2010

Annual Consolidated Financial Statements of the ING Bank Śląski S.A. Group for the year 2010

ING BANK ŚLĄSKI

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Table of contents

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

CONSOLIDATED INCOME STATEMENT (PLN '000)	Note	the period from 01 Jan 2010 to 31 Dec 2010	the period from 01 Jan 2009 to 31 Dec 2009 *(comparable data)*
- Interest income	2	2 948 721	3 077 718
- Interest expenses	2	1 321 134	1 675 224
Net interest income	2	**1 627 587**	**1 402 494**
- Commission income	3	1 117 122	1 085 074
- Commission expenses	3	129 791	120 667
Net commission income	3	**987 331**	**964 407**
- Net income on instruments measured at fair value through profit or loss and FX result	4	77 503	97 981
- Net income on investments	5	2 174	3 336
- Net income on hedge accounting	6	-12 052	20 065
- Net income on other basic activities	7	7 910	-8 081
Result on basic activities		**2 690 453**	**2 480 202**
- General and administrative expenses	8	1 582 920	1 487 756
- Result on other operating income and expenses	9	-10 989	-1 731
- Impairment losses and provisions for off-balance sheet liabilities	10	203 627	304 454
- Share in net profit (loss) of associated entities recognised under the equity method	11	41 232	52 082
Profit (loss) before tax		**934 149**	**738 343**
Income tax	12	181 010	143 277
Net profit (loss)		**753 139**	**595 066**
- attributable to owners of the parent		**753 100**	**595 052**
- attributable to non-controlling interests		39	14

Net profit (loss) attributable to owners of the parent		**753 100**	**595 052**
Weighted average number of ordinary shares		**13 010 000**	**13 010 000**
Earnings per ordinary share (PLN)[*)]	13	**57,89**	**45,74**

[*)] *In 2010 and 2009, there were no dilution factors at the Group, therefore the diluted earnings per share equal the core earnings per share.*

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

Małgorzata Kołakowska
President
Signed on the Polish original

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Vice President
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Oscar Edward Swan
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SIGNATURE OF THE PERSON ENTRUSTED WITH KEEPING THE ACCOUNTING BOOKS

Tomasz Biłous
Director of Accounting Department
Chief Accountant
Signed on the Polish original

Katowice, 01.03.2011

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

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	the period from 01 Jan 2010 to 31 Dec 2010	the period from 01 Jan 2009 to 31 Dec 2009
Net result for the period	**753 139**	**595 066**
Other comprehensive income, of which:		
Gains/losses on remeasurement of available-for-sale financial assets charged to equity	8 471	96 302
including deferred tax	*-2 059*	*-22 678*
Reclassification to the financial result as a result of sale of available-for-sale financial assets	2 288	794
including deferred tax	*-537*	*-186*
Amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the portfolio of loans and receivables	-790	2 502
including deferred tax	*186*	*-586*
Remeasurement of property, plant and equipment	-3 619	-1 704
including deferred tax	*848*	*400*
Effective part of cash flow hedging instruments revaluation	1 399	-46 549
including deferred tax	*-329*	*10 919*
Other	272	25
including deferred tax	*30*	*10*
Other comprehensive income (loss)	**8 021**	**51 370**
Total comprehensive income for the period	**761 160**	**646 436**
Total comprehensive income		
- attributable to owners of the parent	761 121	646 422
- attributable to non-controlling interests	39	14
Total comprehensive income for the period	**761 160**	**646 436**

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Katowice, 01.03.2011

Consolidated Statement of Comprehensive Income shall be analysed together with the notes to the financial statement being the integral part thereof.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Note	as of 31 Dec 2010	as of 31 Dec 2009
A S S E T S			
- Cash in hand and balances with the Central Bank	15	2 394 196	2 656 593
- Loans and receivables to other banks	20	1 181 105	1 184 103
- Financial assets measured at fair value through profit and loss	16	659 606	8 267 661
- Valuation of derivatives	39	1 158 897	1 566 652
- Investments	17	23 006 812	14 166 281
- available-for-sale	17	*16 788 801*	*6 835 875*
- held-to-maturity	17	*6 218 011*	*7 330 406*
- Derivative hedge instruments	19,39,40	104 796	90 444
- Loans and receivables to customers	20	34 508 999	30 592 794
- Investments in controlled entities recognised under the equity method	21	156 832	115 600
- Investment real estates	22	118 187	129 667
- Property, plant and equipment	23	544 211	548 847
- Intangible assets	24	342 213	327 343
- Property, plant and equipment held for sale	25	13 996	224
- Current income tax assets		614	762
- Deferred tax assets	26	167 397	86 447
- Other assets	27	159 667	150 038
T o t a l a s s e t s		**64 517 528**	**59 883 456**

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Consolidated Statement of Financial Position shall be analysed together with the notes to the financial statement being the integral part thereof.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	*Note*	**as of 31 Dec 2010**	**as of 31 Dec 2009**
EQUITY AND LIABILITIES			
LIABILITIES			
- Liabilities due to other banks	*28*	4 039 111	3 973 786
- Financial liabilities measured at fair value through profit and loss	*29*	4 681 424	998 051
- Valuation of derivatives	*39*	1 292 661	1 193 944
- Derivative hedge instruments	*19,39,40*	600 455	482 563
- Liabilities due to customers	*30*	47 400 069	47 584 673
- Provisions	*31*	55 844	55 247
- Current income tax liabilities		138 499	156 133
- Other liabilities	*32*	656 360	552 348
Total liabilities		**58 864 423**	**54 996 745**
EQUITY			
- Share capital	*33*	130 100	130 100
- Supplementary capital - issuance of shares over nominal value		956 250	956 250
- Revaluation reserve from measurement of available-for-sale financial assets	*34*	8 586	-1 383
- Revaluation reserve from measurement of property, plant and equipment	*34*	47 370	51 115
- Revaluation reserve from measurement of cash flow hedging instruments	*34*	431	-968
- Revaluation of share-based payment		21 080	15 846
- Retained earnings	*35*	4 486 936	3 733 438
Equity attributable to owners of the parent		**5 650 753**	**4 884 398**
- Non-controlling interests		**2 352**	**2 313**
Total equity		**5 653 105**	**4 886 711**
Total equity and liabilities		**64 517 528**	**59 883 456**

Solvency ratio	**13,15%**	**12,01%**

Net book value	**5 650 753**	**4 884 398**
Number of shares	**13 010 000**	**13 010 000**
Net book value per share (PLN)	**434,34**	**375,43**

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Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

the period from 01 Jan 2010 to 31 Dec 2010

	Share capital	Supplementary capital - issuance of shares over nominal value	Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of property, plant and equipment	Revaluation reserve from measurement of cash flow hedging instruments	Revaluation of share-based payment	Retained earnings	Non-controlling interests	Total equity
Opening balance of equity	**130 100**	**956 250**	**-1 383**	**51 115**	**-968**	**15 846**	**3 733 438**	**2 313**	**4 886 711**
Net result for the current period	-	-	-	-	-	-	753 100	39	**753 139**
Other comprehensive income, of which:	**0**	**0**	**9 969**	**-3 745**	**1 399**	**0**	**398**	**0**	**8 021**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-	-	*8 471*	-	-	-	-	-	*8 471*
- reclassification to the financial result as a result of sale of available-for-sale financial assets	-	-	*2 288*	-	-	-	-	-	*2 288*
- amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the portfolio of loans and receivables	-	-	*-790*	-	-	-	-	-	*-790*
- remeasurement of property, plant and equipment	-	-	-	*-3 619*	-	-	-	-	*-3 619*
- effective part of cash flow hedging instruments revaluation	-	-	-	-	*1 399*	-	-	-	*1 399*
- other	-	-	-	*-126*	-	-	*398*	-	*272*
Transactions with owners, of which:	**0**	**0**	**0**	**0**	**0**	**5 234**	**0**	**0**	**5 234**
- revaluation of share-based payment	-	-	-	-	-	*5 234*	-	-	*5 234*
Closing balance of equity	**130 100**	**956 250**	**8 586**	**47 370**	**431**	**21 080**	**4 486 936**	**2 352**	**5 653 105**

Notes: 33, 34, 35

the period from 01 Jan 2009 to 31 Dec 2009

	Share capital	Supplementary capital - issuance of shares over nominal value	Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of property, plant and equipment	Revaluation reserve from measurement of cash flow hedging instruments	Revaluation of share-based payment	Retained earnings	Non-controlling interests	Total equity
Opening balance of equity	**130 100**	**956 250**	**-100 981**	**52 864**	**45 581**	**0**	**3 138 316**	**2 299**	**4 224 429**
Net result for the current period	-	-	-	-	-	-	595 052	14	**595 066**
Other comprehensive income, of which:	**0**	**0**	**99 598**	**-1 749**	**-46 549**	**0**	**70**	**0**	**51 370**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-	-	*96 302*	-	-	-	-	-	*96 302*
- reclassification to the financial result as a result of sale of available-for-sale financial assets	-	-	*794*	-	-	-	-	-	*794*
- amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the portfolio of loans and receivables	-	-	*2 502*	-	-	-	-	-	*2 502*
- remeasurement of property, plant and equipment	-	-	-	*-1 704*	-	-	-	-	*-1 704*
- effective part of cash flow hedging instruments revaluation	-	-	-	-	*-46 549*	-	-	-	*-46 549*
- other	-	-	-	*-45*	-	-	*70*	-	*25*
Transactions with owners, of which:	**0**	**0**	**0**	**0**	**0**	**15 846**	**0**	**0**	**15 846**
- revaluation of share-based payment	-	-	-	-	-	*15 846*	-	-	*15 846*
Closing balance of equity	**130 100**	**956 250**	**-1 383**	**51 115**	**-968**	**15 846**	**3 733 438**	**2 313**	**4 886 711**

Notes: 33, 34, 35

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

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

CONSOLIDATED CASH FLOW STATEMENT	Note	the period from 01 Jan 2010 to 31 Dec 2010	the period from 01 Jan 2009 to 31 Dec 2009
OPERATING ACTIVITIES			
Net profit (loss)		**753 100**	**595 052**
Adjustments		**-2 043 534**	**-1 957 998**
- Profit (loss) attributable to non-controlling interests		39	14
- Share in net profit (loss) of associated entities	11	-41 232	-52 082
- Depreciation and amortisation	8	120 985	123 909
- Interest accrued (from the profit and loss account)	2	1 627 587	1 402 494
- Interest paid		1 385 024	1 952 956
- Interest received		-3 284 786	-3 452 457
- Dividends received	5	-4 793	-4 156
- Gains (losses) on investment activities		221	1 257
- Income tax (from the profit and loss account)	12	181 010	143 277
- Income tax paid		-279 446	-64 708
- Change in provisions	31	597	4 668
- Change in loans and other receivables to other banks	20,46	329 920	4 133 359
- Change in financial assets at fair value through profit or loss	16,46	7 563 511	2 188 274
- Change in available-for-sale financial assets	17,46	-9 918 531	3 924 854
- Change in valuation of derivatives	39	506 472	-114 581
- Change in derivative hedge instruments	19,39,40	104 939	122 526
- Change in loans and other receivables to customers	20, 46	-3 916 084	-4 865 995
- Change in other assets		-28 417	13 858
- Change in liabilities due to other banks	28,46	66 853	-8 044 178
- Change in liabilities at fair value through profit or loss	29	3 683 373	172 991
- Change in liabilities due to customers	30,46	-250 022	557 200
- Change in other liabilities		109 246	-101 478
Net cash flow from operating activities		**-1 290 434**	**-1 362 946**
INVESTMENT ACTIVITIES			
- Purchase of property plant and equipment	23	-86 223	-85 755
- Disposal of property, plant and equipment		1 204	219
- Purchase of intangible assets	24	-66 009	-58 120
- Disposal of fixed assets held for sale		132	56
- Redemption of held-to-maturity financial assets		1 145 000	50 000
- Interest received from held-to-maturity financial assets		363 327	366 327
- Dividends received	5	4 793	4 156
Net cash flow from investment activities		**1 362 224**	**276 883**
Effect of exchange rate changes on cash and cash equivalents		***-36 305***	***41 136***
Net increase/decrease in cash and cash equivalents		**71 790**	**-1 086 063**
Opening balance of cash and cash equivalents		**3 047 826**	**4 133 889**
Closing balance of cash and cash equivalents	44	**3 119 616**	**3 047 826**

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

Accounting policy and additional explanatory notes

I. Information on the Bank and the Capital Group

ING Bank Śląski S.A. ("Parent company", "parent entity", "Bank") with the headquarters in Katowice, Sokolska Str. 34, was entered into the entrepreneurs National Court Register managed by the Commercial Department of the Regional Court in Katowice under the reference number KRS 5459.

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

The share capital of ING Bank Śląski S.A. is PLN 130,100,000 and is divided in 13,010,000 ordinary bearer shares with a par value of PLN 10.00 each. Shares of the Bank are quoted on the Warsaw Stock Exchange (sector: banks). As of 31 December 2010, the share price of ING Bank Śląski S.A. was PLN 894.00, whereas during the same period last year it was at the level of PLN 780.00.

ING Bank Śląski S.A. is the parent company of the ING Bank Śląski S.A. Group ("Group"; "Capital Group") of the following composition as at 31 December 2010:

- ING Securities S.A. (subsidiary, 100% share),
- ING Bank Hipoteczny S.A. (subsidiary, 100% share),
- Centrum Banku Śląskiego Sp. z o.o. (subsidiary, 100% share),
- Solver Sp. z o.o. (subsidiary, 82.3% share).

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

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

In 12 months 2010 the Group's structure did not change.

The duration of the parent entity and entities forming the Capital Group is indefinite.

