

# Annual Financial Statements of the ING Bank Śląski S.A.

for the year 2008



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**Annual financial statements of the ING Bank Śląski S.A.**

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*Annual financial statements of the ING Bank Śląski S.A.  
for the period from 1st January 2008 to 31st December 2008*

<b>PROFIT AND LOSS ACCOUNT</b> (PLN '000)	<i>Note</i>	<b>the period from 01 Jan 2008 to 31 Dec 2008</b>	<b>the period from 01 Jan 2007 to 31 Dec 2007 (comparable data)</b>
<i>Interest income</i>	2	3 385 878	2 483 337
<i>Interest expenses</i>	2	2 259 371	1 443 364
<b>Net interest income</b>	2	<b>1 126 507</b>	<b>1 039 973</b>
<i>Commission income</i>	3	954 853	889 398
<i>Commission expenses</i>	3	123 990	92 489
<b>Net commission income</b>	3	<b>830 863</b>	<b>796 909</b>
Net income on investment financial assets	4	147 077	117 256
Net income on instruments measured at fair value through profit and loss and revaluation	5	-29 848	28 756
Net income on other basic activities	6	7 598	7 721
<b>Result on basic activities</b>		<b>2 082 197</b>	<b>1 990 615</b>
General and administrative expenses	7	1 459 691	1 339 826
Result on other operating income and expenses	8	-7 957	8 947
Impairment losses and provisions for off-balance sheet liabilities	9	66 592	-103 344
<b>Profit (loss) before tax</b>		<b>563 871</b>	<b>745 186</b>
Income tax	10	108 308	135 033
<b>Net profit (loss)</b>		<b>455 563</b>	<b>610 153</b>
<b>Net profit (loss)</b>		<b>455 563</b>	<b>610 153</b>
<b>Weighted average number of ordinary shares</b>		<b>13 010 000</b>	<b>13 010 000</b>
<b>Earnings per ordinary share (PLN) *)</b>	11	<b>35,02</b>	<b>46,90</b>

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

**Brunon Bartkiewicz**

President

*Signed on the Polish original*

**Mirosław Boda**

Vice-President

*Signed on the Polish original*

**Michał Bolesławski**

Vice-President

*Signed on the Polish original*

**Justyna Kesler**

Vice-President

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Vice-President

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**Oscar Edward Swan**

Vice-President

*Signed on the Polish original*

**Michał Szczurek**

Vice-President

*Signed on the Polish original*

**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*

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 Bank since the value of diluted profit per one share equals the value of core profit per one share.

*Annual financial statements of the ING Bank Śląski S.A.  
for the period from 1st January 2008 to 31st December 2008*

<b>BALANCE SHEET</b> (PLN '000)	<i>Note</i>	<b>as of 31 Dec 2008</b>	<b>as of 31 Dec 2007</b>
<b>ASSETS</b>			
- Cash in hand and balances with the Central Bank	13	1 369 777	1 841 720
- Loans and receivables to other banks	14	8 094 181	15 238 778
- Financial assets measured at fair value through profit and loss	15	15 127 616	7 869 034
- Investments	16	18 050 736	9 418 393
- <i>available-for-sale</i>	16	10 738 904	8 577 617
- <i>held-to-maturity</i>	16	7 311 832	840 776
- Derivative hedge instruments	18	197 003	4 572
- Loans and receivables to customers	19	25 277 781	16 049 702
- Investments in controlled entities	21	210 569	210 569
- Investment real estates	22	151 458	144 713
- Property, plant and equipment	23	529 256	521 243
- Intangible assets	24	314 790	317 801
- Property, plant and equipment held for sale	25	248	241
- Current tax asset		0	25 256
- Deferred tax asset	26	45 994	45 001
- Other assets	27	166 476	139 403
<b>Total assets</b>		<b>69 535 885</b>	<b>51 826 426</b>

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Katowice, 25.02.2009

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

*Annual financial statements of the ING Bank Śląski S.A.  
for the period from 1st January 2008 to 31st December 2008*

<b>BALANCE SHEET</b> (PLN '000)	<i>Note</i>	<b>as of 31 Dec 2008</b>	<b>as of 31 Dec 2007</b>
<b>EQUITY AND LIABILITIES</b>			
<b>LIABILITIES</b>			
- Liabilities due to the Central Bank		5 932 116	0
- Liabilities due to other banks	30	6 063 785	1 812 283
- Financial liabilities measured at fair value through profit and loss	31	5 146 698	1 214 981
- Derivative hedge instruments	18	420 047	0
- Liabilities due to customers	32	47 165 612	44 502 189
- Provisions	33	49 304	70 904
- Current income tax liabilities		38 851	0
- Other liabilities	34	652 523	556 615
<b>Total liabilities</b>		<b>65 468 936</b>	<b>48 156 972</b>
<b>EQUITY</b>			
- Share capital	35	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	36	-100 981	-149 591
- Revaluation reserve from measurement of property, plant and equipment	36	36 018	37 154
- Revaluation reserve from measurement of cash flow hedging instruments		45 581	0
- Retained earnings	37	2 999 981	2 695 541
<b>Total equity</b>		<b>4 066 949</b>	<b>3 669 454</b>
<b>Total equity and liabilities</b>		<b>69 535 885</b>	<b>51 826 426</b>
<b>Solvency ratio</b>		<b>9,82%</b>	<b>12,03%</b>
<b>Book value</b>		<b>4 066 949</b>	<b>3 669 454</b>
<b>Number of shares</b>		<b>13 010 000</b>	<b>13 010 000</b>
<b>Book value per share (PLN)</b>		<b>312,60</b>	<b>282,05</b>

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Katowice, 25.02.2009

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

*Annual financial statements of the ING Bank Śląski S.A.  
for the period from 1st January 2008 to 31st December 2008*

**STATEMENT OF CHANGES IN 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	Total equity
<b>Opening balance of equity</b>	<b>130 100</b>	<b>956 250</b>	<b>-149 591</b>	<b>37 154</b>	<b>0</b>	<b>2 695 541</b>	<b>3 669 454</b>
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-	-	240 225	-	-	-	<b>240 225</b>
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-	-	-192 191	-	-	-	<b>-192 191</b>
- adjustment of valuation of securities re-classified from the available-for-sale portfolio to the portfolio of loans and receivables	-	-	576	-	-	-	<b>576</b>
- disposal of property, plant and equipment	-	-	-	-569	-	1 094	<b>525</b>
- remeasurement of property, plant and equipment	-	-	-	-567	-	-	<b>-567</b>
- effective part of cash flow hedging instruments revaluation	-	-	-	-	45 581	-	<b>45 581</b>
- dividends paid	-	-	-	-	-	-152 217	<b>-152 217</b>
<b>Gains/losses recognised in equity</b>	<b>0</b>	<b>0</b>	<b>48 610</b>	<b>-1 136</b>	<b>45 581</b>	<b>-151 123</b>	<b>-58 068</b>
<b>Net result for the current period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>455 563</b>	<b>455 563</b>
<b>Closing balance of equity</b>	<b>130 100</b>	<b>956 250</b>	<b>-100 981</b>	<b>36 018</b>	<b>45 581</b>	<b>2 999 981</b>	<b>4 066 949</b>

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	Total equity
<b>Opening balance of equity</b>	<b>130 100</b>	<b>956 250</b>	<b>42 830</b>	<b>40 458</b>	<b>0</b>	<b>2 446 336</b>	<b>3 615 974</b>
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-	-	-174 090	-	-	-	<b>-174 090</b>
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-	-	-18 331	-	-	-	<b>-18 331</b>
- disposal of property, plant and equipment	-	-	-	-258	-	2 031	<b>1 773</b>
- remeasurement of property, plant and equipment	-	-	-	-3 046	-	-	<b>-3 046</b>
- dividends paid	-	-	-	-	-	-362 979	<b>-362 979</b>
<b>Gains/losses recognised in equity</b>	<b>0</b>	<b>0</b>	<b>-192 421</b>	<b>-3 304</b>	<b>0</b>	<b>-360 948</b>	<b>-556 673</b>
<b>Net result for the current period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>610 153</b>	<b>610 153</b>
<b>Closing balance of equity</b>	<b>130 100</b>	<b>956 250</b>	<b>-149 591</b>	<b>37 154</b>	<b>0</b>	<b>2 695 541</b>	<b>3 669 454</b>

Note: 36,37,38

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

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President  
*Signed on the Polish original*

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Chief Accountant  
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Katowice, 25.02.2009

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

*Annual financial statements of the ING Bank Śląski S.A.  
for the period from 1st January 2008 to 31st December 2008*

<b>CASH FLOW STATEMENT</b> (PLN '000)	<i>Note</i>	the period from 01 Jan 2008 to 31 Dec 2008	the period from 01 Jan 2007 to 31 Dec 2007
<b>OPERATING ACTIVITIES</b>			
<b>Net profit (loss)</b>		<b>455 563</b>	<b>610 153</b>
<b>Adjustments</b>		<b>-984 524</b>	<b>-3 101 531</b>
- Depreciation and amortisation	7	131 764	150 765
- Interest accrued (from the profit and loss account)	2	1 126 507	1 039 973
- Interest paid		2 155 524	1 436 309
- Interest received		-3 049 417	-2 483 717
- Dividends received	4	-109 589	-94 238
- Gains (losses) on investment activities		-671	6
- Income tax (from the profit and loss account)	10	108 308	135 033
- Income tax paid		-45 194	-240 896
- Change in provisions	33	-21 600	-17 929
- Change in loans and other receivables to other banks	14	7 420 714	-5 799 477
- Change in financial assets at fair value through profit or loss	15	-7 312 036	-850 151
- Change in available-for-sale financial assets	16	-4 729 581	3 976 028
- Change in held-to-maturity financial assets	16	-6 639 365	-850 837
- Change in derivative hedge instruments	18	273 197	-4 572
- Change in loans and other receivables to customers	19	-7 248 578	-3 071 379
- Change in other assets		-23 020	40 194
- Change in liabilities due to other banks	30	10 199 690	-276 799
- Change in liabilities at fair value through profit or loss	31	3 931 717	-1 896 232
- Change in liabilities due to customers	32	2 751 198	5 896 716
- Change in other liabilities		95 908	-190 328
<b>Net cash flow from operating activities</b>		<b>-528 961</b>	<b>-2 491 378</b>
<b>INVESTMENT ACTIVITIES</b>			
- Purchase of property plant and equipment	23	-96 485	-254 794
- Purchase of property plant and equipment in investment property		0	-186 053
- Disposal of property, plant and equipment	25	1 123	1 936
- Purchase of intangible assets		-52 096	-60 081
- Purchase of investments in subordinated entities		0	-82 471
- Disposal of fixed assets held for sale		516	4 416
- Dividends received	4	109 589	94 238
<b>Net cash flow from investment activities</b>		<b>-37 353</b>	<b>-482 809</b>
<b>FINANCIAL ACTIVITIES</b>			
- Long-term loans repaid		0	-19 140
- Interest on long-term loans repaid		0	-1 763
- Dividends paid	12	-152 217	-362 979
<b>Net cash flow from financial activities</b>		<b>-152 217</b>	<b>-383 882</b>
<i>Effect of exchange rate changes on cash and cash equivalents</i>		<b>283 545</b>	<b>-72 874</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>-718 531</b>	<b>-3 358 069</b>
<b>Opening balance of cash and cash equivalents</b>		<b>4 816 455</b>	<b>8 174 524</b>
<b>Closing balance of cash and cash equivalents</b>	46	<b>4 097 924</b>	<b>4 816 455</b>

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

Katowice, 25.02.2009

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



## ***Information on the Bank***

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

The Bank statistical number is REGON 271514909, and the tax identification number is NIP 634-013-54-75. The duration of the Bank was determined as indefinite in the Bank’s charter. 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 share capital of ING Bank Śląski S.A. amounts to PLN 130,100,000 and is divided into 13,010,000 ordinary shares with a par value of PLN 10.00 each. Shares of the Bank are quoted on the Warsaw Stock Exchange.

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which 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 Shareholders Meeting.

ING Bank Śląski S.A. offers a broad range of banking services rendered for individual and institutional clients in line with the scope of services outlined in the Bank’s charter. The Bank’s operations are denominated in both polish zloty and foreign currencies as well as actively participates in domestic and foreign financial markets.

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

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

	<b>PLN thousand</b>		<b>EUR thousand</b>	
	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	3 385 878	2 483 337	958 602	657 524
Commission income	954 853	889 398	270 336	235 490
Result on basic activities	2 082 197	1 990 615	589 507	527 064
Result before tax	563 871	745 186	159 642	197 306
Net result	455 563	610 153	128 978	161 553
Net cash flows	-718 531	-3 358 069	-203 429	-889 131
Earnings per ordinary share (PLN / EUR)	35,02	46,90	9,91	12,42

	<b>PLN thousand</b>		<b>EUR thousand</b>	
	as at 31.12.2008	as at 31.12.2007	as at 31.12.2008	as at 31.12.2007
Total assets	69 535 885	51 826 426	16 665 680	14 468 572
Equity	4 066 949	3 669 454	974 727	1 024 415
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)	312,60	282,05	74,92	78,74
Solvency ratio (%)	9,82%	12,03%	-	-

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 r 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”).

The Bank is the dominant entity of the Capital Group of ING Bank Śląski S.A. and besides these financial statements it also produces the consolidated financial statements compliant with IFRS.

A balance sheet, profit and loss account, breakdown of changes in the equity and a 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 Bank 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 Bank’s accounting, except for IAS 39 and IFRS 7 in the form of possible reclassification of the financial instruments held. The Bank seized that opportunity.

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

These financial statements of the ING Bank Śląski S.A. cover the period from 1<sup>st</sup> January 2008 to 31<sup>st</sup> December 2008 and include the comparatives data:

- for the balance sheet as 31<sup>st</sup> December 2007 and financial year ending that day,
- for the profit and loss account, movement on equity and cash flow statement for the period from 1<sup>st</sup> January 2007 till 31<sup>st</sup> December 2007.

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

The Bank 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 Bank has not completed the process of estimating the impact of these standards and interpretations on 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 2007) – 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 Bank 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 financial statements were prepared on the assumption that the Bank was a going concern and would continue in operation for the foreseeable future, that is for a period of at least one year from the balance-sheet date. As at the date of approving the financial statements by the Bank Management Board, there have been no circumstances that would pose a threat to continued operations of the Bank.

**(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 Bank the use of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Estimations and assumptions applied to the presentation of value of assets, liabilities, revenues and costs, are made on basis of historical data available and other factors considered to be relevant in given circumstances. Applied assumptions related to the future and available data sources are the base for making estimations regarding carrying value of assets and liabilities, which cannot be determined explicitly on 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 Bank are as follows:**

***Impairment of loans***

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

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

appearing in that group of assets.

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

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

The approach adopted by the Bank 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 Bank 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 Bank 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 Bank, and if it is known to the Bank, 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 Bank. EAD is used to measure the client's exposure in the Bank. Calculating EAD, the Bank takes into account also whether the client signed a master agreement with the Bank allowing for netting transactions with positive and negative measurements when the agreement is terminated either by the Bank 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 Bank; 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 Bank applies individual approach to LGD calculation.

