Financial Reporting of ING Bank Śląski Group

for the fourth quarter 2005

ING

ING BANK ŚLĄSKI

Table of contents

I. Basic Details of Issuer

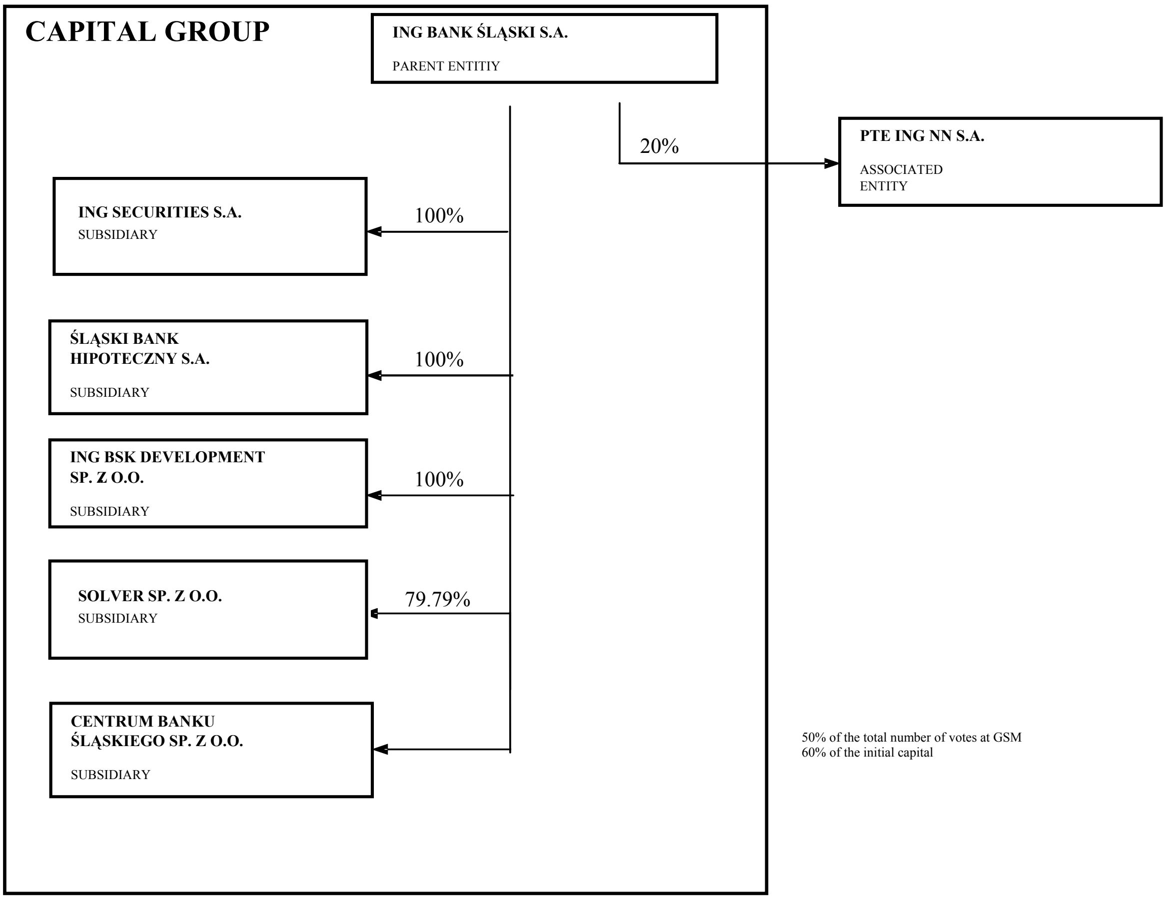
1. Informational Details of the Bank and Its Capital Group

ING Bank Śląski Spółka Akcyjna
40-086 Katowice, ul. Sokolska 34
NIP 634-013-54-75
REGON 271514909
Entity authorised to audit financial statements: KPMG Audyt Sp. z o.o.

By the decision of the Commercial Section of the District Court in Katowice of 09 April 2001, Bank Śląski S.A. of Katowice was registered in the National Court Register under the no. KRS-5459.

The share capital of ING Bank Śląski S.A. totals PLN 130,100,000, and is sub-divided into 13,010,000 ordinary bearer's share with face value of PLN 10.00 each.

ING Bank Śląski S.A. is the parent entity of the Capital Group of ING Bank Śląski S.A.



2. Compliance with International Financial Reporting Standards

Pursuant to §86.1 of the Ordinance of Finance Minister of 19 October 2005 on current and interim information submitted by issuers of securities, the Bank is obliged to draft quarterly statements, including the statement for the 4th quarter of the financial year. IAS 34, defining the contents of the interim statement, does not pertain to the annual statements. Pursuant to §99 of the Ordinance of Finance Minister of 19 October 2005 on current and interim information submitted by issuers of securities, the submission of the annual statements does not release from the duty of submitting the quarterly statements. Therefore, the Bank drafted these statements in accordance with the Ordinance of Finance Minister of 19 October 2005 on current and interim information submitted by issuers of securities and the content of the statements meets the requirements of International Financial Reporting Standards (IFRS), including IAS 34 (International Accounting Standards) in regard to interim financial statements, and IFRS 1 defining the requirements for statements drafted under IFRS for the first time. This is the abbreviated version of the statements.

The financial statements have been prepared under the International Financial Reporting Standards (IFRS) effective as of 31.12.2005. The consolidated balance sheet and the profit and loss account as at 31.12.2005, including comparable financial data, have been executed upon the application of the same accounting principles for each period. The following two areas of IAS 39 form an exception from the above rule, notably: impairment loss measurement and valuation at amortised cost upon the application of the effective interest rate for loans and cash loans.

The accounting principles applied for these financial statements are the same principles that would be used when preparing the full-year financial statements.

3. Selected Financial Data from Financial Statements

Item	PLN thousands		EUR thousands	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Interest income	1 868 398	1 692 149	464 394	374 518
Commission revenue	604 076	600 920	150 144	133 000
Result on banking activity	1 641 167	1 672 858	407 916	370 249
Gross profit (loss)	697 835	469 964	173 448	104 016
Net profit (loss)	549 319	395 515	136 534	87 538
Net cashflow	- 424 685	637 971	-105 556	141 200
Earnings (loss) per 1 ordinary share (in PLN/EUR)	42.22	30.40	10.49	6.73
Profitability ratio (%)	29.1	21.4	x	X
Return on assets (%)	1.3	1.1	X	X
Return on equity (%)	18.2	14.3	x	X
Cost / Income ratio (%)	66.2	62.9	x	X
Total assets	42 268 311	35 607 479	10 950 907	8 729 463
Equity	3 564 783	3 156 620	923 567	773 871
Initial capital	130 100	130 100	33 706	31 895
Number of shares	13 010 000	13 010 000	x	X
Book value per 1 share (in PLN/EUR)	274.00	242.63	70.99	59.48
Solvency ratio (%)	18.76	15.66	x	X

Profitability ratio – gross profit[1] to total costs.
Cost to Income ratio (C/I) – total overhead costs to the result on banking activity.
Return on assets (ROA) – net profit to total assets.
Return on equity (ROE) – net profit to equity.
Solvency ratio – net equity to off-balance sheet assets and liabilities including risk weights.

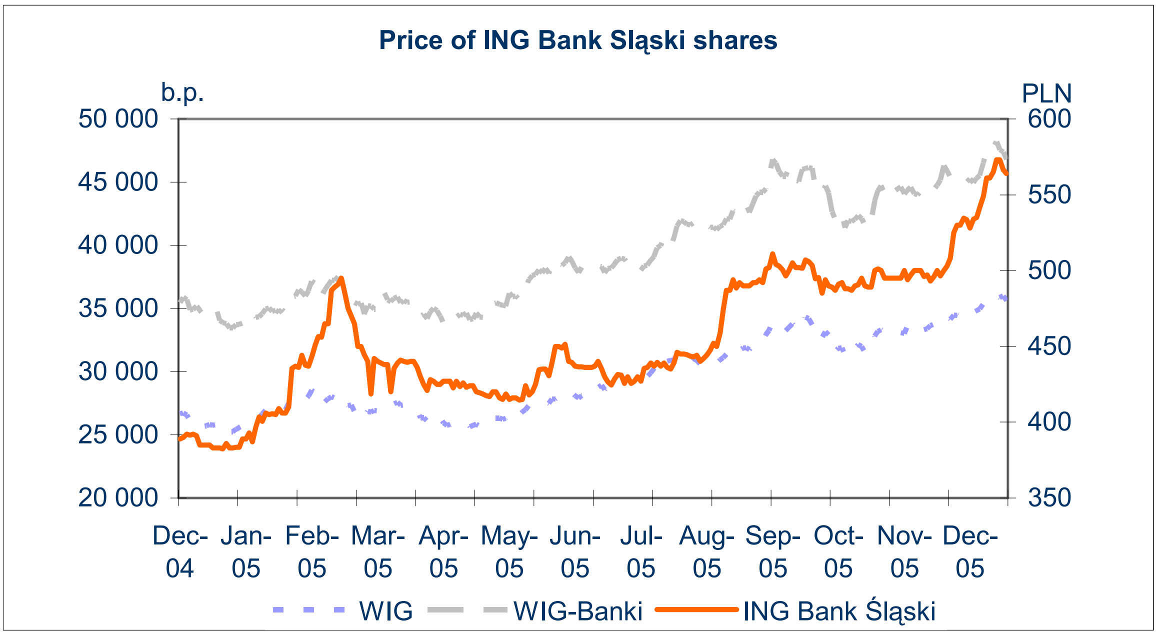
In order to determine the basic figures in EUR, the following exchange rates were applied:

- for balance-sheet items – PLN 3.8598, NBP exchange rate of 31.12.2005; PLN 4.0790, NBP exchange rate of 31.12.2004,
- for P&L items for 31.12.2005 – PLN 4.0233, exchange rate calculated as the average of NBP

[1] Upon adjustment of share in net profit (loss) of subsidiaries valued by equity method

exchange rates as at the last day of each month in first, second, third and fourth quarters of 2005; PLN 4.5182, exchange rate calculated as the average of NBP exchange rates as at the last day of each month in first, second, third and fourth quarters of 2004.

4. Price of ING Bank Śląski S.A. Shares



II. Commentary on Activity of the Capital Group of ING Bank Śląski in Fourth Quarter of 2005

1. Economic Situation in Fourth Quarter of 2005, Including Factors That May Affect Operations in the Quarters to Come

After a period of a very dynamic growth related to the EU accession, the Polish economy in 2005 was growing at a much slower pace. In 2005, Gross Domestic Product went up by 3.2%, whereas in 2004 GDP growth amounted to 5.3%. However, over the year 2005 one could observe a gradual acceleration of the economic growth (2.1% in 1Q, 2.8% in 2Q, 3.7% in 3Q and approx. 4.1% in 4Q) which was accompanied by some positive changes on the labour market and decreasing inflation. In 2005, exports continued to be the driver of the economic growth, however, in 4Q the GDP structure changed – the role of domestic demand and investments became more important. Domestic demand in 2005 was 1.9% higher on a year-to-year basis, the growth of investments was 6.2% (1.2% in 1Q, 3.8% in 2Q, 5.7% in 3Q and approx. 9.8% in 4Q).

According to estimates, the industrial output was 3.8% higher on a year-to-year basis, however the growth rate of production was systematically increasing over the year (from 0.7% in 1Q to 8.3% in 4Q). According to estimates, construction and assembly output was approx. 5% higher on a year-to-year basis. Total volume of retail sales was insignificantly (by approx. 1%) lower than the volume recorded last year. In transports, the sales of services went up by 1%, and in the communications sector the sales growth amounted to approx. 4%.
In 2005, the difficult situation on the labour market slightly improved. The average employment in the corporate sector was systematically growing and this phenomenon was especially visible in the second year-half. As a result, the employment in the year 2005 was 1.9% higher compared with the year 2004.

The unemployment rate at the end of December 2005 was 17.6% compared with 19.1% at the end of 2004.

In 2005, inflation visibly slowed down. The growth of prices of consumer goods on a yearly basis went down from 3.7% in January to 0.7% in December 2005, mainly as a result of decreasing prices of food and non-alcoholic beverages as well as clothes and footwear. As a consequence, the yearly average growth of consumer prices was 2.1% lower than in the year 2004 (3.5%). In view of the low inflation dynamics and weak economic growth forecasts, the Monetary Policy Council cut the NBP interest rates five times. As a result, the reference rate went down from 6.5% early this year to 4.5% in December 2005.

In 2005, the banking sector's deposits increased. Household deposits were 7.7% higher than at the 2004 year-end. After a slight slow-down in the first quarter of 2005, the value of corporate deposits as at the end of December 2005 was PLN 143.5 billion, an increase by 18.9% compared with December 2004.

The credit receivables of the banking sector grew due to the expansion of lending to households. The credit receivables of the banking sector from households went up by 22.4% over the 12 months. The mortgages and housing loans were the growth driver. As at the end of December 2005, the credit receivables from corporate customers remained on the same level as in December 2004.

In regard to the FX-market, 2005 witnessed significant fluctuations of foreign exchange rates. The beginning of the year on the FX-market showed strong seasonal appreciation of PLN against EUR, but in the following months the Polish zloty depreciated. The second half of 2005 saw continuing and ever growing appreciation of the Polish currency. At the end of December 2005, the PLN/EUR exchange rate was 3.8598 compared with 4.0790 as at 31.12.2004.

The economic growth rate, change of interest rates and increasing fluctuations in foreign exchange rates can be listed among the most important macroeconomic factors affecting the results in the subsequent quarters.

2. Analysis of Financial Results

ING BANK ŚLĄSKI PROFIT AND LOSS ACCOUNT (analytical layout, consolidated)

PLN million	2004	2005	2005 /2004	
Retail banking	826,4	826,0	-0,4	100,0%
Core business	*803,6*	*793,1*	*-10,4*	*98,7%*
Income on Pension Funds shares	*18,9*	*26,7*	*7,8*	*141,4%*
FM products sales	*4,0*	*6,2*	*2,2*	*156,3%*
Corporate banking	572,0	591,9	19,9	103,5%
Core business	*436,4*	*429,1*	*-7,4*	*98,3%*
FM products sales	*114,4*	*123,1*	*8,7*	*107,6%*
Equity Markets	*21,2*	*39,8*	*18,6*	*187,9%*
Own operations	280,9	262,0	-18,9	93,3%
Proprietary trading	*117,2*	*106,4*	*-10,8*	*90,8%*
ALCO	*163,7*	*155,6*	*-8,2*	*95,0%*
Income total	**1 679,3**	**1 679,9**	**0,6**	**100,0%**
Operational expenses, including:	**1 055,9**	**1 112,0**	**56,1**	**105,3%**
Personnel costs	473,6	516,6	43,0	109,1%
Headcount restructuring cost	0,0	11,3	11,3	x
Marketing costs	37,2	54,9	17,6	147,4%
Depreciation	128,1	129,9	1,8	101,4%
Other expenses	388,8	388,6	-0,2	99,9%
Other operational costs	28,2	10,9	-17,3	38,6%
Result before risk costs	**623,4**	**567,9**	**-55,5**	**91,1%**
Risk costs	-152,0	118,9	270,8	-78,2%
Result before tax	**471,4**	**686,8**	**215,4**	**145,7%**
CIT	-93,1	-133,2	-40,1	143,1%
Result after tax	**378,3**	**553,6**	**175,3**	**146,3%**
Tax adjustment (FPU Act)	17,2	-4,3	-21,5	-25,1%
Result after tax adjusted	**395,5**	**549,3**	**153,8**	**138,9%**

The result on banking activity at the end of December 2005 amounted to PLN 1,679.9 million, up by PLN 0.6 million from a year earlier.

Income of retail banking generated at the end of December 2005 amounted to PLN 826.0 million, and remained at a level recorded in the same period last year. Over the 12 months of 2005, the volume of deposits of individual customers went up, while the retail loan portfolio decreased in comparison to its status as at 2004 year-end.

In consequence, the result on core activity was down by PLN 10.4 million from the previous one. The decrease was compensated by higher income on shares in the Pension Fund Company (PTE) (income on valuation less costs of financing) and on sales of Financial Markets products to the client from that segment.