ING Bank Śląski S.A. offers a broad range of banking services rendered for individual and institutional clients in line with the scope of services outlined in the Bank's charter. The Bank runs operations both in the home currency and in foreign currencies. The Bank is also active on the domestic and foreign financial markets. The subsidiary ING Bank Hipoteczny S.A. also runs banking business, including loans secured with mortgage. Additionally through subsidiaries the Group operates brokerage services, real estate, leasing of real estate and advisory and acts as a financial intermediary as well as provides other financial services.

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 December 2010 held 75% share in the initial capital of ING Bank Śląski and 75% shares in the total number of votes at the General Meeting of Shareholders. ING Bank NV belongs to the Capital Group, herein referred to as ING Group.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

As at the date 31 December 2010, the shareholder owning 5% and more votes at the General Shareholders Meeting of ING Bank Śląski Spółka Akcyjna was:

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

On 20 April 2010, the Bank acquired the information that as a result of the transaction of sale of shares of ING Bank Śląski S.A. concluded on 13 April 2010, Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK [*Aviva Open Investment Fund Aviva BZ WBK*] decreased its share in the total number of shares and votes at the General Meeting to less than 5%. Consequently, as at the release date of these statements, only ING Bank N.V. with 75.0% of the total number of shares and votes at the General Meeting was a shareholder holding 5% or more of votes at the General Meeting of ING Bank Śląski S.A.

The annual consolidated financial statements of the Group for 2010 comprise the data of the Bank and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The annual consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 1st January 2009 to 31st December 2009 were approved by the General Meeting of Shareholders of the Bank on 8 April 2010.

II. Selected financial data from the consolidated financial statements

	PLN thousand		***EUR thousand***	
	period from 01.01.2010 to 31.12.2010	period from 01.01.2009 to 31.12.2009	period from 01.01.2010 to 31.12.2010	period from 01.01.2009 to 31.12.2009
Interest income	2 948 721	3 077 718	736 370	709 054
Commission income	1 117 122	1 085 074	278 974	249 982
Result on basic activities	2 690 453	2 480 202	671 874	571 396
Result before tax	934 149	738 343	233 281	170 102
Net result of shareholders of the holding company	753 100	595 052	188 068	137 090
Net result of minority shareholders	39	14	10	3
Net cash flows	71 790	-1 086 063	17 928	-250 210
Earnings per ordinary share (PLN / EUR)	57.89	45.74	14.46	10.54

	PLN thousand		***EUR thousand***	
	as of 31.12.2010	as of 31.12.2009	as of 31.12.2010	as of 31.12.2009
Total assets	64 517 528	59 883 456	16 291 071	14 576 568
Equity of the holding company	5 650 753	4 884 398	1 426 850	1 188 939
Share capital	130 100	130 100	32 851	31 668
Number of shares (per item)	13 010 000	13 010 000	-	-
Book value per share (PLN / EUR)	434.34	375.43	109.67	91.39
Solvency ratio (%)	13. 15%	12.01%	-	-

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

- for statement of financial positions items – PLN 3.9603, NBP exchange rate of 31 December 2010; PLN 4.1082 NBP exchange rate of 31 December 2009,
- for income statement items and cash flow statement items for the period of 12 months ending on 31 December 2010 - PLN 4.0044 exchange rate calculated as the average of NBP exchange rates as at the last day of each month in 2010; PLN 4.3406 exchange rate calculated as the average of NBP exchange rates as at the last day of each month in 2009.

III. Statement of compliance with International Financial Reporting Standards

These annual consolidated financial statements for the period from 01 January 2010 to 31 December 2010 were prepared in compliance with the International Financial Reporting Standards ("IFRS") approved by the European Union. In view of the ongoing process of IFRS introduction in the EU and the business run by the Company, as at the approval date of this report, there were no differences between the already effective IFRSs and the IFRSs approved by the EU in terms of the accounting principles applied by the Company. IFRS include standards and interpretations accepted by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC").

Consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated equity, and consolidated cash flow statement for the period from 01 January 2010 to 31 December 2010, and consolidated statement of financial position as at 31 December 2010 together with comparable data were prepared according to the same principles of accounting for each period.

These consolidated financial statements of the ING Bank Śląski S.A. Group have been prepared in PLN rounded to one thousand zlotys (unless otherwise noted).

In 2010, the Group took account of the following changes in the effective accounting standards and new interpretations:

- IFRIC 15 *Agreements for the Construction of Real Estates* – interpretation as to the recognition of revenue from construction of real estates, as well as explanation whether the agreement for the construction of real estate is covered by the provisions of IAS 11 *Construction Contracts* or by IAS 18 *Revenue.* It has no impact on the financial statements of the Group.
- IFRS 1 *First-time adoption of International Financial Reporting Standards* – the amended IFRS1 supersedes the existing IFRS1 in order to make the application of the said standard and is its future modifications easier. It has no impact on the financial statements of the Group.
- IFRS 1 *First-time adoption of International Financial Reporting Standards* — the amendment pertains to the entity conducting business in the oil and natural gas sector which wants to move to IFRS and, therefore, it has no impact on the financial statements of the Group.
- IFRS 2 *Shared-based payment* – amendments to IFRS 2 specify in detail the recognition of share-based payment transaction settled in cash in the capital group. Application of this interpretation had impact neither on the financial standing nor on Group business activity, because there were no events to which the said amendment would apply.
- Amendments to International Financial Reporting Standards – as part of annual procedure for introducing the amendments, the aim of which is to improve and specify in more details the international accounting standards. The majority of amendments either specify the existing IFRS in more detail, introduce amendments thereto or constitute amendments resulting from previous amendments to IFRS. The amendments to IFRS 8, IFRS 17, IAS 36, and IAS 39 embrace amendments to existing requirements or constitute additional explanation as to application of the said requirements.

Term and scope of the statements

These annual consolidated financial statements of the Capital Group of ING Bank Śląski S.A. cover the period from 1st January 2010 to 31st December 2010 and include the comparative data:

- items from the consolidated statement of financial position as at 31st December 2009,
- items in the consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated equity and consolidated cash flow statement for the period from 1st January 2009 to 31st December 2009.

Earlier adoption of standards which are not in force as at the balance sheet date

Published standards and interpretations, which have been issued and approved by the European Union, but which are not effective yet, and have not been applied by the Group so far:

- IFRIC 14 *The Limit of a Defined Benefit Asset, and Minimum Funding Requirements and their Interaction* – applicable to annual periods beginning 1 January 2011 onwards. Interpretation concerns the plan of specified benefits under minimum funding requirements the prepayment of which is recognized as element of financial assets. Currently, the Group is analyzing the impact of the amendments on financial statements.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity* – applicable to annual periods beginning after 1 July 2010. The interpretation presents recommendation as to recognizing by the debtor the equity instruments issued by such creditor as a result of renegotiation of the terms and conditions of financial liability in order to extinguish such liability fully or partially. It has no impact on the financial statements of the Group.
- IFRS 1 *Limited Exemption from Comparative IFRS7 Disclosures for First-time adopters* – applicable to annual periods beginning after 1 July 2010. It has no impact on the financial statements of the Group.
- IAS 24 Related Party Disclosure – applicable to annual periods beginning on or after 1 January 2011. The introduced amendments concern the simplification of the definition of the related entity and deletion of some internal inconsistencies and exemption of some entities related to government form certain requirements of information disclosure. Currently, the Group is analyzing the impact of the amendments on financial statements.
- *IAS 32 Financial Instruments: Presentation* applicable to annual periods beginning after 1 February 2010. The amendment pertains to the manner of classification of specified pre-emptive right where the issued financial instruments are denominated in the currency other than the functional currency of the issuer. It has no impact on the financial statements of the Group.

Published standards and interpretations, which have not been issued yet and which are not effective and which have not been approved by the European Union yet.

- IAS 12 *Income Taxes* – the amendments pertain to classification of the revenue depending on expectations of the entity whether or not it will recover the carrying value of a given assets either through use or sale. Currently, the Group is analyzing the impact of the amendments on financial statements.

- *IFRS 1 First-time Adoption of International Financial Reporting Standards:* severe hyperinflation and removal of fixed dates for those who adopt IFRS for the first time. It has no impact on the financial statements of the Group.
- *IFRS 7 Financial Instruments: Disclosures* – the amendment specifies in more details the requirements as to transfer of financial assets. Currently, the Group is analyzing the impact of the amendments on financial statements.
- IFRS 9 *Financial Instruments* – this standard constitutes the first phase of the works of the IASB to supersede the International Accounting Standard 39 and covers both the classification and measurement of financial assets. During the next phases the IASB will work on financial liabilities, hedge accounting and removal of financial assets/liabilities from the financial statements. The Group will assess the influence of the new standard comprehensively together with the phases that have not been published yet.
- Amendments resulting from annual review of IFRS applicable to annual reporting periods starting 1 January 2011. The annual reviews is to improve and specify in more detail the international accounting standards. The majority of amendments either specify existing IFRS in more detail, introduce amendments thereto or constitute amendments resulting from previous amendments to IFRS. Amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13 embrace amendments to existing requirements or constitute additional explanation as to application of the said requirements.

Going-concern

These consolidated financial statement was prepared on a going-concern basis as regards the foreseeable future, namely as regards the period of minimum 12 months from the balance sheet date.

As of the date of approving this statement, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Capital Group is endangered.

Discontinued operations

No operations were discontinued during the 2010 and 2009.

IV. Material accounting principles

Basis for preparation of consolidated financial statements

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

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

Accounting Estimates

The preparation of financial statements in accordance with IFRS requires from the Group the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes thereto.

Estimations and assumptions applied to the presentation of value of assets, liabilities, revenues and costs are made on basis of historical data available and other factors considered to be relevant in given circumstances. Applied assumptions related to the future and available data sources are the base for making estimations regarding carrying value of assets and liabilities, which cannot be determined explicitly on the basis of other sources. The estimates reflect the reasons for/sources of uncertainties as at the balance sheet date. The actual results may differ from estimates.

The estimations and assumptions are reviewed on an on-going basis. Adjustments to estimates are recognized in the period when the estimation was changed provided that the adjustment applies to this period alone or in the period when the estimation was changed and in the following periods, should the adjustment impact both the current and future periods.

Major accounting estimations adopted by the Group are as follows:

Impairment of loans

At each balance sheet date the Group assesses whether there is objective evidence of impairment of a given financial asset or of a group of such assets. Impairment of a financial asset or of a group of financial assets is incurred only if there is objective evidence for the impairment due to one or many events. The occurrence of such event or group of such events affects the estimation of expected cash flows regarding these assets. The estimates may take into account any observable indications pointing at the occurrence of an unfavourable change in the solvency position of debtors belonging to any particular group or in the economic situation of a given country or part of a country, which is associated with the problems appearing in that group of assets. Historical parameters of recoveries are adjusted on the basis of the data coming from current observations so as to take into consideration the influence of current conditions and to exclude the influencing factors from the prior periods that are not currently present.

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

The methodology and the assumptions on the basis of which the estimated cash flows and their anticipated timing are determined are regularly reviewed and updated. Moreover the tests on historical data are carried out in order to compare actual results with estimations of impairment.

Credit risk connected with derivative instruments

The Group has been systematically reviewing of the portfolio of FX options. The Group has structured its approach so that the results of the above reviews better reflect the risk level.

The approach adopted by the Group to estimation of the credit risk generated by derivative instruments with future settlement dates (active transactions outstanding as at the balance sheet date) is in line with the approach adopted by the Group for the purpose of assessing the credit risk generated by credit receivables. The valuation adjustments are estimated at the level of a single counterparty using the formula based on expert knowledge and PD, LGD ratios and amount of EPE (expected positive exposure).

In addition for mature transactions or terminated and unsettled as at the balance sheet date the Group made charges using the methodology for assessing the risk of impaired loans.

The two types of fair value adjustments as mentioned above were differently reflected in the consolidated financial statement. Fair value adjustments due to risk for non-matured transactions were presented under the item *Net income on instruments measured at fair value through profit or loss and FX result* whereas the charges for matured transactions under the item *Impairment charges for financial assets and provisions for off-balance-sheet liabilities.* If a transaction whose fair value was adjusted in the previous reporting period in the position *Net income on instruments measured at fair value through profit or loss and FX result* becomes mature or subject to restructuring, then the amount of the previous fair value adjustment should be moved to the position *Impairment charges a*nd the added part of the impairment charge for such already matured transaction is presented in the profit or loss account in the position *Impairment charges and provisions for off-balance liabilities*. Therefore the financial result is influenced only by the amount of surplus of the current impairment charge (or write-down) for a mature transaction above the amount of the fair value adjustment established before the transaction has matured.

Uncertainty of the estimates

The Group continues to assess the risk level related to FX options initiated in 2008. The appraisal was made as of the balance sheet date assuming the measurement level as of that date and taking into account the risk appraisal performed as of the same date. The Group performs periodical appraisal of the financial standing of the clients holding similar instruments. The following key factors taken into account in case of changes of risk estimates are:

- changes in the fair-value measurement of derivatives correlated with FX-rate,
- changes in the scope of the credit risk appraisal of the contracting parties by the Group.

However considering the great volatility of the business environment there still remains some uncertainty as to the Group's estimates.

Impairment of other non-current assets

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

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

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

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

Valuation models used by the Group are verified by independent bodies before/prior to their usage. Where possible in models the Group uses observable data from active markets. However the Group also adopts assumptions as to probability (as counterparty risk, variables and market correlations). Any change in these assumptions may affect the fair value of some financial instruments. The change of assumptions concerning these factors may influence valuation of some financial instruments.