In addition, for mature transactions or terminated and unsettled as at the balance sheet date, the Bank 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 Bank 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 Bank 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 Bank. However, considering the great volatility of the business environment, there still remains some uncertainty as to the Bank's estimates

#### ***Impairment of other non-current assets***

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

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

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

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

Valuation models used by the Bank, are verified by independent bodies before/prior to their usage. Where possible, in models the Bank uses observable data from active markets. However, the Bank also adopts assumptions as to probability (as 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 Bank 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 Bank 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 Bank recognises some actuarial gains and losses as revenue or costs, when the net value of accumulated unrecognised actuarial gains and losses as at the end of the previous reporting period exceeds the higher of the following two values:

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

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

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

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

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

**(g) Investments in subsidiaries and affiliated companies**

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

**(h) Foreign currency**

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

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

***(ii) Transactions and balances in foreign currency***

Transactions expressed in foreign currency are translated into the functional currency by applying the exchange rate at the date of the transaction. Exchange rate profits and losses due to settlements of



these transactions and to the balance sheet valuation of assets and monetary commitments expressed in foreign currency are accounted for in the profit and loss account.

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 Bank does not have any investments nor runs operations abroad.

**(i) Financial assets and liabilities**

*(i) Classification*

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

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

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

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

*(b) Investment held to maturity*

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

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

*(c) Loans and advances*

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

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

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

*(iii) Derecognition*

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

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

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

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

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

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

*(iv) Measurement*

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

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

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

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

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

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

Granted financial guarantees are measured at the higher of:

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

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

**(k) Repo, Reverse Repo Sell–buy–back, buy–sell–back transactions**

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

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

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

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

Securities borrowed from other entities are not recognised in the Bank’s financial statement. If sold by the Bank, 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 Bank separates and recognizes in the balance sheet derivative instruments being a component of hybrid instruments. A hybrid (combined) instrument includes a non-derivative host contract and derivative instrument, which causes some or all of the cash flows arising from the host contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable.

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

*(i) Derivative instruments not qualifying as hedging instruments*

The changes in fair value of derivative instruments that do not meet hedge accounting criteria are recognized in profit and loss for the current period. 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 Bank designates certain derivative instruments as fair value hedge or cash flow hedge. The Bank uses hedge accounting, if the following conditions are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
- The hedging instrument and hedged instrument are similar, especially nominal value, maturity date, and volatility for interest rate and foreign exchange changes.
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
- The effectiveness of the hedge can be reliably measured, 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 Bank 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 Bank 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 Bank 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 Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

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

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. The Bank classifies loan receivables by size of exposure, into the individual

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

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

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

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

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

For the purposes of the calculation of the provision against balance sheet exposures analysed collectively, the probability of default (PD) method has been applied. Modification of the PD parameter takes into account characteristics of specific products and emerging periods for losses on those products. 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 Bank (acting as the owner or the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) occupation purposes (use in the production or supply of goods or services or for administrative purposes); or (b) sale in the ordinary course of business. Therefore, an investment property generates cash flows largely independently of the other assets held by the Bank.

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 Bank's needs or to be transferred to other entities, based on the lease contract or for administrative purposes.

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

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

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

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 Bank, and the cost of such expenses can be reliably measured. Costs of repairs and maintenance of property, plant and equipment are charged to the profit and loss account in the reporting period in which they were incurred.

**(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 Bank, are recognized at cost less accumulated amortization and accumulated impairment write – offs.

*(iv) Subsequent Costs*

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

**(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 Bank as lessor*

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

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

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

*(ii) The Bank as lessee*

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

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

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

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

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

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

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

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

Where the criteria for classification as non-current assets for sale are no longer met, the Bank 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 Bank 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 Bank that either have been disposed of or are classified as held for sale and represent a separate major line of business or geographical area of operations, are a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or are a subsidiary acquired exclusively with a view to resale.

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

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

*(iv) Cash and cash equivalents*

Cash and cash equivalents for the purposes of a Cash Flow statement include: Cash 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 Bank assesses the existence of objective evidence indicating impairment of a non-current asset. If such evidence exists, the Bank performs an estimation of the recoverable value. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount.

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

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

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

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

***Measuring Recoverable Amount***

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

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

***Reversing impairment loss***

Goodwill impairment loss is not subject to reversal.

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

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

**(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 Bank.

### *(i) Own shares*

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

### *(ii) Dividends*

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

## **Share premium**

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

## **Revaluation reserve**

Revaluation reserve is created as a result of:

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

The deferred tax resulting from above mentioned revaluation is included in the revaluation reserve.

The revaluation reserve is not subject to profit distribution.

## **Retained earnings**

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

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

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

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

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



**(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. This caption includes the annual fee for perpetual usufruct of land settled in time. Prepayments are presented in the balance sheet in 'Other assets' caption.

***Deferred income***

This caption comprises mainly of fees amortized on a straight-line basis and other types of income collected in advance which will be settled against profit and loss account in future reporting periods. Accruals comprise of provisions for costs resulting from services provided to the Bank by counterparties, which will be accrued over future periods and settlements resulting from employee benefits. Accruals and deferred income are presented in 'Other liabilities' balance sheet caption.

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

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

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

*(iii) Long-term employee benefits*

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 Bank 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 Bank recognises some actuarial gains and losses as revenue or costs, when the net value of accumulated unrecognised actuarial gains and losses as at the end of the previous reporting period exceeds the higher of the following two values:

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

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

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

The Bank 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 Bank recognises in its books the measurement of options and performance shares held by the employees of the Bank.

#### **(y) Provisions**

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



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

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

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

#### **(aa) Net commission income**

Fee and commission income arises on providing financial services by the Bank and comprise of fees and commissions on loan granting, pledge to grant a loan, issue of cards, cash management services, brokerage services and asset management services. 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 Bank, like cash management services, brokerage services and asset management services are recognized in profit and loss account at the time of performance of the respective services.

**(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 Bank's banking. 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) Income tax**

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

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

**(ff) Deferred income tax**

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

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

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

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

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

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

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

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

**(gg) Other taxes**

Revenues, costs and assets are recognised less the value added tax, tax on civil law acts, and other taxes on sales, except where the tax on sale, paid upon purchase of goods and services, is not recoverable from the tax authorities; in that case, the sales tax is recognized accordingly as a part of the cost of acquisition of an asset, or as part of a cost item.

The net amount of sales tax recoverable from or payable to the tax authorities is recognized on the face of the balance sheet as a part of receivables or liability.

### ***Comparability of financial data***

In the financial statements covering the period from 1 January 2008 to 31 December 2008, the Bank 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.

Annual financial statements of the ING Bank Śląski S.A.  
for the period from 1<sup>st</sup> January 2008 to 31<sup>st</sup> December 2008

<b>PROFIT AND LOSS ACCOUNT (PLN '000)</b>	<b>2007 In financial report for the 2008</b>	<b>2008 In the approved financial report for the 2007</b>	<b>CHANGES</b>	<i>Carry forward of the commission on sales of services for other Group units</i>	<i>Carry forward of the non-product account related to interest</i>	<i>Carry forward of the transactional margin adjustment on FX transactions</i>	<i>Carry forward of the realised result adjustment - FX forward –proprietary trading</i>	<i>Presentation of the net commission income and costs related to agency</i>	<i>Carry forward of the commission on loans under debt collection procedure</i>	<i>Carry forward of writing off non-credit receivables</i>	<i>Carry forward of costs due to shortages and damage to property, plant and equipment</i>	<i>Carry forward of costs of tax-related fines and penalties</i>	<i>Carry forward of the commission for other Group units</i>	<i>Total</i>
Interest income	2 483 337	2 484 082	<b>-745</b>	-745										-745
Interest expenses	-1 443 364	-1 443 386	<b>22</b>	-92	70									-22
Commission income	889 398	928 247	<b>-38 849</b>	745		-30 706	-1 861	-7 037	28				-18	-38 849
Commission expenses	-92 489	-99 343	<b>6 854</b>	92	-70			-7 037	161					-6 854
Net income on instruments measured at fair value through profit and loss and revaluation	28 756	-3 811	<b>32 567</b>			30 706	1 861							32 567
Net income on other basic activities	7 721	7 412	<b>309</b>						161	582	-452		18	309
General and administrative expenses	-1 339 826	-1 339 596	<b>-230</b>									222	8	230
Result on other operating income and expenses	-8 947	-9 611	<b>664</b>						28	-10	-452	-222	-8	-664
Impairment losses and provisions for off-balance sheet liabilities	103 344	103 936	<b>-592</b>							592				592

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

### **1. Segment reporting**

The primary reporting format of the Bank is business segments. This arises from the management structure and internal reporting structure functioning in the Bank.

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

Measurements of internal and external interest income and costs for individual segments are conducted using 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 Bank's positions, the cost of hedging in case of complex products and pricing policy. Profitability curves are built using mathematical equations, on the basis of quotations available in information services.

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

### ***Segments of operation (business lines)***

The management of the ING Bank Śląski 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 Bank.

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

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 Bank are performed on the territory of the Republic of Poland.

Annual financial statements of the ING Bank Śląski S.A.  
for the period from 1<sup>st</sup> January 2008 to 31<sup>st</sup> December 2008

**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		
<b>Revenue total</b>	<b>1 194 602</b>	<b>768 139</b>	<b>59 181</b>	<b>60 275</b>		<b>2 082 197</b>	<b>1 116 766</b>	<b>678 718</b>	<b>42 281</b>	<b>152 850</b>		<b>1 990 615</b>
<b>Core business</b>	<b>1 169 814</b>	<b>722 675</b>	<b>44 061</b>	<b>145 647</b>		<b>2 082 197</b>	<b>1 099 772</b>	<b>649 463</b>	<b>34 023</b>	<b>207 357</b>		<b>1 990 615</b>
Income on lending	283 151	228 659				511 810	222 502	203 496				425 997
<i>Interest income external</i>	540 749	995 438					337 892	633 970				
<i>Interest cost internal</i>	-334 816	-840 003					-173 522	-512 229				
<i>Income on fees/other income</i>	77 218	73 224					58 131	81 754				
Income on deposits	640 919	309 728				950 647	616 007	276 522				892 529
<i>Interest, costs external</i>	-1 248 955	-369 972					-719 888	-368 122				
<i>Interest income internal</i>	1 601 967	571 880					1 091 432	534 934				
<i>Income on fees/ other income</i>	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	0	19 595				19 595	36	20 697				20 734
Other income on core business	-22 241	-7 599	375 610	145 647		491 417	-10 950	-2 077	253 929	207 357		448 259
FM products sales	159 257	172 293	-331 549			0	69 081	150 825	-219 906			0
Result on economic capital	24 788	45 464	15 120	-85 373		0	16 994	29 255	8 259	-54 507		0
<b>Expenses total</b>	<b>939 387</b>	<b>460 901</b>	<b>57 146</b>	<b>244</b>	<b>-5 944</b>	<b>1 451 734</b>	<b>869 059</b>	<b>421 132</b>	<b>53 640</b>	<b>5 160</b>	<b>-219</b>	<b>1 348 773</b>
Operational costs	939 387	460 901	57 146	244	-5 944	1 451 734	869 059	421 132	53 640	5 160	-219	1 348 773
<i>including depreciation</i>	97 997	26 854	6 505	408		131 764	112 128	30 727	7 443	467		150 765
<b>Result before risk</b>	<b>255 215</b>	<b>307 239</b>	<b>2 034</b>	<b>60 030</b>	<b>5 944</b>	<b>630 463</b>	<b>247 707</b>	<b>257 585</b>	<b>-11 359</b>	<b>147 691</b>	<b>219</b>	<b>641 842</b>
Risk cost	10 335	56 257	0	0		66 592	-40 077	-63 267	0	0		-103 344
<b>Result before tax</b>	<b>244 881</b>	<b>250 981</b>	<b>2 034</b>	<b>60 030</b>	<b>5 944</b>	<b>563 871</b>	<b>310 974</b>	<b>297 662</b>	<b>-11 359</b>	<b>147 691</b>	<b>219</b>	<b>745 186</b>
CIT						108 308						135 033
<b>Result after tax</b>						<b>455 563</b>						<b>610 153</b>



*Annual financial statements of the ING Bank Śląski S.A.  
for the period from 1<sup>st</sup> January 2008 to 31<sup>st</sup> December 2008*

	<b>31.12.2008</b>						<b>31.12.2007</b>					
	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
<b>Assets and liabilities</b>												
Assets of the segment	7 159 738	21 741 527	38 970 391	245 438		68 117 094	4 519 063	13 994 252	31 253 223	655 661		50 422 199
Segment investments in subordinates	210 569					210 569	210 569					210 569
Other assets (not allocated to segments)					1 208 222	1 208 222					1 193 658	1 193 658
<b>Total assets</b>						<b>69 535 885</b>						<b>51 826 426</b>
Segment liabilities	32 047 707	19 663 611	13 016 940			67 728 258	27 453 096	17 224 624	2 851 733			47 529 453
Rother liabilities (not allocated to segments)					740 678	740 678					627 519	627 519
Equity				4 066 949		4 066 949				3 669 454		3 669 454
<b>Total liabilities</b>						<b>69 535 885</b>						<b>51 826 426</b>
Capital expenditure	165 430	81 166	9 060	0		255 656	373 640	181 060	25 187	0		579 887
Depreciation	97 997	26 854	6 505	408		131 764	112 128	30 727	7 443	467		150 765
<b>Total net cash from operating activity</b>	<b>1 382 529</b>	<b>-5 259 196</b>	<b>-14 467 529</b>	<b>17 686 787</b>	<b>128 448</b>	<b>-528 961</b>	<b>3 179 933</b>	<b>396 895</b>	<b>370 320</b>	<b>-5 927 900</b>	<b>-510 626</b>	<b>-2 491 378</b>
<b>Net cash flow from investing activity</b>	<b>-95 083</b>	<b>-46 652</b>	<b>-5 207</b>	<b>109 589</b>		<b>-37 353</b>	<b>-371 810</b>	<b>-180 173</b>	<b>-25 063</b>	<b>94 238</b>		<b>-482 809</b>
<b>Net cash flow from financial activity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-152 217</b>		<b>-152 217</b>	<b>0</b>	<b>-20 903</b>	<b>0</b>	<b>-362 979</b>		<b>-383 882</b>

## 2. Net interest income

### *Interest and similar income*

	<b>2008</b>	<b>2007</b>
Interest on deposits, loans and advances to banks	664 249	869 602
Interest on loans and advances to customers	1 469 911	926 208
- interest on entities from the financial sector other than banks	167 608	101 752
- interest on entities from the non-financial sector	1 254 834	787 220
- 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	672 194	493 688
Interest on held-to-maturity debt securities	320 864	13 922
Reverse repos	27 754	3 148
<b>Total</b>	<b>3 385 878</b>	<b>2 483 337</b>

