

*ING Bank Śląski S.A.*

**LONG-FORM AUDITORS' REPORT  
SUPPLEMENTING THE INDEPENDENT AUDITORS' OPINION  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

## **I. GENERAL NOTES**

### **1. Background**

ING Bank Śląski S.A. (hereinafter 'the Bank', 'the Company') was incorporated on the basis of decree of Minister of Finance dated 11 April 1988 on creation of Bank Śląski in Katowice (Journal of Law No. 21, item 141). The Bank's registered office is located in Katowice at 34 Sokolska Street.

The Bank was entered in the Register of Entrepreneurs of the National Court Register under no. 0000005459 on 10 April 2001.

The Bank was issued with tax identification number (NIP) 634-01-35-475 on 20 December 2000 and statistical number (REGON) 271514909.

The Bank is the holding company of the ING Bank Śląski S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Bank holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in notes 21 and 49 in the Bank's audited financial statements for the year ended 31 December 2009.

The principal activities of the Bank are as follows:

- banking activity;
- broker activity and fund management;
- other activity connected with finance, insurance and pension funds.

As at 31 December 2009, the Bank's issued share capital amounted to 130,100 thousand zlotys. Equity as at that date amounted to 4,715,474 thousand zlotys.

In accordance with the confirmation obtained from the Management Board Office dated 19 February 2010, the ownership structure of the Bank's issued share capital as at 31 December 2009 was as follows:

	Number of shares	Number of votes	Par value of shares (in zlotys)	% of issued share capital
ING Bank N.V.	9,757,500	9,757,500	97,575,000	75.00%
AVIVA Otworthy Fundusz Emerytalny Aviva BZ WBK S.A. (formerly Commercial Union Otworthy Fundusz Emerytalny BPH CU WBK)	665,500	665,500	6,655,000	5.12%
Other shareholders	2,587,000	2,587,000	25,870,000	19.88%
Total	13,010,000	13,010,000	130,100,000	100.00%

The Company's share capital did not change during the reporting period as well as from the balance sheet date to the date of this report.

As at 3 March 2010, the holding company's Management Board was composed of:

Małgorzata Kołakowska	President
Mirosław Boda	Vice-President
Justyna Kesler	Vice-President
Oscar Edward Swan	Vice-President
Michał Bolesławski	Vice-President
Evert Derks Drok	Vice-President

There were following changes in the Bank's Management Board during the reporting period as well as from the balance sheet date to the date of this report:

- on 16 March 2009 Mr. Michał Szczurek was dismissed from the position of Vice President of the Management Board;
- on 1 June 2009 Mr. Evert Derks Drok was appointed as Vice President of the Management Board;
- on 26 October 2009 Mr. Brunon Bartkiewicz resigned as President of the Management Board as of 31 December 2009;
- on 8 December 2009 the Supervisory Board appointed Mrs. Małgorzata Kołakowska as President of the Management Board.

## **2. Financial Statements**

On 23 December 2004 the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

### **2.1 Auditors' opinion and audit of financial statements**

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by Supervisory Board on 30 November 2007 to audit the Bank's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649).

Under the contract executed on 29 February 2008 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2009.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an unqualified auditors' opinion dated 3 March 2010, stating the following:

"To the Supervisory Board of ING Bank Śląski S.A.

1. We have audited the attached financial statements for the year ended 31 December 2009 of ING Bank Śląski S.A. ('the Bank') located in Katowice at 34 Sokolska Street, containing:
  - the income statement for the period from 1 January 2009 to 31 December 2009 with a net profit amounting to 582,151 thousand zlotys,
  - the statement of total comprehensive income for the period from 1 January 2009 to 31 December 2009 with a total comprehensive income amounting to 648,525 thousand zlotys,
  - the statement of financial position as at 31 December 2009 with total assets amounting to 59,751,488 thousand zlotys,
  - the statement of changes in equity for the period from 1 January 2009 to 31 December 2009 with a net increase in equity amounting to 648,525 thousand zlotys,
  - the statement of cash flow for the period from 1 January 2009 to 31 December 2009 with a net cash outflow amounting to 1,080,015 thousand zlotys, and
  - the accounting policies (principles) and additional notes and explanations ('the attached financial statements').
2. The truth and fairness<sup>1</sup> of the attached financial statements and its preparation in accordance with the required applicable accounting principles (policies) and correctness of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting principles (policies), whether they fairly and truly<sup>2</sup> reflect, in all material respects, the financial position and result of the Bank, and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
  - chapter 7 of the Accounting Act, dated 29 September 1994 (Journal of Laws of 2009, No 152, item 1223 with further amendments – 'the Accounting Act'),
  - general practice of audit of financial statements applied in Poland (based on the previously binding auditing standards issued by the National Chamber of Auditors and after considering the provisions of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649),

