

***ING BANK ŚLĄSKI S.A. CAPITAL GROUP***

**LONG-FORM AUDITORS' REPORT  
ON THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

## I. GENERAL NOTES

### 1. Background

The holding company of the ING Bank Śląski S.A. Group (hereinafter 'the Group' or 'the Capital Group') is ING Bank Śląski S.A. ('the holding company', 'the Company', 'the Bank').

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

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the European Union.

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

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

The holding company is a subsidiary of the ING Bank N.V. capital group which is a part of ING Groep N.V. Capital Group.

The principal activities of the holding company are as follows:

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

The scope of activities of the subsidiaries, jointly controlled entities and associates is connected to this of the holding company.

As at 31 December 2010, the holding company's issued share capital amounted to 130,100 thousand zlotys. The Group's equity as at that date amounted to 5,653,105 thousand zlotys.

In accordance with the confirmation obtained from the Management Board Office dated 18 January 2011, as at 31 December 2010, the ownership structure of the holding company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
ING Bank N.V.	9,757,500	9,757,500	97,575,000	75.00%
Other shareholders	3,252,500	3,252,500	32,525,000	25.00%
Total	13,010,000	13,010,000	130,100,000	100.00%

During the reporting period and between the balance sheet date and the date of this report there were no movements in the share capital.

During the reporting period and between the balance sheet date and the date of this report the following change took place in the ownership structure in the holding company's issued share capital. Due to sale of shares executed on 13 April 2010 AVIVA OFE Aviva BZ WBK has diminished its share in the holding company's issued share capital below 5%.

As at 1 March 2011, the holding company's Management Board was composed of:

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

During the reporting period and between the balance sheet date and the date of this report there were no changes in the holding company's Management Board.

## 2. Group Structure

As at 31 December 2010, the ING Bank Śląski S.A. Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
ING Securities S.A.	Full consolidation	Till the issue date of this report, opinion has not been issued	Ernst & Young Audit sp. z o. o.	31 December 2010
ING Bank Hipoteczny S.A.	Full consolidation	Till the issue date of this report, opinion has not been issued	Ernst & Young Audit sp. z o. o	31 December 2010
Centrum Banku Śląskiego Sp. z o.o.	Full consolidation	Till the issue date of this report, opinion has not been issued	BUFIKS - Biuro Usług Finansowo-Księgowych Sp. z o.o.; Grupa Finans-Servis	31 December 2010
SOLVER sp. z o.o.	Full consolidation	Till the issue date of this report, opinion has not been issued	Kancelaria Biegłego Rewidenta Czesławy Klimunt Kowalskiej	31 December 2010

As at 31 December 2010 shares in the following associates (direct and indirect) were recognised in the Group's consolidated financial statements using the equity method:

Name and registered office	Type of activity
ING Powszechne Towarzystwo Emerytalne S.A. located in Warsaw at 2 Ludna Street	Pension Fund Management

In comparison to the previous year there were no changes regarding consolidated companies.

### 3. Consolidated Financial Statements

#### 3.1 Auditors' opinion and audit of consolidated financial statements

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

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

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

Under the contract executed on 29 February 2008 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2010.

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

Based on our audit, we issued an unqualified auditors' opinion dated 1 March 2011, stating the following:

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

1. We have audited the attached consolidated financial statements of ING Bank Śląski S.A. Group ('the Group'), for which the holding company is ING Bank Śląski S.A.

(‘the Company’) located in Katowice at 34 Sokolska Street, for the year ended 31 December 2010 containing, the consolidated statement of financial position as at 31 December 2010, the income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flow for the period from 1 January 2010 to 31 December 2010 and the summary of significant accounting policies and other explanatory notes (‘the attached consolidated financial statements’).