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*

	<b>2008</b>	<b>2007</b>
Interest on deposits from banks	192 023	109 445
Interest on deposits from customers	1 986 148	1 243 929
- interest on entities from the financial sector other than banks	107 221	113 722
- interest on entities from the non-financial sector	1 764 732	1 065 075
- interest on entities from the government and self-government institutions' sector	114 195	65 132
Interest on Loans and advances received	258	233
Repos	80 942	89 757
<b>Total</b>	<b>2 259 371</b>	<b>1 443 364</b>

<b>Net interest income</b>	<b>1 126 507</b>	<b>1 039 973</b>
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### 3. Net commission income

#### *Commission income*

	<b>2008</b>	<b>2007</b>
Commission related to brokerage activity	35	132
Commission and fees related to customer accounts	287 793	266 495
Commission for loans and advances	122 406	109 411
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	95 782	208 174
Fiduciary and custodian fees	28 233	26 317
Foreign commercial business	15 800	21 603
Commission related to subscription of structured products	23 506	0
The transaction margin on currency exchange transactions	139 467	98 795
Commission on intermediation in the financial products sale	19 362	4 209
Other	19 865	11 391
<b>Total</b>	<b>954 853</b>	<b>889 398</b>

#### *Commission expense*

	<b>2008</b>	<b>2007</b>
Brokerage fees	5 780	2 872
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)	4 639	4 037
Costs of the National Clearing House (KIR)	4 450	4 599
Other	12 205	21 461
<b>Total</b>	<b>123 990</b>	<b>92 489</b>

<b>Net commission income</b>	<b>830 863</b>	<b>796 909</b>
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#### 4. Net income on investment financial assets

	2008	2007
Equity instruments	27 974	14 640
Debt instruments	-4 388	7 600
Dividend income	109 589	94 237
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
<b>Net income on investment financial assets</b>	<b>147 077</b>	<b>117 256</b>

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

	2008	2007
<b>Net income on financial assets and liabilities held for trading</b>	<b>16 435</b>	<b>376 563</b>
Net income on equity instruments	-10	0
Net income on debt instruments	-82 583	-49 096
Net income on derivatives	99 028	425 659
- Currency derivatives	426 999	446 351
- Exchange rate derivatives	-337 420	-31 775
- Securities derivatives	9 449	11 083
<b>Net income on financial assets and liabilities measured at fair value upon initial recognition</b>	<b>2 838</b>	<b>6 345</b>
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
<b>Ineffectiveness recognised in profit and loss account that arises from cash flow hedges</b>	<b>5</b>	<b>0</b>
<b>Result on the revaluation of balance sheet items</b>	<b>-49 126</b>	<b>-354 152</b>
<b>Net income on instruments measured at fair value through profit and loss and revaluation</b>	<b>-29 848</b>	<b>28 756</b>

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

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.

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 Bank 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 Bank. 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 Bank's clients:

Valuation of non-matured derivatives transacted with the Bank's clients was adjusted with the counterparty risk charge. It was determined by the assessment of the financial standing of Bank'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 Bank'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 the other basic activities

	2008	2007
Received indemnities, penalties and fines	-630	-370
Income from sales of other services	1 179	1 762
Net income on available-for-sale assets and assets held for sale	321	-107
Result on disposal of assets (fixed and intangible assets and own properties)	293	101
Impairment losses on other non financial assets	-8 413	-4 028
Net income on the investment properties:	13 704	-2 672
- income rental from of the investment property	12 966	1 852
- maintenance expenses relating to the investment property	-4 896	-577
- measurement of the investment property at the fair value	5 634	-3 947
Other, of which:	1 144	13 035
- mortgage loans insurance premiums	-2 359	1 924
- returned amounts, material and personnel-related costs	884	826
- interest received, calculated on an off-balance basis	377	1 841
- other	2 242	8 444
<b>Total</b>	<b>7 598</b>	<b>7 721</b>

## 7. General and administrative expenses

	2008	2007
<b>Personnel expenses</b>	<b>751 229</b>	<b>664 149</b>
wages and salaries, including:	611 473	550 244
<i>special and retirement benefits</i>	995	2 867
employee benefits, including:	139 756	113 905
<i>training expenses</i>	30 227	21 018
<b>General and administrative expenses</b>	<b>576 698</b>	<b>524 912</b>
on property, plant and equipment	111 563	101 915
taxes and charges (including PFRON)	2 957	2 477
maintenance and rental of buildings	141 947	149 383
communication services	68 522	62 335
leasing services	14 087	11 688
refurbishment services	32 078	27 583
licences and patents	17 461	17 190
consulting	72 586	82 965
lease of computer resources	23 341	19 314
other external services	92 156	50 062
<b>Depreciation and amortisation</b>	<b>131 764</b>	<b>150 765</b>
on property, plant and equipment	78 167	92 681
on intangible assets	53 597	58 084
<b>Total</b>	<b>1 459 691</b>	<b>1 339 826</b>

## 8. Result on the other operating income and expenses

	2008	2007
Donations made	2 972	2 437
Other operating expenses due to disputed claims	-14 509	1 348
Measurement of fixed assets at fair value	-565	4 357
Other	4 145	805
<b>Total</b>	<b>-7 957</b>	<b>8 947</b>

Other operating expenses due to disputed claims include expenses concerning disputes related to the improper performance of agreements, cases of criminal nature and cases pertaining to claims made by former employees.



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

	2008	2007
Impairment losses on loans and advances and other receivables	508 216	192 878
Reversed impairment losses on loans and advances and other receivables	-346 176	-216 108
<b>Net impairment losses on loans and advances and other receivables, of which:</b>	<b>162 040</b>	<b>-23 230</b>
- losses on loans and other receivables at risk of impairment	172 805	-30 090
- IBNR	-10 765	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
<b>Net impairment losses on bad debts</b>	<b>-80 796</b>	<b>-81 894</b>
Impairment losses on available-for-sale financial assets	0	0
Reversed impairment losses on available-for-sale financial assets	0	-6
<b>Net impairment losses on available-for-sale financial assets</b>	<b>0</b>	<b>-6</b>
Recognised provisions for off-balance sheet liabilities	7 506	14 651
Reversed provision for off-balance sheet liabilities	-22 158	-12 865
<b>Net provisions for off-balance sheet liabilities recognized, of which:</b>	<b>-14 652</b>	<b>1 786</b>
- on the portfolio at risk of impairment	-436	1 786
- IBNR	-14 216	0
<b>Total impairment losses</b>	<b>563 943</b>	<b>286 647</b>
<b>Total reversed impairment losses</b>	<b>-497 351</b>	<b>-389 991</b>
<b>Net impairment losses and provisions for off-balance sheet liabilities</b>	<b>66 592</b>	<b>-103 344</b>

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
<b>Impairment losses on loans and advances and other receivables, of which:</b>	<b>508 216</b>	<b>192 878</b>
- banks	2 514	68
- entities from the financial sector other than banks	237	2 737
- entities from the non-financial sector, of which:	504 358	186 498
- business entities	417 195	149 826
- households	87 163	36 672
- entities from the government and self-government institutions' sector	1 107	3 575
<b>Reversed impairment losses on loans and advances and other receivables, of which:</b>	<b>-346 176</b>	<b>-216 108</b>
- banks	-243	-113
- entities from the financial sector other than banks	-3 208	-6 241
- entities from the non-financial sector, of which:	-330 081	-208 948
- business entities	-197 295	-135 600
- households	-132 786	-73 348
- entities from the government and self-government institutions' sector	-12 644	-806
<b>Net impairment losses on loans and advances and other receivables, of which:</b>	<b>162 040</b>	<b>-23 230</b>
- banks	2 271	-45
- entities from the financial sector other than banks	-2 971	-3 504
- entities from the non-financial sector, of which:	174 277	-22 450
- business entities	219 900	14 226
- households	-45 623	-36 676
- entities from the government and self-government institutions' sector	-11 537	2 769

## 10. Income tax

### *Recognised in the profit and loss account*

	2008	2007
Current portion	130 847	106 010
<i>Current year</i>	122 537	100 825
<i>Adjustment of last-year tax settlement</i>	8 310	5 185
Deferred tax	-23 146	27 753
<i>Recognised and reversed temporary differences</i>	-23 146	27 753
Increases/decreases of the receivables due to 8% relief related to provisions for receivables	607	1 270
<b>Total income tax recognised in the profit and loss account</b>	<b>108 308</b>	<b>135 033</b>

### *Effective tax rate calculation*

	2008	2007
<b>Profit before tax</b>	<b>563 871</b>	<b>745 186</b>
<b>19% income tax</b>	<b>107 135</b>	<b>141 585</b>
<b>Increases – non-deductible expenses</b>	<b>25 417</b>	<b>11 183</b>
- setting up a provision against disputable debt claims	1 353	544
- PFRON	937	885
- provisions / impairment for the receivables in a part not covered with the deferred tax	311	96
- representation expenses	1 683	1 414
- 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	1 008	1 596
<b>Decreases – tax exempt income</b>	<b>24 851</b>	<b>19 005</b>
- income exempt due to the entity	777	592
- dividend income	19 991	17 905
- release of provisions against disputable debt claims	3 929	424
- other	154	84
<b>19% income tax +/- increases +/- decreases</b>	<b>107 701</b>	<b>133 763</b>
Increases/decreases of the receivable due to 8% relief related to provisions for receivables	607	1 270
<b>Income tax from profit and loss account</b>	<b>108 308</b>	<b>135 033</b>
<b>Effective tax rate</b>	<b>19,21%</b>	<b>18,12%</b>

## 11. 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	455 563	610 153
Weighted average number of ordinary shares	13 010 000	13 010 000
<b>Earnings per ordinary share (PLN)</b>	<b>35,02</b>	<b>46,90</b>

### *Diluted earnings per share*

During the year 2008 and throughout 2007, the number of shares making up the share capital of the Bank 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.

## 12. 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.

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

	end of 2008	end of 2007
Cash in hand	946 194	678 067
Balances with the Central Bank	423 583	1 163 653
<b>Total</b>	<b>1 369 777</b>	<b>1 841 720</b>

The parent company of the Bank 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 Bank 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.

#### 14. 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
- <i>overnight deposits</i>	2 447 474	2 605 695
other receivables	2 121 188	426 881
- <i>loans and advances</i>	781 481	417 349
- <i>reverse repo transactions</i>	796 138	0
- <i>debt securities reclassified from available-for-sale portfolio</i>	539 096	0
- <i>other receivables</i>	4 473	9 532
<b>Total (gross)</b>	<b>8 096 848</b>	<b>15 239 469</b>
Impairment losses	-2 667	-691
<b>Total (net)</b>	<b>8 094 181</b>	<b>15 238 778</b>

Reverse purchase transactions are shown under the item “reverse repo transactions”. The Bank 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
<b>Total</b>		<b>792 210</b>	<b>793 247</b>	<b>2 891</b>

In 2008, the Bank 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	5 940 615	11 877 120
over 1 month and up to 3 months	535 270	847 086
over 3 months and up to 1 year	150 000	2 513 558
over 1 year and up to 5 years	1 470 963	1 705
<b>Total</b>	<b>8 096 848</b>	<b>15 239 469</b>

**15. Financial assets measured at fair value through profit and loss**

	end of 2008	end of 2007
Financial assets held for trading	10 695 715	6 024 256
Financial assets designated as at fair value upon initial recognition	4 431 901	1 844 778
<b>Total</b>	<b>15 127 616</b>	<b>7 869 034</b>

**Financial assets held for trading**

	end of 2008	end of 2007
<b>Debt instruments, of which:</b>	<b>6 115 950</b>	<b>4 373 230</b>
- 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
<b>Derivative financial instruments</b>	<b>4 579 765</b>	<b>1 651 026</b>
<b>Total</b>	<b>10 695 715</b>	<b>6 024 256</b>

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

	end of 2008	end of 2007
<b>Deposits</b>	<b>2 246 725</b>	<b>0</b>
<b>Debt instruments, of which:</b>	<b>1 822 654</b>	<b>1 513 211</b>
- 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:	<b>1 822 654</b>	<b>1 513 211</b>
- listed instruments	1 695 294	1 381 685
- unlisted instruments	127 360	131 526
<b>Transactions with the buy-back commitment</b>	<b>362 522</b>	<b>331 567</b>
<b>Total</b>	<b>4 431 901</b>	<b>1 844 778</b>

The Bank 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 Bank, 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	834 310
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	1 984 602	1 715 677
<b>Total</b>	<b>15 127 616</b>	<b>7 869 034</b>

**Movements in financial assets at fair value through profit or loss**

	2008	2007
<b>Opening balance</b>	<b>7 869 034</b>	<b>7 066 031</b>
<b>Increases</b>	<b>366 421 752</b>	<b>418 650 710</b>
- purchase of debt securities	360 675 061	417 766 495
- increase in the value of securities	571 228	197 761
- measurement of off-balance sheet derivative instruments	2 928 738	686 454
- designation of interbank deposits to valuation through profit and loss	2 246 725	0
<b>Decreases</b>	<b>359 163 170</b>	<b>417 847 707</b>
- sales of debt securities	331 494 315	362 666 224
- repurchase of debt securities	27 207 064	50 695 328
- drop in the value of securities	461 791	4 486 155
<b>Closing balance</b>	<b>15 127 616</b>	<b>7 869 034</b>

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. 41.

## 16. Investments

	end of 2008	end of 2007
Available-for-sale financial assets, including:	10 738 904	8 577 617
- fair value hedge - hedged items	3 235 793	435 531
Held-to-maturity financial assets	7 311 832	840 776
<b>Total</b>	<b>18 050 736</b>	<b>9 418 393</b>

### Available-for-sale financial assets

	end of 2008	end of 2007
<b>Debt securities, of which:</b>	<b>10 730 526</b>	<b>8 554 444</b>
- Fixed rate debt instruments, of which:	10 057 395	7 365 276
- Treasury bonds	9 811 957	7 224 265
- Treasury bills	245 438	141 011
- Floating rate debt instruments, of which:	673 131	1 189 168
- Treasury bonds	673 131	389 829
- NBP bonds	0	514 650
- Other	0	284 689
Total debt instruments	10 730 526	8 554 444
- listed instruments	10 485 088	7 614 094
- unlisted instruments	245 438	940 350
<b>Equity instruments</b>	<b>8 378</b>	<b>23 173</b>
- Equity instruments at cost	8 779	15 025
- Market value evaluation	1 902	21 142
- Impairment	-2 303	-12 994
<b>Equity instruments – carrying value</b>	<b>8 378</b>	<b>23 173</b>
- listed instruments	1 607	78
- unlisted instruments	6 771	23 095
<b>Total</b>	<b>10 738 904</b>	<b>8 577 617</b>

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, 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
<b>Fixed rate debt instruments, of which:</b>	<b>3 235 793</b>	<b>435 531</b>
- Bonds issued by:	3 235 793	435 531
- State treasury	3 235 793	435 531
<b>Total</b>	<b>3 235 793</b>	<b>435 531</b>

Specific information on the hedge accounting applied in the Group is presented later in the report in the note no. 43 "Hedge accounting".