Income of the wholesale banking segment generated at the end of December 2005 amounted to PLN 591.9 million, up by PLN 19.9 million, or 3.5%, as compared to the same period of last year. The year 2005 also witnessed growth of income from both sales of financial markets products in that segment and from capital markets. The loans of corporate customers decreased compared to the end of 2004. The observed drop referred to the strategic clients. The volume also dropped in terms of wholesale deposits. The lower revenue deriving from the volume decrease was compensated by higher revenue on the sale of Financial Markets products and structured products.

Income generated on own operations as at the end of December 2005 was PLN 262.0 million, down by PLN 18.9 million, or 6.7%, on a year-earlier period. Income of financial markets as at the end of December 2005 totalled PLN 106.4 million, down by PLN 10.8 million, or 9.2%, as compared to the same period of last year. Upon including FM sales into the wholesale and retail segments, the income of financial markets as at the end of December 2005 totalled PLN 235.7 million versus PLN 235.6 million in the same period last year. Income generated in terms of ALCO (ALCO income, inclusive of the result on investment activity) as at the end of December 2005 amounted to PLN 155.6 million, down by PLN 8.2 million, or 5.0%, on a year-earlier period.

Total costs for the four quarters of 2005 amounted to PLN 1,112.0 million, up by PLN 56.1 million, or 5.3%, on a year earlier.
Personnel costs at the end of December 2005 amounted to PLN 516.6 million, up by PLN 43.0 million, or 9.1%, from the year-earlier period. The rise of personnel costs was caused by indexation of salaries, higher costs of remuneration as the incentive system has been correlated with the Bank's performance, and growth of headcount in the sales network and the units actively supporting sales of products.

In connection with the re-organisation of the regional operating centres, commenced in 4Q 2005, and changes in the process of retail debt collection, provisions totalling PLN 11.3 million were established for restructuring, including PLN 10.3 million worth of provisions for dismissed employees. The restructuring is the effect of projects implemented at the Bank which aim at the optimisation of the operations area. Centralisation of selected activities, consolidation of operating units and reduction of activities in regard to field debt collection due to signing outsourcing agreements allowed to reduce the headcount by approx. 400 persons.

The increase of marketing costs from PLN 37.2 million as at the end of December 2004 to PLN 54.9 million as at the end of December 2005 resulted from intensification of marketing activities aimed at promoting the Bank's products. The higher marketing campaign costs are co-related with the commercial expansion of ING Bank Śląski.

Depreciation after the four quarters of 2005 was up by PLN 1.8 million on a year-to-year basis.
Other costs as at the end of December 2005 amounted to PLN 388.6 million, and remained at the last year's level. Other operating costs after four quarters of 2005 amounted to PLN 10.9 million, down by PLN 17.3 million from the end of December 2004.

The result before risk costs as at the end of December 2005 was PLN 567.9 million, down by PLN 55.5 million, or 8.9%, from the same period last year.

As at the end of December 2005, the costs of risk were positive and amounted to PLN 118.9 million, out of which PLN 110.4 million pertained to impairment write-offs due to loans and advances; PLN 22.5 million was related to write-offs for provisions on off-balance sheet liabilities; (- PLN 2.0 million) to impairment loss of property, plant and equipment; (- PLN 7.8 million) pertaining to impairment loss of other assets, and (– PLN 4.2 million) related to debt collection costs.

Gross financial result after the four quarters of 2005 amounted to PLN 686.8 million versus PLN 471.4 million in the same period last year. Net financial result, in turn, was PLN 549.3 million, up by PLN 153.8 million from 2004.

3. Analysis of Commercial Figures

In 2005, ING Bank Śląski S.A. carried out numerous projects aimed at increasing the quality of service significantly, ensuring transparency, and making its product offer more attractive.

The commercial policy of ING Bank Śląski in 2005 focused on building of the deposit portfolio and providing clearing services. The intense activities taken by the Bank in the retail market proved very successful. Over the 12 months of 2005, ING Bank Śląski considerably increased its deposit base and reinforced its share in the household market. In 2005, the Bank also taking actions aimed at rebuilding of the credit portfolio. First of all, we finalised the implementation of the new credit sales organisation, processing of applications and monitoring of credit processes, both in regard to retail and corporate clients. In the long run, those activities should allow rebuilding the credit portfolio.

From the very beginning of 2005, ING Bank Śląski has been introducing substantial changes to its product offer to make it more transparent by reducing the number of products on offer. Within the new strategy of deposits acquisition ING Bank Śląski S.A. fundamentally altered the offer addressed to individual clients, laying focus on the simple and transparent product construction as well as competitive interest rates. The primary change pertained to limitation of personal accounts offer to three options (LION ACCOUNT) that match the needs of various client groups. A new attractive clearing and savings proposal for small businesses was launched as well. The individual and corporate clients are now able to open the LION ACCOUNT and Open Savings Account via phone or the Internet, without having to visit a bank branch. During the 12 months of the year, ING Bank Śląski also improved its credit offer for individual clients (loans for vehicles purchase, for the purchase of securities in IPOs), and for small businesses (cash loan for small businesses, loan for purchase of vehicles for small businesses).
The Bank's clients were offered new mortgage products (Mortgage Credit Line and Consolidation Loan), while recently the Investment Insurance Deposit has been added to the offer for individual clients. This is a product offered jointly with the ING Nationale-Nederlanden Life Insurance Company.

ING Bank Śląski regularly encourages its clients to use alternative channels of banking services, including electronic banking as well as payment and credit cards. In 2005, the Bank ran a pricing promotion in electronic banking, and introduced favourable changes to its payment cards offer. To improve the sales efficiency, the Bank facilitated the process of rendering the e-banking systems available as well as implemented the new process of debit cards issuance and activation. Recently, ING Bank Śląski introduced to its offer the prepaid Visa e-card - the first cut-out and translucent card in Poland. It is a pre-paid bearer card, which can be used for making secure payments on the Internet, as well as in shops.

The changes to the product offer were actively supported by numerous advertising campaigns promoting its key products, such as the OKO Open Savings Account, credit cards and electronic banking systems. There were also advertising campaigns of the new Bank offer addressed to small businesses and wholesale clients.

At the end of December 2005, the total value of deposits accumulated at Capital Group of ING Bank Śląski S.A. was PLN 30,679.5 million, up by 16.2%, from December 2004.

Structure of deposits of Capital Group of ING Bank Śląski S.A.

	31.12.2004	31.12.2005
Households	15 101,0	19 152,0
Companies	9 076,2	8 513,1
Financial institutions (other than banks)	1 037,3	1 629,9
Self-governmental institutions and central budget	1 195,1	1 384,5
Grand total	**26 409,6**	**30 679,5**

The funds obtained from households formed the main component of the deposit base. As at the end of December 2005, they amounted to PLN 19,152.0 million, up by PLN 4,051.0 million, or 26.8%, from the end of 2004. Enhancement and intense promotion of the OKO Open Savings Account produced visible results, as well as considerable activation of sales. The value of the portfolio of that product rose from PLN 6,363.7 million at the end of 2004 to PLN 12,775.3 million as at the end of December 2005.

The share in the market of long-term deposits and liabilities amounted to 8.35% (versus 8.07% as at the end of 2004); an increase of the share in the household deposits market was recorded from 7.19%

as at the end of 2004 to 8.52% as at the end of December 2005. The share in the market of corporate deposits as at the end of December 2005 totalled 8.09% against 9.58% as at the end of December 2004.

The Bank also distributes units of ING TFI investment funds. As at the end of December 2005, the balance of acquired units was PLN 2,286 million versus PLN 1,211 million as at the end of 2004.

The value of credit exposure and other receivables from customers as at the end of December 2005 totalled PLN 9,833.0 million versus PLN 10,407.9 million in December 2004. In 2005, the Bank took actions to rebuild the credit portfolio. As a result, growth was observed in certain segments and types of loans (e.g. PLN housing loans or credit card-related loans). A drop was recorded for the credit portfolio of the strategic clients, while the loans for others corporate segments grew.

Structure of credit portfolio and other receivables from customers of Capital Group of ING Bank Śląski S.A.

	31.12.2004	31.12.2005
Households	3 385,3	3 238,7
Companies	6 614,5	5 926,1
Financial institutions (other than banks)	529,2	829,2
Self-governmental institutions and central budget	386,4	426,0
Other receivables	287,8	192,6
Impairment losses	-795,3	-779,6
Grand total	10 407,9	9 833,0

As at the end of December 2005, the value of the mortgages portfolio was PLN 1 102.5 million, with PLN 683.4 million worth of PLN-denominated loans and PLN 419.1 million worth of FX-denominated loans. As at 31.12.2004, mortgages amounted to PLN 1 022.0 million (where PLN 462.5 million represented PLN loans, and PLN 559.5 worth of FX loans).

The Bank's share in credit receivables market as at the end of December 2005 was 3.73% (versus 4.29% as at the end of December 2004). The Bank's share in the corporate loans market as at the end of December 2005 totalled 5.09% versus 5.34% as at the end of December 2004. The share in the market of household loans as at the end of December 2005 was 2.22% versus 2.87% as at the end of December 2004. The Capital Group's share in credit receivables market as at the end of December 2005 was 3.78% (versus 4.36% as at the end of December 2004).

The number of personal accounts maintained by the Bank as at the end of December 2005 totalled 1,002,100 compared with 974,800 on 31.12.2004.

ING Bank Śląski is one of the largest issuers of bank cards in the Polish market. The Bank's offer includes debit cards, charge cards, credit cards and pre-paid cards. Credit cards are among priority products in the retail offer. The number of newly offered credit cards issued [2] went up from 31,732 as at the end of 2004 to 117,894 cards at the end of December 2005. Together with VE Credit and VE Credit NN-P cards, the number of credit cards issued as at the end of September totalled 128,598.

The number of customers using the electronic banking systems went up from 1,044,687 as at the end of September 2005 to 1,160,001 as at the end of December 2005.

[2] Visa Classic, Visa Credit Gold, MasterCard Credit

The figures for electronic banking clients are as follows:

Electronic banking system	31.12.2005	30.09.2005	31.12.2004
MultiCash	9,404	9,258	9,323
ING BankOnLine	361,944,	299,300,	152,832
HaloŚląski	708,864	669,238	560,788
SMS	79,789	66,891	40,650
Total	1,160,001	1,044,687	763,593

The monthly number of transactions made with the use of the electronic banking systems in December 2005 totalled 3.9 million. The volume of electronic transactions in December 2005 amounted to PLN 24.4 billion. In the same period last year the number of transactions made with the use of the electronic banking systems was 3 million, and the volume was PLN 24.3 billion.

4. Credit Portfolio – Portfolio Quality and Risk Costs

Under the International Accounting Standards, provisions that have been established for expected (estimated) loss and for risk of loss in future are replaced by impairment of loans in regard to which the loss of value was observed and a write-off for losses incurred but not reported and provisions for off-balance-sheet liabilities. The amount of impairment loss is calculated as the difference between the total future cash flows discounted with the effective interest rate and the carrying value of receivables (or the equivalent liability).

The amount of credit losses that have already been incurred but not reported (IBNR) is calculated by means of statistical models using the amounts of exposures for which no impairment was stated based on the PD (probability of default), the estimated period (the emergency period) between the occurrence of circumstances that may lead to a loss (e.g. losing capacity to repay liabilities) and the date on which the Bank receives information thereof, and the LGD (loss given default).

The International Accounting Standards do not allow for keeping of general reserves. Consequently, it became necessary to release the general risk reserve which was partially utilised for the creation of IBNR reserves. Following the implementation of IFRS/ IAS, the specific provisions, the general risk reserve and reserved interest established as at 31.12.2004 were moved to equity in the opening balance sheet for 2005. Impairment write-offs and write-offs for incurred but not reported losses (IBNR) were created at the same time. The table below presents a comparison between the closing balance of 2004 and the opening balance of 2005. In order to ensure comparability of data, the value of reserved interest was added to the specific provisions for 2004, and the exposure value was presented inclusive of contractual interest accrued According to the presented data, the level of write-offs in relation to provisions went down by PLN 123 million.

Furthermore, following the recovery of some of the fully provisioned lost receivables, which were shifted to off-balance sheet records between 2003 and 2004, and also in view of the development of trading in distressed debt, the Bank measured as at 01.01.2005 the (market) value of the portfolio of receivables transferred to the off-balance sheet records in the amount of PLN 44,103,000. The measurement amount has been recognised in the Bank's balance sheet as an asset in correspondence with equity (retained earnings of previous years). As a result, equity increased by PLN 38,356,000, that is the discounted market value of the said portfolio.

Amounts obtained from the portfolio written off to the off-balance sheet are first settled with the valuation activated. Upon settlement of the assets amount, all future revenue is to increase the result of the current year.

PLN mio	2004	2004 IFRS	2005
Exposure total / Exposure under IFRS	**11 307**	**11 349**	**10 562**
Provisions total	**1 072**	**949**	**813**
Total coverage ratio (%)	**9,5%**	**8,4%**	**7,7%**
Corporate entities	**8 134**	**8 150**	**7 592**
- regular / unimpaired portfolio	7 021	7 331	6 983
- sub-standard / impaired portfolio	144		
- doubtful / impaired portfolio	430	818	609
- lost / impaired portfolio	539		
Provisions / Impairment	**601**	**593**	**493**
Allocation of general reserves / IBNR	**153**	**73**	**70**
Provisions for off-balance commitments	**17**	**33**	**14**
Irregular portfolio coverage (%) / Impaired portfolio coverage	**67,7%**	**72,5%**	**81,1%**
Retail	**3 172**	**3 199**	**2 970**
- regular / unimpaired portfolio	2 865	2 908	2 698
- sub-standard / impaired portfolio	68		
- doubtful / impaired portfolio	20	291	272
- lost / impaired portfolio	219		
Provisions / Impairment	**245**	**201**	**191**
Allocation of general reserves / IBNR	**56**	**31**	**28**
Provisions for off-balance commitments		**19**	**15**
Irregular portfolio coverage (%) / Impaired portfolio coverage	**97,9%**	**69,0%**	**70,1%**
Share of irregular loans in portfolio	**12,56%**		
Share of impaired loans in portfolio		**9,78%**	**8,35%**

The detailed structure of impairment write-offs in the three quarters of 2005 has been presented in the below table.

PLN million

Item	Group total	Corporate				Retail			
		Balance sheet		Off-balance sheet		Balance sheet		Off-balance sheet	
		Impairment	IBNR	Impairment	IBNR	Impairment	IBNR	Impairment	IBNR
Impairment losses	133,0	80,0	3,9	13,4	5,5	23,6	3,1	2,5	1,1
Increases/decreases of impairment	78,3	48,0	3,9	13,4	5,5	0,9	3,1	2,5	1,1
Recoveries	54,7	32,0				22,7			

5. Major Achievements in the Quarter

Awards

Ever since its establishment, ING Bank Śląski S.A. has been recognised as one of the top banks in Poland, which is proven by high positions it received in various rankings:

- November 2005, Distinction in the *Złote Spinacze* competition in the Corporate Social Responsibility (CSR) class for the "*In the Company of the Lion*" social programme;
- November 2005, Special Distinction in the *Arts & Business Awards* for overall activities to promote and develop art and culture in Poland.
- October 2005, awarded the title of the Benefactor of the National Museum in Cracow by the Minister of Culture in recognition of the co-operation with the Museum on two exhibitions "*Leon Wyczółkowski 1852-1936",* an exhibition celebrating the 150th Anniversary of the Artist's Birthday and *"Painters of Reality*".
- September 2005, awarded a diploma of the President of the Republic of Poland for supporting entrepreneur initiatives of young people as part of the Entrepreneurship Day 2005.
- September 2005, Ranking of Forbes monthly: ranked number one in "Top Corporate Bank" class and number three in "*Top Retail Bank*" class.
- September 2005, ranked number four in the ranking by Newsweek weekly "*Customer-Friendly Bank*".
- June 2005, first place in the KOMPAS competition, "*Visibility in Universities*" class, a ranking organised under the auspices of *Rzeczpospolita* daily, MillwardBrown SMG/KRC and the Student Research and Consulting Group of the Warsaw School of Economics (SGH) in Warsaw.
- April 2005, Silver Rock 2004 for the greatest achievements in the development of new product cards, awarded by the Polish agency of MasterCard Europe.
- April 2005, CEDRYK Prize, awarded by *Centrum Ekspresji Dziecięcej* [Children's Expression Centre], functioning at the Library of Silesia, for help and commitment in the organisation of the 3rd Poland-wide Festival of Children's Expression.
- April 2005, Diamond Sponsor for supporting the program of the President of the Republic of Poland "*Internet in Schools*".
- January 2005 Promotional Label "*Entrepreneur-friendly Bank*" in two classes: "*Commercial Banks*" and "*Bank Branches*".