Retirement and sick pension severance payments provision

Retirement payments provision is calculated using an actuarial method by an independent actuary as the present value of future liabilities of the Group towards the employees according to headcount and remuneration at the updating date. The estimation of the provision is made on the basis of several assumptions both about macroeconomic environment and employee turnover mortality risk and other. The estimated provision is updated annually.

The Group adopts a corridor approach to recognition of a determined portion of the cumulated net value of actuarial gains and losses. Under this method when determining an obligation due to certain benefits the Group recognises some actuarial gains and losses as revenue or costs when the net value of accumulated unrecognised actuarial gains and losses as at the end of the previous reporting period exceeds the higher of the following two values:

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

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

Provisions for the bonus for employees and top executives

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

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

Consolidation policies

Subsidiaries

Subsidiaries are any entities controlled by the Bank. The control exists, when the Bank has direct or indirect influence on the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the parent owns more than a half of the voting rights of an entity and when there are:

- rights to more than a half of the voting rights by virtue of an agreement with other investors;
- power to govern the financial and operating policies of the entity under a statute or an agreement;
- power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body;
- power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

The financial statements of subsidiaries are included in the consolidated financial statements from the date of acquisition until the date on which the parent ceases to control the subsidiary, if applicable.

Acquisition Method

The acquisition method is applied while settling the acquisition of subsidiaries by the Group. On the day of the acquisition the Group recognizes, separately from the goodwill, identifiable acquired assets and assumed liabilities taking into consideration the recognition conditions as well as all non-controlling shares in the acquired entity.

The Group measures the identifiable acquired assets and assumed liabilities at fair value as at the acquisition day and classifies or determines them on the basis of provisions of the contract, conditions, rules of its activity or accounting policy or other relevant conditions existing as at the day of the acquisition.

Goodwill is an asset representing future economic benefits arising from the acquired assets as part of combination of entities that cannot be identified individually or recognized separately. The goodwill on acquisition of a business entity is initially recognized at cost constituting the surplus of the costs of:

- provided payment,
- sums of all non-controlling shares in the acquired entity, and
- in the case of combining entities executed at fair value as at the day of acquiring share in the capital of the acquired entity, previously belonging to the acquiring entity.

over the net amount determined as at the day of acquiring values of the identifiable acquired assets and assumed liabilities.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a share of between 20% and 50% of the voting rights. The consolidated financial statements include the Group's share in profits or losses of associates according to its share in net assets of associates, from the date of obtaining significant influence until the date, the significant influence ceases.

Investments in associates are initially accounted at purchase price and then accounted for using the equity method. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The share of the Group in the profits (losses) of associates since the date of acquisition is recognised in the profit or loss, whereas its share in changes in other reserves since the date of acquisition – in other reserves. The carrying amount of the investment is adjusted by the total changes of different items of equity after the date of their acquisition.

When the share of the Group in the losses of an associate becomes equal or greater than the share of the Group in that associate, the Group discontinues the recognition of any further losses or creates provision only to such amount, it has assumed obligations or has settled payments on behalf of the respective associate.

Transactions eliminated in consolidation process

Intragroup balances and gains and losses or revenues and costs resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Foreign currency

The functional currency and the presentation's currency

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

Transactions and balances in foreign currency

Transactions expressed in foreign currencies are translated at FX rate prevailing on the transaction date. The financial assets and liabilities, being result of the said transactions and denominated in foreign currencies are translated at the FX rate prevailing on a given day. The foreign exchange differences resulting from the settlements of the said transactions and the balance sheet valuation of the financial assets and liabilities denominated in foreign currency are recognized in the income statement in the detailed item *FX result,* which is an element of *Net income on instruments measured at fair value through profit or loss and FX result.*

Foreign exchange differences due to such items as equity instruments classified as available-for-sale financial assets are recognized in revaluation capital of available-for-sale financial assets.

Financial statements of investments in a foreign operation

The Group does not have any investments nor runs operations abroad.

Financial assets and liabilities

Classification

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

- *Financial assets and liabilities valued at fair value through profit or loss*

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

- ➢ are classified as held for trading. A financial asset or financial liability is classified as held for trading if it is: acquired or incurred principally for the purpose of selling or repurchasing it in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also classified as held for trading, other than those that are designated and effective hedging instruments,
- ➢ upon initial recognition it is designated by the Group as at fair value through profit or loss. Such designation can be made only if:
  - – the designated financial asset or financial liability is a hybrid instrument containing one or many embedded derivatives, which qualify for separate recognition and embedded derivatives cannot change significantly

the cash flows resulting from the host contract or separation of embedded derivative is forbidden;

– usage of such classification of financial asset or liability eliminates or decreases significantly the inconsistency of measurement or recognition (so called accounting difference due to various methods of assets and liabilities valuation or various recognition of gains and losses attributable to them);
– the group of financial assets and liabilities or both categories is managed properly, and its results are measured using fair value, in accordance with documented risk management principles or the Group's investment strategy.

• _Investment held to maturity_

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. In case of sale or reclassification of more than an insignificant amount of held-to-maturity investments in relation to the total held-to-maturity investments before maturity all the assets of this category are reclassified to the available sale category. In such a case, the Group must not classify any financial assets as investments held to maturity for 2 years.

• _Loans and receivables_

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

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

Loans and receivables include loans and cash loans extended to other banks and clients including repurchased debt claims, debt securities reclassified from the portfolio of financial assets available for sale and debt securities not listed on the active market, that comply with the definition of loans and receivables.

• _Financial assets available for sale_

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

• _Other financial liabilities_

Financial liabilities being a contractual obligation to deliver cash or other financial asset to another entity not valued at fair value through the profit or loss, being a deposit or loan received.

- *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Recognition

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

Derecognition

The Group derecognises a financial asset when, and only when: the contractual rights to the cash flows from the financial asset expire or the Group transfers the contractual right to receipt of the cash flow from the financial asset.

On transferring a financial asset, the Group evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. Accordingly, where the Group:

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

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

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

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

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

Measurement

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

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

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

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

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

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

Granted financial guarantees are measured at the higher of:

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

Reclassification

With the current scope of Groups' activity the principles of reclassification described below are applicable.

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

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

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

Gains and losses resulting from subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship is recognised, as follows:

- a gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss account;
- a gain or loss on an available-for-sale financial asset is recognized directly in equity through list of changes in equity.

The interest calculated using the effective interest rate method is recognised in the profit or loss account.

Upon the impairment of elements of financial assets or a group of financial assets, the Group debits the profit or loss account with the amount of contractual interest unpaid as of the day of the impairment. The interest shall be included in the profit or loss account at the moment of repayment thereof.

Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

Foreign exchange gains and losses arising from a change in the fair value of a non monetary financial asset available for sale denominated in foreign currency are recognized directly in equity. Foreign exchange gains and losses arising from monetary financial assets (e.g debt securities) denominated in foreign currency are recognized directly in the profit or loss account.

At the moment of derecognition of financial assets from the balance sheet, cumulated gains and losses recognized previously in equity, are transferred to the profit or loss account.

If any objective evidence exists that a financial asset or group of financial assets is impaired, the Group recognizes impairment in accordance with the established rules of determination of impairment of financial assets.

The fair value of financial assets and liabilities quoted in an active market (including securities) is determined on the basis of the bid price for long position and offer price for short position. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, discounted cash flow analysis and option pricing models and other techniques used by market members.

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

- Level I: financial assets/liabilities measured directly on the basis of prices quoted in the active market or measurement techniques based solely on market data,
- Level II: financial assets/liabilities measured on the basis of measurement techniques based on assumptions using data from an active market or market

observations,

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

Offsetting financial instruments

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

In order to mitigate credit risk, the Group concludes special master agreements with contracting parties, with which the Group concludes transactions of significant volume. These special master agreements do not enable the offsetting financial assets and liabilities, because they are generally settled gross.

Repo, Reverse Repo, sell–buy–back, buy–sell–back transactions

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

When the Group purchases securities with a repurchase clause (Reverse Repo, BSB), the financial assets are presented as receivables arising from repurchase clause.

Repo and reverse repo transactions are measured at amortized cost, and securities which are subject to repo/reverse repo transactions are derecognised from balance sheet and are measured in accordance with principles applicable for particular securities portfolio. The difference between sale and repurchase price is treated as interest income or cost, respectively and is accrued over the period of the agreement by application of an effective interest rate.

The Group designates sell-buy-back and buy-sell-back transactions to be valued at fair value through profit or loss. The change in fair value of financial assets and liabilities is presented in profit or loss account in the caption *Net income on instruments measured at fair value through profit or loss and FX result*.

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

Derivative instruments

Derivative instruments are valued at fair value without cost of transactions, which are to be incurred at the moment of its sale. The base of initial fair value measurement of derivative instruments is value at cost, i.e. fair value of received or paid amount.

The Group separates and recognizes in the balance sheet derivative instruments being a component of hybrid instruments. A hybrid (combined) instrument includes a non-derivative host contract and derivative instrument, which causes some or all of the cash flows arising from the host contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable.

The Group separates embedded derivatives from the host contract and accounts for them as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and the host contract is not valued at fair value through profit or loss. An embedded derivative is valued at fair value, and its changes are recognized in profit or loss.

The Group uses derivative instruments in order to hedge against FX and interest rate risk, arising from activity of the Group. Those derivatives, which were not designated as hedge instruments pursuant to the principles of hedge accounting, are classified as instruments earmarked for trade and evaluated in fair value.

Hedge Accounting

Hedge accounting presents the offset effects of fair value changes of both hedging instruments and hedged items which impact the profit or loss account.

The Group designates certain derivative instruments as fair value hedge or cash flow hedge. The Group uses hedge accounting, if the following conditions are met:

- formalised documentation of the hedging relationship was prepared when the hedging was established. The documentation sets out the purpose of risk management and the hedging strategy adopted by the Group. In the documentation, the Group designates the hedging instrument to hedge a given position or transaction, and specifies the type of risk to be hedged against. The Group specifies the manner for assessing the effectiveness of the hedging instrument in compensating for changes in cashflows due to the hedged transaction in terms of mitigation of risk the Group hedges against,
- the hedging instrument and hedged instrument are similar, especially nominal value, maturity date and volatility for interest rate and foreign exchange changes,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss,
- the effectiveness of the hedge may be assessed credibly, so the fair value of the hedged item or the cash flows of the said item as well as fair value of a hedge instrument may be valued credibly,
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

- *Fair value hedge*

Fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the income statement.

A fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value (i.e. for a derivative hedging instrument) is recognised in the income statement; the gain or loss on the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognised in income statement. In view of the above, any ineffectiveness of the strategy (i.e. lack of full compensation for changes to the fair value of the hedged item and changes to the fair value of the hedged instrument) is immediately disclosed in the income statement.

If a hedged item is a component of financial assets available for sale, the profit or loss resulting from the hedged risk is included in the income statement, and the profit or loss resulting from non-hedged risk is included in equity.

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

- *Cash flow hedge*

Cash flow hedge: a hedge of the exposure to volatility in cash flows that:

- 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,
- could affect income statement.

A cash flow hedge is accounted for as follows: the changes of the fair value of the hedge instrument, which are an effective part of hedging relationship, are recognised directly in equity through the statement of comprehensive income, while the ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement.

The associated gains or losses that were recognised directly in equity (effective hedge), at the moment of recognition of a financial asset and liability being a result of planned future transaction, are transferred into income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

In case of a hedge of non-financial asset or a non-financial liability, the associated gains and losses recognized directly in equity as an effective hedge, are transferred successively into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement (e.g. in form of a depreciation); or it is the result of a one-off transfer as an adjustment to the initial purchase price or carrying amount of a hedged item.

The Group applies cash flow hedge accounting in order to hedge the amount of future cash flows of certain portfolios of assets/liabilities of the Group or the portfolio of highly probable planned transactions against the interest rate risk and the highly probable planned transaction against the FX risk.

Derivative instruments not qualifying as hedging instruments

Changes in fair value of derivatives that do not fulfil the criteria of hedge accounting are disclosed in the income statement for the current period. Changes in fair value of IR-derivatives arising from ongoing accrual of interest coupon are disclosed under *Interest result on derivatives,* whereas the remaining part of changes in the fair value of IR-derivatives are presented under *Net income on instruments measured at fair value through profit or loss and FX result.*

Changes in the fair value of FX-derivatives are decomposed into three elements, which are presented as follows:

- changes in fair value arising from ongoing accrual of swap/forward points are presented under *Interest result on derivatives,*
- changes in fair value due to changes of foreign exchange rates are presented under *Net income on instruments measured at fair value through profit or loss and FX result,*
- the remaining part of change in fair value (i.e. due to the change of interest rates) is presented under *Net income on instruments measured at fair value through profit or loss and FX result.*

Impairment

Assets valued at amortized cost

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably 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:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments above 90 days;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets within the group.

The Group first assesses whether objective evidence of impairment exists for financial assets that are significant and for financial assets that are not individually significant. The Group classifies loan receivables by size of exposure, into the individual and group portfolios. If after the assessment we find that for a given financial assets item assessed individually there are no objective reasons for impairment or there are reasons for impairment but estimated impairment charges amount to 0, the item shall be included in the group of financial assets with similar features of credit risk, which indicate that the debtor is capable to repay the entire debt according to provisions of the agreement. Next, such groups are subject to collective assessment in terms of impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. In a group portfolio, groups of similar credit risk characteristics are identified, which are then assessed collectively for the impairment.

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

If the existing objective proofs for impairment of assets component or financial assets group component valued according to depreciated cost indicate that there will be no expected future cash flows from the abovementioned financial assets, the impairment charge of assets equals their balance sheet value.

Future cash flows concerning groups of financial assets assessed collectively in terms of their possible impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The Group regularly verifies the methodology and assumptions adopted to estimate future cash flows in order to mitigate the differences between estimated and actual losses.