***Held-to-maturity financial assets***

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

***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	892 454	1 907 482
over 1 year and up to 5 years	13 725 453	4 928 319
over 5 years	3 413 019	2 574 616
<b>Total</b>	<b>18 050 736</b>	<b>9 418 393</b>

### ***Movements in investments***

	<b>2008</b>	<b>2007</b>
<b>Opening balance</b>	<b>9 418 393</b>	<b>12 644 728</b>
<b>Increases</b>	<b>21 159 581</b>	<b>4 099 980</b>
- purchase of debt securities	19 798 964	3 586 929
- increase in the value of securities	1 360 155	513 035
- purchase of shares	462	10
- reversed provision for shares	0	6
<b>Decreases</b>	<b>12 527 238</b>	<b>7 326 315</b>
- sales of debt securities	8 657 366	5 975 318
- repurchase of debt securities	521 869	465 479
- drop in the value of securities	822 494	873 536
- sales of shares	3 883	11 982
- reclassification to loans and receivables portfolio	2 521 626	0
<b>Closing balance</b>	<b>18 050 736</b>	<b>9 418 393</b>

In 2008, the Bank 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)

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

In 2007, the Bank 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 Bank 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 Bank 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
Pledge (mortgage) bonds	19.12.2008	20 188	20 186	20 186	Loans and receivables to other banks
<b>Total</b>		<b>2 110 489</b>	<b>2 521 687</b>	<b>2 487 733</b>	

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	<i>of which the amounts resulting from the hedge accounting</i>
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
Pledge (mortgage) bonds	175	0	0
<b>Total</b>	<b>712</b>	<b>13 652</b>	<b>13 652</b>

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
Pledge (mortgage) bonds	11	0	0
<b>Total</b>	<b>66 694</b>	<b>1 492</b>	<b>-555</b>

*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%
Pledge (mortgage) bonds	37	227	1 018	21 917	0	6,57%
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.

## 17. 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***

	<b>end of 2008</b>	<b>end of 2007</b>
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.

**18. Derivative hedge instruments**

***Hedge instruments in hedge accounting***

***Positive valuation***

	<b>end of 2008</b>	<b>end of 2007</b>
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
<b>Total</b>	<b>197 003</b>	<b>4 572</b>

***Negative valuation***

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

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.



## 19. 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	2 232 622
- in the current account	382 674	378 980
- term ones	2 542 436	1 853 642
Reverse repo transactions	158 159	0
Other receivables	69 978	30 687
<b>Total (gross)</b>	<b>3 153 247</b>	<b>2 263 309</b>
Impairment losses	-2 045	-5 840
<b>Total (net)</b>	<b>3 151 202</b>	<b>2 257 469</b>

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

	end of 2008	end of 2007
Loans and advances granted to business entities	11 908 066	8 735 728
- in the current account	3 931 464	3 104 227
- term ones	7 976 602	5 631 501
Loans and advances granted to households	7 383 062	4 871 618
- in the current account	1 091 580	968 528
- term ones	6 291 482	3 903 090
Debt securities, of which:	559 378	0
- reclassified from available-for-sale portfolio	294 184	0
Other receivables	65 876	41 060
<b>Total (gross)</b>	<b>19 916 382</b>	<b>13 648 406</b>
Impairment losses	-480 857	-523 896
<b>Total (net)</b>	<b>19 435 525</b>	<b>13 124 510</b>

*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
<b>Total (gross)</b>	<b>2 708 993</b>	<b>697 219</b>
Impairment losses	-17 939	-29 496
<b>Total (net)</b>	<b>2 691 054</b>	<b>667 723</b>

*Loans and other receivables to customers - TOTAL*

	end of 2008	end of 2007
Loans and advances	23 190 137	16 537 187
Reverse repo transactions	158 159	0
Debt securities	2 294 440	0
Other receivables	135 886	71 747
<b>Loans and other receivables to customers – gross</b>	<b>25 778 622</b>	<b>16 608 934</b>
Impairment losses	-500 841	-559 232
<b>Loans and other receivables to customers – net</b>	<b>25 277 781</b>	<b>16 049 702</b>

Reverse purchase transactions are shown under the item “reverse repo transactions”. The Bank 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
<b>Total</b>		<b>160 316</b>	<b>158 011</b>	<b>148</b>

In 2008, the Bank 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***

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

Specific information on the hedge accounting applied in the Bank is presented later in the report in the note no. 43 "Hedge accounting".

***Loans and receivables to customers by maturity***

	<b>end of 2008</b>	<b>end of 2007</b>
up to 1 month	8 833 817	5 370 015
over 1 month and up to 3 months	1 721 148	1 302 019
over 3 months and up to 1 year	2 757 183	2 414 431
over 1 year and up to 5 years	5 568 387	3 997 306
over 5 years	6 038 760	2 782 951
overdue	859 327	742 212
<b>Total</b>	<b>25 778 622</b>	<b>16 608 934</b>

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 %***

	<b>end of 2008</b>	<b>end of 2007</b>
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 Bank 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.

**20. Quality of portfolio of loans and receivables**

**Loans and receivables portfolio**

**end of 2008**

	<b>gross value</b>	<b>impairment losses</b>	<b>net value</b>
Loans and receivables to other banks	8 096 848	-2 667	8 094 181
Loans and receivables to customers, of which:	25 778 622	-500 841	25 277 781
- to entities from the financial sector other than banks	3 153 247	-2 045	3 151 202
- to entities from the non-financial sector	19 916 382	-480 857	19 435 525
- to entities from the government and self-government institutions' sector	2 708 993	-17 939	2 691 054
<b>Total</b>	<b>33 875 470</b>	<b>-503 508</b>	<b>33 371 962</b>

**end of 2007**

	<b>gross value</b>	<b>impairment losses</b>	<b>net value</b>
Loans and receivables to other banks	15 239 469	-691	15 238 778
Loans and receivables to customers, of which:	16 608 934	-559 232	16 049 702
- to entities from the financial sector other than banks	2 263 309	-5 840	2 257 469
- to entities from the non-financial sector	13 648 406	-523 896	13 124 510
- to entities from the government and self-government institutions' sector	697 219	-29 496	667 723
<b>Total</b>	<b>31 848 403</b>	<b>-559 923</b>	<b>31 288 480</b>

**Loans and receivables portfolio classified according to impaired / unimpaired**

	<b>end of 2008</b>	<b>end of 2007</b>
<b>Loans and receivables (gross)</b>	<b>33 875 470</b>	<b>31 848 403</b>
- impaired	481 562	507 990
- unimpaired	33 393 908	31 340 413
<b>Impairment losses</b>	<b>-503 508</b>	<b>-559 923</b>
- related to impaired portfolio	-385 865	-464 461
- related to unimpaired portfolio	-117 643	-95 462
<b>Loans and receivables (net)</b>	<b>33 371 962</b>	<b>31 288 480</b>

**Loans and receivables portfolio classified according to impairment estimation methods**

	end of 2008	end of 2007
<b>Loans and receivables (gross)</b>	33 875 470	31 848 403
- measured individually	276 476	283 342
- measured as the portfolio	33 598 994	31 565 061
<b>Impairment losses</b>	-503 508	-559 923
- impairment loss pertaining to receivables measured individually	-225 214	-276 387
- impairment loss pertaining to receivables measured as the portfolio	-278 294	-283 536
<b>Loans and receivables (net)</b>	<b>33 371 962</b>	<b>31 288 480</b>

**Movements in impairment losses**

	2008	2007
<b>Opening balance</b>	<b>559 923</b>	<b>699 059</b>
<b>Movements in impairment losses:</b>	<b>-56 415</b>	<b>-139 136</b>
- Recognised during the period	556 437	286 647
- Reversed during the period	-476 506	-389 217
- Utilised write-offs	-233 339	-114 264
- Amounts recovered from loans previously written off	84 869	85 840
- FX differences	382	-1 460
- Unwinding interest	12 545	-3 176
- Other	-803	-3 506
<b>Closing balance</b>	<b>503 508</b>	<b>559 923</b>

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.).

## 21. Investments in controlled entities recognised under the equity method

Bank posiada udziały w następujących podmiotach zależnych i stowarzyszonych:

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
<b>Total</b>			<b>210 569</b>	<b>210 569</b>

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.

**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

**22. Investment real estates**

	2008	2007
Value at the beginning of period	144 713	0
Additions, due to	1 111	186 053
- purchases	0	186 053
- other	1 111	0
Disposals, due to:	5 634	-41 340
Evaluation at the fair value	5 634	-41 340
<b>Value at the end of period</b>	<b>151 458</b>	<b>144 713</b>

The Bank is the owner of one investment property located in Katowice. The Bank earns income therefrom in the form of rent instalments. Under the accounting principles adopted by the Bank, 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	1 852
Maintenance expenses relating to the investment property	-4 896	-577

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



## 23. Property, plant and equipment

	end of 2008	end of 2007
Real estate and leasehold improvements	377 695	396 039
Computer hardware	39 324	41 048
Vehicles	30	101
Other fixtures and fittings	89 083	69 879
Constructions in progress	23 124	14 176
<b>Total</b>	<b>529 256</b>	<b>521 243</b>

### 2008

	Real estate and leasehold improvements	Computer hardware	Vehicles	Other fixtures and fittings	Constructions in progress	TOTAL
Gross value at the beginning of period	691 090	217 867	1 210	347 039	14 176	1 271 382
Additions, due to:	25 718	20 774	9	41 503	66 248	154 252
- purchases	2 498	17 998	9	9 732	66 248	96 485
- investment take-overs	23 220	2 756	0	31 771	0	57 747
- other	0	20	0	0	0	20
Disposals, due to:	-3 245	-49 226	-771	-18 080	-58 039	-129 361
- sale and liquidation	-2 324	-49 069	-743	-18 080	0	-70 216
- investment take-overs	0	0	0	0	-57 936	-57 936
- other, of which:	-921	-157	-28	0	-103	-1 209
- 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	-9 056	0	0	0	0	-9 056
Transfers	0	-117	0	-454	739	168
<b>Gross value at the end of period</b>	<b>704 507</b>	<b>189 298</b>	<b>448</b>	<b>370 008</b>	<b>23 124</b>	<b>1 287 385</b>
Accumulated depreciation at the beginning of the period	-295 051	-176 819	-1 109	-277 160	0	-750 139
Amortisation for the period (due to)	-31 761	26 845	691	-3 765	0	-7 990
- amortisation charges	-33 813	-22 459	-13	-21 882	0	-78 167
- sale and liquidation	1 954	49 147	675	17 856	0	69 632
- transfers	0	0	0	-18	0	-18
- other, of which:	98	157	29	279	0	563
- grants	0	157	0	0	0	157
- reclassified to real estate held for sale	71	0	0	0	0	71
<b>Accumulated depreciation at the end of the period</b>	<b>-326 812</b>	<b>-149 974</b>	<b>-418</b>	<b>-280 925</b>	<b>0</b>	<b>-758 129</b>
<b>Net value at the end of period</b>	<b>377 695</b>	<b>39 324</b>	<b>30</b>	<b>89 083</b>	<b>23 124</b>	<b>529 256</b>

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**2007**

	Real estate and leasehold improvements	Computer hardware	Vehicles	Other fixtures and fittings	Constructions in progress	TOTAL
Gross value at the beginning of period	500 828	260 986	3 052	336 277	3 180	<b>1 104 323</b>
Additions, due to:	204 710	14 878	102	24 063	46 280	<b>290 033</b>
- purchases	187 698	13 554	102	7 216	46 224	<b>254 794</b>
- investment take-overs	16 997	1 284	0	16 790	0	<b>35 071</b>
- other	15	40	0	57	56	<b>168</b>
Disposals, due to:	-4 609	-57 997	-1 944	-13 301	-35 478	<b>-113 329</b>
- sale and liquidation	-1 002	-55 848	-1 601	-7 694	0	<b>-66 145</b>
- investment take-overs	0	0	0	0	-35 112	<b>-35 112</b>
- other, of which:	-3 607	-2 149	-343	-5 607	-366	<b>-12 072</b>
- aport	-1 455	0	0	0	0	<b>-1 455</b>
- grants	0	-43	-5	-19	0	<b>-67</b>
- reclassified to real estate held for sale	-2 152	-2 106	-32	-5 588	0	<b>-9 878</b>
Evaluation at the fair value	-7 380	0	0	0	0	<b>-7 380</b>
Transfers	-2 459	0	0	0	194	<b>-2 265</b>
<b>Gross value at the end of period</b>	<b>691 090</b>	<b>217 867</b>	<b>1 210</b>	<b>347 039</b>	<b>14 176</b>	<b>1 271 382</b>
Accumulated depreciation at the beginning of the period	-234 857	-201 046	-2 858	-257 109	0	<b>-695 870</b>
Amortisation for the period (due to)	-60 194	24 227	1 749	-20 051	0	<b>-54 269</b>
- amortisation charges	-30 467	-28 881	-112	-33 221	0	<b>-92 681</b>
- sale and liquidation	414	55 400	1 596	8 107	0	<b>65 517</b>
- transfers	2 459	1 307	21	5 139	0	<b>8 926</b>
- other, of which:	-32 600	-3 599	244	-76	0	<b>-36 031</b>
- aport	436	0	0	0	0	<b>436</b>
- grants	0	42	5	19	0	<b>66</b>
- reclassified to real estate held for sale	216	0	0	0	0	<b>216</b>
<b>Accumulated depreciation at the end of the period</b>	<b>-295 051</b>	<b>-176 819</b>	<b>-1 109</b>	<b>-277 160</b>	<b>0</b>	<b>-750 139</b>
<b>Net value at the end of period</b>	<b>396 039</b>	<b>41 048</b>	<b>101</b>	<b>69 879</b>	<b>14 176</b>	<b>521 243</b>

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 266,239,000 as compared to 307,091,000 as at 31 December 2007.

As at 31 Dec 2008, PLN 36,018,000, 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 37,154,000.