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<sup>1</sup> Translation of the following expression in Polish: 'rzetelność i jasność'

<sup>2</sup> Translation of the following expression in Polish: 'rzetelnie i jasno'

in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. In our opinion, the attached financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2009 to 31 December 2009, as well as its financial position<sup>3</sup> as at 31 December 2009;
  - have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and based on properly maintained accounting records;
  - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the provisions of the Bank's Articles of Association.
5. We have read the Directors' Report for the year 2009 ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2009, No. 33, item 259)."

We conducted the audit of the financial statements during the period from 16 November 2009 to 3 March 2010. We were present at the holding company's head office from 16 November 2009 to 18 December 2009 and from 4 January 2010 to 3 March 2010.

## **2.2 Representations provided and data availability**

The Management Board confirmed its responsibility for the truth and fairness<sup>4</sup> of the financial statements and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 3 March 2010, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,

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<sup>3</sup> Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

<sup>4</sup> Translation of the following expression in Polish: "rzetelność, prawidłowość i jasność"

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

## **2.3 Financial statements for prior financial year**

The financial statements of the Bank for the year ended 31 December 2008 were audited by Arkadiusz Krasowski, key certified auditor no. 10018, acting on behalf of Ernst & Young Audit sp. z o.o. with the seat in Warsaw, Rondo ONZ 1 (Reg. No. 130). The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2008. The financial statements for the year ended 31 December 2008 were approved by the General Shareholders' Meeting on 3 April 2009, and the shareholders resolved to appropriate the 2008 net profit as follows:

Dividends for the shareholders	395,563
Transfer to General Risk Fund	60,000
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Net Profit	455,563
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The financial statements for the financial year ended 31 December 2008 together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 17 April 2009 with the National Court Register.

The introduction to the financial statements, the balance sheet as at 31 December 2008, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2008 together with the auditors' opinion and a copy of the resolution approving the financial statements, and a copy of the resolution on the appropriation of profit were published in Monitor Polski B No. 1037 on 30 June 2009.

The closing balances as at 31 December 2008 were correctly brought forward in the accounts as the opening balances at 1 January 2009.

### 3. Analytical Review

#### 3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Bank for the years 2007 - 2009. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2008 and 31 December 2009, respectively.

	2009	2008	2007
<b>Total assets</b>	59,751,488	69,535,885	51,826,426
<b>Shareholders' equity</b>	4,715,474	4,066,949	3,669,454
<b>Net profit/ loss</b>	582,151	455,563	610,153
<b>Capital adequacy ratio according to NBP methodology</b>	11.24%	9.82%	12.03%
<b>Profitability ratio</b>	49.6%	38.8%	55.3%
<div>Profit before taxation</div> <div>Total costs</div>			
<b>Costs to income ratio</b>	58.6%	69.7%	67.8%
<div>Total costs</div> <div>Operating income</div>			
<b>Return on equity (ROE)</b>	13.3%	11.8%	16.8%
<div>Net profit</div> <div>Average shareholders' equity</div>			
<b>Return on assets (ROA)</b>	0.9%	0.8%	1.2%
<div>Net profit</div> <div>Average assets</div>			
<b>Rate of inflation</b>			
Yearly average	3.5%	4.2%	2.5%
December to December	3.5%	3.3%	4.0%

### **3.2 Comments**

The following trends may be observed based on the above financial ratios:

- Net profit for 2009 amounted to 582,151 thousand zlotys in comparison to the net profit of 455,563 thousand zlotys in 2008 and 610,153 thousand zlotys in 2007.
- The total assets as of 31 December 2009 amounted to 59,751,488 thousand zlotys and decreased compared to total assets as of 31 December 2008.
- The profitability ratio decreased from 55.3% in 2007 to 38.8% in 2008 and then increased to 49.6% in 2009.
- Cost to income ratio increased from 67.8% in 2007 to 69.7% in 2008 and then decreased to 58.6% in 2009.
- The return on equity ratio decreased from 16.8% in 2007 to 11.8% in 2008 and then increased to 13.3% in 2009.
- Return on assets ratio decreased from 1.2% in 2007 to 0.8% in 2008 and then increased to 0.9% in 2009.
- The Bank's solvency ratio amounted to 11.24% as at 31 December 2009 as compared with 9.82% at the end of 2008 and 12.03% at the end of 2007.