Ratings

In fourth quarter of 2005, the ratings of ING Bank Śląski S.A. remained unchanged. At present, the Bank's financial credibility is rated as follows by the top rating agencies:

Fitch Ratings Ltd.

Long-term liabilities	A
Long-term outlook	Positive
Short-term liabilities	F1
Individual rating	D
Support rating	1

Moody's Investors Service Ltd.

Long-term deposits	A2
Short-term deposits	P-1
Financial strength	D
Long-term and short-term deposits rating outlook	Positive

6. Other Information

Headcount

The headcount in the Capital Group was as follows:
31.12.2005 7,446 persons; or 7,335.3 FTEs,
31.12.2004 7,388 persons; or 7,175.2 FTEs,

The headcount increase results from an increased number of employees in the Sales Network and the units actively supporting the sale of products. Following the implementation of a new organisation of processes at ING Bank Śląski, in November 2005 the Bank commenced the process of group layoffs. The Bank is to terminate employment contracts for technological and organisational reasons with approximately 400 employees.

Number of Branches and ATMs

As at 31.12.2005, the Bank conducted its operational activity via a network of 331 branches compared with 332 outlets at the end of December 2004. As at the end of December 2005, the Bank had a network of 561 ATMs.

III. Segmentation of Revenue and Financial Results of the Group

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PLN thousand	2005					2004				
	Retail customers segment	Corporate customers segment	Own operations		TOTAL	Retail customers segment	Corporate customers segment	Own operations		TOTAL
			Proprietary trading	ALCO				Proprietary trading	ALCO	
Revenue total	**853 427**	**640 690**	**109 920**	**75 897**	**1 679 934**	**851 226**	**627 272**	**123 848**	**76 945**	**1 679 290**
Core business	793 121	468 826	235 684	128 875	1 626 506	803 561	457 605	235 503	140 031	1 636 701
Income on lending	211 607	171 041			382 648	224 933	128 576			353 508
Interest income external	*310 802*	*474 688*				*352 137*	*398 960*			
Interest cost internal	*-130 825*	*-358 123*				*-172 826*	*-323 538*			
Income on fees/ other income	*31 629*	*54 476*				*45 621*	*53 154*			
Income on deposits	531 990	231 375			763 365	521 102	264 753			785 855
Interest costs external	*-642 935*	*-395 139*				*-412 422*	*-340 747*			
Interest income internal	*954 932*	*508 767*				*692 661*	*479 134*			
Income on fees/ other income	*219 993*	*117 747*				*240 863*	*126 366*			
Other income on core activity	49 525	66 410	235 684	128 875	480 493	57 526	64 277	235 503	140 031	497 337
Share in profits (losses) of minority shareholders				26 700	26 700				23 694	23 694
Income on Pension Funds shares	26 728				26 728	18 895				18 895
FM products sales	6 183	129 278	-135 461		0	3 955	118 339	-122 293		0
Result on economic capital	27 395	42 586	9 697	-79 678	0	24 814	51 328	10 638	-86 781	0
Expenses total	**725 031**	**343 116**	**32 428**	**11 438**	**1 112 013**	**673 820**	**349 451**	**27 588**	**5 056**	**1 055 915**
Operational costs	714 815	342 754	32 233	11 330	1 101 132	672 085	325 113	27 588	2 929	1 027 715
including depreciation	*102 451*	*21 181*	*6 234*		*129 866*	*101 058*	*20 893*	*6 149*		*128 100*
Other operational costs (operational risk)	10 216	362	195	108	10 881	1 735	24 338	0	2 127	28 200
Result before risk	**128 396**	**297 575**	**77 491**	**64 459**	**567 921**	**177 405**	**277 821**	**96 260**	**71 888**	**623 375**
Risk cost	-52 018	-66 865	0	0	-118 883	74 940	77 013	0	0	151 953
Result before tax	**180 414**	**364 439**	**77 491**	**64 459**	**686 804**	**102 465**	**200 809**	**96 260**	**71 888**	**471 422**
CIT					137 485					75 907
Result after tax					**549 319**					**395 515**

It should be emphasized, that accounting rules used in 2004 was adapted to comparability with 2005 obligatory rules, excluding IAS 18 and IAS 39 which concerned effective interest rate and loans impairment subjects. Hence, to obtain comparable results on lending activity in 2004 and 2005, you should increase income on lending presented for 2004 by income on invested provisions - which was actually included in "Other income on core activity" line - by amount of PLN 21 068 thousand for retail customers and PLN 53 627 thousand for corporate customers segment.

The basic division applied by the Group is the division by sector. The Group of ING Bank Śląski is managed by means of business division into the following sectors:

- Retail,
- Wholesale,
- proprietary operations:
  - trading
  - ALCO.

As part of its retail operations, the Bank's capital group provides service to private individuals (mass clients and affluent clients segment) and small businesses.

These operations are analysed in terms of the following products: loans related to cards, instalment loans, housing loans, and mortgages), contract loans extended by the Housing Savings & Loans Unit, mortgages extended by Śląski Bank Hipoteczny, deposit products (current accounts, term deposits, and saving accounts), participation units in ING mutual funds, brokerage services performed by ING Securities S.A., and bank cards.

Wholesale encompasses service of institutional clients within the following segments: strategic clients, large corporates and mid-sized companies.
The capital group maintains reporting for its wholesale operations broken into the following types of products: credit products (working capital loans, and investment loans), deposit products (current accounts, term deposits and negotiable deposits), custody-related services, operations in the capital market performed by the dominant entity and ING Securities, as well as intermediation in leasing-related services.

Financial markets cover operations in money markets and capital markets both for own account and for clients.

The following types of products are distinguished in this type of activity: FX market products, money market products and derivatives, operations in securities (Treasury bills, shares and bonds).
ALCO deals predominantly with the investment of own funds and funding of some of the Bank's assets. The main element of revenue from ALCO's core operations is the revenue from the investment of own funds (book capital). The revenue is then adjusted for interest accrued on the economic capital required by individual business lines (retail segment, wholesale segment, and financial markets segment). Interest on economic capital is re-allocated from the ALCO line to the individual business lines depending on their demand for economic capital.

Sector division, defined with the internal regulations of the Bank, constitutes the basis for separation of wholesale and retail segments. As of 01.01.2005, ING Bank Śląski implemented resegmentation of clients under the separated segments. Consequently, 4,606 clients with PLN 159 million-worth of deposits were shifted from the wholesale to retail segment.

The profitability of individual segments is assessed based on the transfer pricing system. Transfer prices are determined based on one yield curve for a given currency, which is common for the asset-related products and the liabilities-related ones. The transfer price set for the asset-related products and the liabilities-related ones having the same position on the yield curve is identical. It is possible to modify the starting transfer price from the product valuation on the yield curve, and the following factor may be used to correct the transfer price: premium for obtaining long-term liquidity, adjusting the Bank's position, the cost of collateral in case of complex products, and the pricing policy. Using mathematical equations – based on the quotations rates available in the information services – profitability yields are then built.

Revenue, results, assets and liabilities for a given segment account for elements that are directly attributable to the segment in question, as well as element that may be attributed to that segment based on reasonable premises.

CONSOLIDATED PROFIT AND LOSS ACCOUNT	IV quarter 2005 the period from 01 Oct 2005 to 31 Dec 2005	4 quarters 2005 the period from 01 Jan 2005 to 31 Dec 2005	IV quarter 2004 the period from 01 Oct 2004 to 31 Dec 2004	4 quarters 2004 the period from 01 Jan 2004 to 31 Dec 2004
Interest and similar income	*469 105*	*1 868 398*	*496 733*	*1 692 149*
Interest expense and similar charges	*260 725*	*1 147 177*	*285 479*	*857 988*
- **Net interest income**	**208 380**	**721 221**	**211 254**	**834 161**
- Dividend income		1 711		763
Commission income	*160 166*	*604 076*	*159 994*	*600 920*
Commission expense	*18 937*	*76 398*	*23 398*	*91 771*
- **Net commission income**	**141 229**	**527 678**	**136 596**	**509 149**
- Net income on instruments at fair value	-2 753	212 137	36 814	72 715
- Net income on investments	709	3 684	1 456	4 305
- Result on sale of subsidiary undertaking	289	289	560	560
- Fair value adjustments in hedge accounting	-2 272	-1 995	0	0
- Exchange rate differences	48 070	176 442	60 002	251 205
- **Result on banking activity**	**393 652**	**1 641 167**	**446 682**	**1 672 858**
Other operating income	*13 285*	*38 369*	*4 895*	*31 048*
Other operating expenses	*9 370*	*31 856*	*23 458*	*42 633*
- **Result on other operating income and expenses**	**3 915**	**6 513**	**-18 563**	**-11 585**
- General administrative expenses	251 919	971 266	220 227	901 002
- Depreciation and amortisation	34 213	129 866	32 703	128 100
- Result on disposals of assets other than held for sale	-247	122	356	694
- Impairment losses and provisions	-53 949	-120 833	13 375	186 173
- Share in net profit (loss) of associated entities recognised under the equity method	8 985	26 700	10 211	23 694
- Result from non-current assets and disposals groups classified as held for sale	-2	3 632	-42	-422
- **Net result before tax**	**174 120**	**697 835**	**172 339**	**469 964**
- Income tax	39 049	137 485	36 007	75 907
- Net result of current year	135 071	560 350	136 332	394 057
- Minority interest	3 955	11 031	-10 724	-1 458
Consolidated net result of capital group	**131 116**	**549 319**	**147 056**	**395 515**

- **Net profit (for 12 months)**		**549 319**		**395 515**
- **Weighted average number of ordinary shares**		**13 010 000**		**13 010 000**
- **Earnings per share**		**42,22**		**30,40**
- **Weighted average anticipated number of ordinary shares**		13 010 000		13 010 000
- **Diluted profit (loss) per ordinary share (PLN)**		42,22		30,40

CONSOLIDATED BALANCE SHEET	31 Dec 2005	30 Sep 2005	31 Dec 2004	30 Sep 2004
A S S E T S				
- Cash in hand and balances with the Central Bank	1 176 443	889 481	895 332	544 348
- Deposit accounts in other banks as well as loans and advances to other banks	12 599 360	12 998 143	10 748 766	8 957 869
- Financial assets held for trading	5 915 632	6 367 631	4 976 205	4 646 651
- Investments	11 211 946	9 428 760	7 014 258	5 875 100
- Non-current assets held for sale	5 969	5 984	8 614	482
- Loans and advances to customers	9 833 024	10 189 667	10 407 872	11 505 979
- Investments in associates	75 080	66 095	70 944	65 307
- Property, plant and equipment	751 586	759 497	768 719	846 031
- Intangible assets	320 500	315 307	304 408	303 692
- Tax assets	251 975	236 799	287 313	269 809
- Other assets	126 796	177 810	125 048	104 675
T o t a l a s s e t s	**42 268 311**	**41 435 174**	**35 607 479**	**33 119 943**
L I A B I L I T I E S A N D E Q U I T Y				
LIABILITIES				
- Liabilities due to Central Bank	464 000	-	-	-
- Liabilities due to other banks	894 200	3 240 477	2 505 041	2 370 649
- Financial liabilities held for trading	1 095 899	1 376 016	1 270 042	1 883 135
- Liabilities to customers	35 391 016	32 442 721	27 638 259	24 488 861
- Provisions	81 860	84 264	288 208	337 070
- Tax liabilities	121 798	102 312	141 290	87 690
- Other liabilities	636 770	697 038	601 063	949 229
L i a b i l i t i e s t o t a l	**38 685 543**	**37 942 828**	**32 443 903**	**30 116 634**
EQUITY				
- Initial capital	130 100	130 100	130 100	130 100
- Supplementary capital - agio	993 750	993 750	993 750	993 750
- Revaluation reserves	116 480	158 274	107 148	77 115
- Result of previous year	1 775 134	1 777 991	1 530 107	1 530 107
- Net result of current year	549 319	418 203	395 515	248 459
O w n e q u i t y t o t a l	**3 564 783**	**3 478 318**	**3 156 620**	**2 979 531**
- Minority interest	17 985	14 028	6 956	23 778
L i a b i l i t i e s a n d e q u i t y t o t a l	**42 268 311**	**41 435 174**	**35 607 479**	**33 119 943**
Solvency ratio	**18,76%**	**15,50%**	**15,66%**	**15,30%**
Net book value	**3 564 783**	**3 478 318**	**3 156 620**	**2 979 531**
Number of shares	**13 010 000**	**13 010 000**	**13 010 000**	**13 010 000**
Net book value per share (in PLN)	**274,00**	**267,36**	**242,63**	**229,02**

CONSOLIDATED OFF-BALANCE SHEET ITEMS	31 Dec 2005	30 Sep 2005	31 Dec 2004	30 Sep 2004
- Contingent liabilities granted	9 377 610	14 012 605	11 220 722	9 742 686
- Contingent liabilities received	10 544 625	10 680 229	12 082 078	12 582 562
- Off-balance sheet financial instruments	108 831 552	140 625 910	91 467 953	113 594 864
O f f - b a l a n c e s h e e t i t e m s t o t a l	**128 753 787**	**165 318 744**	**114 770 753**	**135 920 112**

MOVEMENTS IN CONSOLIDATED OWN EQUITY

	4 quarters 2005 the period from 01 Jan 2005 to 31 Dec 2005	4 quarters 2004 the period from 01 Jan 2004 to 31 Dec 2004
EQUITY COMPONENTS		
Initial capital	**130 100**	**130 100**
Supplementary capital - agio	**993 750**	**993 750**
Revaluation reserves	**116 480**	**107 148**
- fair value revaluation reserve on available for sale financial assets	*85 798*	*64 126*
- tangible assets revaluation reserve	*30 682*	*43 022*
Result of previous years	**1 775 134**	**1 530 107**
- supplementary capital	*31 396*	*16 894*
- revaluation reserves	*28 760*	*28 760*
- reserve capital	*1 231 839*	*1 153 299*
- general bank risk fund	*430 179*	*400 179*
- retained result from previous years	*52 960*	*-69 025*
Net result of current year	**549 319**	**395 515**
O w n e q u i t y t o t a l	**3 564 783**	**3 156 620**
Minority interest	**17 985**	**6 956**
E q u i t y t o t a l	**3 582 768**	**3 163 576**

The initial capital is composed of 13,010,000 ordinary shares of the face value of PLN 10.00 each. Each ordinary share provides the shareholder with the right to dividend and one vote at the general meeting of the Bank's shareholders.