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 315,694,000. In the year 2007, one of the Bank's leisure centres was subject to appraisal. In the year 2008, the remaining leisure centres owned by the Bank 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 Bank 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 Bank 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***

	<b>end of 2008</b>	<b>end of 2007</b>
Real estate	3	3 288
Vehicles	0	0
Other fixtures and fittings	3	47
<b>Total</b>	<b>6</b>	<b>3 335</b>

## 24. Intangible assets

	end of 2008	end of 2007
Goodwill	223 343	223 343
Software	82 329	73 601
Other intangible assets	356	136
Outlays for intangible assets	8 762	20 721
<b>Total</b>	<b>314 790</b>	<b>317 801</b>

### 2008

	Goodwill	Software	Other intangible assets	Outlays for intangible assets	TOTAL
Gross value at the beginning of period	223 343	238 917	7 586	20 721	490 567
Additions, due to:	0	62 188	0	39 868	102 056
- purchases	0	12 289	0	39 807	52 096
- investment take-overs	0	49 328	0	0	49 328
- other	0	571	0	61	632
Disposals, due to:	0	-23 106	297	-51 088	-73 897
- sale and liquidation	0	-23 107	0	0	-23 107
- investment take-overs	0	0	297	-49 625	-49 328
- other	0	1	0	-1 463	-1 462
Transfers	0	0	0	-739	-739
<b>Gross value at the end of period</b>	<b>223 343</b>	<b>277 999</b>	<b>7 883</b>	<b>8 762</b>	<b>517 987</b>
Accumulated depreciation at the beginning of the period	0	-165 316	-7 450	0	-172 766
Amortisation for the period (due to)	0	-30 354	-77	0	-30 431
- amortisation charges	0	-53 460	-137	0	-53 597
- sale and liquidation	0	23 106	0	0	23 106
- other	0	0	60	0	60
<b>Accumulated depreciation at the end of the period</b>	<b>0</b>	<b>-195 670</b>	<b>-7 527</b>	<b>0</b>	<b>-203 197</b>
<b>Net value at the end of period</b>	<b>223 343</b>	<b>82 329</b>	<b>356</b>	<b>8 762</b>	<b>314 790</b>

2007

	Goodwill	Software	Other intangible assets	Outlays for intangible assets	TOTAL
Gross value at the beginning of period	223 343	188 116	7 586	14 453	<b>433 498</b>
Additions, due to:	0	53 329	0	51 037	<b>104 366</b>
- purchases	0	9 441	0	50 640	<b>60 081</b>
- investment take-overs	0	43 888	0	0	<b>43 888</b>
- other	0	0	0	397	<b>397</b>
Disposals, due to:	0	-2 528	0	-44 769	<b>-47 297</b>
- sale and liquidation	0	-2 528	0	0	<b>-2 528</b>
- investment take-overs	0	0	0	-43 888	<b>-43 888</b>
- other	0	0	0	-881	<b>-881</b>
<b>Gross value at the end of period</b>	<b>223 343</b>	<b>238 917</b>	<b>7 586</b>	<b>20 721</b>	<b>490 567</b>
Accumulated depreciation at the beginning of the period	0	-109 458	-7 287	0	-116 745
Amortisation for the period (due to)	0	-55 858	-163	0	-56 021
- amortisation charges	0	-57 979	-105	0	-58 084
- sale and liquidation	0	2 063	0	0	2 063
- transfers	0	58	-58	0	0
<b>Accumulated depreciation at the end of the period</b>	<b>0</b>	<b>-165 316</b>	<b>-7 450</b>	<b>0</b>	<b>-172 766</b>
<b>Net value at the end of period</b>	<b>223 343</b>	<b>73 601</b>	<b>136</b>	<b>20 721</b>	<b>317 801</b>

As at 31 Dec 2008, the value of fully depreciated intangible assets equalled PLN 76,644,000 versus PLN 75,582,000 as at 31 Dec 2007.

In the year 2008, the Bank 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.

## 25. 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
<b>Value at the end of period</b>	<b>248</b>	<b>241</b>

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 Bank intends to sell them by way of tender procedure.

## 26. 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	Balance as of 31 Dec 2008
Interest accrued (expense)	-17 160	-366	0	0	<b>-17 526</b>
Revaluation of available-for-sale financial assets	-39 931	0	13 757	0	<b>-26 174</b>
Other provisions	-64 698	6 864	0	0	<b>-57 834</b>
Employee benefits	-5 581	-3 668	0	0	<b>-9 249</b>
Retirement and holiday benefits	-16 971	-3 933	0	0	<b>-20 904</b>
Accumulated losses settled	-3 351	-301	0	0	<b>-3 652</b>
Correction due to effective interest rate	-12 337	0	0	0	<b>-12 337</b>
Other	-13 110	-544	0	0	<b>-13 654</b>
<b>Total</b>	<b>-173 139</b>	<b>-1 948</b>	<b>13 757</b>	<b>0</b>	<b>-161 330</b>

#### Deferred tax provision

	Balance as of 31 Dec 2007	Changes charged to the financial result	Changes charged to equity	Changes charged to retained earnings	Balance as of 31 Dec 2008
Interest accrued (expense)	89 885	-20 255	0	0	<b>69 630</b>
Settlement of the difference between tax and balance sheet depreciation	9 964	-1 544	0	0	<b>8 420</b>
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief enjoyed	10 678	-317	0	0	<b>10 361</b>
Revaluation of property, plant and equipment	8 714	0	-267	0	<b>8 447</b>
Revaluation of available-for-sale financial assets	4 016	0	-2 131	0	<b>1 885</b>
Revaluation of cash flow hedging instruments	0	0	10 692	0	<b>10 692</b>
Sale of property, plant and equipment held for sale	0	0	0	102	<b>102</b>
Other	4 881	918	0	0	<b>5 799</b>
<b>Total</b>	<b>128 138</b>	<b>-21 198</b>	<b>8 294</b>	<b>102</b>	<b>115 336</b>

<b>Deferred tax disclosed in the balance sheet</b>	<b>-45 001</b>	<b>-23 146</b>	<b>22 051</b>	<b>102</b>	<b>-45 994</b>
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**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)	-15 803	-1 357	0	0	<b>-17 160</b>
Revaluation of available-for-sale financial assets	-1 146	0	-38 785	0	<b>-39 931</b>
Provisions for receivables due to loans	-96 564	31 866	0	0	<b>-64 698</b>
Other provisions	-5 973	392	0	0	<b>-5 581</b>
Employee benefits	-9 608	-7 363	0	0	<b>-16 971</b>
Retirement and holiday benefits	-4 129	778	0	0	<b>-3 351</b>
Correction due to effective interest rate	-12 337	0	0	0	<b>-12 337</b>
Other	-12 236	-874	0	0	<b>-13 110</b>
<b>Total</b>	<b>-157 796</b>	<b>23 442</b>	<b>-38 785</b>	<b>0</b>	<b>-173 139</b>

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)	80 960	8 925	0	0	<b>89 885</b>
Settlement of the difference between tax and balance sheet depreciation	15 007	-5 043	0	0	<b>9 964</b>
Settlement of prepayments/accruals due to depreciation/amortisation resulting from the investment relief enjoyed	11 126	-448	0	0	<b>10 678</b>
Revaluation of property, plant and equipment	9 490	0	-776	0	<b>8 714</b>
Revaluation of available-for-sale financial assets	7 000	0	-2 984	0	<b>4 016</b>
Other	4 004	877	0	0	<b>4 881</b>
<b>Total</b>	<b>127 587</b>	<b>4 311</b>	<b>-3 760</b>	<b>0</b>	<b>128 138</b>

<b>Deferred tax disclosed in the balance sheet</b>	<b>-30 209</b>	<b>27 753</b>	<b>-42 545</b>	<b>0</b>	<b>-45 001</b>
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**Recognised deferred tax assets and reserves related to a given reporting period**

	end of 2008	end of 2007
<b>Deferred tax assets</b>		
Interest accrued (expense)	-366	-1 357
Provisions for receivables due to loans	6 864	31 866
Other provisions	-3 668	392
Employee benefits	-3 933	-7 363
Retirement and holiday benefits	-301	778
Other	-544	-874
<b>Total</b>	<b>-1 948</b>	<b>23 442</b>
<b>Deferred tax provisions</b>		
Interest accrued (expense)	-20 255	8 925
Settlement of the difference between tax and balance sheet depreciation	-1 544	-5 043
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief enjoyed	-317	-448
Other	918	877
<b>Total</b>	<b>-21 198</b>	<b>4 311</b>
<b>Deferred tax for the reporting period</b>	<b>-23 146</b>	<b>27 753</b>

**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
<b>Total</b>	<b>721</b>	<b>1 232</b>

Year of expiration of temporary differences:

	difference amount end of 2008	difference amount end of 2007
year 2008	0	616
year 2009	360	616
year 2010	361	0
<b>Total</b>	<b>721</b>	<b>1 232</b>

**Deferred tax recognised directly in equity**

	end of 2008	end of 2007
Revaluation of available-for-sale financial assets	-24 289	-35 915
Revaluation of property, plant and equipment	8 448	8 715
Revaluation of cash flow hedging instruments	10 692	0
<b>Total</b>	<b>-5 149</b>	<b>-27 200</b>

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

The Bank did not establish any deferred tax on the measurement of the share in 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.

**27. Other assets**

	end of 2008	end of 2007
<b>Prepayments</b>	51 174	43 636
- prepaid bank operating expenses	4 480	4 478
- prepayments due to insurance with NN	15	1 535
- materials and goods in the warehouse	2 415	4 275
- expenses to be settled	99	647
- accrued income	26 224	30 586
- commission-related settlements	10 939	0
- other	7 002	2 115
<b>Other assets</b>	154 012	97 478
- interbank settlements	14 439	3 623
- interbranch settlements	31 947	2 147
- public and legal settlements	23 097	15 852
- loans from the Company's Social Benefits Fund	17 451	15 961
- settlements with off-takers	5 444	20 744
- settlements due to purchase of materials	1 068	17 618
- receivables from the non-settled FX transactions	41 559	0
- other	19 007	21 533
<b>Total other assets (gross)</b>	<b>205 186</b>	<b>141 114</b>
Impairment losses	-38 710	-1 711
<b>Total other assets (net)</b>	<b>166 476</b>	<b>139 403</b>

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 losses" item.

## 28. Employee benefits

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

To execute the above incentive programme the Bank bears the costs of option funding and system administration that in 2008 were PLN 0.7 million as compared to 4.8 million in 2007.

The Bank 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 Bank.

## 29. 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
<b>Total</b>	<b>5 932 116</b>	<b>0</b>

Repurchase transactions (repo) are shown under the item "Transactions with the buy-back commitment". The Bank 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
<b>Total</b>		<b>4 851 000</b>	<b>4 501 089</b>	<b>30 778</b>

### 30. Liabilities due to other banks

	end of 2008	end of 2007
Current accounts	182 295	87 017
Interbank deposits	3 116 831	1 721 367
Transactions with the buy-back commitment	2 760 763	0
Other liabilities	3 896	3 899
<b>Total</b>	<b>6 063 785</b>	<b>1 812 283</b>

Repurchase transactions (repo) are shown under the item “Transactions with the buy-back commitment”. The Bank 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
<b>Total</b>		<b>3 229 438</b>	<b>2 748 418</b>	<b>12 345</b>

#### *Liabilities due to other banks by maturity*

	end of 2008	end of 2007
up to 1 month	2 970 509	1 644 233
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
<b>Total</b>	<b>6 063 785</b>	<b>1 812 283</b>

### 31. 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
<i>Derivative financial instruments</i>	<i>4 321 638</i>	<i>1 057 294</i>
Financial liabilities designated as at fair value upon initial recognition	652 904	102 716
<i>Transactions with the buy-back commitment</i>	<i>652 904</i>	<i>102 716</i>
Book short position in trading securities	172 156	54 971
<b>Total</b>	<b>5 146 698</b>	<b>1 214 981</b>

The Bank 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. 41.

#### *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
<b>Total</b>	<b>5 146 698</b>	<b>1 214 981</b>

### 32. Liabilities due to customers

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

	end of 2008	end of 2007
Deposits	4 434 970	2 423 735
- current accounts	1 375 505	1 426 848
- term deposit	3 059 465	996 887
Transactions with the buy-back commitment	163 543	727 036
Other liabilities	75 471	44 647
<b>Total</b>	<b>4 673 984</b>	<b>3 195 418</b>

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

	end of 2008	end of 2007
Business entities' deposits	11 230 506	12 816 086
- current accounts	7 349 292	8 025 714
- term deposit	3 881 214	4 790 372
Households' deposits	27 828 786	25 392 616
- current accounts	3 679 214	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	491 648	390 677
<b>Total</b>	<b>39 569 212</b>	<b>38 727 699</b>

#### 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
<b>Total</b>	<b>2 922 416</b>	<b>2 579 072</b>

#### Liabilities due to customers – total

	end of 2008	end of 2007
Deposits	46 380 485	43 204 826
Transactions with the buy-back commitment	202 024	855 356
Other liabilities	583 103	442 007
<b>Total</b>	<b>47 165 612</b>	<b>44 502 189</b>

Repurchase transactions (repo) are shown under the item “Transactions with the buy-back commitment”. The Bank 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
<b>Total</b>		<b>196 326</b>	<b>201 744</b>	<b>279</b>

**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
<b>Total</b>		<b>865 357</b>	<b>853 974</b>	<b>1 382</b>

***Liabilities due to customers by maturity***

	<b>end of 2008</b>	<b>end of 2007</b>
up to 1 month	38 902 127	40 362 287
over 1 month and up to 3 months	3 944 774	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	4 431	57 375
<b>Total</b>	<b>47 165 612</b>	<b>44 502 189</b>

***Average effective interest rate for deposits in %***

	<b>end of 2008</b>	<b>end of 2007</b>
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%

### 33. 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	12 170	11 522
Provision for unused holidays	7 092	6 155
Provision for employment restructuring	4 039	0
<b>Total</b>	<b>49 304</b>	<b>70 904</b>

#### 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	11 522	6 155	0	70 904
- provisions recognised	10 212	7 506	648	2 437	4 039	24 842
- provisions applied	-2 398	0	0	0	0	-2 398
- provisions reversed	-20 386	-22 158	0	-1 500	0	-44 044
<b>Closing balance</b>	<b>16 722</b>	<b>9 281</b>	<b>12 170</b>	<b>7 092</b>	<b>4 039</b>	<b>49 304</b>
<i>expected provision settlement period:</i>						
- up to 1 year	3 240	0	0	7 092	4 039	14 371
- more than 1 year	13 482	9 281	12 170	0	0	34 933

#### 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	42 082	25 015	10 602	11 134	0	88 833
- provisions recognised	3 493	0	891	0	0	4 384
- provisions applied	-2 148	-1 082	0	0	0	-3 230
- provisions reversed	-14 133	0	0	-4 979	0	-19 112
- assuming liability due to the enterprise's purchase	0	0	29	0	0	29
<b>Closing balance</b>	<b>29 294</b>	<b>23 933</b>	<b>11 522</b>	<b>6 155</b>	<b>0</b>	<b>70 904</b>
<i>expected provision settlement period:</i>						
- up to 1 year	5 551	0	0	6 155	0	11 706
- more than 1 year	23 743	23 933	11 522	0	0	59 198



### ***Provision for issues in dispute***

The Bank maintains detailed records of all court cases and other legal claims. The Bank 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 Bank recognised provisions for all estimated losses. In some cases, the Bank is entitled to reimbursement of funds relating to the provisions. However, due to the uncertainty of the inflow of the expected economic benefits, the Bank did not recognise any assets due to that title in the financial statement.

In 2008, parent company of the Bank 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 Bank 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 Bank 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 Bank 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 Bank recognises some actuarial gains and losses as revenue or costs, when the net value of accumulated unrecognised actuarial gains and losses as at the end of the previous reporting period exceeds the higher of the following two values:

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

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

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

	<b>2008</b>	<b>2007</b>
<b>Opening balance</b>	11 522	10 602
Assuming liability when purchasing an enterprise of a subsidiary	0	29
Costs included in the profit and loss account, out of which:	1 282	1 467
- regular employment costs	685	927
- costs of interest	597	540
Paid benefits	-634	-576
<b>Closing balance, including:</b>	<b>12 170</b>	<b>11 522</b>
- current value of the liability	15 376	10 838
- not included actuarial gains/ losses	-3 206	684

***Provision for employment restructuring***

A provision for restructuring is recognised when the Bank has a detailed and formal restructuring plan defining at least the business or part of the business to which it applies, the basic locations, the places of employment, the functions, and the approximate number of employees eligible to indemnification, the amount of expenditure to be incurred and the dates of implementation. The condition necessary for recognising the provisions is also for the restructuring to have been commenced or announced publicly. The provision for restructuring does not include future operating costs.