For the purposes of the calculation of the provision against balance sheet exposures analysed collectively, the probability of default (PD) method has been applied. Modification of the PD parameter takes into account characteristics of specific products and emerging periods for losses on those products. This approach allows specifically for:

- detecting the losses that have already occurred,
- losses that occurred as at the impairment date, but have not been documented yet (incurred but not reported IBNR).

The impairment is presented as a reduction of the carrying amount of the asset either through use of an allowance account and the amount of the loss shall be recognized in profit or loss.

If in a consecutive period, the amount of loss due to the impairment decreases as a result of the event that took place after the impairment (e.g. improved credit capacity assessment of the debtor), the previous impairment charge is reversed through the profit or loss account by a proper adjustment of impairment charges.

Financial assets available for sale

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that has been recognized directly in equity is removed from equity and recognised in the profit or loss account even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in profit or loss account is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss account.

Impairment losses recognised in the profit or loss account for an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset). Such impairment losses are not reversed.

Investment property

Investment property is property (land or a building, or part of a building, or both) held by the Group (acting as the owner or the lessee under a finance lease) to earn rentals or for capital appreciation or both. At the same time, such a real property is:

- occupied by the Group only to a small extent,
- it is not for sale as part of the regular operations of the Group.

Therefore, an investment property generates cash flows largely independent of the other assets held by the Group.

An investment property is measured initially at its cost (purchase price and any directly attributable expenditure). After the initial entry, investment property assets are measured in accordance with requirements of the fair value model. A gain or loss arising from a change in the fair value of investment property is recognised in the profit and loss account for the period in which it arises. The fair value of investment property reflects market conditions at the balance sheet date.

Tangible fixed assets

Own tangible fixed assets

Tangible fixed assets consist of fixed assets and costs to construct such assets. Tangible fixed assets include fixed assets with an expected period of use above one year, maintained to be used to serve the Group's needs or to be transferred to other entities, based on the lease contract or for administrative purposes.

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

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

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

The revaluation effect is reflected in the revaluation reserve/ revaluation capital in case of the value increase, or carried through the income statement in case of the balance sheet asset's value decrease. However, the increase of value is recognised as income insofar as it reverses the decrease of value due to revaluation of the same asset that was previously recognised as costs of a given period. Similarly, the decrease of the asset's value resulting from revaluation shall be set off against the relevant surplus resulting from the previous revaluation of the same asset. The entire revaluation surplus shall be realised at the time of withdrawing from use or selling the asset.

Subsequent Costs

Costs of modernization of property, plant and equipment increase their carrying value only when it is probable that such expenditures will result in an inflow of economic benefits to the Group, and the cost of such expenses can be reliably measured. Costs of repairs and maintenance of property, plant and equipment are charged to the profit and loss account in the reporting period in which they were incurred.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are deemed to include assets which fulfil the following requirements:

- they can be separated from an economic entity and sold, transferred, licensed or granted for use for a fee to third parties, both separately, and together with their accompanying contracts, assets or liabilities,
- arise from contractual titles or other legal titles, irrespective of whether those are transferable or separable from the business entity or other rights and obligations.

Goodwill

Goodwill arising on acquisition of an entity is recognized at the acquisition price being the surplus of the aggregate of:

- provided payment,
- sums of all non-controlling shares in the acquired entity, and
- in the case of combining entities executed at fair value as at the day of acquiring share in the capital of the acquired entity, previously belonging to the acquiring entity,

over the net amount determined as at the day of acquiring values of the identifiable acquired assets and assumed liabilities.

The goodwill recognized in the financial statements of the Group was recognized pursuant to the requirements binding on the day of first application of IFRS i.e. at acquisition price being a surplus of the cost of combining the business entities over the interest of the acquirer's in the fair value of all identifiable assets, liabilities and contingent liabilities. After the initial recognition, the goodwill is recognized at acquisition price less any accumulated impairment losses.

The test for impairment is conducted at the balance sheet date. Impairment is established by estimating residual value of cash generating units, to which goodwill is allocated. If the residual value of the cash generating unit is lower than the carrying value, the impairment is made.

Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. Expenses attached to the development or maintenance of computer software are expensed when incurred.

Other intangible assets

Other intangible assets purchased by the Group, are recognized at cost less accumulated amortization and accumulated impairment write – offs.

Subsequent Costs

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

Depreciation and amortization charges

The depreciation charge of tangible and intangible fixed assets is applied using the straight line method, using defined depreciation rates throughout the period of their useful lives. The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. The useful life, amortization/ depreciation rates and residual values of tangible and intangible assets are reviewed annually. Conclusions of the review may lead to a change of depreciation periods recognized prospectively from the date of application (the effect of this change is in accordance with IAS 8 charged to profit and loss).

In case of buildings valued at fair value, the accumulated depreciation balance at the revaluation date is removed from the carrying value gross, and the net carrying value adjusted to the revalued value.

Depreciation and amortization charges are recognized in the profit and loss account. At each balance sheet date goodwill and other intangible assets with indefinite useful life are regularly tested for impairment. The depreciation periods are as follows:

➢ lands and buildings	50 years
➢ leaseholds improvements	period of the lease or hire
➢ vehicles and others	3 - 7 years
➢ equipment	5 years
➢ costs of development of software	3 years
➢ software licenses, copyrights	3 years

For ATMs and CDMs introduced for use after 01 January 2010 the Group extended the use period to 7 years.

Leasing contracts

The Group as lessor

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

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

The Group as lessee

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

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

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

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

Other balance sheet items

Other trading receivables and other receivables

Trade and other receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate of allowance for doubtful debts is made when collection of the full amount is no longer probable.

If the effect of the time value of money is material, the value of receivable is determined by discounting the expected future cash flows to the current value, with applying the discount rate that reflects the current market assessments of time value of money. If the method consisting in discounting has been applied, the increase of receivables due to time lapse is recognized as financial revenues.

Trade and other receivables embrace in particular settlements with off-takers.

Budgetary receivables are recognized as part of other non-financial assets, except for corporate income tax receivables, which are a separate item on the balance sheet.

Liabilities

Other non-financial liabilities comprise in particular: payables for the benefit of tax office due to goods and service tax, settlements with suppliers and payables due to received prepayments, which will be settled by means of delivering goods, services or tangible assets. Other non-financial liabilities are recognized in the amounts due.

Non current assets held for sale and discontinued operation

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable, i.e. the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

Where the criteria for classification as non-current assets for sale are no longer met, the Group will no longer classify that asset as an asset for sale (or a group of assets for sale) but reclassify it as appropriate. In such a case, the Group measures the asset that is no longer classified as an asset for sale (or that is no longer part of a group for sale) at the lower of the following amounts:

- its carrying amount from the period before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale,
- its recoverable amount at the date of the subsequent decision not to sell.

Discontinued operations are components of the Group that either have been disposed of or are classified as held for sale and represent a separate major line of business or geographical area of operations, are a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or are a subsidiary acquired exclusively with a view to resale. The classification to this category takes place at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously. Operations held for sale, which are to be no longer used, can be also classified as a discontinued operation.

Cash and cash equivalents

Cash and cash equivalents for the purposes of a Cash Flow statement include: Cash in hand and cash held at the Central Bank, cash equivalents e.g. balances on current accounts and overnight deposits held by the other banks.

Impairment of other non- financial assets

For each balance sheet date, the Group assesses the existence of objective evidence indicating impairment of a non-current asset. If such evidence exists, the Group performs an estimation of the recoverable value. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount.

If such evidence exists, the Group performs an estimation of recoverable value. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. If there are indications of impairment of common property, i.e. assets which do not generate cash independently from other assets or groups of assets, and the recoverable value of the individual asset included among common property cannot be determined, the Group determines the recoverable value at the level of the cash generating unit, to which the given asset belongs.

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

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

Measuring Recoverable Amount

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

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

Reversing impairment loss

Goodwill impairment loss is not subject to reversal.

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

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

Equity

Equity comprises of the share capital, share premium, revaluation reserve and retained earnings. All balances of capital and funds are recognized at nominal value.

Share capital

Share capital is presented at nominal value, in accordance with the charter and entry into the commercial register of the dominant entity.

- *Own shares*

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

- *Dividends*

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

Share premium

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

Revaluation reserve

Revaluation reserve is created as a result of:

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

The deferred tax resulting from above mentioned revaluation is included in the revaluation reserve. The revaluation reserve is not subject to profit distribution.

Retained earnings

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

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

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

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

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

Prepayments and deferred income

Prepayments

Prepayments comprise of particular expenses which will be settled against the profit and loss as being accrued over the future reporting periods. Deferred costs include primarily provisions for material costs due to services provided for the Group by counterparties, as well as insurance costs paid in advance to be settled in the future periods. Prepayments are presented in the balance sheet in *Other assets* caption.

Deferred income

This caption comprises mainly of fees amortized on a straight-line basis and other types of income collected in advance which will be settled against profit and loss account in future reporting periods. Deferred income is presented in *Other liabilities* balance sheet caption.

Employee benefits

Defined contribution plans

Expenses incurred due to a programme of certain contributions are recognised as costs in income statement.

Short-term employee benefits

Short-term employee benefits of the Group (other than termination benefits) comprise of wages, salaries, paid annual leave and social security contributions.

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

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

Long-term employee benefits

Group liabilities due to long-term employee benefits, other than pension schemes, constitute the amount of future benefits that will be obtained by an employee for performance of his/ her services in the current or previous periods which are not due in total within 12 months of work completion.

Provisions for retirement severance pay granted under benefits due to regulations of the Labour Code are estimated on the basis of the actuarial valuation. The provisions being the result of an actuarial valuation are recognised and adjusted on an annual basis.

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

The Group adopts a corridor approach to recognition of a determined portion of the cumulated net value of actuarial gains and losses. Under this method, when determining an obligation due to certain benefits, the Group recognises some actuarial gains and losses as revenue or costs, when the net value of accumulated unrecognised actuarial gains and losses as at the end of the previous reporting period exceeds the higher of the following two values:

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

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

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

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

Both of the abovementioned options of the system have a 10-year maturity period and may be exercised after three years from their issue, provided that the option holder is a Bank employee (or employee of another unit of ING Group) or has retired. The exercise price is a difference between the exercise price determined by Euronext Amsterdam as at the exercise date in the so-called open period after the General Meeting of ING Group and the initial price guaranteed in option's strike price.

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

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

Valuation of motivational programmes for employees

The fair value of options granted is recognised as an expense under staff expenses and is allocated over the vesting period of the options. The fair values of the option awards have been determined by using a Monte Carlo simulation. This model takes the risk free interest rate into account (2.02% to 4.62%), as well as the expected term of realisation of the options granted (5 to 9 years), the exercise price, the current share price (EUR 2.9 – EUR 26.05), the expected volatility of the certificates of ING Group shares (25% – 84%) and the expected dividends yield (0.94% to 8.99%).

The source for implied volatilities used for the valuation of the stock options is ING's trading system. The implied volatilities in this system are determined by ING's traders and are based on market data implied volatilities not on historical volatilities.

Provisions

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

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

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

Net interest income

Interest income on financial assets classified as available for sale, loans and advances and financial assets held to maturity are recognized in the profit and loss at amortized cost using the effective interest rate.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

Interest income comprises interest and commission (received or due) recognized in the calculation of the effective interest rate due to: loans with repayment schedule, intrabanking deposits and securities held to maturity available for sale, held for trading and the ones which meet the definition of loans and cash loans, and are classified to cash loans and receivables.

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

Interest income on debt securities classified to trading portfolio or designated at fair value through profit and loss are recognized under the caption *Interest income*.

Interest revenue/ costs on interest rate derivatives and Interest revenue/ costs on current accrual of the swap/forward points on FX-derivatives classified as held for trading are recognized under *Interest result on derivatives.*

Interest revenue/ costs on derivatives designated as hedging instruments in the hedge accounting are recognized under *Interest result on derivatives.*

Net commission income

Fee and commission income arises on providing financial services by the Group and comprise of fees and commissions on loan granting, pledge to grant a loan, issue of cards, cash management services, brokerage services and asset management services. Commission income also comprises margins on FX derivatives transactions concluded with corporate clients.

Fees and commissions (both income and expense) directly attributed to initial recognition of financial assets with repayment schedule are recognized in profit and loss account as effective interest rate component and are part of interest income.

Other fees and commissions attributed to initial recognition of financial assets without repayment schedule (e.g. commission on overdrafts) are amortized using a straight-line method through the expected life of the financial instrument. Fees and commissions on pledge to grant a loan, which is probable to be drawn, are deferred and since initial recognition of financial assets are amortized as component of effective interest rate or using straight-line method based on above mentioned criteria.

Other fees and commissions resulting from financial services provided by the Group, like cash management services, brokerage services and asset management services are recognized in profit and loss account at the time of performance of the respective services.

Net income on instruments measured at fair value through profit or loss and FX result

Net income on instruments measured at fair value through profit or loss and FX result includes gains and losses arising from disposal and change of fair value of assets and liabilities held for trading and designated at initial recognition at fair value through profit or loss account.

Result on financial instruments through profit or loss and FX result also includes adjustments of fair value due to risk for unexecuted FX-options transactions.

Result from accrued interest and settlement of discount or premium on debt securities held for trading or designated at fair value through profit or loss is recognized as interest income.

Net income on investments

The net income on investments comprises profits or losses resulting from sale of financial assets classified as available for sale and earnings from dividends. Dividend income is recognized in the profit or loss account when the shareholders' right to receive payment is established.