SOURCES OF EQUITY CHANGES

4 quarters 2005
the period from 01 Jan 2005 to 31 Dec 2005

	Initial capital	Supplementary capital - agio	Revaluation reserves	Result of previous years					Net result of current year	Minority interest	TOTAL
				supplementary capital	*revaluation reserves*	*capital reserve*	*general bank risk fund*	*retained result from previous years*			
Closing balance (last year)	**130 100**	**993 750**	***107 148***	***16 894***	***28 760***	***1 153 299***	***400 179***	***326 489***	**0**	**6 956**	**3 163 575**
- changes in adopted accounting principles	-	-	*3 865*	-	-	-	-	*102 583*	-	-	**106 448**
Opening balance (current year)	**130 100**	**993 750**	***111 013***	***16 894***	***28 760***	***1 153 299***	***400 179***	***429 072***	**0**	**6 956**	**3 270 023**
- profit/loss from revaluation of available-for-sale assets charged to equity	-	-	*19 649*	-	-	-	-	-	-	-	**19 649**
- amounts charged to net result due to sale of financial assets classified as available-for-sale	-	-	*-1 844*	-	-	-	-	-	1 844	-	**0**
- liquidation or sale of fixed assets	-	-	*-12 769*	*12 769*	-	-	-	*866*	-	-	**866**
- revaluation of tangible assets	-	-	431	-	-	-	-	-	-	-	**431**
- profit distribution	-	-	-	*1 733*	-	*80 198*	*30 000*	*-378 636*	-	-	**-266 705**
- charges to supplementary capital	-	-	-	*1 733*	-	-	-	*-1 733*	-	-	***0***
- charges to capital reserve	-	-	-	-	-	*80 198*	-	*-80 198*	-	-	***0***
- charges to general bank risk fund	-	-	-	-	-	-	*30 000*	*-30 000*	-	-	***0***
- dividend	-	-	-	-	-	-	-	*-266 705*	-	-	***-266 705***
- sale of subsidiary undertaking	-	-	-	-	-	*-1 658*	-	*1 658*	-	-	**0**
- net result of current period	-	-	-	-	-	-	-	-	558 504	-	**558 504**
- minority participation in financial result	-	-	-	-	-	-	-	-	-11 029	11 029	**0**
Closing balance (current year)	**130 100**	**993 750**	**116 480**	**31 396**	**28 760**	**1 231 839**	**430 179**	**52 960**	**549 319**	**17 985**	**3 582 768**

4 quarters 2004
the period from 01 Jan 2004 to 31 Dec 2004

	Initial capital	Supplementary capital - agio	Revaluation reserves	Result of previous years					Net result of current year	Minority interest	TOTAL
				supplementary capital	*revaluation reserves*	*capital reserve*	*general bank risk fund*	*retained result from previous years*			
Closing balance (last year)	**130 100**	**993 750**	**-7 173**	***4 435***	***29 620***	***1 159 779***	***381 852***	***16 449***	**0**	**-4 511**	**2 704 301**
- changes in adopted accounting principles	-	-	52 169	-	-	-	-	*-51 620*	-	19 023	**19 572**
Opening balance (current year)	**130 100**	**993 750**	**44 996**	***4 435***	***29 620***	***1 159 779***	***381 852***	***-35 171***	**0**	**14 512**	**2 723 873**
- profit/loss from revaluation of available-for-sale assets charged to equity	-	-	65 858	-	-	-	-	-	-	-	**65 858**
- amounts charged to net result due to sale of financial assets classified as available-for-sale	-	-	-	-	-	-	-	-	-	-	**0**
- liquidation or sale of fixed assets	-	-	-	*860*	-860	-	-	-	-	-	**0**
- revaluation of tangible assets	-	-	-9 147	-	-	-	-	-	-	-	**-9 147**
- hedge accounting	-	-	5 441	-	-	-	-	-	-	-	**5 441**
- covering of prior period losses	-	-	-	-	-	*-12 977*	-	*12 977*	-	-	**0**
- sale of subsidiary undertaking	-	-	-	*7 979*	-	-	-	*-7 979*	-	-	**0**
- profit distribution	-	-	-	*3 620*	-	*6 497*	*18 327*	*-38 852*	-	-	**-10 408**
- charges to supplementary capital	-	-	-	*3 620*	-	-	-	*-3 620*	-	-	***0***
- charges to capital reserve	-	-	-	-	-	*6 497*	-	*-6 497*	-	-	***0***
- charges to general bank risk fund	-	-	-	-	-	-	*18 327*	*-18 327*	-	-	***0***
- dividend	-	-	-	-	-	-	-	*-10 408*	-	-	***-10 408***
- net result of current period	-	-	-	-	-	-	-	-	387 959	-	**387 959**
- minority participation in financial result	-	-	-	-	-	-	-	-	7 556	-7 556	**0**
Closing balance (current year)	**130 100**	**993 750**	**107 148**	***16 894***	***28 760***	***1 153 299***	***400 179***	***-69 025***	**395 515**	**6 956**	**3 163 576**

CONSOLIDATED CASH FLOW STATEMENT

	4 quarters 2005 the period from 01 Jan 2005 to 31 Dec 2005	4 quarters 2004 the period from 01 Jan 2004 to 31 Dec 2004
OPERATING ACTIVITIES		
Net profit (loss)	**549 319**	**395 515**
Adjustments	**-546 066**	**369 273**
- Minority shareholders' profit (loss)	11 031	-1 458
- Share in net profit (loss) of associated entities recognised under the equity method	-26 700	-22 721
- Unrealised foreign exchange gains (losses)	-4 148	-15 964
- Depreciation	129 866	128 101
- Accrued interest (presented in profit and loss account)	723 781	589 304
- Interest received / paid	-654 737	-510 550
- Dividends received	-1 711	-763
- Profit or loss on investment activity	5 690	-578
- Corporate income tax (presented in profit and loss account)	137 485	75 907
- Corporate income tax paid	-122 802	109 952
- Change in provisions	10 749	32 211
- Change in deposit accounts in other banks and loans and advances to other banks	-2 573 852	-2 878 587
- Change in financial assets held for trading	-936 424	-120 618
- Change in investments	-4 381 593	-6 217 567
- Change in loans and advances to customers	500 492	2 987 248
- Change in other assets	-5 426	-11 626
- Change in liabilities to banks	-1 181 764	445 204
- Change in financial liabilities held for trading	-174 143	1 013 680
- Change in liabilities to customers	7 808 246	4 764 773
- Change in other liabilities	189 894	3 325
Cash flow from operating activities	**3 253**	**764 788**
INVESTING ACTIVITIES		
- Acquisition of tangible assets	-110 145	-67 456
- Sale of tangible assets	1 262	3 194
- Acquisition of intangible assets	-27 325	-17 267
- Sale of intangible assets	0	46
- Acquisition of investments in subordinated entities	0	0
- Sale of investments in subordinated entities	0	0
- Acquisition of non-current assets or liabilities held for sale	0	0
- Sale of non-current assets or liabilities held for sale	9 313	0
- Dividends received	24 273	5 748
Net cash flow from investing activities	**-102 622**	**-75 735**
FINANCING ACTIVITIES		
- Repayment of long-term loans	-55 616	-36 279
- Repayment of interest from long-term loans	-2 995	-4 395
- Dividends paid	-266 705	-10 408
Net cash flow from financing activities	**-325 316**	**-51 082**
Effect of exchange rate changes on cash and cash equivalents	***-36 341***	***-702 996***
Net increase in cash and cash equivalents	**-424 685**	**637 971**
Cash and cash equivalents at the beginning of the period	**5 404 252**	**4 766 281**
Cash and cash equivalents at the end of the period	**4 979 567**	**5 404 252**
Components of cash and cash equivalents:		
- Cash on hand	312 074	338 745
- Coupons	1 410	1 606
- Bank cheques	343	227
- Traveller's cheque	9	47
- Current account in the Central Bank	862 607	554 707
- Current accounts in other banks	3 803 124	4 508 920
Total cash and cash equivalents at the end of the period	**4 979 567**	**5 404 252**
of which: amount of cash and cash equivalents held by the Bank, but not available for use by group	*1 070 549*	*861 841*

5. Supplementary Data under IAS 34

5.1 Supplementary Data to Balance Sheet Items

- Loans, cash advances and receivables not quoted on the active market.

	End of 2005	End of 2004
Deposit accounts in other banks as well as loans and advances to other banks		
- Nostro accounts	156 026	257 655
- interbank deposits	12 332 697	10 403 669
- other receivables	83 872	77 840
- loans and advances	*30 981*	*18 840*
- repo transactions	*25 712*	*12 598*
- other receivables	*27 179*	*46 402*
- accrued interest	27 064	9 602
Total (gross)	**12 599 659**	**10 748 766**
Impairment losses	-299	-
Total (net)	**12 599 360**	**10 748 766**
Loans and advances to customers		
Loans and advances granted to entities from the financial sector other than banks		
- loans and advances	829 205	529 218
overdrafts in current account	77 312	98 632
term	751 893	430 586
- reverse-repo transactions	8 057	1 305
- other receivables	135 274	44 140
- accrued interest	2 368	4 758
Total (gross)	**974 904**	**579 421**
Impairment losses	-10 153	-3 585
Total (net)	**964 751**	**575 836**
Loans and advances granted to entities from the non-financial sector		
- loans and advances granted to corporate customers	5 926 102	6 614 478
overdrafts in current account	2 160 295	2 107 167
term	3 765 807	4 507 311
- loans and advances granted to households	3 238 685	3 385 312
overdrafts in current account	953 809	977 465
term	2 284 876	2 407 847
- reverse-repo transactions	-	1 554
- other receivables	11 489	13 565
- accrued interest	34 863	219 327
Total (gross)	**9 211 139**	**10 234 236**
Impairment losses	-737 227	-781 363
Total (net)	**8 473 912**	**9 452 873**
Loans and advances granted government and local government institutions		
- loans and advances	425 979	386 396
overdrafts in current account	3 051	233
term	422 928	386 163
- accrued interest	641	3 104
Total (gross)	426 620	389 500
Impairment losses	-32 266	-10 337
Total (net)	**394 354**	**379 163**
Loans and advances to customers - total		
- loans and advances	10 419 971	10 915 404
- reverse-repo transactions	8 057	2 859
- other receivables	146 763	57 705
- accrued interest	37 872	227 189
Loans and advances to customers - gross	**10 612 663**	**11 203 157**
Impairment losses	-779 639	-795 285
Loans and advances to customers - net	**9 833 024**	**10 407 872**

- Financial liabilities measured using the depreciated cost

	End of 2005	End of 2004
Liabilities due to other banks		
- Current accounts	178 903	107 140
- Interbank deposits	599 713	1 908 775
- Repo transactions	94 260	434 478
- Other liabilities	15 016	21 491
- Accrued interest	6 308	33 157
TOTAL	**894 200**	**2 505 041**
Liabilities to customers		
Liabilities to entities from the financial sector other than banks		
- Deposits	1 629 857	1 037 280
current accounts	884 202	416 687
term accounts	745 655	620 593
- Repo transactions	3 894 569	450 656
- Other liabilities	93 234	180 421
- Accrued interest	4 398	1 060
TOTAL	**5 622 058**	**1 669 417**
Liabilities to entities from the non-financial sector		
- Deposits of corporate customers	8 513 141	9 076 223
current accounts	5 378 090	4 577 224
term accounts	3 135 051	4 498 999
- Deposits of households	19 152 026	15 100 955
current accounts	2 292 935	2 184 629
saving accounts	12 300 085	5 924 203
term accounts	4 559 006	6 992 123
- Repo transactions	115 334	151 375
- Other liabilities	549 722	374 598
- Accrued interest	51 410	61 471
TOTAL	**28 381 633**	**24 764 622**
Liabilities to government and local government institutions		
- Deposits	1 384 457	1 195 098
current accounts	831 559	828 779
term accounts	552 898	366 319
- Other liabilities	2 019	7 980
- Accrued interest	849	1 142
TOTAL	**1 387 325**	**1 204 220**
Liabilities to customers - total		
- Deposits	30 679 481	26 409 556
- Repo transactions	4 009 903	602 031
- Other liabilities	644 975	562 999
- Accrued interest	56 657	63 673
Liabilities to customers - total	**35 391 016**	**27 638 259**

- Property, Plant and Equipment

	End of 2005	End of 2004
- Real properties	459 852	493 222
- Computer hardware	80 348	67 318
- Vehicles	1 827	3 288
- Other fixtures and fittings	92 241	91 227
- Investment real properties	117 318	113 664
TOTAL	**751 586**	**768 719**

- Financial assets for trading

	End of 2005	End of 2004
- Debt instruments	4 951 262	3 393 070
- Equity instruments	1 282	1 122
- Derivative financial instruments	963 088	1 582 013
TOTAL	**5 915 632**	**4 976 205**

- Investment securities

	End of 2005	End of 2004
- Available-for-sale financial assets	10 922 919	6 464 776
- debt instruments	*10 920 701*	*6 445 111*
- equity instruments	*2 218*	*19 665*
- Financial instruments at fair value recognised through the profit and loss account	289 027	549 482
- debt instruments	*225 747*	*220 463*
- repo transactions	*63 280*	*329 019*
TOTAL	**11 211 946**	**7 014 258**

- Provisions

	End of 2005	End of 2004
- provision for disputes	20 681	27 963
- provision for off-balance sheet liabilities	29 638	17 446
- provision for retirement benefits	11 063	8 994
- provision for unused holidays	9 824	11 211
- provision for headcount restructuring	10 654	-
- general risk provision	-	222 594
TOTAL	**81 860**	**288 208**

- Impairment losses and provisions

	IV Q 2005	4 Q 2005 YTD	IV Q 2004	4 Q 2004 YTD
Impairment losses on financial assets other than assets at fair value recognised through the profit and loss account				
impairment losses on available-for-sale financial assets:	0	-16	3 390	3 865
- securities	0	0	0	466
- shares in subsidiaries, co-subsidiaries and associated entities, as well as minority interests	0	-16	3 390	3 399
impairment losses on loans and advances:	-40 707	-106 205	-8 720	163 429
- impairment losses on loans and advences	-41 881	-110 450	-10 000	159 003
- collection and process costs related to recovery of receivables due to loans and advences	1 174	4 245	1 280	4 426
impairment losses/ fair value valuation:	-1 512	7 901	37 403	34 811
- property, plant and equipment	2 983	2 027	2 010	2 233
- investment real properties	-6 312	-1 950	34 262	34 262
- other assets	1 817	7 824	1 131	-1 684
Total impairment losses	**-42 219**	**-98 320**	**32 073**	**202 105**
Provisions for off-balance sheet commitments	**-11 730**	**-22 513**	**-18 698**	**-15 932**
TOTAL	**-53 949**	**-120 833**	**13 375**	**186 173**

* Costs of bank operations and general management

	IV Q 2005	4 Q 2005 YTD	IV Q 2004	4 Q 2004 YTD
personnel expenses	136 974	527 639	122 031	473 595
wages and salaries	115 573	440 706	103 572	397 101
employee benefits	21 401	86 933	18 459	76 494
general administrative expenses	114 945	443 627	98 196	427 407
TOTAL	**251 919**	**971 266**	**220 227**	**901 002**

5.2 Seasonality or Cyclicity of Activity

Activity of ING Bank Śląski Group is not subject to seasonality or cyclicity within the meaning of §21 of IAS 34.

5.3 Type and Amounts of Items Affecting Assets, Liabilities, Net Financial Result or Cash Flows Being of Non-recurring Nature due to their Type, Volume or Impact

On 01 February 2005, while performing the obligations deriving from the Co-operation Agreement between ING Bank Śląski and Finplus, ING Bank Śląski transferred the portfolio of receivables for the benefit of Sygma Banque. The said portfolio was created as a result of a long-term co-operation with the Finplus Company that was selling *private label* payment cards. The portfolio was owned by Finplus, the Bank was only its administrator. Consequently, the amounts due from individuals were reduced with the amount of PLN 148,530,000. This operation does not significantly affect the financial result of the Bank.

5.4 Type and Amounts of Changes to Estimated Amounts that Were Listed in Previous Interim Periods of the Current Accounting Year or Changes to the Estimates Listed in Previous Accounting Years, If They Are of Significant Impact on the Current Interim Period

Application of estimates has been described in more detail in item V.b Accounting Principles Applied and Changes to the Financial Statements Presentation.

5.5 Issues, Redemption or Repayments of Debt Securities and Equities

None.

5.6 Dividends Paid

On 09 June 2005, the General Shareholders Meeting approved the payment of dividend for the year 2004 in the amount of PLN 20.50 gross per 1 share which represents PLN 266,705,000. The dividend for 2004 was composed of two parts:
1) 40% of net profit; PLN 11.3 per 1 share, or PLN 147.0 million in total,
2) one-off disbursement due to the implementation of IAS and the expected transfer of a part of provisions on equity; PLN 9.2 per 1 share, or PLN 119.7 million in total.
The dividend was disbursed on 11 July 2005.

5.7 Significant Developments after the Closing of the Interim Period

On 30 January 2006, the Bank signed a credit agreement with ING Lease (Poland) Sp. z o.o. The credit amount is PLN 1.5 billion. The Borrower is related to ING Bank Śląski S.A.

On 02 February 2006, the Bank signed with a Polish subsidy of the global corporation a supplement to the credit agreement of 23 April 2004, increasing the loan amount to PLN 483,000,000.00.