2. The truth and fairness<sup>1</sup> of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company’s Management Board. In addition, the Company’s Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors’ Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – ‘the Accounting Act’). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly<sup>2</sup> reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated financial statements in accordance with:
  - chapter 7 of the Accounting Act,
  - national auditing standards issued by the National Council of Statutory Auditors,

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

4. In our opinion, the attached consolidated financial statements, in all material respects:
  - present truly and fairly all information material for the assessment of the results of the Group’s operations for the period from 1 January 2010 to 31 December 2010, as well as its financial position<sup>3</sup> as at 31 December 2010;
  - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;

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

<sup>2</sup> Translation of the following expression in Polish: ‘rzetelne i jasne’

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

- are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
5. We have read the 'Directors' Report for the period from 1 January 2010 to 31 December 2010 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (2009 Journal of Laws No. 33, item 259).'

We conducted the audit of the consolidated financial statements during the period from 11 October 2010 to 23 December 2010 and from 03 January 2011 to 1 March 2011. We were present at the holding company's head office from 11 October 2010 to 10 November 2010 and from 17 January 2011 to 1 March 2011.

### **3.2 Representations provided and data availability**

The Management Board of the holding company confirmed its responsibility for the truth and fairness<sup>4</sup> of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 1 March 2011, from the Management Board of the holding company confirming that:

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

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

### **3.3 Consolidated financial statements for prior financial year**

The consolidated financial statements of the Group for the year ended 31 December 2009 were audited by Arkadiusz Krasowski, key certified auditor no. 10018, acting on behalf of Ernst & Young Audit sp. z o.o. with the seat in Warsaw, Rondo ONZ 1 (Reg. No. 130). The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2009. The consolidated financial statements for the year ended 31 December 2009 were approved by the General Shareholders' Meeting on 8 April 2010.

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

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The consolidated financial statements of the Group for the financial year ended 31 December 2009, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 16 April 2010 with the National Court Register.

The consolidated balance sheet as at 31 December 2009, the consolidated profit and loss account, the statement of changes in consolidated equity and the consolidated cash flow statement for the year ended 31 December 2009, together with the auditors' opinion and a copy of the resolution approving the financial statements were published in Monitor Polski B No. 1062 on 2 July 2010.

## 4. Analytical Review

### 4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2008 – 2010. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2009 and 31 December 2010.

	2010	2009	2008
<b>Total assets</b>	64,517,528	59,883,456	69,610,475
<b>Shareholders' equity</b>	5,653,105	4,886,711	4,224,429
<b>Net profit/ loss</b>	753,139	595,066	445,418
<b>Capital adequacy ratio according to NBP methodology</b>	13.15%	12.01%	10.39%
<b>Profitability ratio</b>	58.6%	49.6%	37.6%
$\frac{\text{Profit before taxation}}{\text{Total costs}^*}$			
<b>Costs to income ratio</b>	58.3%	58.8%	70.5%
$\frac{\text{Total costs}^*}{\text{Operating income}^{**}}$			
<b>Return on equity (ROE)</b>	14.3%	13.1%	11.1%
$\frac{\text{Net profit}}{\text{Average shareholders' equity}}$			
<b>Return on assets (ROA)</b>	1.2%	0.9%	0.7%
$\frac{\text{Net profit}}{\text{Average assets}}$			
<b>Rate of inflation:</b>			
Yearly average	2.6%	3.5%	4.2%
December to December	3.1%	3.5%	3.3%

\*Total costs comprise general expenses and result on other operating income and expense.

\*\* Operating income comprises result on basic activities and share in net profit (loss) of associated entities recognized under the equity method.

## **4.2 Comments**

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

- Net profit for 2010 amounted to 753,139 thousand zlotys in comparison to net profit of 595,066 thousand zlotys in 2009 and 445,418 thousand zlotys in 2008.
- The total assets as of 31 December 2010 amounted to 64,517,528 thousand zlotys and increased compared to total assets as of 31 December 2009.
- Profitability ratio increased from 37.6% in 2008 to 49.6% in 2009 and then to 58.6% in 2010.
- Cost to income ratio decreased from 70.5% in 2008 to 58.8% in 2009 and then to 58.3% in 2010.
- Return on equity ratio increased from 11.1% in 2008 to 13.1% in 2009 and then to 14.3% in 2010.
- Return on assets ratio increased from 0.7% in 2008 to 0.9% in 2009 and then to 1.2% in 2010.
- The Group's solvency ratio amounted to 13.15% as at 31 December 2010 compared with 12.01% at the end of 2009 and 10.39% at the end of 2008.