Net income on hedge accounting

This item includes the measurement of hedged and hedging transactions in fair value hedging accounting and the result on measurement of hedging instruments in the ineffective part of hedge relationship of cash flows hedge accounting.

Net income on other basic activities

Net income on other basic activities comprise of expense and income not attributed directly to Group's banking and brokerage activity. These include in particular: the result due to holding an investment property, sale of assets (non-current assets and intangible assets), revenues from sales of other services, revenues due to recovered bad debts, received and paid damages, penalties and fines.

Net profit (loss) attributable to non-controlling interests

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

Income tax

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

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

Deferred income tax

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

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

- initial recognition of goodwill;
- goodwill, which amortization has no taxable expense;

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

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

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

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

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

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

Other taxes

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

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

V. Comparability of financial data

The Group made some changes in the way of presenting certain items in the income statement in the annual consolidated financial statements for the period started on 1 January 2010 ended on 31 December 2010 when compared to the annual consolidated financial statements for the period started on 1 January 2009 ended 31 December 2009:

- valuation of hedging and hedged transactions under the fair value hedge accounting – currently this amount is presented under a separate item: *Net income on hedge accounting*, and previously presented under the item: *Net income on investment,*
- interest on hedging instrument in the fair value hedge accounting – currently presented under the item: *Interest income*, and previously presented under the item: *Net income on invest*ment,
- interest on hedging instrument in cash flow hedge accounting – currently presented under the item: *Interest income,* and previously presented under the item: *Net income on instruments measured at fair value through profit or loss and FX result*,
- net income on valuation of the ineffective part under the cash flow hedge accounting – currently presented under the item *Net income on hedge accounting*, and previously presented under the item: *Net income on instruments measured at fair value through profit or loss and FX result.*

In the opinion of the Group, the current presentation is a better reflection of the nature and economic substance of the positions.

The Group also decomposed the result on valuation of IR-derivatives and the result on valuation of FX-derivatives. As a result, the following items were singled out:

- interest result (arising from ongoing accrual of interest coupon on the transaction or ongoing accrual of swap/ forward points),
- FX result in terms of FX-derivatives (i.e. change in fair value due to change of foreign exchange rates),
- other part of valuation result (i.e. change of fair value due to change of interest rates).

After changes the above described measurement components are presented as follows:

- the interest result is presented under *Interest income,*
- FX result is presented under *Net income on instruments measured at fair value through profit or loss and FX result* (in explanatory note, in the detail item: *FX result*)*,*
- the rest part of the net income on valuation is presented under *Net income on instruments measured at fair value through profit or loss and FX result* (in explanatory note, in the detail item: *Net income on financial assets and liabilities held for trading – net income on derivatives*)*.*

Furthermore, the Group moved amount PLN 64,733,000.00 from the position *Net income on instruments measured at fair value through profit or loss and FX result* to the position *Result on commission.* The change was a consequence of the implementation of a new system for registering international payments that was executed in 4Q 2009. Previously the international transactions were recorded in the system in which there was no split into transactional result and revaluation result – thus, the entire result made on those transactions was recognised as part of foreign exchange position without separating the transactional margin. By including the above transactions in the margin calculation, the amount of transactional margin presented in the financial statements increased. The values presented in the previous periods were re-calculated and adjusted in this annual consolidated financial statements. In the opinion of the Group, the change resulted in higher quality of the reported data.

Data for the period of 12 months 2009 presented herein was adjusted for comparability.

Annual consolidated income statement *(in PLN thousands)*	period from 1 January 2009 to 31 December 2009 in the annual consolidated financial statements for the period from 1 January 2009 to 31 December 2009	changes	period from 1 January 2009 to 31 December 2009 in the annual consolidated financial statements for the period from 1 January 2010 to 31 December 2010
Interest income	3 116 760	-39 042	3 077 718
Interest expenses	1 674 666	558	1 675 224
Net interest income	**1 442 094**	**-39 600**	**1 402 494**
Commission income	1 020 341	64 733	1 085 074
Commission expenses	120 667	0	120 667
Net commission income	**899 674**	**64 733**	**964 407**
Net income on instruments measured at fair value through profit or loss and FX result	260 718	-162 737	97 981
Net income on investment	-114 203	117 539	3 336
Net income on hedge accounting	0	20 065	20 065
Net income on other basic activities	-8 081	0	-8 081
Result on basic activities	**2 480 202**	**0**	**2 480 202**
General and administrative expenses	1 487 756	0	1 487 756
Result on other operating income and expenses	-1 731	0	-1 731
Impairment losses and provision for off-balance sheet liabilities	304 454	0	304 454
Share in net profit (loss) of associated entities recognised under the equity method	52 082	0	52 082
Profit (loss) before tax	**738 343**	**0**	**738 343**
Income tax	143 277	0	143 277
Net profit (loss)	**595 066**	**0**	**595 066**
- attributable to owners of the parent	**595 052**	**0**	**595 052**
- attributable to non-controlling interests	**14**	**0**	**14**

The above changes do not have any impact on the consolidated statement of financial situation as at 31 December 2010 or the comparable period as presented in the statement, i.e. as at 31 December 2009.

VI. Notes to the consolidated financial statements

1. Segment reporting

Segments of operation

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

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

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

Retail customers segment

Within the framework of retail banking, the Bank's Group provides services for individual customers (segments of mass customers and wealthy customers) and small enterprises. This activity is analysed by the following products: credit products (overdraft on the savings and settlement account - ROR, loans related to cards, hire purchase loans, housing loans, mortgage loans), contract loans granted by the Building Society, mortgage loans granted by ING Bank Hipoteczny, deposit products (current accounts, term deposits, savings accounts), ING fund units, brokerage services provided by ING Securities SA and bank cards.

Corporate customers segment

The wholesale activity includes services to institutional clients, including strategic clients, large corporate entities and mid-sized companies. For corporate banking, the Group provides reporting broken down by loan products (working loans, investment loans), deposit products (current accounts, term deposits and negotiated deposits, savings accounts), trust services, capital market operations conducted by the parent and by ING Securities and operations of intermediation in lease services.

Own operating

Proprietary operations are carried out by Financial Markets and ALCO (Assets and Liabilities Management Committee).

Financial markets encompass operations performed in money and capital markets, conducted both on the proprietary basis as well as for the customers' benefit. Within the framework of this activity, currency, money and derivative instrument market products and securities operations (treasury securities, shares and notes) are specified. The item *Financial markets - total segment income* presents the income from proprietary trading. The income from the sale of financial market products for the corporate banking and retail banking segments are disclosed in the income of these segments.

ALCO comprises above all of investing funds originating from own funds and funding some assets of the Bank. The main element of the core business income of ALCO is income from investing proprietary funds (book capital). This income is then adjusted by the interest calculated on the economic capital required by individual business lines (retail banking segment, corporate banking segment, financial markets). Interest on economic capital is allocated from the ALCO line to individual business lines in the manner corresponding to their demand for economic capital.

Measurement

The measurement of the segment's assets, liabilities, revenue and costs shall be based on the accounting standards used by the Group. In particular, the internal and external interest revenue and costs for individual segments shall be established with the use of the transfer pricing system. Transfer prices are defined based on the yield curve for a given currency that is common for assets and liabilities. The transfer price that is determined for the products being assets and liabilities with the same position on the yield curve is identical. The original transfer price – coming from the product measurement regarding the yield curve can be modified and the factors adjusting the transfer price can be the following: a premium for obtainment of long-term liquidity, matching of the Bank's position, a hedging cost for sophisticated products and the pricing policy. Thereafter, based on quotation rates available at news services, yield curves are developed using mathematical equations.

Revenue, costs, 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.

The Group presents segment's interest income reduced by the cost of the interest. This results from the fact that while evaluating the segment's results and assigning assets to the segment, the Management Board relies mainly on net interest income.

In 2010, there was no change to the segment definition or the classification of revenues and costs within the individual segments.

Geographical segments

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

(PLN thousand)	period from 01.01.2010 to 31.12.2010					
	Retail customers segment	Corporate customers segment	Own operating		Nonallocated items	**Total**
			Treasury & ALM	ALCO		
Revenue total*	**1 345 112**	**852 198**	**277 300**	**257 075**	**0**	**2 731 685**
Net interest income	779 300	451 129	253 653	143 505	0	1 627 587
external	*-20 020*	*734 430*	*253 685*	*659 492*	*0*	*1 627 587*
internal	*799 320*	*-283 301*	*-32*	*-515 987*	*0*	*0*
Net commission income, of which:	519 299	483 922	-4 597	-11 293	0	987 331
income	*603 917*	*529 095*	*-4 597*	*-11 293*	*0*	*1 117 122*
expenses	*-84 618*	*-45 173*	*0*	*0*	*0*	*-129 791*
Other income/expenses	5 281	-82 853	28 244	124 863	0	75 535
Share in net profit (loss) of associated entities recognised under the equity method	41 232	0	0	0	0	41 232
Expenses total	**1 021 114**	**507 517**	**65 278**	**0**	**0**	**1 593 909**
Operational expenses, of which:	1 021 114	507 517	65 278	0	0	1 593 909
personnel expenses	*503 566*	*261 283*	*57 020*	*0*	*0*	*821 869*
depreciation	*90 075*	*25 253*	*5 657*	*0*	*0*	*120 985*
other	*427 473*	*220 981*	*2 601*	*0*	*0*	*651 055*
Result before risk	**323 998**	**344 681**	**212 022**	**257 075**	**0**	**1 137 776**
Risk cost	81 129	122 498	0	0	0	203 627
Result after risk cost	**242 869**	**222 183**	**212 022**	**257 075**	**0**	**934 149**
CIT	0	0	0	0	181 010	181 010
Result after tax	**242 869**	**222 183**	**212 022**	**257 075**	**181 010**	**753 139**
- assigned to shareholders of the holding company	**242 869**	**222 183**	**212 022**	**257 075**	**181 049**	**753 100**
- assigned to minority shareholders	0	0	0	0	39	39

*/ including the share in net profit of affiliated units shown using the method of ownership rights

(PLN thousand)	period from 01.01.2009 to 31.12.2009					
	Retail customers segment	Corporate customers segment	Own operating		Nonallocated items	**Total**
			Treasury & ALM	ALCO		
Revenue total*	**1 213 732**	**600 620**	**469 575**	**248 357**	**0**	**2 532 284**
Net interest income	589 070	375 080	279 432	158 912	0	1 402 494
external	*-401 801*	*653 448*	*287 302*	*863 545*	*0*	*1 402 494*
internal	*990 871*	*-278 368*	*-7 870*	*-704 633*	*0*	*0*
Net commission income, of which:	517 059	382 572	-5 870	70 646	0	964 407
income	*591 489*	*428 809*	*-5 870*	*70 646*	*0*	*1 085 074*
expenses	*-74 430*	*-46 237*	*0*	*0*	*0*	*-120 667*
Other income/expenses	55 521	-157 032	196 013	18 799	0	113 301
Share in net profit (loss) of associated entities recognised under the equity method	52 082	0	0	0	0	52 082
Expenses total	**962 942**	**478 060**	**48 485**	**0**	**0**	**1 489 487**
Operational expenses,of which:	962 942	478 060	48 485	0	0	1 489 487
personnel expenses	*438 726*	*232 407*	*45 914*	*0*	*0*	*717 047*
depreciation	*94 416*	*24 215*	*5 278*	*0*	*0*	*123 909*
other	*429 800*	*221 438*	*-2 707*	*0*	*0*	*648 531*
Result before risk	**250 790**	**122 560**	**421 090**	**248 357**	**0**	**1 042 797**
Risk cost	63 863	240 591	0	0	0	304 454
Result after risk cost	**186 927**	**-118 031**	**421 090**	**248 357**	**0**	**738 343**
CIT	0	0	0	0	143 277	143 277
Result after tax	**186 927**	**-118 031**	**421 090**	**248 357**	**143 277**	**595 066**
- assigned to shareholders of the holding company	**186 927**	**-118 031**	**421 090**	**248 357**	**143 291**	**595 052**
- assigned to minority shareholders	0	0	0	0	14	14

*/ including the share in net profit of affiliated units shown using the method of ownership right

(PLN thousand)	as of 31.12.2010					
	Retail customers segment	Corporate customers segment	Proprietary trading	ALCO	Nonallocated items	**Total**
Assets of the segment	12 245 942	20 308 959	29 844 553	838 778	0	63 238 232
Segment investments in subordinates	156 832	0	0	0	0	156 832
Other assets (not allocated to segments)	0	0	0	0	1 122 464	1 122 464
Total assets	**12 402 774**	**20 308 959**	**29 844 553**	**838 778**	**1 122 464**	**64 517 528**
Segment liabilities	31 992 753	17 334 027	8 686 940	0	0	58 013 720
Other liabilities (not allocated to segment)	0	0	0	0	850 703	850 703
Equity	0	0	0	5 653 105	0	5 653 105
Total liabilities	**31 992 753**	**17 334 027**	**8 686 940**	**5 653 105**	**850 703**	**64 517 528**

(PLN thousand)	period from 01.01.2010 to 31.12.2010					
	Retail customers segment	Corporate customers segment	Proprietary trading	ALCO	Nonallocated items	**Total**
Capital expenditure	162 992	81 010	10 420	0	0	254 422
Net cash flow from operating activities	-435 761	-3 149 965	2 157 443	612 616	-474 767	-1 290 434
Net cash flow from investment activities	-96 669	-48 047	1 502 147	4 793	0	1 362 224
Net cash flow from financial activities	0	0	0	0	0	0