On 01 February 2006, the Bank signed with Handlowy-Heller S.A. a supplement to the credit agreement of 30 December 1999, increasing the loan amount to PLN 350 million.

5.8 Changes to the Business Entity / Capital Group Structure

On 15 November 2005, ING Bank Śląski and Alegron Belegging B.V. entered into an agreement to sell all shares held by the Bank in ING Services Polska Sp. z o.o. The subject matter of the agreement was 27,899 of the company's shares with the total face value of PLN 13,949,500. The purchase price was determined at PLN 16,000,000 in total. Alegron Belegging B.V. is a subsidiary of ING Bank N.V.

5.9 Changes to Contingent Liabilities or Assets that Occurred after 31.12.2004

An increase of PLN 1,843.1 million in the contingent liabilities extended as per 31.12.2005 versus 31.12.2004 results mainly from an increase in the deposits position in inter-banking transactions. A decrease of PLN 1,537.5 million in contingent liabilities received is, in turn, mainly the consequence of a drop in received guarantees to secure credit receivables.

5.10 Acquisition or Sale of a Component of Property, Plant and Equipment (Sale of Real Estate)

Over the 12 months of 2005, the real property of the Bank located in Cracow at Św. Tomasz Street was sold on an arm's length basis. Consequently, the Bank generated the income of PLN 3.7 million.

Furthermore, the Bank sold a part of its property located in Nowy Sącz; a real property in Wadowice and some dwelling units. Income generated on these transactions by the Bank totalled PLN 858,000.

5.11 Settlements due to Court Cases

ING Bank Śląski maintains detailed records of court cases and other liabilities being legal claims. The Bank establishes reserves for the cases, which in the opinion of the legal staff and/or management staff are encumbered with a high risk of losing the case or it is impossible to recover the lost assets. Possible future settlements are made against the reserves established.

Changes to the provisioning level due to disputable claims were presented below:

in PLN million

	31.12.2005	30.09.2005	30.06.2005	31.03.2005	31.12.2004
Status at the period beginning:	**18.9**	**27.4**	**18.0**	**28.0**	**12.1**
Establishment of provisions as costs	3.2	0.5	9.8	0.5	27.9
Release of provisions as income	-0.8	-0.1	-0.2		
Utilisation of provision due to dispute loss or settlement	-0.6	-8.9	-0.2	-10.5	-12.2
Status as at the period end	**20.7**	**18.9**	**27.4**	**18.0**	**28.0**

5.12 Transactions with Related Entities

Subsidiaries and Related Entities of ING Bank Śląski:

- ING Securities

- ING BSK Development
- Solver
- PTE ING Nationale-Nederlanden
- Centrum Banku Śląskiego (CBS)
- Śląski Bank Hipoteczny

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, CBS and Śląski Bank Hipoteczny took loans from ING Bank Śląski. The transactions with the above entities are performed on an arm's length basis.
Similarly, ING Bank Śląski maintains bank accounts of other members of ING Group, for instance ING Lease (Poland), ING Car Lease, ING Nationale-Nederlanden and ING Real Estate.

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

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

In the period 01.01.2005 – 31.12.2005 the following transactions were made of the total value exceeding EURO 500,000:

- Under the agreement concluded on 1 February 2005 as to settlement of the costs of improvements between: Centrum Banku Śląskiego Sp. z o.o., ING Lease (Polska) Spółka z o.o. and ING Bank Śląski S.A., in first quarter there were made transactions repaying the liability totalling PLN 8.5 million (net). The objective of the said agreement was to settle with the building owner the costs of tenant's improvements made in the building of the Bank Head Office at 34 Sokolska St.

- Due to the agreement for lease of office space, being the property of CBS, ING Bank Śląski paid the rent (via ING BSK Development) in the amount of PLN 19.1 million (gross) in monthly instalments**.** In addition, the Bank paid PLN 0.4 million due to conversion works.

- ING Services Polska provides services to ING Bank Śląski in regard to lease of hardware resources. The costs of service were PLN 11.2 million (gross).

- Under the Co-operation Agreement of 31 January 1997, concluded by and between ING Bank Śląski S.A. and ING Bank NV, the fees for financial advisory services amounted to PLN 27.5 million (net).

- On 25 March 2005, the annex to the credit agreement was signed, as a result of which the PLN credit line for ING Lease amounts to PLN 375 million. The agreement provides for interest rate at WIBOR + Bank margin.

- ING Bank Śląski made the transaction with ING Lease in regard to sub-lease of rentable premises of the total value of PLN 15.4 million (gross).

- ING Bank Śląski co-operates with ING Car Lease in regard to lease of cars and car fleet management. The total fees in that respect in 2005 amounted to PLN 6.9 million.

Transactions with related parties **31.12.2005**

	Parent company	Other ING Group entities	Subsidiary undertakings	Associated undertakings
Balances of receivables and payables				
Deposits given	4 367 977	85 089	-	-
Loans	10 244	374 972	361 356	-
Deposits taken	75 443	88 165	313 674	25 676
Securities	-	-	42 003	-
Other receivables	365	5 545	2 711	-
Other liabilities	2 934	22 847	2	-
Off-balance derivatives revaluation	-32 134	50 645	-	-
Off-balance sheet commitments and transactions				
Guarantees issued	52 575	6 565	-	-
Undrawn credit lines granted	50 563	67 851	327 337	-
FX spot	298 404	5 431 438	-	-
FX forward	497 352	28 703	-	-
IRS/CIRS	2 216 352	10 721 899	-	-
FRA	163 065	1 650 000	-	-
Options	199 140	201 143	-	-
Income and expenses				
Income	132 645	56 998	17 317	180
Expenses	62 076	11 720	37 159	3 705

Co-operation Agreement between ING Bank NV, ING GROEP NV and ING Bank Śląski

ING Bank Śląski has been a subsidiary of ING Bank NV since July 1996, and the Bank has been closely co-operating with ING Group ever since. To formalise the co-operation, in January 1997 the parties entered into a co-operation agreement. Its principles and the scope of co-operation have changed over the last 8 years of the duration of the Co-operation Agreement of 1997, especially after 2001 when Banku Śląski merged with ING Bank NV Warsaw Branch. In first half of 2005, the Supervisory Board of the Bank decided to amend the Co-operation Agreement. Following works undertaken, in July 2005 a new Co-operation Agreement was signed, which superseded the agreement of 1997. Notably, the new Agreement regulates the terms and conditions that define the possibilities of benefiting from expertise and know-how of ING/ING Group, which may be useful and helpful for the Bank in order to improve the standard of its services, its competitive advantage and to minimize risk related to its activity and develop a uniform methodology system within the framework of ING Group. Financial advisory services are related to the following areas:

1. Business support and project methodology, including but not limited to consultations in terms of managing contacts with global clients of ING BSK and ING Group; direct support in the realisation of cross-border transactions concluded by the Bank; use of the global system for the strategic clients of ING Group; consultations in terms of the methodology of running projects, allowing access to *Intranet Knowledge Base* of ING Group;
2. Brand and reputation management, including but not limited to support in activities aimed at creating the image and brand of the Bank; use of the Bank Branches visualisation standard;
3. Human resources management and managerial staff development (Talent Management), including training programmes, support for the employee development programmes;
4. Methodology and creation of risk management models, including but not limited to support in defining standards, policies and procedures in terms of monitoring banking risks; support in terms of implementation, roll-out and improvement of models being the basis for evaluation and analysis of banking risks; support in implementation of procedures, policies and standards in terms of the risk analysis and mitigation; use of ING models for the management of the market risk, the operational and credit risks;
5. Taxes and controlling and finance including planning and budgeting in that regard; the advisory

services include but are not limited to providing support in adopting the Bank's activities in terms of finance and accounting to the new international regulations (ECB regulations); using ING solutions in terms of applied accountancy rules and IFRS/IAS rules; using SOX404 methodology to mitigate risk in the Bank's operations, and in particular to ensure the adequacy of the financial data;

6. Methodology of internal audit structure and functioning, including but not limited to the use of ING Group solutions to monitor the implementation of post-audit recommendations; consultations related to evaluating the efficiency of procedures, regulations and manuals implemented;
7. IT architecture, development of IT infrastructure and risk management in the area of information systems, including but not limited to the use of security standards for information systems and data coding; consultations related to the architecture and standardisation of information systems;
8. Legal issues related to the Bank's operations as part of ING Group, foreign law, principles of corporate governance and Compliance and legal compliance, including but not limited to the use of ING Group solutions related to compliance.
9. Purchasing process optimisation, including but not limited to advisory in terms of the outsourcing process optimisation;
10. Financial markets, including but not limited to advisory in terms of evaluating the market risk of FM products; use of ING global limits for FM transactions.
11. Back-office operations

The fee for services rendered in 2005 totalled PLN 27.5 million (net).

ING Bank Śląski also intends to sign an outsourcing agreement regarding the processing and analysis services in respect of the Bank's corporate clients' financial information, which the Bank is to use to:

- assign clients a credit rating in line with the interpretation of the Capital Accord requirements applied by ING,
- monitor the process of analysis of credit requests and a credit decision-taking procedure,
- generate or modify automatically the historical data bases of client ratings and changes of their exposures or collaterals,
- monitor regularly total credit exposures of the entities connected in legal or economic terms and being ING BSK clients,
- monitor regularly the client risk arising out of credit and financial market instruments exposures as well as the limits defined,
- calculate regularly the amounts of collaterals for certain financial market instruments exposures,
- generate management and obligatory reports in line with the interpretation of the Capital Accord standards and IAS 39 applied by ING and
- estimate specific provisions for the exposures of individual significance according to IAS 39.

V. Accounting Principles Applied and Changes to the Principles of Financial Statements Presentation

(a) Basis of Preparation

The consolidated financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standards in the version approved by the European Union, and to the extent unregulated by the above standards, in accordance with the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2002, No. 76, item 694, as amended) and secondary legislation issued on its basis, and also in accordance with the requirements laid down in the Regulation of the Minister of Finance of 19 October 2005 concerning the ongoing and interim information transferred by issuers of securities (Journal of Laws from 2005, No. 209, item 1744).

These consolidated financial statements represent the full interim report prepared under the IFRS 1. The day of transition to IFRS is the day of opening balance for the earliest of the periods presented, i.e. 01 January 2004. The previously published financial statements of the Bank and of the Group were prepared in accordance with the Polish Accounting Standards (PAS).

The financial statements are presented in the Polish zlotys rounded up to the nearest thousand (unless stipulated otherwise).

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial assets and financial liabilities held at fair value through profit or loss and financial instruments classified as available-for-sale.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The Bank has used the same accounting principles as those applied for the annual statements. The consolidated statements do not contain eliminated intragroup balances and unrealised gains and losses as well as income and expenses arising from intragroup transactions.

The accounting principles specified below were applied in preparation of the financial statements for four quarters of the financial year ending on 31.12.2005 as well for presentation of the comparative data for the four quarters of the financial year ending on 31 December 2004, and also at preparation of the opening balance sheet as of 01 January 2005 (date of the Group’s transition to the IFRS) pursuant to the IFRS regulations.

In accordance with the requirements of the International Financial Reporting Standards/ International Accounting Standards in the version adopted for application within the European Union, the financial statements as per 31.12.2004 have been made comparable with the data disclosed in the financial statements for the above periods.

As per 31.12.2004, the transformation of comparative data related to:

1. Impairment in goodwill acquired as a result of the acquisition of Wielkopolski Bank Rolniczy S.A. (WBR) and also as a result of amortisation for 2004 of the goodwill related to the acquisition of the ING Bank NV Branch, WBR and ING Securities Poland,
2. Measurement of financial instruments related to the long-term incentive scheme
3. Real property revaluation to fair value
4. Moreover, in the Bank’s statements, the presentation changes related to the measurement of subordinates at acquisition cost.

In connection therewith, the following items were made comparable:

- Investments in subsidiaries,
- Property, plant and equipment,
- Intangible assets,
- Income tax assets,
- Income tax liabilities,
- Other liabilities.

The Group applied the same principles of accounting to prepare the opening balance sheet according to IFRS as of 01 January 2004 and during all presented periods. The applied accounting principles are in compliance with the stipulations of each IFRS binding as of 31 December 2005; i.e. the reporting date, with exceptions permitted by IFRS. All changes of the accounting principles have been introduced retrospectively with the mentioned exceptions permitted by IFRS that the Group decided to apply.

Based on paragraph 36A of IFRS 1 the Group decided to apply the exemption from the obligation to present the comparative data referring to the principles of accounting governed by IAS 39 (evaluation at the depreciated cost taking into account the effective interest rate, impairment loss of financial assets booked at the depreciated cost taking into account the effective interest rate).

The Bank applies the accounting principles consistently with the International Accounting Standards and the International Financial Reporting Standards in the version adopted for application within the European Union. The Subsidiaries' data are adapted to the International Accounting Standards through consolidation adjustments.

(b) Use of Estimations

The preparation of financial statements in conformity with IFRS requires the Group to make certain estimates and assumptions that affect the amounts reported in the financial statements and in the explanatory notes.

The type and degree of a change of estimations are disclosed when they affect the current period or when their impact is foreseen in future periods.

The estimates and assumptions made for the presentation of the amounts of assets and liabilities as well as income and expenses are based on available historical data and various other factors that are believed to be reasonable under the circumstances. The adopted assumptions pertain to future and the available sources of data form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates take account of the causes/origins of uncertainty projected as per the balance sheet date.

Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Loan Impairment

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. Occurrence of such an event or more events has a direct impact on the estimated future cash flows of financial assets. The Bank judges whether there are any signs of objective evidence for the impairment as a result of one or several events which occurred after the initial recognition of assets.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised 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 at the financial asset's original effective interest rate.
If in the subsequent period the impairment loss decreases and the said decrease can be related in an objective manner to the event occurring after the impairment loss recognition, then the previously recognised loss is reversed by way of adjusting the balance sheet value of the asset. The amount of the reversed loss is recognised in the income statement.
Calculation of the present value of the expected future cash flows – that is indispensable to measure the impairment loss or its reversal – must be estimated.
The methodology and assumptions used for estimating the value and the moments of future cash flows are regularly reviewed and updated as necessary. Moreover, testing on historical data is performed to compare the actual values with the estimations of loan impairments.

Impairment of Assets Available for Sale

For financial assets classified as 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 recognised directly in equity shall be removed from equity and recognised in the income statement, even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in the income statement 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 the income statement. Impairment losses for an investment in an equity instrument classified as available for sale shall not be reversed through the income statement. If, in the 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 profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

Property, Plant and Equipment

For property, plant and equipment a change in accounting estimates whose effect is visible in the period of change or which are expected to affect the future period can result from: (i) a change in the residual value, (ii) the estimated costs of asset dismantlement, removal or restoration, (iii), periods of useful life and (iv) the depreciation method.

Financial Assets Carried at Cost

If there is objective evidence that an impairment loss has been incurred on an equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative instrument 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.

Measurement of Derivative Instruments

The Bank calculates the fair value of derivative instruments which are not quoted in an active market using pricing models which are independently checked before they are used. Where practicable, only observable data are input into the models however in some circumstances the Group must apply judgement to estimates of uncertainty (such as credit risk, market volatilities and correlations). Changes in assumptions about these factors could impact the fair valuations of some financial instruments.

Provisions for Retirement Bonus Payments

Provisions for retirement bonus payments granted within the framework of benefits arising from the regulations under the Labour Code are estimated on the basis of the actuarial valuation. The provision arising from actuarial valuation is updated in annual periods. In addition, the provision is adjusted on the basis of the estimations made each quarter. The Group adopted a mixed rate of return on assets amounting to 4.94%/ 3.83% of the discount rate for T-bonds whose currency and redemption date are identical to the currency and the estimates date of meeting the liabilities due to employee benefits.

(c) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are the enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated when the substance of the relationship between the Bank and the subsidiary indicates that the latter is controlled by the Bank. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control is acquired until the date that control ceases.

(ii) Purchase Method of Accounting

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

(iii) Associates

Associates are those entities in which the Group has significant influence, but not control over the financial and operating policies. The consolidated financial statements include the Group’s share of the gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group’s share of losses exceeds its interest in an associate, the Group’s carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Investments in subsidiaries are recognised in the Bank’s books at acquisition cost. In the case impairment is recognised, these sums are disclosed in the income statement as financial expenses or financial income.