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 Bank, aimed at optimising the operating area (centralisation of selected functions, consolidation of operating units and limitation of co-operation with intermediaries).

### 34. Other liabilities

	end of 2008	end of 2007
to employees	22 090	25 466
due to leases	9	3 142
accruals	198 742	158 272
- due to operating expenses	971	904
- due to employee benefits	124 664	98 640
- due to loans granted	227	1 019
- due to commission	57 837	50 727
- due to distribution of deposit-related funds	613	1 061
- other	14 430	5 921
other liabilities	431 682	369 735
- interbank settlements	204 984	212 533
- public and legal settlements	70 379	34 432
- settlement due to trading in securities	263	1 701
- settlements with suppliers	136 960	63 663
- other	19 096	57 406
<b>Total</b>	<b>652 523</b>	<b>556 615</b>

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

	end of 2008	end of 2007
up to 1 year	3	3 083
over 1 year and up to 5 years	6	59
over 5 years	0	0
<b>Total</b>	<b>9</b>	<b>3 142</b>

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

	end of 2008	end of 2007
up to 1 year	5	3 170
over 1 year and up to 5 years	5	72
over 5 years	0	0
<b>Total</b>	<b>10</b>	<b>3 242</b>

*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	3 142
Unrealised financial expenses	1	100
<b>Present value of minimum lease instalments</b>	<b>10</b>	<b>3 242</b>

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

### 35. 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.

### 36. 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	36 018	37 154
- including deferred tax	-8 448	-8 715
Revaluation reserve from measurement of cash flow hedging instruments	45 581	0
- including deferred tax	-10 692	0
<b>Total</b>	<b>-19 382</b>	<b>-112 437</b>

#### 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
<b>Opening balance of revaluation reserve</b>	<b>-149 591</b>	<b>35 914</b>	<b>37 154</b>	<b>-8 715</b>	<b>0</b>	<b>0</b>	<b>-112 437</b>
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	240 225	-56 571	0	0	0	0	240 225
- 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	576	-136	0	0	0	0	576
- disposal of property, plant and equipment	0	0	-569	134	0	0	-569
- remeasurement of property, plant and equipment	0	0	-567	133	0	0	-567
- effective part of cash flow hedging instruments revaluation	0	0	0	0	45 581	-10 692	45 581
<b>Closing balance of revaluation reserve</b>	<b>-100 981</b>	<b>24 289</b>	<b>36 018</b>	<b>-8 448</b>	<b>45 581</b>	<b>-10 692</b>	<b>-19 382</b>

#### 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
<b>Opening balance of revaluation reserve</b>	<b>42 830</b>	<b>-5 855</b>	<b>40 458</b>	<b>-9 490</b>	<b>0</b>	<b>0</b>	<b>83 288</b>
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-174 090	37 469	0	0	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	0	0	-18 331
- disposal of property, plant and equipment	0	0	-258	61	0	0	-258
- remeasurement of property, plant and equipment	0	0	-3 046	714	0	0	-3 046
<b>Closing balance of revaluation reserve</b>	<b>-149 591</b>	<b>35 914</b>	<b>37 154</b>	<b>-8 715</b>	<b>0</b>	<b>0</b>	<b>-112 437</b>

### 37. Retained earnings

	end of 2008	end of 2007
Other supplementary capital	62 834	61 796
Reserve capital	1 745 015	1 487 079
General risk fund	730 152	530 152
Retained earnings	6 417	6 361
Result for the current year	455 563	610 153
<b>Total</b>	<b>2 999 981</b>	<b>2 695 541</b>

#### 2008

	other supplementa ry capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
<b>Opening balance of retained earnings</b>	<b>61 796</b>	<b>1 487 079</b>	<b>530 152</b>	<b>616 514</b>	<b>0</b>	<b>2 695 541</b>
- disposal of property, plant and equipment	1 038	0	0	56	0	1 094
- profit allocation, including:	0	257 936	200 000	-610 153	0	-152 217
- profit written off to reserve capital	0	257 936	0	-257 936	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	455 563	455 563
<b>Closing balance of retained earnings</b>	<b>62 834</b>	<b>1 745 015</b>	<b>730 152</b>	<b>6 417</b>	<b>455 563</b>	<b>2 999 981</b>

#### 2007

	other supplementa ry capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
<b>Opening balance of retained earnings</b>	<b>61 082</b>	<b>1 359 501</b>	<b>480 152</b>	<b>545 601</b>	<b>0</b>	<b>2 446 336</b>
- disposal of property, plant and equipment	714	0	0	1 317	0	2 031
- profit allocation, including:	0	127 578	50 000	-540 557	0	-362 979
- profit written off to reserve capital	0	127 578	0	-127 578	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	610 153	610 153
<b>Closing balance of retained earnings</b>	<b>61 796</b>	<b>1 487 079</b>	<b>530 152</b>	<b>6 361</b>	<b>610 153</b>	<b>2 695 541</b>

### ***Supplementary capital***

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

### ***Reserves***

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

## **38. Balance sheet currency structure**

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

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

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BALANCE SHEET (PLN'000)	PLN	EUR		USD		CHF		other currencies (after translation into PLN)	TOTAL
		after translation into PLN	in currency	after translation into PLN	in currency	after translation into PLN	in currency		
<b>ASSETS</b>									
- Cash in hand and balances with the Central Bank	1 028 422	292 883	70 195	36 104	12 190	516	184	11 852	1 369 777
- Loans and receivables to other banks	2 506 267	4 737 904	1 135 534	543 420	183 476	43 026	15 359	263 564	8 094 181
- Financial assets measured at fair value through profit and loss	7 605 474	4 580 090	1 097 711	2 853 931	963 580	10 995	3 925	77 126	15 127 616
- Investments	18 046 189	301	72	4 246	1 434	0	0	0	18 050 736
- Derivative hedge instruments	197 003	0	0	0	0	0	0	0	197 003
- Loans and receivables to customers	19 624 597	4 058 179	972 625	323 129	109 099	1 233 632	440 363	38 244	25 277 781
- Investments in controlled entities	210 569	0	0	0	0	0	0	0	210 569
- Investment real estates	151 458	0	0	0	0	0	0	0	151 458
- Property, plant and equipment	529 256	0	0	0	0	0	0	0	529 256
- Intangible assets	314 790	0	0	0	0	0	0	0	314 790
- Property, plant and equipment held for sale	248	0	0	0	0	0	0	0	248
- Deferred tax asset	45 994	0	0	0	0	0	0	0	45 994
- Other assets	153 969	12 367	2 964	79	27	22	8	39	166 476
<b>Total assets</b>	<b>50 414 236</b>	<b>13 681 724</b>	<b>3 279 101</b>	<b>3 760 909</b>	<b>1 269 806</b>	<b>1 288 191</b>	<b>459 839</b>	<b>390 825</b>	<b>69 535 885</b>
<b>EQUITY AND LIABILITIES</b>									
<b>LIABILITIES</b>									
- Liabilities due to the Central Bank	5 932 116	0	0	0	0	0	0	0	5 932 116
- Liabilities due to other banks	893 446	3 123 557	748 624	1 641 227	554 132	384 149	137 128	21 406	6 063 785
- 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	41 958 577	3 663 345	877 995	1 397 455	471 826	26 056	9 301	120 179	47 165 612
- Provisions	46 166	2 728	654	399	135	0	0	11	49 304
- Current income tax liabilities	38 851	0	0	0	0	0	0	0	38 851
- Other liabilities	621 392	30 500	7 310	601	203	12	4	18	652 523
<b>Total liabilities</b>	<b>53 767 488</b>	<b>7 841 895</b>	<b>1 879 470</b>	<b>3 258 448</b>	<b>1 100 159</b>	<b>412 990</b>	<b>147 423</b>	<b>188 115</b>	<b>65 468 936</b>
<b>EQUITY</b>									
- Share capital	130 100	0	0	0	0	0	0	0	130 100
- Supplementary capital - issuance of shares over nominal value	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	36 018	0	0	0	0	0	0	0	36 018
- Revaluation reserve from measurement of cash flow hedging instruments	45 581	0	0	0	0	0	0	0	45 581
- Retained earnings	2 999 981	0	0	0	0	0	0	0	2 999 981
<b>Total equity</b>	<b>4 060 507</b>	<b>2 196</b>	<b>526</b>	<b>4 246</b>	<b>1 434</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4 066 949</b>
<b>Total equity and liabilities</b>	<b>57 827 995</b>	<b>7 844 091</b>	<b>1 879 996</b>	<b>3 262 694</b>	<b>1 101 593</b>	<b>412 990</b>	<b>147 423</b>	<b>188 115</b>	<b>69 535 885</b>



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BALANCE SHEET (PLN'000)	PLN	EUR		USD		CHF		other currencies (after translation into PLN)	TOTAL
		after translation into PLN	in currency	after translation into PLN	in currency	after translation into PLN	in currency		
<b>ASSETS</b>									
- Cash in hand and balances with the Central Bank	1 719 092	94 542	26 394	18 412	7 561	154	71	9 520	1 841 720
- Loans and receivables to other banks	5 015 160	4 919 044	1 373 267	5 090 087	2 090 385	24 470	11 321	190 017	15 238 778
- Financial assets measured at fair value through profit and loss	6 240 438	1 483 043	414 027	134 972	55 430	83	38	10 498	7 869 034
- Investments	9 397 061	258	72	21 074	8 655	0	0	0	9 418 393
- Derivative hedge instruments	4 572	0	0	0	0	0	0	0	4 572
- Loans and receivables to customers	14 291 130	1 509 365	421 375	165 857	68 114	63 957	29 591	19 393	16 049 702
- Investments in controlled entities	210 569	0	0	0	0	0	0	0	210 569
- Investment real estates	144 713	0	0	0	0	0	0	0	144 713
- Property, plant and equipment	521 243	0	0	0	0	0	0	0	521 243
- Intangible assets	317 801	0	0	0	0	0	0	0	317 801
- 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	45 001	0	0	0	0	0	0	0	45 001
- Other assets	139 041	296	83	41	17	1	0	24	139 403
<b>Total assets</b>	<b>38 071 318</b>	<b>8 006 548</b>	<b>2 235 218</b>	<b>5 430 443</b>	<b>2 230 162</b>	<b>88 665</b>	<b>41 021</b>	<b>229 452</b>	<b>51 826 426</b>
<b>EQUITY AND LIABILITIES</b>									
<b>LIABILITIES</b>									
- Liabilities due to other banks	1 000 099	214 761	59 956	373 447	153 366	116 772	54 026	107 204	1 812 283
- 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	38 945 596	3 898 538	1 088 369	1 534 537	630 200	1 313	607	122 205	44 502 189
- Provisions	67 127	3 278	915	491	202	7	3	1	70 904
- Other liabilities	541 794	14 134	3 946	609	250	0	0	78	556 615
<b>Total liabilities</b>	<b>41 132 434</b>	<b>4 483 004</b>	<b>1 251 537</b>	<b>2 174 944</b>	<b>893 201</b>	<b>118 411</b>	<b>54 784</b>	<b>248 179</b>	<b>48 156 972</b>
<b>EQUITY</b>									
- Share capital	130 100	0	0	0	0	0	0	0	130 100
- Supplementary capital - issuance of shares over nominal value	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	37 154	0	0	0	0	0	0	0	37 154
- Retained earnings	2 695 541	0	0	0	0	0	0	0	2 695 541
<b>Total equity</b>	<b>3 648 381</b>	<b>0</b>	<b>0</b>	<b>21 073</b>	<b>8 654</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3 669 454</b>
<b>Total equity and liabilities</b>	<b>44 780 815</b>	<b>4 483 004</b>	<b>1 251 537</b>	<b>2 196 017</b>	<b>901 855</b>	<b>118 411</b>	<b>54 784</b>	<b>248 179</b>	<b>51 826 426</b>

### 39. Off-balance sheet items

	end of 2008	end of 2007
Contingent liabilities granted	14 181 808	12 976 028
Contingent liabilities received	15 310 545	14 092 965
Off-balance sheet financial instruments	262 720 990	207 320 201
<b>Total</b>	<b>292 213 343</b>	<b>234 389 194</b>

### 40. Contingent liabilities

#### *Contingent liabilities granted*

	end of 2008	end of 2007
Credit card limits	685 445	590 568
Undrawn credit facilities	9 301 544	6 758 210
Undrawn overdrafts in current account	1 280 767	2 334 841
Guarantees and letters of credit	2 877 959	2 079 181
Deposits to be issued	36 093	1 213 228
<b>Total</b>	<b>14 181 808</b>	<b>12 976 028</b>

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

The Bank issues guarantees and letters of credits to secure fulfilment of obligations of the Bank's customers to third parties. The value of guarantees and letters of credit disclosed above 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 Bank 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	10 238 992
over 1 month and up to 3 months	495 316	168 129
over 3 months and up to 1 year	4 716 146	951 221
over 1 year and up to 5 years	3 892 100	1 551 902
over 5 years	1 918 361	65 784
<b>Total</b>	<b>14 181 808</b>	<b>12 976 028</b>

### 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
<b>Total</b>	<b>15 310 545</b>	<b>14 092 965</b>

### Information on issue guarantees granted to other issuers

In 2008, the Bank 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 Bank purchased the securities for total amount of guarantee.

In 2007, the Bank 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 Bank purchased the securities for the amount of PLN 228.2 million.

## 41. Off-balance sheet financial instruments

### end of 2008

	Nominal value of instruments with the period remaining to maturity			Total	Fair value measurement	
	up to 3 months	over 3 months and up to 1 year	over 1 year		Assets	Equity and liabilities
<b>Interest rate derivatives, of which:</b>	<b>19 209 223</b>	<b>83 624 657</b>	<b>43 128 114</b>	<b>145 961 994</b>	<b>1 414 263</b>	<b>1 805 035</b>
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
<b>FX derivatives, of which:</b>	<b>59 458 719</b>	<b>25 922 044</b>	<b>4 677 433</b>	<b>90 058 196</b>	<b>3 262 197</b>	<b>2 876 418</b>
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
<b>Current off-balance sheet transactions, of which:</b>	<b>23 886 387</b>	<b>0</b>	<b>0</b>	<b>23 886 387</b>	<b>45 655</b>	<b>5 583</b>
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
<b>Stock market derivatives, of which:</b>	<b>448 334</b>	<b>582 083</b>	<b>1 783 996</b>	<b>2 814 413</b>	<b>54 574</b>	<b>54 465</b>
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
<b>Fair value measurement of other financial instruments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79</b>	<b>184</b>
<b>Total</b>	<b>103 002 663</b>	<b>110 128 784</b>	<b>49 589 543</b>	<b>262 720 990</b>	<b>4 776 768</b>	<b>4 741 685</b>

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**end of 2007**

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

**Currency contracts**

The table below summarises contractual values of currency forwards, swaps and options by currency, as well as details of the period remaining to maturity of the particular contract. Values in foreign currency are converted at exchange rates valid as at the balance sheet date.