(PLN thousand)	as of 31.12.2009					
	Retail customers segment	Corporate customers segment	Proprietary trading	ALCO	Nonallocated items	**Total**
Assets of the segment	9 533 715	18 766 657	30 196 263	251 714	0	58 748 349
Segment investments in subordinates	115 600	0	0	0	0	115 600
Other assets (not allocated to segments)	0	0	0	0	1 019 507	1 019 507
Total assets	**9 649 315**	**18 766 657**	**30 196 263**	**251 714**	**1 019 507**	**59 883 456**
Segment liabilities	32 782 137	16 191 060	5 259 820	0	0	54 233 017
Other liabilities (not allocated to segment)	0	0	0	0	763 728	763 728
Equity	0	0	0	4 886 711	0	4 886 711
Total liabilities	**32 782 137**	**16 191 060**	**5 259 820**	**4 886 711**	**763 728**	**59 883 456**

(PLN thousand)	period from 01.01.2009 to 31.12.2009					
	Retail customers segment	Corporate customers segment	Proprietary trading	ALCO	Nonallocated items	**Total**
Capital expenditure	143 191	71 088	7 210	0	0	221 489
Net cash flow from operating activities	-2 340 961	-1 780 307	6 720 432	-3 714 544	-247 566	-1 362 946
Net cash flow from investment activities	-92 836	-46 089	411 652	4 156	0	276 883
Net cash flow from financial activities	0	0	0	0	0	0

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 _(PLN thousand)_

2. Net interest income

Interest income

	2010	2009 comparable data
Interest on loans and receivables to banks	99 266	168 967
Interest on loans and receivables to customers, of which:	1 796 179	1 659 160
- interest on entities from the financial sector other than banks	*109 343*	*136 911*
- interest on entities from the non-financial sector	*1 497 979*	*1 400 958*
- interest on entities from the government and self-government institutions' sector	*188 857*	*121 291*
Interest on debt securities held for trading	27 546	332 835
Interest on debt securities designated as fair value at initial recognition	11 635	16 197
Interest on available-for-sale debt securities	569 623	417 849
Interest on held-to-maturity debt securities	395 929	434 890
Interest result on derivatives	48 272	47 573
Other	271	247
Total interest income	**2 948 721**	**3 077 718**

With regard to interest revenue for the year 2010, the amount of PLN 41,925,000 represents revenue from financial assets for which impairment loss was recognised. In the year 2009, the amount reached PLN 48,955,000. Interest revenue related to financial assets is calculated on the basis of the net exposure amounts; i.e. the amounts including effective impairment losses.

Interest expenses

	2010	2009 comparable data
Interest on deposits from banks	91 252	185 010
Interest on deposits from customers, of which:	1 229 882	1 490 214
- interest on entities from the financial sector other than banks	*93 224*	*148 391*
- interest on entities from the non-financial sector	*1 099 574*	*1 294 789*
- interest on entities from the government and self-government institutions' sector	*37 084*	*47 034*
Total interest expenses	**1 321 134**	**1 675 224**

Net interest income	**1 627 587**	**1 402 494**

Compared with the Consolidated Financial Statements for the previous year, the presentation of net interest income was subject to change, consisting in including additional items in the net interest income. In these Annual Consolidated Financial Statements, net interest income covers all interest elements from assets and financial liabilities, including derivative instruments covered and not covered with hedge accounting. The change consisted in shifting appropriate amounts from other items in the income statement and their recognition in the above note. All changes were described in detail in chapter *"Comparability of financial data"*.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

3. Net commission income

	2010	2009 comparable data
Commission income		
Commission related to brokerage activity	74 960	73 906
Commission related to keeping accounts	267 202	290 167
Commission related to loans	154 839	141 854
Commission related to loans insurance	25 050	56 194
Commission related to payment and credit cards	184 955	161 908
Commission related to distribution of participation units	81 348	63 087
Fiduciary and custodian fees	28 511	25 775
Foreign commercial business	13 043	14 331
Commission related to subscription of structured products	2 448	4 924
The transaction margin on currency exchange transactions	243 958	210 490
Commission related to sales of financial products	21 515	19 087
Other	19 293	23 351
Total comission income	**1 117 122**	**1 085 074**
Commission expenses		
Brokerage fees	23 664	23 863
Commission paid on cards	9 635	9 433
Commission paid on intermediation in selling deposit products	24 403	20 099
Commission paid on trading in securities	7 327	6 706
Commission paid on disclosing credit information	7 402	6 449
Commission paid on electronic banking services	5 708	8 246
Costs of the Bank Guarantee Fund (BFG)	15 671	16 545
Costs of the National Clearing House (KIR)	6 222	5 922
Other	29 759	23 404
Total commision expenses	**129 791**	**120 667**
Net commission income	**987 331**	**964 407**

The amount presented for the year 2009, in item *transaction margin on currency exchange transactions* recognised the amount of PLN 64,733,00 that was shifted from *FX result* (from the income statement line *Net income on instruments carried through profit or loss and FX result)*. The change arose from shifting the margin element from the FX-result, where the margin was related to FX transactions, which in the preceding periods were excluded from the margin calculations. Due to the introduction of a new FX payments register system, they were also covered with such a calculation. The change was described in detail in these Annual Financial Statements in chapter *"Comparability of financial data"*.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

4. Net income on instruments measured at fair value through profit and loss and FX result

	2010	2009 *comparable data*
Net income on financial assets and liabilities held for trading, of which	**-336 299**	**1 476 001**
- Net income on equity instruments	1 595	6 453
- Net income on debt instruments	49 957	58 219
- Net income on derivatives, of which:	-387 851	1 411 329
- Currency derivatives	*-423 508*	*1 191 911*
- Interest rate derivatives	*30 446*	*211 336*
- Securities derivatives	*5 211*	*8 082*
Net income on financial assets and liabilities measured at fair value upon initial recognition, of which	**-3 895**	**-2 632**
- Net income on debt instruments	-3 895	-620
- Net income on the measurement of the deposits designated to be measured at their fair value	0	-2 012
FX result	**417 697**	**-1 375 388**
Net income on instruments measured at fair value through profit and loss and FX result	**77 503**	**97 981**

Result on equity instruments includes net result on trading in equities.

Result on debt instruments includes net income on trading in treasury securities, commercial debt instruments, money market instruments (treasury bills). Interest result on debt securities is presented as part of the overall interest result.

Result on derivatives includes net result on interest rate derivatives (FRA, IRS/CIRS, cap options), foreign exchange derivatives (swaps and options), as well as stock exchange index options.

Compared with the Consolidated Financial Statements for the previous year, the presentation of the derivative instruments valuation was subject to change. In these Annual Consolidated Financial Statements, the result on derivatives was decomposed to interest result, the FX result (fair value change on account of FX rate changes) and measurement result (fair value change on account of interest rates change). The interest element of the result on derivatives is currently presented in *Interest revenue,* whereas the FX result and measurement result are presented in item *Result on financial instruments carried through profit or loss and FX result* in *FX result* and *Result on held-for trading instruments carried at fair value– result on derivatives,* respectively.

In the above note, in item *Result on derivatives – currency derivatives* a charge on account of counterparty risk related to FX-option transactions concluded with the clients of the Group was presented. For the year 2010, the value of net charges amounted to +PLN 792,000 in comparison to minus PLN 185,943,000 for the year 2009.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

5. Net income on investment

	2010	2009 *comparable data*
Net income on equity instruments available-for-sale	206	4 239
Net income on debt instruments available-for-sale	-2 825	-5 059
Dividend income	4 793	4 156
Net income on investment	**2 174**	**3 336**

6. Net income on hedge accounting

	2010	2009 *comparable data*
Fair value hedge accounting for securities	**-12 177**	**20 342**
- valuation of the hedged transaction	114 322	-142 355
- valuation of the hedging transaction	-126 499	162 697
Cash flow hedge accounting	**125**	**-277**
- ineffectiveness that arises from cash flow hedges	125	-277
Net income on hedge accounting	**-12 052**	**20 065**

Detailed information on the hedge accounting applied in the Group is provided in the subsequent part of the financial statements in note no. 40 "*Hedge accounting".*

7. Net income on the other basic activities

	2010	2009
Received indemnities, penalties and fines	-460	-730
Income from sales of other services	5 041	3 351
Net income on available-for-sale assets and assets held for sale	479	39
Result on disposal of assets (fixed and intangible assets and own properties)	-147	-1 173
Impairment losses on other non financial assets	-210	-346
Net income on the investment properties, of which:	469	-12 438
- income from rental of the investment property	*16 370*	*17 853*
- maintenance expenses relating to the investment property	*-4 604*	*-8 500*
- measurement of the investment property at the fair value	*-11 297*	*-21 791*
Other, of which:	2 738	3 216
- mortgage loans insurance premiums	*23*	*199*
- returned amounts, material and personnel-related costs	*16*	*0*
- interest received, calculated on an off-balance basis	*6*	*42*
- other	*2 693*	*2 975*
Total	**7 910**	**-8 081**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

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

8. General and administrative expenses

	2010	2009
Personnel expenses, of which:	**821 869**	**717 047**
wages and salaries, including:	*674 014*	*600 801*
special and retirement benefits	*1 722*	*1 471*
employee benefits, including:	*147 855*	*116 246*
training expenses	*22 610*	*9 174*
General and administrative expenses, of which:	**640 066**	**646 800**
equipment and other operating assets	*100 834*	*97 121*
taxes and charges	*2 950*	*3 456*
maintenance and rental of buildings	*187 598*	*176 704*
communication services	*54 560*	*69 575*
leasing services	*16 948*	*16 429*
refurbishment services	*41 609*	*52 186*
licences and patents	*18 808*	*20 221*
consulting	*81 907*	*78 273*
lease of computer resources	*37 234*	*27 594*
other external services	*97 618*	*105 241*
Depreciation and amortisation, of which:	**120 985**	**123 909**
on property, plant and equipment	*70 869*	*74 072*
on intangible assets	*50 116*	*49 837*
Total	**1 582 920**	**1 487 756**

Employee benefits

The Group participates in the long-term incentive programme LEO (Long-term Equity Ownership), introduced by the ING Group. Description of system variants is included in the charter *"Material accounting principles" in the point "Employee benefits".*

Option funding costs and system administration costs incurred by the Group are recognized in item *Personnel expenses – wages and salaries*. The costs amounted to PLN 3,861,000 in 2010 as compared to PLN 3,614,000 in 2009.

The measurement of the awarded options at fair value is also recognized in the item. For the year 2010, the said measurement was minus PLN 5,235,000 (as compared to minus PLN 3,652,000 for the year 2009) and it encumbered the Group's financial result.

The fair values of the option awards have been determined by using a Monte Carlo simulation. This model takes the risk free interest rate into account as well as the expected term of realisation of the options granted, the exercise price, the current share price, the expected volatility of the certificates of ING Group shares and the expected dividends.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

The source for implied volatilities used for the valuation of the stock options is ING's trading system. The implied volatilities in this system are determined by ING's traders and are based on market data implied volatilities not on historical volatilities.

The table below presents the parameters taken into account in the valuation model in the years 2010 and 2009.

	2010		2009	
	min	*max*	*min*	*max*
risk free interest rate	2,02%	4,62%	3,55%	4,92%
expected term of realisation	5 years	9 years	5 years	8 years
current share price	2.9 EUR	26.05 EUR	18.70 EUR	33.92 EUR
expected volatility of the certificates of shares	25 %	84%	25 %	39%
expected dividends	0.94%	8.99%	3.57%	8.99%

Changes in option rights outstanding

	Options outstanding (in numbers)	**Weighted average exercise price (in euros)**
Opening balance	786 865	18.04
- transferred	*15 262*	*20.68*
- granted	*271 972*	*7.35*
- exercised	*0*	*0*
- forfeited	*19 570*	*12.90*
- expired	*34 692*	*21.86*
Closing balance	**1 019 837**	**15.24**

As per 31 Dec 2010 total options outstanding consists of 378,143 options relating to equity-settled share-based payment arrangements and 641,694 options relating to cash-settled share-based payment arrangements.

Range of exercise price and weighted average remaining contractual life of options outstanding and exercisable are presented In table below:

Range of exercise price in euros	Options outstanding as at 31 Dec 2010	Weighted average remaining contractual life	Weighted average exercise price (in EUR)	Options excercisable as at 31 Dec 2010	Weighted average remaining contractual life	Weighted average exercise price (in EUR)
0.00 - 5.00	**121 612**	8.22	2.90	**0**	-	-
5.00 - 10.00	**304 502**	8.34	7.64	**38 025**	2.17	9.71
10.00 - 15.00	**30 455**	3.76	14.39	**26 310**	3.14	14.39
15.00 - 20.00	**219 378**	6.19	17.08	**75 241**	4.25	17.88
20.00 - 25.00	**168 697**	4.33	23.88	**168 697**	4.33	23.88
25.00 - 30.00	**175 193**	2.34	26.52	**175 193**	2.34	26.52
	1 019 837			**483 466**		

The aggregate intrinsic value of options outstanding and exercisable as at 31 Dec 2010 was EUR 532,661 and EUR 0, repectively.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

9. Result on the other operating income and expenses

	2010	2009
Donations made	-2 039	-1 229
Other operating expenses due to disputed claims	-9 304	-149
Measurement of fixed assets at fair value	-454	-1 452
Other	808	1 099
Total	**-10 989**	**-1 731**

Other operating expenses due to disputed claims include expenses concerning disputes related to the improper performance of agreements, cases of criminal nature and cases pertaining to claims made by former employees. Specific information on provision for issues in dispute is presented later in the report in the note no. 31 "Provisions".