(iv) Transactions Eliminated on Consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(d) Foreign Currencies

(i) Transactions in Foreign Currencies

Transactions in foreign currencies are translated at the foreign exchange rate effective at the date of the transaction. Monetary assets and liabilities arising from such transactions, denominated in foreign currencies, are translated at the foreign exchange rate effective at that date. Foreign exchange differences arising on translation are recognised in the income statement.

(ii) Financial Statements of Foreign Operations

The Bank does not have any entities operating abroad.

(e) Hedge Accounting and Derivative Financial Instruments

Derivative financial instruments are measured at fair value without any deduction for transactions costs to be incurred on sale.
The basis for the measurement of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

The Bank separates and recognises in the balance sheet derivatives being a component of hybrid (combined) instruments. A combined instrument includes a non-derivative host contract not being a derivative and a derivative with the effect that some or all of the cash flows of the combined instrument is modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates or other variable.
Derivatives embedded in other financial instruments are separated by the Bank from the host contract and accounted for as a derivative, 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 carried at fair value through profit or loss. Embedded derivatives are measured at fair value with changes recognised in the income statement.
The Bank offers to its customers deposit products the interest rate of which is based on a change of a stock exchange index or of a foreign exchange rate. The embedded derivative instruments are in this case identified, separated from the host contract and recognised and accounted for as stock exchange index options or currency options.
The Bank uses derivative financial instruments to hedge its exposure against foreign exchange and interest rate risks arising from its operational, financing and investment activities. Derivatives that do not qualify for hedge accounting are measured as trading instruments and recognised at fair value.
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 derivatives as fair value hedges or cash flow hedges.
At the inception of the hedge there is formal designation and documentation of the hedging relationship as well as the Bank’s risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction and the nature of the risk being hedged. The Bank also documents, at inception and on an ongoing basis, an assessment of 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.

(i) Fair Value Hedges

This is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm future commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the income statement.
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) shall be recognised in the income statement; and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in the income statement. This principle applies, if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in the income statement applies, if the hedged item is an available-for-sale financial asset.

(ii) Cash Flow Hedges

This is a hedge of the exposure to variability 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 the income statement.
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 shall be recognised directly in equity through the statement of changes in equity and the ineffective portion of the gain or loss on the hedging instrument shall be recognised in the income statement.
Upon recognition of a financial asset of a financial liability resulting from a hedge of a transaction planned, the associated gains or losses recognised in the equity (effective hedge) are reclassified in the profit or loss in the same period or periods during which the asset or the liability affects profit or loss.
In case of hedging non-financial assets or liabilities carried through the equity as an effective hedge, the profit and losses are gradually recognised in the profit or loss, in the periods during which the non-financial asset or liability affects the income statement (e.g. as depreciation) or as a one-off adjustment of the initial acquisition cost or the balance sheet value of the item hedged.

(f) Financial Assets and Financial Liabilities

(i) Classification

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

(a) Financial asset or financial liability at fair value through profit or loss

This is a financial asset or liability that meets either of the following conditions:

- Is 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; it is part of a portfolio of identified financial instruments that are managed together for the purpose of short-term profit taking. Derivatives are also categorised as held for trading unless the derivative is a designated and effective hedging instrument.

- Upon initial recognition it is designated by the Group as at fair value through profit or loss. The Bank may apply such a designation only when: (i) *a designated financial asset or liability is a combined instrument, composed of at least one or more embedded derivatives classifying for separate recognition, but the embedded derivative cannot significantly change the cash flows resulting from the non-derivative host contract or separation of a derivative is prohibited*; (ii) application of the same classification of an asset or liability eliminates or significantly decreases the inconsistency as to measurement or recognition (the so-called accounting mismatch due to a different manner of measurement of assets or liabilities or a different recognition of derivative profits or losses); (iii) a group of financial assets or liabilities or both of those categories is managed in an adequate manner and its results are measured at fair value, in accordance with the documented rules of risk management or the investment strategy of the Bank.

(b) Held-to-maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. In case of sale or reclassification of a higher than an insignificant amount of investments held to maturity before maturity, the entire category is reclassified as available for sale. In such a case, for 2 year period the Bank cannot qualify any financial assets to the category of investments held to maturity.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money to a debtor for the purpose other than short term profit taking. Loans and receivables comprise loans and advances to banks and customers including purchased receivables.

(d) Available-for-sale financial assets

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.

(d) Other Financial Liabilities

The financial liabilities being the result of the obligations deriving from the agreement to render cash or another component of financial assets to another entity that do not qualify to the group of the ones measured at fair value via profit or loss in the character of deposit or advance received.

(ii) Recognition

A transaction of purchase or sale of a financial asset classified at fair value through profit or loss, financial assets held to maturity and financial assets available for sale is recognised in the balance sheet using trade date accounting. The method is applied consistently for all purchases and sales of financial assets. Loans are recognised when cash is advanced to the borrower.
A financial asset is derecognised upon the expiry of the contractual rights to receive cash flows of the financial asset or when the Bank transfers the contractual rights to receive cash flows of the financial asset; i.e. the rights to receive cash flows of the financial asset are transferred onto another entity or the said rights are retained by the Bank, but at the same time the Bank was obligated to pay the said flows.

In case of an effective transfer of financial assets an additional criterion determining retaining or derecognition of a financial asset in / from the Bank's balance sheet is transfer of all risks and rewards of ownership of a given financial asset; i.e. (i) when the Bank transferred substantially all the above-mentioned risks and rewards, it derecognises a given financial asset from the Bank's books (ii) if, however, a substantial transfer of all risks and rewards of ownership of a given financial asset then the criterion of retaining control of this asset by the Bank should be additionally used; i.e. the Bank has retained control and continues to recognise it in the balance sheet, otherwise a given financial asset should be derecognised.
Whether the entity has retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the Bank has not retained control. In all other cases, the Bank has retained control.

(iii) Measurement

When a financial asset or financial liability is recognised initially, it is measured at 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 loans and receivables which shall be measured at amortised cost using the effective interest method; held-to-maturity investments which shall be 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 whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments measured at cost.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for (a) 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 equity instrument unquoted in an active market, whose fair value cannot be reliably measured, which is measured at cost; (b) financial liabilities that arise when a transfer of a financial asset that does not qualify for derecognition from the balance sheet or is accounted for using the continuous involvement approach. If the Bank's liability in the form of a deposit or loan taken is characterised by frequent capitalisation of the interest accrued, and thus has a nature of a short-term liability, then the difference between the amount obtained by measurement with the use of the effective interest rate and the amount of interest calculated on an accrual basis with the use of the agreed rate is immaterial. In such a case, due to immaterial differences in the profit or loss, the Bank may abstain from discounting future cash flows with the use of the effective interest rate for the benefit of recognising in profit or loss the interest calculated on an accrual basis according to the straight-line method with the use of the interest rate following the (deposit/loan) agreement concluded.

(iv) Gains and Losses on Subsequent Measurement

Gains and losses arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship are recognised as follows:

a. Gains or losses arising on a financial asset or financial liability classified as at fair value through profit or loss are recognised in profit or loss.

b. Gains or losses arising on an available-for-sale financial asset is recognised directly in equity, through the statement of changes in equity except for impairment losses and foreign exchange gains and losses (this provision applies to the foreign exchange differences deriving from monetary assets; e.g. bonds denominated in foreign currencies, whereas the foreign exchange differences generated by non-monetary financial assets available for sale are recognised directly in equity) until the financial asset is derecognised from the balance sheet, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair values of investments quoted in active markets are based on current bid prices. If there is no active market for a financial asset and for securities unlisted in an active market, the Bank establishes fair value by using valuation techniques which include recent arms length market transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(g) Offsetting Financial Instruments

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

(h) Sale and Repurchase Agreements

The Bank obtains funds through the sale of financial instruments with the promise of their repurchase in future at the same price plus the interest amount defined upfront.

Securities sold subject to repurchase agreements (“repos”) are not derecognised from the balance sheet as of the balance sheet date, whereas the related liability is included in amounts due to other banks, deposits from other banks, other deposits or deposits due to customers, as appropriate.
Securities purchased under agreements to resell (“reverse repos”) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the contract using the effective interest method. Securities lent to counterparties are also retained in the financial statements.
Securities borrowed are not recognised in the financial statements of the Bank, unless these are sold to third parties by the Bank, in which case there occur financial assets being sale cash funds and a liability reflecting the obligation to return them that is measured at fair value. The fair value of the liability equals the fair value of the securities borrowed.

(i) Impairment

Assets Carried at Amortised 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 by more than 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 grant otherwise;
(d) it becoming highly 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 in the group, including:
    - adverse changes in the payment status of borrowers in the group, or
    - national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised 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 at the financial asset's original effective interest rate. If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The loss found reduces directly the carrying amount of the asset. The respective amount of loss is recognised in the income statement.

If the existing objective evidence for impairment of a financial asset or group of assets, evaluated at depreciated cost, indicates that the expected future cash flows, resulting from the abovementioned financial assets, will not occur, than the amount of deduction updating the value of assets equals their balance-sheet value. This is the basis to take actions leading to derecognition of the element of the financial assets from the Bank's balance sheet as the result of the fact that no cash flows from a given element of the financial assets will be possible in the future.

The Bank may measure impairment of a financial asset carried at amortised cost on the basis of an instrument's fair value using obtainable market prices. The calculation of the present value of the estimated cash flows related to the collateralised asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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. 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. On the other hand, if the Bank determines the existence of objective evidence of impairment for an individually assessed asset and makes the resulting revaluation write-down, then such asset is excluded from the portfolio subjected to collective assessment of impairment.

For the purpose of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data (to reflect the effects of current conditions that did not affect the evaluated period) and adjusted by removing the factors affecting the historical data, that do not exist currently. Estimates of changes in future cash flows reflect and are consistent with the data available in individual periods and related to such values as, for example, unemployment rate, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude. The Bank reviews regularly the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.

If, in the subsequent period, the amount of the impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the carrying value of the asset. The amount of the reversal is recognised in the income statement.

Available-for-sale Financial Assets

For financial assets classified as 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 recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised from the balance sheet. The amount of the cumulative loss that is removed from equity and recognised in the income statement 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 the income statement. Impairment losses for an investment in an equity instrument classified as available for sale shall not be reversed through the income statement. If, in the 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 income statement, the amount of the reversal is recognised in the income statement.

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.

(j) Investment Property

Investment real property is separated from other non-current assets of the entity. They include buildings or land treated as a source of income from rent or kept by the entity in connection with the expected growth in their value (or in connection with both these elements). Moreover, such real property cannot be occupied by the entity or intended for sale in the course of normal business.

The investment real property is initially disclosed at acquisition cost or manufacturing cost. In the course of its use the value of the investment real property is measured on the basis of the fair value model. A profit or loss being a result of a change in the value is carried through the net profit or loss of the period in which the change occurred. The fair value of the investment real property should reflect the market conditions as at the balance sheet date.

(k) Property, Plant and Equipment

(i) Owned Assets

Items of property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses.
Certain items of property, plant and equipment (buildings, structures, land and perpetual usufruct rights) that had been revalued to fair value on 1 January 2004 (day of transition to IAS) are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation. These items are recognised at fair value less accumulated depreciation and impairment losses carried through profit or loss.

(ii) Leased Assets

Lease contracts in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception date of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent Costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Bank and the acquisition cost or manufacturing cost can be measured reliably. Other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- buildings and structures 50 years
- expenditure for assets permanently linked to real property 10 years

- plant and equipment 3 - 5 years
- fixtures and fittings 5 years

(l) Intangible Assets

An intangible asset is an identifiable non-cash asset which does not have a physical form.

(i) Goodwill

Goodwill is stated at acquisition cost less total accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment.

(ii) Computer Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.
Costs associated with developing or maintaining computer software programs are recognised as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

(iii) Other Intangible Assets

Other intangible assets that are acquired by the Bank are stated at acquisition cost or manufacturing cost less accumulated amortisation and impairment losses.

(iv) Subsequent Expenditure

Expenditure incurred after initial recognition of a purchased intangible asset is capitalised only when it increases the future economic benefits embodied in the specific asset. All other expenditure is expensed in the income statement as incurred.

(v) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The standard useful lives are as follows:

- software development costs 3 years
- computer software 3 years

(m) Other Balance Sheet Items

(i) Other Trade and Other Receivables

Trade and other receivables are stated at the amount of payment due less impairment losses.

(ii) Liabilities

Liabilities, other than financial liabilities held for trading, are stated at the amount of payment due.

(n) Impairment of Assets other than Financial Assets

The carrying amounts of the Bank's assets other than deferred tax assets are reviewed at the balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the assets is estimated.
For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.
An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment loss is recognised in the income statement.
Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of Recoverable Amount

The recoverable amount is the value in use or net selling price, whichever is greater as of the date of review. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Reversals of Impairment Loss

An impairment loss in respect of goodwill is not reversed.
In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.
An impairment loss can be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Share Capital

(i) Equity

Equity consists of issued capital, supplementary capital, revaluation reserve and other reserve capitals. Equity includes also the amounts of retained earnings and uncovered losses from previous years. All amounts of equity and funds are disclosed at par value.

(ii) Treasury Shares

If the entity purchases its own equity instruments, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

(iii) Dividends

Dividends are recognised as a liability at the time a relevant resolution of the General Shareholders Meeting is adopted.

(p) Accruals and Deferrals

Prepaid expenses
The Bank recognises as assets accrued (paid) the expenses which correspond to future reporting periods. They are then successively recognised under the profit or loss for the period to which they correspond.

Deferred revenue
If the Group receives in the reporting period funds which correspond to future reporting periods, such funds are recognised as liabilities and are recognised under the profit or loss for the periods to which they correspond.

(q) Employee Benefits

(i) Defined Contribution Plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement.

(ii) Short-term Service Benefits

The Bank's short-term service benefits include wages, bonuses, holiday pay and social insurance payments and are recognised as an expense as incurred.

(iii) Long-term Service Benefits

The Group's obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The provisions for retirement bonus payment granted within the framework of benefits assigned basis of the regulations arising from the Labour Code are estimated on the basis of an actuarial valuation. The provision arising from actuarial valuation is recognised and updated on an annual basis. In addition, the provisions are revalued quarterly on the basis of the estimations made.

(r) Provisions

Provisions, including the provisions for off balance sheet liabilities, are recognised in the balance sheet, if the Bank has a present legal or constructive obligation (common law) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. In case of off balance sheet liabilities related to financial assets the Group determines the factor (K-factor) reflecting the foreseen amount of the liability utilised as at the loss date of capacity to repay by the debtor.

(i) Provisions for off balance sheet liabilities

The provisioning process is preceded by determination of the K-factor, reflecting the foreseen amount of liability utilisation at the time of loss of capacity to repay by the debtor. Depending on the market segment and liability type the said ratio assumes various values. In case of liabilities pertaining to the retail segment a uniform K-factor of 75% was adopted, whereas for the wholesale one a K-factor for guarantees and letters of credits was defined as 100%. For assets individually significant and impaired, for off-balance sheet liabilities the K-factor calculated on a case to case basis is applied.

(i) Disputed Claims

The process of recognition of provisions for ongoing litigations and events incurring a liability due to non-diligent performance of agreements is preceded by the assessment of probability of occurrence of the respective event. If in the Bank's assessment the probability of occurrence of the event is greater than the probability of its non-occurrence, the provision is recognised at an adequately estimated amount.

(ii) 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.

(s) Net Interest Income

Interest income and expenses for all financial instruments are recognised in the income statement. Interest received in respect with financial assets classified as available for sale, loans and advances, and assets held to maturity is recognised in the income statement at amortised cost using the effective interest rate method.
The effective interest method is a method of calculating the amortised 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 periods. The effective interest rate is the rate that exactly 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, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider potential future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.
Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognised using the interest rate applied to discount the future cash flows for the purpose of measuring the impairment loss; i.e. they are accrued on the current value of the liability.

