 Dec 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

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 and capital requirements are calculated according to valid legal regulations (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 ING Bank Śląski Group.

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.

the New Capital Accord (NUK)

Bank implemented the requirements 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). These requirements are divided into the three "pillars":

- Pillar 1 of reflects regulatory requirements.

  In the area of credit risk for the purpose of 2009 reporting Standardised Approach including the use of regulatory parameters set in the abovementioned Directives and in Resolution 380/2008 KNB (replacing the Resolution 1/2007 KNB which was obligatory till the end of 2008) 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 for the corporate portfolio 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.

  In the area of operational risk the Bank uses methodology of BIA (Basic Indicator Approach). This area is managed and monitored by Operational Risk and Compliance Department.

  The stipulations of the New Capital Accord do not impose significant changes as regards market risk measurement, management and modelling. All requirements of the new regulations have been implemented and are executed by the Market Risk Management Department.

- 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 KNF (Polish Financial Supervision Authority).

The table below presents the detailed calculation of base figures of regulatory capital and solvency ratio as at 31 December 2008. In the current situation, the Group maintains an adequate capital level which is illustrated by the solvency ratio exceeding 8% (regulatory requirement). Both during the 2008 and 2007 the solvency ratio did not drop below regulatory requirement.

Consolidated regulatory capital base and solvency ratio

	31 Dec 2008
Capital components	
Share capital	130 100
Issue premium	956 250
Other supplementary capital	74 889
Capital reserve including retained profit of past years	1 887 836
Net profit of current period in unaudited part	407 470
Minority equity	2 299
General risk fund	730 179
Revaluation reserve	-100 996
Funds adjustment by intangibles	-316 186
Funds adjustment by capital commitments in financial institutions	-40 000
Short-term capital	79 691
Total own funds	**3 811 532**
Capital requirements	
Capital requirements for credit risk, credit counterparty, dilution and delivery of instruments for future settlement	2 580 271
Capital requirement for the risk of settlement - delivery	1 319
Capital requirements for the capital securities rate risk, debt instruments rates risk, FX risk and commodity rates risk	27 707
Capital requirement for operational risk	274 247
Capital requirement for general interest rate risk	51 984
Total capital requirement	**2 935 528**
Solvency ratio	**10.39%**

The table below present detailed calculation of solvency ratio as of the end of 2007.

Until the end of 2007, the Bank calculated the capital base and capital requirements according to Basel I requirements and thus the solvency ratios as at 31 December 2007 are not comparable with the solvency ratio as at 31 December 2008 presented in the table above.

	31 Dec 2007
Capital componenets	
Share capital	130 100
Issue premium	956 250
Other supplementary capital	73 825
Capital reserve	1 505 970
General risk fund	530 179
Retained profit/loss of past years	103 328
Revaluation reserve from measurement of available-for-sale financial assets	-149 591
Revaluation reserve from measurement of property, plant and equipment	57 998
Funds adjustment by intangibles	-318 825
Minority equity	1 719
Short-term capital	91 761
Total own funds	**2 982 714**
Capital requirements	
Credit risk	1 727 660
Market risk	64 078
Risk of delivery settlement and of counterparty	27 683
Total capital requirement	**1 819 421**
Solvency ratio	**13,12%**

Regulatory and economic capital requirements

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.

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS OF ING BANK ŚLĄSKI S.A.

2009-02-25	**Brunon Bartkiewicz**	President	*(signed on the Polish original)*
2009-02-25	**Mirosław Boda**	Vice-President	*(signed on the Polish original)*
2009-02-25	**Michał Bolesławski**	Vice-President	*(signed on the Polish original)*
2009-02-25	**Justyna Kesler**	Vice-President	*(signed on the Polish original)*
2009-02-25	**Małgorzata Kołakowska**	Vice-President	*(signed on the Polish original)*
2009-02-25	**Oscar Edward Swan**	Vice-President	*(signed on the Polish original)*
2009-02-25	**Michał Szczurek**	Vice-President	*(signed on the Polish original)*

SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS

2009-02-25	**Eugenia Sikora**	Director of the Bank Chief Accountant	*(signed on the Polish original)*