	<b>end of 2008</b>	<b>end of 2007</b>
<b>PLN</b>		
- 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
<b>EUR</b>		
- 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
<b>USD</b>		
- 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

<b>GBP</b>		
- up to 3 months	34 253	556 491
- from 3 months to 1 year	12 505	55 504
- over 1 year	0	0
<b>other currencies</b>		
- 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
<b>Total</b>	<b>90 058 196</b>	<b>63 102 537</b>

### *Embedded derivatives*

The Bank 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.

## **42. Hedge accounting**

### *Fair value hedge accounting*

In the consolidated financial statements as at 31 December 2008, the Bank 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 value 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
<b>Hedged items</b>	<b>3 035 000</b>	<b>3 235 793</b>	<b>437 000</b>	<b>435 531</b>
- Debt securities from available-for-sale portfolio, of which:	3 035 000	3 235 793	437 000	435 531
- <i>Treasury bonds</i>	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
- <i>Treasury bonds</i>	1 489 547	1 654 003	0	0
<b>Hedging instruments</b>	<b>4 514 502</b>	<b>-420 047</b>	<b>437 000</b>	<b>4 572</b>
- 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 financial statements as at 31 December 2008, the Bank followed the principles of cash flow hedge accounting for a specific portfolio of assets/ liabilities/ highly likely planned financial transactions of the Bank (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
<b>Hedging instruments</b>	<b>4 998 000</b>	<b>197 003</b>	<b>0</b>	<b>0</b>
- Interest Rate Swap	4 998 000	197 003	0	0

Periods when the Bank 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 effective 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

#### 43. 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

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	<b>Carrying amount</b>	<b>Fair value</b>
<b>Assets</b>		
Cash in hand and balances with the Central Bank	1 369 777	1 369 777
Loans and receivables to other banks	8 094 181	8 094 181
Financial assets measured at fair value through profit and loss	15 127 616	15 127 616
Investments	18 050 736	18 244 873
Derivative hedge instruments	197 003	197 003
Loans and receivables to customers	25 277 781	25 646 870
Investments in controlled entities recognised under the equity method	210 569	210 569
<b>Liabilities</b>		
Liabilities due to the Central Bank	5 932 116	5 932 116
Liabilities due to other banks	6 063 785	6 063 785
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	47 165 612	47 165 455

**end of 2007**

	<b>Carrying amount</b>	<b>Fair value</b>
<b>Assets</b>		
Cash in hand and balances with the Central Bank	1 841 720	1 841 720
Loans and receivables to other banks	15 238 778	15 238 778
Financial assets measured at fair value through profit and loss	7 869 034	7 869 034
Investments	9 418 393	9 403 674
Derivative hedge instruments	4 572	4 572
Loans and receivables to customers	16 049 702	16 078 308
Investments in controlled entities recognised under the equity method	210 569	210 569
<b>Liabilities</b>		
Liabilities due to other banks	1 812 283	1 812 283
Financial liabilities measured at fair value through profit and loss	1 214 981	1 214 981
Liabilities due to customers	44 502 189	44 497 439



### ***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, purchased price 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**

	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
<b>Financial assets, of which:</b>	<b>11 495 704</b>	<b>14 373 145</b>	<b>194 674</b>	<b>26 063 523</b>
- Financial assets measured at fair value through profit and loss	1 683 747	13 251 719	192 150	15 127 616
- Financial assets available-for sale	9 811 957	924 423	2 524	10 738 904
- Derivative hedge instruments	0	197 003	0	197 003
<b>Financial liabilities, of which:</b>	<b>371 873</b>	<b>5 194 872</b>	<b>0</b>	<b>5 566 745</b>
- 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**

	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
<b>Financial assets, of which:</b>	<b>8 148 704</b>	<b>7 884 284</b>	<b>418 235</b>	<b>16 451 223</b>
- Financial assets measured at fair value through profit and loss	924 440	6 813 068	131 526	7 869 034
- Financial assets available-for sale	7 224 264	1 066 644	286 709	8 577 617
- Derivative hedge instruments	0	4 572	0	4 572
<b>Financial liabilities, of which:</b>	<b>54 971</b>	<b>1 160 010</b>	<b>0</b>	<b>1 214 981</b>
- Financial liabilities measured at fair value through profit and loss	54 971	1 160 010	0	1 214 981

#### **44. Custody activities**

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

## 45. Operating leases

### *Bank as a lessee*

The Bank cooperates with ING Car Lease in respect to car leasing and fleet management. The Bank 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	201 555
over 5 years – annual payment amount	36 473	20 580

### *Bank as a lessor*

The Bank 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.

## 46. 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 ( <i>presented in note 14</i> )	946 194	678 067
Balances with the Central Bank ( <i>presented in note 14</i> )	423 583	1 163 653
Current accounts in other banks ( <i>presented in note 15</i> )	276 337	359 874
Overnight deposits in other banks ( <i>presented in note 15</i> )	2 447 337	2 605 329
Other receivables ( <i>presented in note 15</i> )	4 473	9 532
<b>Total</b>	<b>4 097 924</b>	<b>4 816 455</b>

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

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

#### 48. 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	7 144 597	7 420 714	276 117	3 795	-246 588			518 910
- Change in financial assets at fair value through profit or loss	-7 258 582	-7 312 036	-53 454	-53 454				
- Change in available-for-sale financial assets	-2 161 287	-4 729 581	-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	-9 228 079	-7 248 578	1 979 501	-23 276				2 002 777
- Change in liabilities due to other banks	4 251 502	10 199 690	5 948 188	16 072			5 932 116	
- Change in liabilities due to customers	2 663 423	2 751 198	87 775	87 775				

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**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	-1 678 605	-5 799 477	-4 120 872	-68 974	-4 051 898			
- Change in financial assets at fair value through profit or loss	-812 310	-850 151	-37 841	-37 841				
- Change in available-for-sale financial assets	4 067 111	3 976 028	-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	-3 087 297	-3 071 379	15 918	15 918				
- Change in liabilities due to other banks	412 044	-276 799	-688 843	7 157			-696 000	
- Change in liabilities due to customers	5 875 756	5 896 716	20 960	1 661				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 repaid".

#### **49. 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).

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Transactions with related entities (in PLN thousands):

**31.12.2008**

	ING Bank NV	Other ING Group entities	Subsidiary undertakings	Associated undertakings
<b>Receivables</b>				
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	-
<b>Liabilities</b>				
Deposits received, repo transaction	5 040 020	285 669	237 634	26 405
Loro accounts	95 026	54 750	-	-
Other liabilities	8 259	-	144	-
<b>Off-balance-sheet operations</b>				
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	-	-
<b>Revenue and costs</b>				
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
<b>Receivables</b>				
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	-
<b>Liabilities</b>				
Deposits received	463 686	125 301	260 077	25 186
Loro accounts	11 703	21 858	-	-
Other liabilities	194	3 586	218	-
<b>Off-balance-sheet operations</b>				
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	-	-
<b>Revenue and costs</b>				
Revenue	208 140	49 711	17 058	202
Costs	103 292	45 078	29 585	2 408



## **50. Transactions with the management staff and employees**

Employees of the ING Bank Śląski S.A. are granted loans on the same terms and conditions as the customers of the Bank (no preferential loans for employees exist). Loans for employees disclosed in the amount of loans for customers as of 31.12.2008 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)

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

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	2 608	4 052
<b>TOTAL</b>	<b>13 285</b>	<b>14 662</b>

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.

## 51. Headcount

The headcount in the Bank was as follows:

Headcount	31.12.2008	31.12.2007
Individuals	8 339	7 844
FTEs	8 187.7	7 624.8

## 52. 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.

### *Purchase of assets of material value*

On 23 January 2009, ING BSK took up by way of closed offering 500 D-series shares of ING Bank Hipoteczny S.A. (“ING BH”) at face value of PLN 50 thousand each, for the total amount of PLN 25 million. The shares were taken up as a part of raising share capital of ING BH, which is an element of a long-term strategy of building up by ING BH the portfolio of commercial real estate financed by ING Group in Poland. The funds from the new shares issue will be earmarked for further increase of lending. ING BH is a subsidiary of ING BSK. Prior to raising the ING BH share capital, it totalled PLN 113.5 million whereas after registration on 9 February 2009 the initial capital of ING BH rose to PLN 138.5 million.

#### *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.

### **53. Changes to the Business Entity / Capital Group Structure**

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.

### **54. 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 ING Bank Śląski S.A.***

All of the Bank'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 Bank's perspective.

### **I. Credit Risk Management**

#### **1. Definition of Credit Risk**

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

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

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

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

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

#### Maximum exposure to credit risk

	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
- Loans and receivables to other banks	8 094 181	15 238 778
- Financial assets measured at fair value through profit and loss	15 127 616	7 869 034
- Investments	18 050 736	9 418 393
- Derivative hedge instruments	197 003	4 572
- Loans and receivables to customers	25 277 781	16 049 702
- Receivables presented in other assets	8 213	0
- Extended contingent liabilities, including:	14 181 808	12 976 028
- credit card limits	685 445	590 568
- unutilised credit lines	9 301 544	6 758 210
- unutilised overdraft facilities	1 280 767	2 334 841
- guarantees and letters of credit	2 877 959	2 079 181
- third-party deposits	36 093	1 213 228
<b>Total</b>	<b>80 937 338</b>	<b>61 556 507</b>

## **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 patterns/ 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%
<b>Total</b>	<b>28 579.2</b>	<b>100.0%</b>	<b>21 884.0</b>	<b>100.0%</b>

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
<b>Total</b>	<b>4 521.2</b>

#### 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
<b>Total</b>	<b>16 686.1</b>	<b>11 893.1</b>	<b>12 323.0</b>	<b>9 560.9</b>

*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
<b>Total</b>	<b>16 686.1</b>	<b>11 893.1</b>	<b>12 323.0</b>	<b>9 560.9</b>

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
<b>Total</b>	<b>16 377.9</b>	<b>11 888.0</b>	<b>11 949.8</b>	<b>9 556.6</b>

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
<b>Total</b>	<b>254.6</b>	<b>1.9</b>	<b>270.8</b>	<b>3.0</b>

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
<b>Total</b>	<b>254.6</b>	<b>1.9</b>	<b>270.8</b>	<b>3.0</b>

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
<b>Total</b>	<b>53.6</b>	<b>3.2</b>	<b>102.4</b>	<b>1.4</b>

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
<b>Total</b>	<b>53.6</b>	<b>3.2</b>	<b>102.4</b>	<b>1.4</b>

#### 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 impairment 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 impairment 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 impairment 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
<b>Total</b>	<b>7 230.3</b>	<b>2 461.7</b>	<b>4 577.5</b>	<b>2 212.5</b>

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
<b>Total</b>	<b>7 084.2</b>	<b>2 454.4</b>	<b>4 452.1</b>	<b>2 203.6</b>

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
<b>Total</b>	<b>7 084.2</b>	<b>2 454.4</b>	<b>4 452.1</b>	<b>2 203.6</b>

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
<b>Total</b>	<b>146.1</b>	<b>7.3</b>	<b>125.4</b>	<b>8.9</b>

## 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. 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 (Credent 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):

	<b>31 Dec 2007<sup>*)</sup></b>	<b>31 Dec 2007</b>
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

<sup>\*)</sup> 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 3 Dec 2007 are not comparable with the figures for previous terms.

<sup>\*\*) Gross amount - transactions where the bank is “in-the-money”, only.</sup>

<sup>\*\*\*)</sup> 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 Bank with clients, the Bank 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 Bank structured the approach.

The approach adopted by the Bank 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 Bank 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 Bank 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 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. 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)

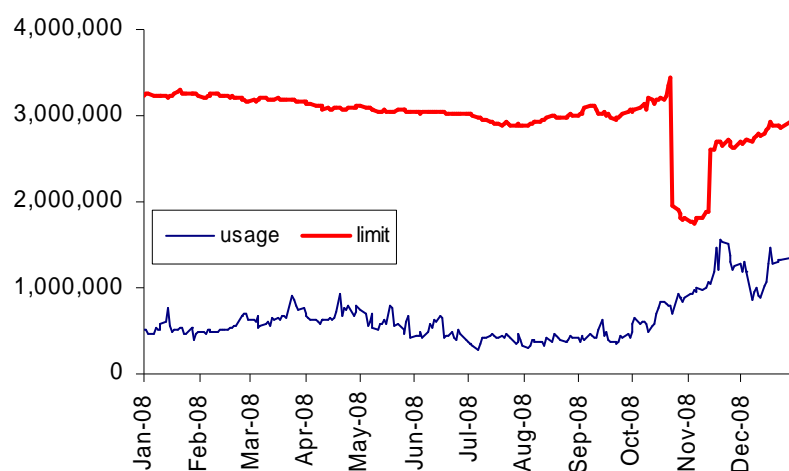
Area	Limit	As at 31 Dec 2008	Average	Min	Max
Interest Rate	2 920 680	1 370 337	645 336	290 239	1 555 432
FX	2 127 924	378 720	384 958	10 196	2 066 127
FX Options	3 129 300	1 118 203	878 934	158 730	3 720 330

#### VaR numbers in 2007 (in PLN)

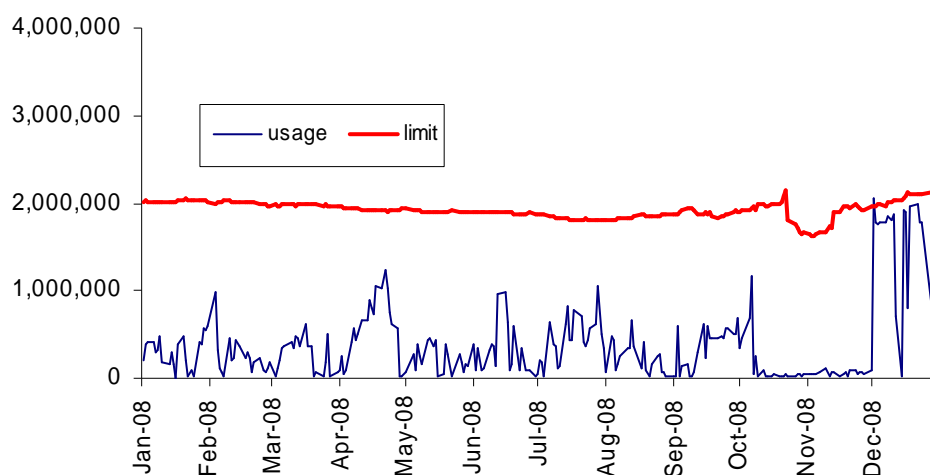
Area	Limit	As at 31 Dec 2007	Average	Min	Max
Interest Rate	3 405 870	672 818	359 267	175 953	1 424 258
FX	2 119 208	16 692	506 475	16 692	1 185 349
FX Options	1 892 150	222 084	359 047	135 679	982 722

\* 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.