(t) Fee and Commission Income and Expenses

Fee and commission income arises on financial services provided by the Bank including loan origination, commitment fees, card fees, cash management services, brokerage services and asset management services.
Fees and commissions (both income and expense) directly attributable to the origination of financial assets with specific timetables of repayment are recognised in the income statement as an element of effective interest rate, other fees and commissions integrally related to the origination of assets without specific timetables of repayment are recognised on the straight-line basis over the life of the contract. Payments received during the provision of services are recognised on a one-off basis in the income statement. Commitment fees for loans which will most probably be taken are deferred and recognised as an element of the effective interest rate of the loan or on a straight-line basis considering the above-mentioned criterion.
Other fee and commission income arising on the financial services provided by the Bank including cash management services, brokerage services and asset management services is recognised in the income statement when the corresponding service is provided.

(u) Net Income on Instruments at Fair Value

Net income on instruments at fair value includes the gains and losses arising from disposals and changes in the fair value of assets and liabilities held for trading.

(v) Result on Investment Securities

The result consists of the profits and losses from the sale of the investment securities.

(w) Dividend Income

Dividend income is recognised in the income statement on the date that the dividend is declared for payment. Income from equity investments and other non-fixed income investments is recognised as dividend income when it accrues.

(x) Other Revenue and Expenses

(i) Operating Lease Payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Finance Lease Payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Other Operational Income

The Bank classifies the following operational income - not classified to "operational income" category - to the "other operational income" category: income on winding-up, sale of the elements of fixed assets and marketable assets; increase of the value of the elements of tangible and intangible assets; repayment of written-off receivables, prescribed receivables; damages, penalties and fines; received donations.

The following elements constitute – most of all – the other operational income: surplus funds, surplus elements of tangible assets; reimbursement of court costs; reimbursement of debt collection costs; income on the sale of receivables as the result of debt restructuring; income on the release of provisions against the forecast losses being or not being the subject of court proceedings.

(iv) Other Operational Expenses

The Group recognises as other operational costs, first of all, the expenses related to paid damages, penalties and fines and the amounts rendered as donations.

(y) Minority Interest

Minority interest are this part of profit or loss and net profit or loss on activity as well as net assets of a subsidiary which can be attributed to the interests which do not belong to (directly or indirectly through the subsidiaries) to the parent.

(z) Income Tax

Income tax is recognised as current and deferred tax. The current income tax is recognised in the income statement. Depending on the source of temporary differences, deferred income tax is recognised in the income statement or in equity.

Current tax is the tax liability payable on the taxable income using tax rates as of the balance sheet day, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax asset or liability is not recognised for the differences which will never reverse or will not reverse in the foreseeable future. The amount of deferred tax provided is

based on the expected manner of realisation of the carrying amount of assets and liabilities, using tax rates in force as of the realisation day and in force as at the balance sheet date.
Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available. Deferred tax assets are recognised only to the extent that it is probable that non-settled tax losses and unused tax allowances will be used.

(aa) Other Taxes

The Bank is an active payer of the value-added tax and partially deducts the input tax.

Comparability of Data and Impact of Amended Accounting Principles

In line with the International Financial Reporting Standards/ International Accounting Standards the comparability of the financial statements for the fourth quarter of 2004 and the 2004 year with the data presented in the statements for the above periods was ensured.

The transformation to comparative data related to:

1. Impairment in goodwill acquired as a result of the acquisition of Wielkopolski Bank Rolniczy S.A. and also as a result of amortisation for 2004 of the goodwill related to the acquisition of the ING Bank NV Branch and WBR and also ING Securities Poland
2. Measurement of financial instruments related to the long-term incentive scheme
3. Real property revaluation to fair value
4. Moreover, in the Bank's statements, the presentation changes related to the measurement of subordinates at acquisition cost.

Exemption pursuant to par. 36A IFRS 1 from the obligation to present comparable data pertaining to the accounting rules governed by IAS 39 (measurement using depreciated cost considering the effective interest rate, impairment losses of financial assets listed according to the depreciated cost using the effective interest rate) is an exception.

The table below presents the transformation to comparative data related to equity and net profit or loss as of 01.01.2004, 01.01.2005 and 31.12.2004 (data in PLN '000). The changes were made in the following areas:

(1) Impairment in goodwill acquired as a result of the acquisition of Wielkopolski Bank Rolniczy S.A. and also as a result of amortisation for 2004 of the goodwill related to the acquisition of the ING Bank NV Branch,
(2) Measurement of financial instruments related to the long-term incentive scheme,
(3) Real property revaluation to fair value,
(4) Measurement of subordinates at acquisition cost.

RECONCILIATION OF CONSOLIDATED NET ASSETS **PLN thous.**

	Equity and minority interest					
	Net result	**Result of previous year**	**Revaluation reserve**	**Minority interest**	**Other**	**TOTAL**
PAS 01.01.2004	-	16 448	22 447	-4 511	2 669 917	2 704 301
Impairment and depreciation of goodwill		-4 584				-4 584
Revaluation of building to fair value	0	-47 036	52 169	19 023	0	24 156
IFRS/IAS 01.01.2004	**-**	**-35 172**	**74 616**	**14 512**	**2 669 917**	**2 723 873**
PAS 31.12.2004	366 255	-17 405	92 886	-5 969	2 694 222	3 129 989
Impairment and depreciation of goodwill	29 983	-4 584				25 399
Recognition of financial instruments (option)	-724					-724
Revaluation of building to fair value	0	-47 036	43 022	12 925	0	8 911
IFRS/IAS 31.12.2004	**395 514**	**-69 025**	**135 908**	**6 956**	**2 694 222**	**3 163 575**
PAS 01.01.2005		348 850	92 886	-5 969	2 694 222	3 129 989
Impairment and depreciation of goodwill		25 399				25 399
Recognition of financial instruments (option)		-724				-724
Revaluation of building to fair value		-47 036	43 022	12 925	0	8 911
Loan impairment		160 438				160 438
Amortised cost		-57 855	3 865			-53 990
IFRS/IAS 01.01.2005	**0**	**429 072**	**139 773**	**6 956**	**2 694 222**	**3 270 023**

RECONCILIATION OF NET ASSETS **PLN thous.**

	Net result	Result of previous year	Equity Revaluation reserve	Other	TOTAL
PAS 01.01.2004	-	22 253	22 447	2 664 112	2 708 812
Impairment and depreciation of goodwill		-4 584			-4 584
Revaluation of building to fair value		-47 036	23 634		-23 402
Equity method		-2 102	-321		-2 423
IFRS/IAS 01.01.2004	**-**	**-31 469**	**45 760**	**2 664 112**	**2 678 403**
PAS 31.12.2004	366 255	6 486	92 886	2 670 331	3 135 958
Impairment and depreciation of goodwill	29 825	-4 584			25 241
Recognition of financial instruments (option)	-724				-724
Revaluation of building to fair value		-47 036	23 634		-23 402
Equity method	-63 079	-2 102	0		-65 182
IFRS/IAS 31.12.2004	**332 277**	**-47 236**	**116 520**	**2 670 331**	**3 071 891**
PAS 01.01.2005		372 741	92 886	2 670 331	3 135 958
Impairment and depreciation of goodwill		25 241			25 241
Recognition of financial instruments (option)		-724			-724
Revaluation of building to fair value		-47 036	23 634		-23 402
Equity method		-65 182	0		-65 182
Loan impairment		164 468			164 468
Amortised cost		-56 099	3 865		-52 234
IFRS/IAS 01.01.2005	**0**	**393 409**	**120 385**	**2 670 331**	**3 184 125**

Comparable balance sheet for 31.12.2004 for the Group's and the Bank's financial statements, as well as the transformation of the opening balance sheet of the Group and of the Bank as at 01.01.2004 are as follows:

COMPARABLE CONSOLIDATED BALANCE SHEET as at 31 Dec 2004	*Note*	**31 Dec 2004 acc to PAS**	**Goodwill**	**Recognition of option**	**Revaluation of building to fair value**	**31 Dec 2004 acc to IFRS**
A S S E T S						
- Cash and cash balances with Central Bank		895 332				895 332
- Loans and advances to banks		10 748 766				10 748 766
- Financial assets held for trade		4 976 205				4 976 205
- Investments		7 014 258				7 014 258
- Non-current assets held for sale		8 614				8 614
- Loans and advances to customers		10 407 872				10 407 872
- Investments in associates		70 944				70 944
- Property and equipment		643 920			10 129	654 049
- Investment property		113 664				113 664
- Intangibles		280 015	25 399			305 414
- Tax assets		276 037		243	11 033	287 313
- Other assets		125 048				125 048
T o t a l a s s e t s		**35 560 675**	**25 399**	**243**	**21 162**	**35 607 479**
L I A B I L I T I E S A N D E Q U I T Y						
LIABILITIES						
- Deposits from banks		2 505 041				2 505 041
- Financial liabilities held for trading		1 270 042				1 270 042
- Deposits from customers		27 638 259				27 638 259
- provisions		288 208				288 208
- Tax liabilities		129 039			12 251	141 290
- Other liabilities		600 097		967		601 064
L i a b i l i t i e s t o t a l		**32 430 686**	**0**	**967**	**12 251**	**32 443 904**
EQUITY						
- Issued capital		130 100				130 100
- Supplementary capital		1 010 644				1 010 644
- Revaluation reserve		92 886			43 022	135 908
- Other capital reserve		1 553 478				1 553 478
- Result of previous year		-17 405	-4 584		-47 036	-69 025
- Net result of current year		366 255	29 983	-724		395 514
- Minority interest		-5 969			12 925	6 956
E q u i t y t o t a l		**3 129 989**	**25 399**	**-724**	**8 911**	**3 163 575**
L i a b i l i t i e s a n d e q u i t y t o t a l		**35 560 675**	**25 399**	**243**	**21 162**	**35 607 479**

COMPARABLE BALANCE SHEET as at 31 Dec 2004	Note	31 Dec 2004 acc to PAS	Goodwill	Recognition of option	Revaluation of building to fair value	Measurement of subsidiares at cost value	31 Dec 2004 acc to IFRS
A S S E T S							
- Cash and cash balances with Central Bank		895 324					895 324
- Loans and advances to banks		10 826 586					10 826 586
- Financial assets held for trade		4 987 466					4 987 466
- Investments		7 040 087					7 040 087
- Non-current assets held for sale		8 614					8 614
- Loans and advances to customers		10 519 540					10 519 540
- Investments in associates		211 928				-71 063	140 865
- Property and equipment		484 857			-26 198		458 659
- Investment property							0
- Intangibles		276 504	25 241				301 745
- Tax assets		262 210		243	11 033		273 486
- Other assets		123 782					123 782
T o t a l a s s e t s		**35 636 898**	**25 241**	**243**	**-15 165**	**-71 063**	**35 576 154**
L I A B I L I T I E S A N D E Q U I T Y							
LIABILITIES							
- Deposits from banks		2 512 824					2 512 824
- Financial liabilities held for trading		1 270 042					1 270 042
- Deposits from customers		27 676 402					27 676 402
- provisions		321 588					321 588
- Tax liabilities		127 555			8 237	-5 881	129 911
- Other liabilities		592 529		967			593 496
L i a b i l i t i e s t o t a l		**32 500 940**	**0**	**967**	**8 237**	**-5 881**	**32 504 263**
EQUITY							
- Issued capital		130 100					130 100
- Supplementary capital		1 003 152					1 003 152
- Revaluation reserve		92 886			23 634		116 520
- Other capital reserve		1 537 079					1 537 079
- Result of previous year		6 486	-4 584		-47 036	-2 104	-47 238
- Net result of current year		366 255	29 825	-724		-63 078	332 278
E q u i t y t o t a l		**3 135 958**	**25 241**	**-724**	**-23 402**	**-65 182**	**3 071 891**
L i a b i l i t i e s a n d e q u i t y t o t a l		**35 636 898**	**25 241**	**243**	**-15 165**	**-71 063**	**35 576 154**

TRANSFORMATION OF OPENING BALANCE OF CONSOLIDATED BALANCE SHEET as at 01 Jan 2005	*Note*	**01 Jan 2005 acc to PAS**	**Loan impairment**	**Amortised cost**	**Goodwill**	**Recognition of option**	**Revaluation of building to fair value**	**01 Jan 2005 acc to IFRS**
A S S E T S								
- Cash and cash balances with Central Bank		895 332						895 332
- Loans and advances to banks		10 748 766						10 748 766
- Financial assets held for trade		4 976 205						4 976 205
- Investments		7 014 258						7 014 258
- Non-current assets held for sale		8 614						8 614
- Loans and advances to customers		10 407 872	-194 877	-27 906				10 185 089
- Investments in associates		70 944						70 944
- Property and equipment		643 920					10 129	654 049
- Investment property		113 664						113 664
- Intangibles		280 015			25 399	243		305 657
- Tax assets		276 037	2 506	12 336			11 033	301 912
- Other assets		125 048						125 048
T o t a l a s s e t s		**35 560 675**	**-192 371**	**-15 570**	**25 399**	**243**	**21 162**	**35 399 538**
L I A B I L I T I E S A N D E Q U I T Y								
LIABILITIES								
- Deposits from banks		2 505 041		-442				2 504 599
- Financial liabilities held for trading		1 270 042						1 270 042
- Deposits from customers		27 638 259						27 638 259
- provisions		288 208	-176 207					112 001
- Tax liabilities		129 039	15 921	84			12 251	157 295
- Other liabilities		600 097	-192 523	38 778		967		447 319
L i a b i l i t i e s t o t a l		**32 430 686**	**-352 809**	**38 420**	**0**	**967**	**12 251**	**32 129 515**
EQUITY								
- Issued capital		130 100						130 100
- Supplementary capital		1 010 644						1 010 644
- Revaluation reserve		92 886		3 865			43 022	139 773
- Other capital reserve		1 553 478						1 553 478
- Result of previous year		-17 405	160 438	-57 855	-4 584		-47 036	33 558
- Net result of current year		366 255			29 983	-724		395 514
- Minority interest		-5 969					12 925	6 956
E q u i t y t o t a l		**3 129 989**	**160 438**	**-53 990**	**25 399**	**-724**	**8 911**	**3 270 023**
L i a b i l i t i e s a n d e q u i t y t o t a l		**35 560 675**	**-192 371**	**-15 570**	**25 399**	**243**	**21 162**	**35 399 538**

TRANSFORMATION OF OPENING BALANCE OF BALANCE SHEET as at 01 Jan 2005	*Note*	01 Jan 2005 acc to PAS	Loan impairment	Amortised cost	Goodwill	Recognition of option	Revaluation of building to fair value	Measurement of subsidiares at cost value	01 Jan 2005 acc to IFRS
A S S E T S									
- Cash and cash balances with Central Bank		895 324							895 324
- Loans and advances to banks		10 826 586							10 826 586
- Financial assets held for trade		4 987 466							4 987 466
- Investments		7 040 087							7 040 087
- Non-current assets held for sale		8 614							8 614
- Loans and advances to customers		10 519 540	-190 753	-26 150					10 302 637
- Investments in associates		211 928						-71 061	140 867
- Property and equipment		484 857					-26 198		458 659
- Investment property							0		0
- Intangibles		276 504			25 241	243			301 988
- Tax assets		262 210	2 506	12 336			11 033		288 085
- Other assets		123 782							123 782
T o t a l a s s e t s		**35 636 898**	**-188 247**	**-13 814**	**25 241**	**243**	**-15 165**	**-71 061**	**35 374 095**
L I A B I L I T I E S A N D E Q U I T Y									
LIABILITIES									
- Deposits from banks		2 512 824		-442					2 512 382
- Financial liabilities held for trading		1 270 042							1 270 042
- Deposits from customers		27 676 402							27 676 402
- provisions		321 588	-176 180						145 408
- Tax liabilities		127 555	15 921	84			8 237	-5 881	145 916
- Other liabilities		592 529	-192 456	38 778		967			439 818
L i a b i l i t i e s t o t a l		**32 500 940**	**-352 715**	**38 420**	**0**	**967**	**8 237**		**32 189 968**
EQUITY									
- Issued capital		130 100							130 100
- Supplementary capital		1 003 152							1 003 152
- Revaluation reserve		92 886		3 865			23 634		120 385
- Other capital reserve		1 537 079							1 537 079
- Result of previous year		6 486	164 468	-56 099	-4 584		-47 036	-2 102	61 133
- Net result of current year		366 255			29 825	-724		-63 078	332 278
E q u i t y t o t a l		**3 135 958**	**164 468**	**-52 234**	**25 241**	**-724**	**-23 402**	**-65 180**	**3 184 127**
L i a b i l i t i e s a n d e q u i t y t o t a l		**35 636 898**	**-188 247**	**-13 814**	**25 241**	**243**	**-15 165**	**-65 180**	**35 374 095**

1. Change of Presentation Rules

In 2005, the presentation of certain items of the profit and loss account was changed. In particular, the costs borne by the Bank towards the Banking Guarantee Fund and for the services provided by the National Clearing Chamber were presented as the costs due to commissions. In addition, the costs and revenue due to predicted losses were presented as the costs and revenue due to provisions, whereas the costs and revenue due to debt collection and the court-related costs were presented as the costs and revenue due to impairment.