### **3.3 Going concern**

Nothing came to our attention during the audit that caused us to believe that the Bank is unable to continue as a going concern for at least 12 months subsequent to 31 December 2009 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In note "Compliance with International Financial Reporting Standards" to the audited financial statements for the year ended 31 December 2009, the Management Board has stated that the financial statements were prepared on the assumption that the Bank will continue as a going concern for a period of at least 12 months subsequent to 31 December 2009 and that there are no circumstances that would indicate a threat to its continued activity.

### **3.4. Application of regulations mitigating banking risk**

As at 31 December 2009, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolutions of the Polish Financial Supervision Authority ('KNF') envisaged banking regulatory norms in relation to the following items:

- level of currency positions,
- concentration of credit risk,
- concentration of investments in shares,
- classification of loans and issued guarantees and suretyships to risk categories, recognition of provisions / impairment allowances related to banking operations,
- solvency,
- liquidity measurement,
- level of obligatory reserve,
- capital adequacy.



During our audit we have not identified any facts indicating that during the period from 1 January 2009 to 31 December 2009 the Bank did not comply with these regulations. We have received written representation from the Management Board that during the year the banking regulatory norms were not breached.

### **3.5. Correctness of calculation of capital adequacy ratio**

During our audit we have not identified any significant irregularities in relation to the calculation of the capital adequacy ratio as of 31 December 2009 in accordance with Resolution no. 380/2008 of the Financial Supervision Authority ('KNF') of 17 December 2008 on the scope of the capital requirements against particular risks and the detailed principles to be applied in determining those requirements, including but not limited to the scope and conditions of applying statistical methods and the scope of information attached to an application for authorization to apply them, principles and conditions of taking account of contracts on debt assignment, subparticipation, credit derivative and contracts other than those on debt assignment, subparticipation, in calculating the capital requirements, terms and conditions, scope and manner of making use of the ratings assigned by external credit assessment institutions and the export credit agencies, manner and specific principles of calculating the solvency ratio of a bank, the scope and manner of taking account of banks conducting their activities in groups in calculating their capital requirements as well as establishing additional items of bank balance sheets presented jointly with bank regulatory own funds in the calculation of capital adequacy, the amount thereof and the conditions of setting them (Official Journal of the Financial Supervision Authority No 8, dated 31 December 2008 with further amendments).

## **DETAILED REPORT**

### **1. Accounting System**

The Bank's accounts are maintained at the Bank's head office using the following IT systems: ICBS, MIDAS, eProfit, Prime and CBE (Central Extracts' Database) in which general ledger of the Bank is maintained. In all material aspects concerning the preparation of the audited financial statements, the Bank has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (Journal of Laws of 2009, No 152, item 1223 with further amendments – 'the Accounting Act'), including a chart of accounts approved by the Bank's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

### **2. Assets, Liabilities and Equity, Profit and Loss Account**

Details of the Bank's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2009.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2009.

### **3. Additional Notes and Explanations to the Financial Statements**

The additional notes and explanations to the audited financial statements for the year ended 31 December 2009 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union.

### **4. Directors' Report**

We have read the Directors' Report for the year 2009 ('Directors' Report') and concluded that the information derived from the audited financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).

## **5. Materiality Level**

When determining the materiality level, professional judgement was applied taking into account the specific characteristics relating to the Bank. This included consideration of both values and quantities.

## **6. Conformity with Law and Regulations**

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Bank's Articles of Association were breached during the financial year, having material effect on the audited financial statements.

## **7. Work of Experts**

During our audit we have taken into account the results of the work of the following independent experts:

- real estate experts – in calculations regarding the level of loan impairment (we took into consideration the valuations of collaterals, prepared by property appraisers, that were engaged by the Bank) and in calculation of value of own and investment property;
- actuary – actuarial calculation of provision for retirement benefits.

on behalf of  
Ernst & Young Audit sp. z o.o.  
Rondo ONZ 1, 00-124 Warsaw  
Registration No. 130

Key Certified Auditor

( – )  
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Arkadiusz Krasowski  
Certified Auditor  
No. 10018

Warsaw, 3 March 2010