10. Impairment losses and provisions for off-balance sheet liabilities

	2010	2009
Impairment losses on loans and other receivables	456 377	592 791
Reversed impairment losses on loans and other receivables	-244 619	-299 386
Net impairment losses on loans and other receivables, of which:	**211 758**	**293 405**
- losses on loans and other receivables at risk of impairment	*214 586*	*272 139*
- IBNR	*-2 828*	*21 266*
Increase of provisions for off-balance liabilities	9 433	11 049
Reversed provision for off-balance sheet liabilities	-17 564	0
Net provisions for off-balance sheet liabilities recognized, of which:	**-8 131**	**11 049**
- on the portfolio at risk of impairment	*-6 633*	*12 502*
- IBNR	*-1 498*	*-1 453*
Total increase of provisions	**465 810**	**603 840**
Total reversed impairment losses	**-262 183**	**-299 386**
Net impairment losses and provisions for off-balance sheet liabilities	**203 627**	**304 454**

The figures recognised under the item "Reversed impairment losses on loans and other receivables" include, among other things, the amounts related to the repayments of receivables previously written off the balance sheet, which in 2010 totalled PLN 24,612,000 compared with PLN 45,551,000 in 2009.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

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

	2010	2009
Impairment losses on loans and other receivables, of which:	**456 377**	**592 791**
- banks	*74*	*9*
- entities from the financial sector other than banks	*536*	*357*
- entities from the non-financial sector	*455 199*	*588 958*
- entities from the government and self-government institutions' sector	*568*	*3 467*
Reversed impairment losses on loans and other receivables, of which:	**-244 619**	**-299 386**
- banks	*-34*	*-2 473*
- entities from the financial sector other than banks	*-314*	*-397*
- entities from the non-financial sector	*-239 809*	*-280 465*
- entities from the government and self-government institutions' sector	*-4 462*	*-16 051*
Net impairment losses on loans and other receivables, of which:	**211 758**	**293 405**
- banks	*40*	*-2 464*
- entities from the financial sector other than banks	*222*	*-40*
- entities from the non-financial sector	*215 390*	*308 493*
- entities from the government and self-government institutions' sector	*-3 894*	*-12 584*

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

	2010	2009
ING Powszechne Towarzystwo Emerytalne S.A.	41 232	52 082
Total	**41 232**	**52 082**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

12. Income tax

Income tax ecognised in the profit and loss account

	2010	2009
Current portion	**263 821**	**198 459**
Current year	*271 349*	*253 769*
Adjustment of last-year tax settlement	*-7 528*	*-55 310*
Deferred tax	**-82 811**	**-52 422**
Recognised and reversed temporary differences	*-82 811*	*-52 422*
Increases/decreases of the receivables due to 8% relief related to provisions for receivables	**0**	**-2 760**
Total income tax recognised in the profit and loss account	**181 010**	**143 277**

Effective tax rate calculation

	2010	2009
Profit before tax	**934 149**	**738 343**
19% income tax	**177 488**	**140 285**
Increases – non-deductible expenses	**15 286**	**17 342**
- setting up a provision against disputable debt claims	2 469	762
- PFRON	1 154	1 155
- provisions / impairment for the receivables in a part not covered with the deferred tax	690	1 152
- representation expenses	1 350	1 150
- expenses due to foreign payments	399	144
- expenses due to loan and non-loan receivables written off	458	1 378
- tax loss on the sale of the portfolio of receivables	0	4 167
- thin capitalisation	4 632	6 073
- other	4 134	1 361
Decreases – tax exempt income	**11 764**	**11 590**
- income exempt due to the entity	435	466
- release of provisions against disputable debt claims	699	354
- share in net profit (loss) of associated entities recognised under the equity method	7 834	9 896
- settlement of tax loss	1 127	212
- other	1 669	662
19% income tax /+/ increases /-/ decreases	**181 010**	**146 037**
increases/decreases of the receivable due to 8% relief related to provisions for receivables	0	-2 760
Income tax from profit and loss account	**181 010**	**143 277**
Effective tax rate	**19,38%**	**19,41%**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

13. Earnings per ordinary share

Basic earnings per share

The calculation of basic earnings per one share of the parent company as for the year 2010 was based on net profit amounting to PLN 753,100,000 (in the year 2009, it was PLN 595,052,000) and weighted average number of ordinary shares in the same period, equalling 13,010,000 (year 2009: 13,010,000).

	2010	2009
Net profit (loss) assigned to shareholders of the holding company	753 100	595 052
Weighted average number of ordinary shares	13 010 000	13 010 000
Earnings per ordinary share (PLN)	**57.89**	**45.74**

Diluted earnings per share

During the year 2010 and throughout 2009, the number of shares making up the share capital of the Group parent company remained unchanged. In the analysed period, the Bank issued neither convertible bonds nor share options. The entire share capital is divided into ordinary shares (there are no preference shares). Consequently, diluted earnings per share are the same as basic earnings per share.

14. Dividends paid/proposed

The Management Board of ING Bank Śląski S.A. will recommend the General Meeting to adopt resolution on allocating PLN 195,150,000 from the 2010 profit for dividend payout. In line with the proposal of the Management Board the dividend will amount to PLN 15 gross per 1 share.

The General Meeting held on 8 April 2010 refrained from dividend payout for the year 2009 and approved allocating the entire 2009 net profit of the Group parent entity for raising own equity.

15. Cash in hand and balances with the Central Bank

	end of 2010	end of 2009
Cash in hand	713 331	716 809
Balances with the Central Bank	1 680 865	1 939 784
Total	**2 394 196**	**2 656 593**

The Group parent company maintains a mandatory provision - at the level of 3,5% (3% in the year 2009) of the value of deposits received by the Group parent company - in its current account kept with the National Bank of Poland. The amount of the calculated provision is reduced by an equivalent of EUR 500,000, which represented:

- PLN 2,037,000 as of 30 Nov 2010,
- PLN 2,072,000 as of 30 Nov 2009.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

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

- PLN 1,727,325,000 for the period from 31 Dec 2010 to 30 Jan 2011,
- PLN 1,483,416,000 for the period from 31 Dec 2009 to 31 Jan 2010.

The Group may utilise the credit limit with the National Bank of Poland representing 85% of the face value of Treasury securities subject to pledge, which as at 31 Dec 2010 represented PLN 3,085,732,000 compared with PLN 6,326,346,000 as at 31 Dec 2009.

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

	end of 2010	end of 2009
Financial assets held for trading	512 732	7 533 634
Financial assets designated as at fair value upon initial recognition	146 874	734 027
Total	**659 606**	**8 267 661**

Significant decrease in the portfolio of financial assets held for trading was caused by shift in approach to classification of securities to the portfolio held for liquidity management. More details regarding the said topic are presented in the note no. 17 "*Investments".*

Financial assets held for trading

	end of 2010	end of 2009
Debt instruments, of which:	**489 863**	**7 531 497**
- Bonds and bills issued by:	489 863	7 531 497
- State Treasury	*489 863*	*4 533 828*
- NBP	*0*	*2 997 669*
Total debt instruments, of which:	489 863	7 531 497
- listed instruments	*208 667*	*4 069 977*
- unlisted instruments	*281 196*	*3 461 520*
Equity instruments, of which:	**22 869**	**2 137**
- listed instruments	22 869	2 137
Total	**512 732**	**7 533 634**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Financial assets designated as at fair value upon initial recognition

	end of 2010	end of 2009
Debt instruments, of which:	**61 222**	**186 468**
- Bonds and bills issued by:	61 222	186 468
- Non financial sector	*61 222*	*186 468*
Total debt instruments, of which:	61 222	**186 468**
- unlisted instruments	*61 222*	*186 468*
Transactions with the buy-back commitment	**85 652**	**547 559**
Total	**146 874**	**734 027**

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

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

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

For the transactions with the buy-back commitment, all benefits and risks related to assets and the option of their sale remain with the Group.

Financial assets at fair value through profit or loss by maturity

	end of 2010	end of 2009
up to 1 month	90 149	3 501 948
over 1 month and up to 3 months	30 652	232 450
over 3 months and up to 1 year	437 862	424 358
over 1 year and up to 5 years	36 446	3 867 643
over 5 years	64 497	241 262
Total	**659 606**	**8 267 661**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Movements in financial assets at fair value through profit or loss

	2010	2009
Opening balance	**8 267 661**	**10 548 819**
Increases	**438 348 563**	**556 499 480**
- purchase of debt securities	*437 339 306*	*554 860 117*
- purchase of shares in other parties	*935 985*	*1 099 370*
- increase in the value of securities	*73 272*	*539 993*
Decreases	**445 956 618**	**558 780 638**
- sales of debt securities	*389 284 508*	*362 199 502*
- redemption of debt securities	*55 583 479*	*193 830 639*
- sales of shares in other parties	*914 996*	*2 101*
- drop in the value of securities	*173 635*	*501 671*
- decrease upon the expiry of the maturity date of investments designated for measurement at fair value through profit or loss	*0*	*2 246 725*
Closing balance	**659 606**	**8 267 661**

Interest revenue from financial assets carried at fair value through profit or loss is recognised as part of interest result Profits and losses due to movements in fair value of the said assets are recognised in item *Result on financial instruments carried at fair value through profit or loss and FX result.*

17. Investments

	end of 2010	end of 2009
Available-for-sale financial assets, including:	16 788 801	6 835 875
- fair value hedge - hedged items	*3 221 405*	*3 137 714*
Held-to-maturity financial assets	6 218 011	7 330 406
Total	**23 006 812**	**14 166 281**

In 2010, having conducted the analysis of the intention to hold securities in the liquidity management and funding portfolio, the dominant entity of the Group decided to classify these assets, pursuant to the understanding of IAS/IFRS, as investments available for sale. Such recognition better reflects the intention of holding the abovementioned assets.

Therefore the available-for-sale financial assets portfolio increased by PLN 4,797 million due to the purchase of short-term bills of the National Bank of Poland purchased to the available-for-sale financial assets portfolio and by PLN 3,164 million due to bonds which were sold from the portfolio of financial assets held for trading and purchased to the portfolio of available-for-sale financial assets (wash trade transaction). Both securities sales and redemption transactions were made with an unrelated counterparty on an arm's length basis. The above transactions met the conditions set out in IAS 39 for derecognition of an asset as a result of a sales transaction and subsequent recognition in the result of a redemption transaction.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Available-for-sale financial assets

	end of 2010	end of 2009
Debt securities, of which:	**16 740 506**	**6 783 023**
- Fixed rate debt instruments, of which:	11 812 125	6 108 446
- Treasury bonds	*5 960 280*	*5 909 881*
- NBP bills	*4 796 736*	*0*
- BGK bonds	*1 055 011*	*198 458*
- Other	*98*	*107*
- Floating rate debt instruments, of which:	4 928 381	674 577
- Treasury bonds	*4 928 381*	*674 577*
Total debt instruments, of which:	16 740 506	6 783 023
- listed instruments	*11 943 672*	*6 782 916*
- unlisted instruments	*4 796 834*	*107*
Equity instruments	**48 295**	**52 852**
- Equity instruments at cost	46 515	50 629
- Market value evaluation	4 320	4 763
- Impairment	-2 540	-2 540
Equity instruments – carrying value, of which:	48 295	52 852
- listed instruments	*841*	*880*
- unlisted instruments	*47 454*	*51 972*
Total	**16 788 801**	**6 835 875**

The item “Equity Instruments” include stocks and shares of number of entities not quoted on stock exchange which are not presented as fair value. The Group hold stocks in two entities which are not quoted on stock exchange but their valuation is based on peer stock in regulated market.

The Group acquired shares of two companies by way of debt restructuring. Those shares are not listed on the stock exchange.

Due to the operations of its units, the Group holds certain shares and participations such as the shares of the Warsaw Stock Exchange, the Polish Clearing Chamber, SWIFT and the Polish Credit Information Bureau, among others. Other shares are classified by the Group for disposal (by sale or liquidation).

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Fair value hedge - hedged items

	end of 2010	end of 2009
Fixed rate debt instruments, of which:	**3 221 405**	**3 137 714**
- Bonds issued by:	3 221 405	3 137 714
- State treasury	*3 221 405*	*3 137 714*
Total	**3 221 405**	**3 137 714**

Specific information on the hedge accounting applied in the Bank is presented later in the report in the note no. 40 "*Hedge accounting*".

Held-to-maturity financial assets

	end of 2010	end of 2009
Fixed rate debt instruments, of which:	**6 218 011**	**7 330 406**
- Bonds issued by:	6 218 011	7 330 406
- State treasury	*6 218 011*	*7 330 406*
Total	**6 218 011**	**7 330 406**

Investments by maturity

	end of 2010	end of 2009
up to 1 month	4 796 736	0
over 1 month and up to 3 months	0	1 321 527
over 3 months and up to 1 year	5 142 277	890 657
over 1 year and up to 5 years	8 708 504	8 756 277
over 5 years	4 359 295	3 197 820
Total	**23 006 812**	**14 166 281**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Movements in investments

	2010	2009
Opening balance	**14 166 281**	**18 050 922**
Increases	**171 841 550**	**1 382 324**
- purchase of debt securities	*170 802 947*	*324 461*
- increase in the value of securities	*1 036 004*	*1 010 760*
- purchase of shares in result of restructuring receivables	*2 599*	*44 515*
- purchase of shares	*0*	*2 588*
Decreases	**163 001 019**	**5 266 965**
- sales of debt securities	*3 480 893*	*3 921 352*
- redemption of debt securities	*158 680 024*	*403 320*
- drop in the value of securities	*833 277*	*936 917*
- sales of shares	*0*	*5 376*
- redemption of shares in result of restructuring receivables	*6 825*	*0*
Closing balance	**23 006 812**	**14 166 281**

In 2009, the Group sold shares of two companies, the value of which according to the acquisition price amounted to PLN 3,952,000. The result on sale of those shares was positive and amounted to PLN 4,158,000.

In 2010, the Group did not sell any shares from the investment portfolio.