PROFIT AND LOSS ACCOUNT	IV quarter 2005 the period from 01 Oct 2005 to 31 Dec 2005	4 quarters 2005 the period from 01 Jan 2005 to 31 Dec 2005	IV quarter 2004 the period from 01 Oct 2004 to 31 Dec 2004	4 quarters 2004 the period from 01 Jan 2004 to 31 Dec 2004
Interest and similar income	*469 684*	*1 870 269*	*497 438*	*1 686 170*
Interest expense and similar charges	*262 690*	*1 155 628*	*288 465*	*864 467*
- Net interest income	**206 994**	**714 641**	**208 973**	**821 703**
- Dividend income		**41 611**		**5 735**
Commission income	*138 422*	*524 701*	*142 976*	*551 566*
Commission expense	*14 579*	*55 510*	*19 868*	*78 899*
- Net commission income	**123 843**	**469 191**	**123 108**	**472 667**
- Net income on instruments at fair value	-2 882	211 766	36 684	72 298
- Net income on investments	699	3 674	2 434	2 961
- Result on sale of subsidiary undertaking	1 838	1 838	1 501	1 501
- Exchange rate differences	43 975	160 121	36 818	201 978
- Result on banking activity	**374 467**	**1 602 842**	**409 518**	**1 578 843**
Other operating income	*8 749*	*18 387*	*4 508*	*16 110*
Other operating expenses	*9 233*	*30 153*	*23 385*	*42 118*
- Result on other operating income and expenses	**-484**	**-11 766**	**-18 877**	**-26 008**
- General administrative expenses	243 162	949 677	218 640	883 886
- Depreciation and amortisation	31 147	116 993	29 309	116 076
- Result on disposals of assets other than held for sale	-247	120	356	694
- Impairment losses and provisions	-52 342	-122 204	-7 807	160 338
- Result from non-current assets and disposals groups classified as held for sale	-2	3 632	-42	-422
- Net result before tax	**151 767**	**650 362**	**150 813**	**392 807**
- Income tax	36 239	133 157	31 435	60 530
Net result of current year	**115 528**	**517 205**	**119 378**	**332 277**

- Net profit (for 12 months)		**517 205**		**332 277**
- Weighted average number of ordinary shares		**13 010 000**		**13 010 000**
- Earnings per share		**39,75**		**25,54**
- Weighted average anticipated number of ordinary shares		13 010 000		13 010 000
- Diluted profit (loss) per ordinary share (PLN)		39,75		25,54

BALANCE SHEET	31 Dec 2005	30 Sep 2005	31 Dec 2004	30 Sep 2004
ASSETS				
- Cash in hand and balances with the Central Bank	1 176 436	889 465	895 324	544 321
- Deposit accounts in other banks as well as loans and advances to other banks	12 652 212	13 032 452	10 826 586	9 076 778
- Financial assets held for trading	5 926 078	6 379 250	4 987 466	4 657 727
- Investments	11 241 054	9 454 291	7 040 087	5 870 355
- Non-current assets held for sale	5 969	5 984	8 614	482
- Loans and advances to customers	9 924 259	10 300 648	10 519 540	11 623 563
- Investments in associates	126 910	140 865	140 865	138 896
- Property, plant and equipment	451 899	445 435	459 665	481 603
- Intangible assets	319 443	310 792	300 739	300 592
- Tax assets	233 429	218 992	273 486	257 522
- Other assets	123 490	170 606	123 782	101 775
Total assets	**42 181 179**	**41 348 780**	**35 576 154**	**33 053 614**
LIABILITIES AND EQUITY				
LIABILITIES				
- Liabilities due to Central Bank	464 000	-	-	-
- Liabilities due to other banks	905 937	3 222 568	2 512 824	2 375 219
- Financial liabilities held for trading	1 095 899	1 376 016	1 270 042	1 883 135
- Liabilities to customers	35 445 440	32 481 029	27 676 402	24 530 860
- Provisions	80 831	119 302	321 588	334 102
- Tax liabilities	110 697	90 135	129 911	73 393
- Other liabilities	624 655	676 884	593 496	943 567
Liabilities total	**38 727 459**	**37 965 934**	**32 504 263**	**30 140 276**
EQUITY				
- Initial capital	130 100	130 100	130 100	130 100
- Supplementary capital - agio	993 750	993 750	993 750	993 750
- Revaluation reserves	97 091	138 882	87 760	48 584
- Result of previous year	1 715 574	1 718 437	1 528 003	1 528 005
- Net result of current year	517 205	401 677	332 278	212 899
Equity total	**3 453 720**	**3 382 846**	**3 071 891**	**2 913 338**
Liabilities and equity total	**42 181 179**	**41 348 780**	**35 576 154**	**33 053 614**
Solvency ratio	**17,89%**	**15,07%**	**15,24%**	**14,85%**
Net book value	**3 453 720**	**3 382 846**	**3 071 891**	**2 913 338**
Number of shares	**13 010 000**	**13 010 000**	**13 010 000**	**13 010 000**
Net book value per share (in PLN)	**265,47**	**260,02**	**236,12**	**223,93**

OFF-BALANCE SHEET ITEMS	31 Dec 2005	30 Sep 2005	31 Dec 2004	30 Sep 2004
- Contingent liabilities granted	9 689 063	14 312 717	11 503 688	10 006 462
- Contingent liabilities received	10 544 625	10 680 229	12 082 078	12 582 562
- Off-balance sheet financial instruments	108 825 349	140 619 707	91 434 947	113 552 162
Off-balance sheet items total	**129 059 037**	**165 612 653**	**115 020 713**	**136 141 186**

MOVEMENTS IN OWN EQUITY

	4 quarters 2005 the period from 01 Jan 2005 to 31 Dec 2005	4 quarters 2004 the period from 01 Jan 2004 to 31 Dec 2004
EQUITY COMPONENTS		
Initial capital	**130 100**	**130 100**
Supplementary capital - agio	**993 750**	**993 750**
Revaluation reserves	**97 091**	**87 760**
- fair value revaluation reserve on available for sale financial assets	*85 796*	*64 127*
- tangible assets revaluation reserve	*11 295*	*23 633*
Result of previous years	**1 715 574**	**1 528 003**
- supplementary capital	*22 171*	*9 402*
- revaluation reserves	*28 760*	*28 760*
- reserve capital	*1 212 963*	*1 136 927*
- general bank risk fund	*430 152*	*400 152*
- retained result from previous years	*21 528*	*-47 238*
Net result of current year	**517 205**	**332 278**
E q u i t y t o t a l	**3 453 720**	**3 071 891**

The initial capital is composed of 13,010,000 ordinary shares of the face value of PLN 10.00 each. Each ordinary share provides the shareholder with the right to dividend and one vote at the general meeting of the Bank's shareholders.

SOURCES OF EQUITY CHANGES

4 quarters 2005
the period from 01 Jan 2005 to 31 Dec 2005

	Initial capital	Supplemen-tary capital - agio	Revaluation reserves	Result of previous years					Net result of current year	TOTAL
				supplemen-tary capital	*revaluation reserves*	*capital reserve*	*general bank risk fund*	*retained result from previous years*		
Closing balance (last year)	**130 100**	**993 750**	**87 760**	***9 402***	***28 760***	***1 136 927***	***400 152***	***285 040***	**0**	**3 071 891**
- changes in adopted accounting principles	-	-	3 865	-	-	-	-	*108 371*	-	**112 236**
Opening balance (current year)	**130 100**	**993 750**	**91 625**	***9 402***	***28 760***	***1 136 927***	***400 152***	***393 411***	**0**	**3 184 127**
- profit/loss from revaluation of available-for-sale assets charged to equity	-	-	19 648	-	-	-	-	-		**19 648**
- amounts charged to net result due to sale of financial assets classified as available-for-sale	-	-	-1 844	-	-	-	-	-	1 844	**0**
- liquidation or sale of fixed assets	-	-	-12 769	*12 769*	-	-	-	*858*	-	**858**
- revaluation of tangible assets	-	-	431	-	-	-	-	-	-	**431**
- profit distribution	-	-	-	-	-	*76 036*	*30 000*	*-372 741*	-	**-266 705**
- charges to capital reserve	-	-	-	-	-	*76 036*	-	*-76 036*	-	***0***
- charges to general bank risk fund	-	-	-	-	-	-	*30 000*	*-30 000*	-	***0***
- dividend	-	-	-	-	-	-	-	*-266 705*	-	***-266 705***
- net result of current period	-	-	-	-	-	-	-	-	515 361	**515 361**
Closing balance (current year)	**130 100**	**993 750**	**97 091**	***22 171***	***28 760***	***1 212 963***	***430 152***	***21 528***	**517 205**	**3 453 720**

4 quarters 2004
the period from 01 Jan 2004 to 31 Dec 2004

	Initial capital	Supplemen-tary capital - agio	Revaluation reserves	Result of previous years					Net result of current year	TOTAL
				supplemen-tary capital	*revaluation reserves*	*capital reserve*	*general bank risk fund*	*retained result from previous years*		
Closing balance (last year)	**130 100**	**993 750**	**-7 173**	***8 542***	***29 620***	***1 149 895***	***381 825***	***22 253***	**0**	**2 708 812**
- changes in adopted accounting principles	-	-	23 313	-	-	-	-	*-53 724*	-	**-30 411**
Opening balance (current year)	**130 100**	**993 750**	**16 140**	***8 542***	***29 620***	***1 149 895***	***381 825***	***-31 471***	**0**	**2 678 401**
- profit/loss from revaluation of available-for-sale assets charged to equity	-	-	66 179	-	-	-	-	-	-	**66 179**
- amounts charged to net result due to sale of financial assets classified as available-for-sale	-	-	-	-	-	-	-	-	-	**0**
- liquidation or sale of fixed assets	-	-	-	*860*	*-860*	-	-	-	-	**0**
- hedge accounting	-	-	5 441	-	-	-	-	-	-	**5 441**
- covering of prior period losses	-	-	-	-	-	*-12 968*	-	*12 968*	-	**0**
- profit distribution	-	-	-	-	-	-	*18 327*	*-28 735*	-	**-10 408**
- charges to general bank risk fund	-	-	-	-	-	-	*18 327*	*-18 327*	-	***0***
- dividend	-	-	-	-	-	-	-	*-10 408*	-	***-10 408***
- net result of current period	-	-	-	-	-	-	-	-	332 278	**332 278**
Closing balance (current year)	**130 100**	**993 750**	**87 760**	***9 402***	***28 760***	***1 136 927***	***400 152***	***-47 238***	**332 278**	**3 071 891**

CASH FLOW STATEMENT

	4 quarters 2005 the period from 01 Jan 2005 to 31 Dec 2005	4 quarters 2004 the period from 01 Jan 2004 to 31 Dec 2004
OPERATING ACTIVITIES		
Net profit (loss)	**517 205**	**332 277**
Adjustments	**-551 423**	**370 169**
- Unrealised foreign exchange gains (losses)	-4 148	-15 964
- Depreciation	116 993	116 076
- Accrued interest (presented in profit and loss account)	717 966	577 554
- Interest received / paid	-648 043	-494 729
- Dividends received	-41 611	-5 735
- Profit or loss on investment activity	-5 496	-2 195
- Corporate income tax (presented in profit and loss account)	133 157	60 530
- Corporate income tax paid	-113 476	123 481
- Change in provisions	-23 686	70 071
- Change in deposit accounts in other banks and loans and advances to other banks	-2 541 877	-2 829 929
- Change in financial assets held for trading	-935 609	-119 951
- Change in investments	-4 384 872	-6 247 894
- Change in loans and advances to customers	526 282	2 956 875
- Change in other assets	-4 894	-43 865
- Change in liabilities to banks	-1 177 292	431 038
- Change in financial liabilities held for trading	-174 143	1 013 680
- Change in liabilities to customers	7 824 047	4 781 207
- Change in other liabilities	185 279	-81
Cash flow from operating activities	**-34 218**	**702 446**
INVESTING ACTIVITIES		
- Acquisition of tangible assets	-98 653	-47 074
- Sale of tangible assets	1 262	3 194
- Acquisition of intangible assets	-27 282	-14 353
- Sale of intangible assets	0	0
- Acquisition of investments in subordinated entities	0	-13 950
- Sale of investments in subordinated entities	16 000	46 500
- Acquisition of non-current assets or liabilities held for sale	0	0
- Sale of non-current assets or liabilities held for sale	9 313	0
- Dividends received	41 611	5 735
Net cash flow from investing activities	**-57 749**	**-19 948**
FINANCING ACTIVITIES		
- Repayment of long-term loans	-55 616	-36 279
- Repayment of interest from long-term loans	-2 995	-4 395
- Dividends paid	-266 705	-10 408
Net cash flow from financing activities	**-325 316**	**-51 082**
Effect of exchange rate changes on cash and cash equivalents	***-36 341***	***-702 996***
Net increase in cash and cash equivalents	**-417 283**	**631 416**
Cash and cash equivalents at the beginning of the period	**5 387 362**	**4 755 946**
Cash and cash equivalents at the end of the period	**4 970 079**	**5 387 362**
Components of cash and cash equivalents:		
- Cash on hand	312 067	338 737
- Coupons	1 410	1 606
- Bank cheques	343	227
- Traveller's cheque	9	47
- Current accounts in the Central Bank	862 607	554 707
- Current accounts in other banks	3 793 643	4 492 038
Total cash and cash equivalents at the end of the period	**4 970 079**	**5 387 362**
of which: amount of cash and cash equivalents held by the Bank, but not available for use by group	*1 070 549*	*861 841*

VII. Additional Information Required under the Ordinance of the Minister of Finance of 19 October 2005 on Current and Periodic Information Submitted by Securities Issuers That Has Not Been Discussed Elsewhere

1. Indication of Shareholders Holding Directly or Indirectly > 5% of Total Number of Votes at GSM (para. 91 section. 6 item 5)

As at the date of submission of the report for fourth quarter of 2005, the shareholders owning 5% and more votes at the General Shareholders Meeting of ING Bank Śląski Spółka Akcyjna were the following entities:

No.	Entity	Number of shares and votes	% of total number of shares and votes at General Shareholders Meeting
1.	ING Bank N.V.	9,757,500	75.00
2.	Commercial Union Open Pension Fund BPH CU WBK	830,000	6.38

2. Specification of Changes in Shares Held by Senior Executives (para. 91 section 6 item 6)

The Members of the Bank Management Board and the Bank Supervisory Board do not hold any shares of ING Bank Śląski S.A. As at the date of disclosing the report for the 3Q2005, the Members of the Supervisory Board and Management Board were not in the possession of any shares of ING Bank Śląski S.A. either.

3. Information on Proceedings Before Court of the Value > 10% of Equity or Jointly > 10% of Equity (para. 91 section 6 item 7)

In 4Q 2005, no proceedings concerning liabilities or debts whose total value would amount to 10% of the Bank's equity were initiated before courts or administrative bodies against the Capital Group of ING Bank Śląski.

4. Information on Extending Sureties to Loans, Advances or Guarantees of the Value > 10% of Equity (para. 91 section 6 item 9)

On 22 December 2005, an agreement on syndicated loan was concluded with a company trading in the petro-chemical sector. The share of ING Bank Śląski S.A. in the consortium amounts to EUR 90,909,091 (or, PLN 348,481,818.53, at the average NBP exchange rate as on 22.12.2005, where EUR 1 = PLN 3.8333). The loan may be advanced in EUR, USD, PLN and KCZ. The Borrower is not related to ING Bank Śląski S.A.