## **4.3 Going concern**

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2010 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note III of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2010, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2010 and that there are no circumstances that would indicate a threat to its continued activity.

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

As at 31 December 2010, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolutions of the Polish Financial Supervision Authority ('KNF') envisaged banking regulatory norms in relation to the following items:

- level of currency positions,
- concentration of credit risk,
- concentration of investments in shares,

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

During our audit we have not identified any facts indicating that during the period from 1 January 2010 to 31 December 2010 the Group did not comply with these regulations. We have received written representation from the Management Board of the Bank that during the year the banking regulatory norms were not breached.

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

During our audit we have not identified any significant irregularities in relation to the calculation of the capital adequacy ratio as of 31 December 2010 in accordance with Resolution no. 380/2008 of the Financial Supervision Authority ('KNF') of 17 December 2008 on the scope of the capital requirements against particular risks and the detailed principles to be applied in determining those requirements, including but not limited to the scope and conditions of applying statistical methods and the scope of information attached to an application for authorization to apply them, principles and conditions of taking account of contracts on debt assignment, subparticipation, credit derivative and contracts other than those on debt assignment, subparticipation, in calculating the capital requirements, terms and conditions, scope and manner of making use of the ratings assigned by external credit assessment institutions and the export credit agencies, manner and specific principles of calculating the solvency ratio of a bank, the scope and manner of taking account of banks conducting their activities in groups in calculating their capital requirements as well as establishing additional items of bank balance sheets presented jointly with bank regulatory own funds in the calculation of capital adequacy, the amount thereof and the conditions of setting them (Official Journal of the Financial Supervision Authority No. 8, dated 31 December 2008 with further amendments).

## **II. DETAILED REPORT**

### **1. Completeness and accuracy of consolidation documentation**

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

### **2. Accounting policies for the valuation of assets and liabilities**

The Group's accounting policies and rules for the presentation of data are detailed in note IV of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2010.

### **3. Structure of assets, liabilities and equity**

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2010.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

#### **3.1 Goodwill on consolidation and amortisation**

The method of determining goodwill on consolidation, the method on determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in note IV and note VI.24 of the additional notes and explanations to the consolidated financial statements.

#### **3.2 Shareholders' funds including non-controlling interest**

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 2,352 thousand zlotys as at 31 December 2010. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in notes VI.33, VI.34 and VI.35 of the additional notes and explanations to the consolidated financial statements.

#### **3.3 Financial year**

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2010 and include the financial data for the period from 1 January 2010 to 31 December 2010.

#### **4. Consolidation adjustments**

##### **4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.**

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

##### **4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends**

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

#### **5. Disposal of all or part of shares in a subordinated entity**

During the financial year the Group did not sell any shares in subordinated entities.

#### **6. Items which have an impact on the group's result for the year**

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2010.

#### **7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU**

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting

#### **8. Issues specific for the audit of banks**

We have addressed the issue of complying by ING Bank Śląski S.A. ('the Bank') with the obligatory norms mitigating banking risks and the issue of correctness of calculation of capital adequacy ratio in our report dated 1 March 2011, supplementing the independent auditors' opinion on the financial statements of the Bank for the year ended 31 December 2010.

#### **9. Additional Notes and Explanations to the Consolidated Financial Statements**

The additional notes and explanations to the consolidated financial statements for the year ended 31 December 2010 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union.

## 10. Directors' Report

We have read the 'Directors' Report for the period from 1 January 2010 to 31 December 2010 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (2009 Journal of Laws No. 33, item 259).

## 11. Materiality Level

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

## 12. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' Articles of Association having an impact on the consolidated financial statements were breached during the financial year.

## 13. Work of Experts

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

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

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

Key Certified Auditor

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Arkadiusz Krasowski  
certified auditor  
No. 10018

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Warsaw, 1 March 2011