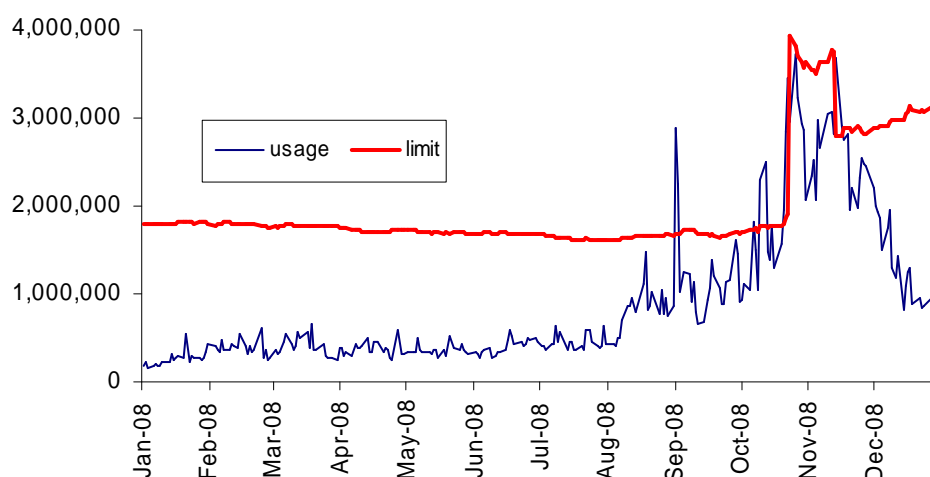
#### Interest Rate VaR (PLN)



FX VaR (PLN)



FX Options VaR (PLN)



The excesses of VaR limit for FX options resulted from situation on the market in the 2<sup>nd</sup> 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.

We had a single excess of the FX spot VaR limit. Financial Markets took substantial position in EUR which in highly volatile market resulted in tiny excess. The position was immediately reduced and excess liquidated.

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

VaR numbers in 2008 (in PLN)

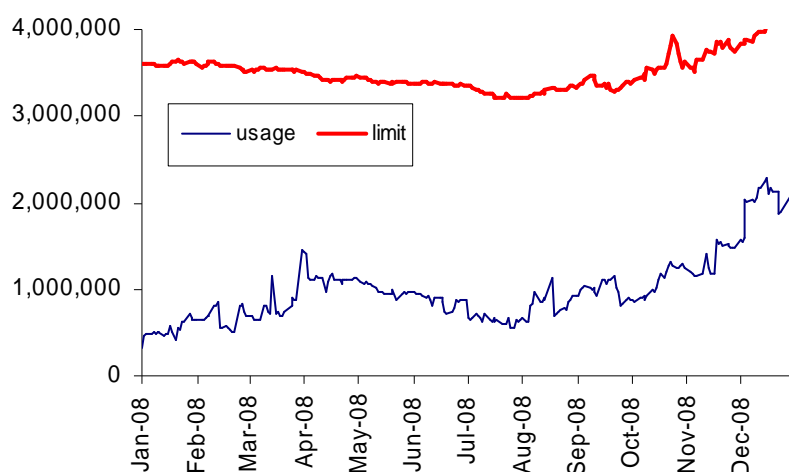
Area	Limit	As at 31 Dec 2008	Average	Min	Max
LMF	4 172 400	2 068 676	987 948	315 386	2 278 421
ALM	4 172 400	3 044 730	1 599 531	510 465	4 467 401

VaR numbers in 2007 (in PLN)

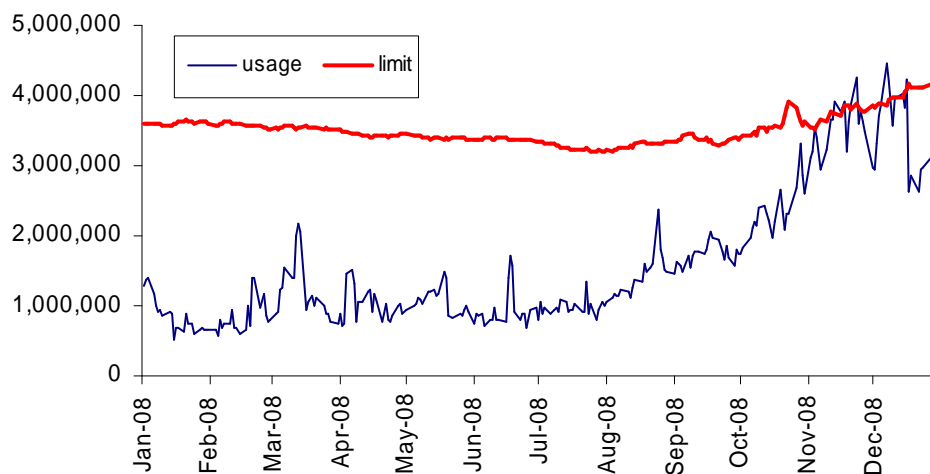
Area	Limit	As at 31 Dec 2007	Average	Min	Max
LMF	3 784 300	714 276	749 507	214 458	1 432 153
ALM	3 784 300	1 395 945	533 356	144 281	1 755 009

\*\* 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 Markets Banking Books VaR statistics***

##### *VaR numbers in 2008 (in PLN)*

Area	Limit	As at 31 Dec 2008	Average	Min	Max
Interest Rate	625 860	205 891	86 402	45 804	205 891

##### *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

#### ***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).

#### **4. 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 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 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 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	-43.48	-12.74	9.57	18.19	361.42	180.71	-180.71	-361.42
	<i>Total</i>	-0.47	75.09	45.31	-46.79	-93.14	479.99	238.76	-237.07	-472.75
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	-43.48	-12.74	9.57	18.19	361.42	180.71	-180.71	-361.42
<b>ALL</b>		<b>-0.53</b>	<b>87.00</b>	<b>51.26</b>	<b>-52.74</b>	<b>-105.05</b>	<b>491.90</b>	<b>244.71</b>	<b>-243.02</b>	<b>-484.66</b>

All figures in PLN millions



*Annual financial statements of the ING Bank Śląski S.A.  
for the period from 1<sup>st</sup> January 2008 to 31<sup>th</sup> December 2008*

*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
	<i>Total</i>	<i>-0.01</i>	<i>3.69</i>	<i>1.54</i>	<i>-1.04</i>	<i>-1.69</i>	<i>154.02</i>	<i>75.61</i>	<i>-72.80</i>	<i>-142.96</i>
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
<b>ALL</b>		<b>0.03</b>	<b>-5.26</b>	<b>-2.94</b>	<b>3.43</b>	<b>7.25</b>	<b>145.07</b>	<b>71.14</b>	<b>-68.32</b>	<b>-134.01</b>

*All figures in PLN millions*

*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
<b>All</b>	<b>-2.22</b>	<b>443.78</b>	<b>221.89</b>	<b>-221.89</b>	<b>-443.78</b>

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

The existing *ING Bank Śląski's Liquidity and Funding Policy* was updated and widened 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 dated 13 March 2007 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 important 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 monitor the nature and severity of the liquidity profile of the bank and taking the adequate decisions 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, 2007. The reports are presented in two contexts: contractual liquidity positions and stressed liquidity positions, as described below:

**Contractual Liquidity Positions:** These reports include all balance sheet positions which are exposed to liquidity risk. The reports are reconciled to the balance sheet of the bank. Positions are allocated to time intervals based on contractual maturity or – where there is no contractual maturity (for example, current and savings accounts) – to the first time interval (up to 1M).

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

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

*Unadjusted Liquidity Gap Positions (in PLN millions)*

**2008 year-end**

	<i>1M</i>	<i>1- 3 M</i>	<i>3 - 12 M</i>	<i>Over 1Y</i>	<i>TOTAL</i>
<b>BALANCE SHEET ASSETS</b>					
- Cash in hand and balances with the Central Bank	1 888.7	0.0	0.0	0.0	<b>1 888.7</b>
- Loans and receivables to other banks	5 940.6	535.3	150.0	949.4	<b>7 575.3</b>
- Financial assets measured at fair value through profit and loss	2 944.3	691.3	3 944.1	7 547.9	<b>15 127.6</b>
- Investments	0.0	19.8	892.4	17 138.5	<b>18 050.7</b>
- Derivative hedge instruments	8.8	0.0	92.9	95.3	<b>197.0</b>
- Loans and receivables to customers	9 340.1	1 721.1	2 757.2	11 459.4	<b>25 277.8</b>
<b>BALANCE SHEET LIABILITIES</b>					
- Liabilities due to Central Bank	1 400.2	4 531.9	0.0	0.0	<b>5 932.1</b>
- Liabilities due to other banks	2 970.5	2 852.8	208.7	31.8	<b>6 063.8</b>
- Financial liabilities measured at fair value through profit and loss	2 341.0	309.6	1 086.2	1 409.9	<b>5 146.7</b>
- Derivative hedge instruments	0.0	0.0	0.0	420.0	<b>420.0</b>
- Liabilities due to customers	38 902.1	3 944.8	3 318.5	1 000.2	<b>47 165.6</b>
<b>OFF BALANCE SHEET ITEMS</b>					
- Contingent liabilities granted	3 159.9	495.3	4 716.1	5 810.5	<b>14 181.8</b>
<b>NET GAP</b>	<b>-28 651.2</b>	<b>-9 166.9</b>	<b>-1 492.9</b>	<b>28 518.1</b>	<b>X</b>
<b>CUMULATIVE GAP</b>	<b>-28 651.2</b>	<b>-37 818.1</b>	<b>-39 311.0</b>	<b>-10 792.9</b>	<b>X</b>

**2007 year-end**

	<i>1M</i>	<i>1- 3 M</i>	<i>3 - 12 M</i>	<i>Over 1Y</i>	<i>TOTAL</i>
<b>BALANCE SHEET ASSETS</b>					
- Cash in hand and balances with the Central Bank	1 841.7	0.0	0.0	0.0	<b>1 841.7</b>
- Loans and receivables to other banks	11 877.1	847.1	2 513.6	1.0	<b>15 238.8</b>
- Financial assets measured at fair value through profit and loss	834.3	192.7	743.8	6 098.2	<b>7 869.0</b>
- Investments	8.0	0.0	1 907.5	7 502.9	<b>9 418.4</b>
- Derivative hedge instruments	0.0	0.0	0.0	4.6	<b>4.6</b>
- Loans and receivables to customers	5 553.0	1 302.0	2 414.4	6 780.3	<b>16 049.7</b>
<b>BALANCE SHEET LIABILITIES</b>					
- Liabilities due to other banks	1 644.2	123.1	45.0	0.0	<b>1 812.3</b>
- Financial liabilities measured at fair value through profit and loss	248.9	155.5	431.4	379.2	<b>1 215.0</b>
- Liabilities due to customers	40 362.3	1 699.4	1 594.0	846.5	<b>44 502.2</b>
<b>OFF BALANCE SHEET ITEMS</b>					
- Contingent liabilities granted	10 239.0	168.1	951.2	1 617.7	<b>12 976.0</b>
<b>NET GAP</b>	<b>-32 380.3</b>	<b>195.7</b>	<b>4 557.7</b>	<b>17 543.6</b>	<b>X</b>
<b>CUMULATIVE GAP</b>	<b>-32 380,3</b>	<b>-32 184,6</b>	<b>-27 626,9</b>	<b>-10 083,3</b>	<b>X</b>

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

**2008 year-end**

	<i>1M</i>	<i>1- 3 M</i>	<i>3 - 12 M</i>	<i>Over 1Y</i>
<b>BALANCE-SHEET</b>				
<b>ASSETS</b>				
- 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
<b>LIABILITIES</b>				
- 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
<b>OFF BALANCE SHEET ITEMS</b>				
<b>ASSETS</b>				
- 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
<b>LIABILITIES</b>				
- 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
<b>NET GAP</b>	<b>4 258.5</b>	<b>-9 284.8</b>	<b>-10 717.6</b>	<b>17 015.7</b>
<b>CUMULATIVE GAP</b>	<b>4 258.5</b>	<b>-5 026.3</b>	<b>-15 743.9</b>	<b>1 271.8</b>

**2007 year-end**

	<i>1M</i>	<i>1- 3 M</i>	<i>3 - 12 M</i>	<i>Over 1Y</i>
<b>BALANCE-SHEET</b>				
<b>ASSETS</b>				
- 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
<b>LIABILITIES</b>				
- 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
<b>OFF BALANCE SHEET ITEMS</b>				
<b>ASSETS</b>				
- 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
<b>LIABILITIES</b>				
- 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
<b>NET GAP</b>	<b>5 735.5</b>	<b>-3 412.3</b>	<b>-8 135.8</b>	<b>6 057.6</b>
<b>CUMULATIVE GAP</b>	<b>5 735.5</b>	<b>2 323.2</b>	<b>-5 812.6</b>	<b>245.0</b>

## 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.

### *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 Bank 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.

Regulatory capital base and solvency ratio

31 Dec 2008	
<b>Capital components</b>	
Share capital	130 100
Issue premium	956 250
Other supplementary capital	62 834
Capital reserve including retained profit of past years	1 751 022
Net profit of current period in unaudited part	455 563
General risk fund	730 152
Revaluation reserve	-100 996
Funds adjustment by intangibles	-314 790
Funds adjustment by capital commitments in financial institutions	-183 679
Short-term capital	79 660
<b>Total own funds</b>	<b>3 566 116</b>
<b>Capital requirements</b>	
Capital requirements for credit risk, credit counterparty, dilution and delivery of instruments for future settlement	2 553 705
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	27 676
Capital requirement for operational risk	267 488
Capital requirement for general interest rate risk	51 984
<b>Total capital requirement</b>	<b>2 902 172</b>
<b>Solvency ratio</b>	<b>9.82%</b>



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.

<b>31 Dec 2007</b>	
<b>Capital componenets</b>	
Share capital	130 100
Issue premium	956 250
Other supplementary capital	61 796
Capital reserve	1 487 079
General risk fund	530 152
Retained profit/loss of past years	6 361
Revaluation reserve from measurement of available-for-sale financial assets	-149 591
Revaluation reserve from measurement of property, plant and equipment	37 154
Funds adjustment by intangibles	-317 801
Funds adjustment by capital commitments in financial institutions	-143 679
Short-term capital	91 156
<b>Total own funds</b>	<b>2 688 977</b>
<b>Capital requirements</b>	
Credit risk	1 696 496
Market risk	63 473
Risk of delivery settlement and of counterparty	27 683
<b>Total capital requirement</b>	<b>1 787 652</b>
<b>Solvency ratio</b>	<b>12.03%</b>

#### ***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)*

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2009-02-25 **Mirosław Boda** Vice-President *(signed on the Polish original)*

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2009-02-25 **Michał Bolesławski** Vice-President *(signed on the Polish original)*

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2009-02-25 **Justyna Kesler** Vice-President *(signed on the Polish original)*

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2009-02-25 **Małgorzata Kołakowska** Vice-President *(signed on the Polish original)*

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2009-02-25 **Oscar Edward Swan** Vice-President *(signed on the Polish original)*

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2009-02-25 **Michał Szczurek** Vice-President *(signed on the Polish original)*

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**SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS**

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

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