17.1 Reclassification of the debt securities

The Group presents the disclosures of reclassification in connection with reclassification executed in 2008. The Group reclassified then a part of the debt securities from the available-for-sale financial assets to the loans and other receivables category.

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

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

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

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

Name of security	Date of reclassification	Fair value as of the date of reclassification	Carrying amount		Fair value	
			end of 2010	end of 2009	end of 2010	end of 2009
T-eurobonds	01.10.2008	1 242 866	1 634 959	1 648 457	1 762 243	1 722 865
Corporate bonds	19.12.2008	294 163	93 879	165 909	93 746	166 510
Municipal bonds	19.12.2008	34 402	34 490	34 428	34 874	34 811
NBP bonds	19.12.2008	518 870	0	0	0	0
Total		**2 090 301**	**1 763 328**	**1 848 794**	**1 890 863**	**1 924 186**

Upon reclassification, the above named securities are presented in the financial statements under the item "Loans and other receivables from customers", except for the NBP bonds which are presented under the item "Loans and other receivables from banks". The NBP bonds were early redeemed by the National Bank of Poland on 22 January 2009.

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

Fair value of gain or loss, which would be presented in revaluation reserve once reclassification is performed

Name of security	Fair value recognised in equity	
	end of 2010	end of 2009
T-eurobonds	127 284	74 408
Corporate bonds	-133	601
Municipal bonds	384	383
Total	**127 535**	**75 392**

Had the above securities not been re-classified to the category of loans and other receivables but left in the category of available-for-sale financial assets, the amounts of measurement at fair value would have been recognised in full in the revaluation reserve. The above figures have been estimated without including the impact that the further application of the fair value hedge accounting would have on the income statement or the capitals because in the opinion of the Group such calculations would be prone to error and would rely on hypothetical assumptions that would be difficult to verify.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Costs and revenues included in the profit and loss account

2010

Name of security	accrued interests (coupon)	amortised discount/ premium	depreciation of the revaluation reserve	carrying value of hedged instruments in FVH strategy adjustment *)
T-eurobonds	73 967	-2 696	1 839	47 380
Corporate bonds	7 502	-285	922	0
Municipal bonds	1 504	66	-66	0
Total	**82 973**	**-2 915**	**2 695**	**47 380**

2009

Name of security	accrued interests (coupon)	amortised discount/ premium	depreciation of the revaluation reserve	carrying value of hedged instruments in FVH strategy adjustment *)
T-eurobonds	80 166	-3 393	2 440	22 315
NBP bonds	1 637	0	0	0
Corporate bonds	13 818	5 780	998	0
Municipal bonds	1 947	69	-69	0
Total	**97 568**	**2 456**	**3 369**	**22 315**

**) measurement due to the hedged interest rate risk*

18. Financial assets pledged as collateral for liabilities

The portfolio of financial assets held for trading comprises T-bonds securing the liabilities due to the securities sold with the buy-back commitment. The nominal value of bonds is given in the table below. The adjustment following the transaction measurement at fair value was:
- as at 31 Dec 2010: PLN 837,000,
- as at 31 Dec 2009: PLN -1,246,000.

The liabilities secured with the above assets amounted to:
- as at 31 Dec 2010: PLN 4,322,860,000,
- as at 31 Dec 2009: PLN 544,375,000.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Nominal value of assets that are collateral for liabilities

	end of 2010	end of 2009
The portfolio of financial assets held for trading:		
- treasury bonds collateralising the liabilities due to securities sold with a promise of repurchase	4 316 972	546 060
The portfolio of financial assets held-to-maturity:		
- treasury bonds constituting a collateral to Bank Guarantee Fund	865 524	250 000

Securities are pledged on the terms provided for by:

– the Banking Guarantee Fund Act (Journal of Laws 84 of 2009, item 711),

– the basis of the transaction.

19. Derivative hedge instruments

Hedging instruments in hedge accounting

Positive valuation

	end of 2010	end of 2009
Balance sheet valuation of instruments hedging the cash flows	104 796	90 444
- Interest Rate Swap	*104 796*	*90 444*
Total	**104 796**	**90 444**

Negative valuation

	end of 2010	end of 2009
Balance sheet valuation of instruments hedging the fair value of securities	600 455	482 563
- Interest Rate Swap	*600 455*	*482 563*
Total	**600 455**	**482 563**

Positive amounts from this table are presented under *Derivative hedge instruments* in the assets whereas negative valuation is presented under *Derivative hedge instruments* in liabilities of the statement of financial position.

Specific information on the hedge accounting applied in the Bank is presented later in the report in the note no. 40 "*Hedge accounting*".

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

20. Loans and receivables

Loans and other receivables portfolio

end of 2010

	gross value	**impairment losses**	**net value**
Loans and receivables to other banks	1 181 195	-90	1 181 105
Loans and receivables to customers, of which:	35 594 390	-1 085 391	34 508 999
- to entities from the financial sector other than banks	2 668 235	-1 942	*2 666 293*
- to entities from the non-financial sector	26 305 747	-1 081 946	*25 223 801*
- to entities from the government and self-government institutions' sector	6 620 408	-1 503	*6 618 905*
Total	**36 775 585**	**-1 085 481**	**35 690 104**

end of 2009

	gross value	**impairment losses**	**net value**
Loans and receivables to other banks	1 184 153	-50	1 184 103
Loans and receivables to customers, of which:	31 474 068	-881 274	30 592 794
- to entities from the financial sector other than banks	*3 323 788*	*-1 863*	*3 321 925*
- to entities from the non-financial sector	*22 244 252*	*-874 057*	*21 370 195*
- to entities from the government and self-government institutions' sector	*5 906 028*	*-5 354*	*5 900 674*
Total	**32 658 221**	**-881 324**	**31 776 897**

20.1. Loans and receivables to other banks

	end of 2010	**end of 2009**
current accounts	375 718	356 981
interbank deposits, of which:	685 954	564 712
- overnight deposits	*303 348*	*0*
other receivables, of which:	119 523	262 460
- loans and advances	*73 145*	*228 109*
- other receivables	*46 378*	*34 351*
Total (gross)	**1 181 195**	**1 184 153**
Impairment losses, of which:	-90	-50
- concerning loans and advances	*-90*	*-50*
Total (net)	**1 181 105**	**1 184 103**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Loans and receivables to other banks by maturity

	end of 2010	end of 2009
up to 1 month	767 585	501 297
over 1 month and up to 3 months	70 000	204 135
over 3 months and up to 1 year	139 934	76 306
over 1 year and up to 5 years	203 676	402 415
Total	**1 181 195**	**1 184 153**

20.2. Loans and receivables to customers

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

	end of 2010	end of 2009
Loans and advances, of which:	2 585 001	2 545 597
- in the current account	*434 847*	*381 053*
- term ones	*2 150 154*	*2 164 544*
Reverse repo transactions	0	626 732
Other receivables	83 234	151 459
Total (gross)	**2 668 235**	**3 323 788**
Impairment losses, of which:	-1 942	-1 863
- concerning loans and advances	*-1 942*	*-1 863*
Total (net)	**2 666 293**	**3 321 925**

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

	end of 2010	end of 2009
Loans and advances granted to business entities, of which:	12 963 925	12 042 288
- in the current account	*3 724 286*	*3 504 520*
- term ones	*9 239 639*	*8 537 768*
Loans and advances granted to households, of which:	12 630 824	9 822 755
- in the current account	*1 255 844*	*1 226 942*
- term ones	*11 374 980*	*8 595 813*
Debt securities, of which:	646 560	306 471
- reclassified from available-for-sale portfolio in 2008	*93 879*	*165 909*
Other receivables	64 438	72 738
Total (gross)	**26 305 747**	**22 244 252**
Impairment losses, of which:	-1 081 946	-874 057
- concerning loans and advances	*-1 076 767*	*-865 491*
- concerning other receivables	*-5 179*	*-8 566*
Total (net)	**25 223 801**	**21 370 195**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

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

	end of 2010	end of 2009
Loans and advances, of which:	2 820 476	2 305 234
- in the current account	*8 416*	*7 450*
- term ones	*2 812 060*	*2 297 784*
Debt securities, of which:	3 799 874	3 600 794
- reclassified from available-for-sale portfolio in 2008	*1 669 449*	*1 682 885*
Other receivables	58	0
Total (gross)	**6 620 408**	**5 906 028**
Impairment losses, of which:	-1 503	-5 354
- concerning loans and advances	*-1 503*	*-5 354*
Total (net)	**6 618 905**	**5 900 674**

Loans and other receivables to customers - TOTAL

	end of 2010	end of 2009
Loans and advances	31 000 226	26 715 874
Debt securities, of which:	4 446 434	3 907 265
- reclassified from available-for-sale portfolio in 2008	*1 763 328*	*1 848 794*
Reverse repo transactions	0	626 732
Other receivables	147 730	224 197
Total (gross)	**35 594 390**	**31 474 068**
Impairment losses, of which:	-1 085 391	-881 274
- concerning loans and advances	*-1 080 212*	*-872 708*
- concerning other receivables	*-5 179*	*-8 566*
Total (net)	**34 508 999**	**30 592 794**

Loans and receivables to customers by maturity

	end of 2010	end of 2009
up to 1 month	5 762 304	8 677 301
over 1 month and up to 3 months	1 853 503	1 617 763
over 3 months and up to 1 year	3 772 956	3 435 233
over 1 year and up to 5 years	9 725 818	6 964 591
over 5 years	12 925 309	9 608 925
overdue	1 554 500	1 170 255
Total	**35 594 390**	**31 474 068**

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

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 _(PLN thousand)_

Fair value hedge - hedged items

Below table presents value of securities classified to the category of loans and advances and hedged within FVH accounting as per 31 Dec 2010 and 31 Dec 2009.

	end of 2010	end of 2009
Fixed rate debt instruments, of which:	**3 268 457**	**3 261 868**
- Bonds issued by:	3 268 457	3 261 868
- State treasury	*3 268 457*	*3 261 868*
Total	**3 268 457**	**3 261 868**

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

In 2009, the Group sold eurobonds, which were classified as at 31 Dec 2008 to the financial assets portfolio designated for measurement at fair value at inception (FVO). The sale transaction was carried out with an independent counterparty at arm's length value. The face value of sold eurobonds was EUR 417 millions. Then, the Group repurchased the eurobonds at arm's length value from an independent counterparty. As a result of the eurobonds' sales and buyback transactions, the Group realised negative valuation in the amount of PLN 20.3 million. After repurchase the instruments were classified under loans and receivables portfolio. Simultaneously a hedge relationship was established for them using IRS instruments held by the Group as part of the fair value hedge strategy.

The above eurobonds are presented in this note, item *Debt securities* (as *Loans and other receivables from entities of the government and local government institutions sector*).

Detailed information on the hedge accounting applied in the Group is presented in the subsequent part of the report in Note no. 40 "*Hedge accounting*".

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Reverse purchase transactions

Reverse purchase transactions are shown under the item "reverse repo transactions". The Group acquires funds by selling financial instruments with the future buy-back commitment at the same price, increased with the interest determined upfront. Reverse repo transactions are meant as a liquidity management tool for short-term investment of surplus funds.

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

end of 2009

	Repurchase date	Nominal value	Carrying amount
Assets from available-for sale portfolio	2010-01-05	630 675	626 732
Total		**630 675**	**626 732**

Repayment security

In line with the credit policy, the Group accepts collateral to secure repayment of the loans extended in the form of blocked borrower's account funds and the borrower's assets. More information about collaterals is presented in the chapter "Risk Management in Capital Group of ING Bank Śląski S.A.", item "Repayment Security and Other Forms of Credit Risk Mitigation".

Receivables due to financial leases

The Group discloses no such receivables.

20.3. Quality of portfolio of loans and receivables

Loans and receivables portfolio classified according to impaired / unimpaired

	end of 2010	**end of 2009**
Loans and receivables (gross), of which:	36 775 585	32 658 221
- impaired	1 507 627	1 164 582
- unimpaired	35 267 958	31 493 639
Impairment losses, of which:	-1 085 481	-881 324
- related to impaired portfolio	-933 221	-728 141
- related to unimpaired portfolio	-152 260	-153 183
Loans and receivables (net)	**35 690 104**	**31 776 897**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Loans and receivables portfolio classified according to impairment estimation methods

	end of 2010	end of 2009
Loans and receivables (gross), of which:	36 775 585	32 658 221
- measured individually	1 105 381	905 573
- measured as the portfolio	35 670 204	31 752 648
Impairment losses, of which:	-1 085 481	-881 324
- related to measured individually	-664 172	-530 070
- related to measured as the portfolio	-421 309	-351 254
Loans and receivables (net)	**35 690 104**	**31 776 897**

Loans and advances to other banks and to customers by client segment

The table below presents loans and advances portfolio by client segment.

	end of 2010	end of 2009
Loan and advances to other banks and to customers (gross), of which:	**31 073 371**	**26 943 983**
- loans and advances to retail customers, of which:	12 594 816	9 756 740
- mortgage loans and advances	*8 385 181*	*5 885 534*
- loans to Small Business	*1 649 717*	*1 541 423*
- other loans and advances	*2 559 918*	*2 329 783*
- loans and advances to corporate customers, of which:	18 478 555	17 187 243
- loans and advances to strategic clients	*7 351 560*	*7 367 774*
- other loans and advances	*11 126 995*	*9 819 469*
Impairment losses, of which:	**1 080 302**	**872 758**
- concerning loans and advances to retail customers, of which:	305 438	224 089
- mortgage loans and advances	*41 412*	*39 258*
- loans to Small Business	*115 754*	*71 420*
- other loans and advances	*148 272*	*113 411*
- concerning loans and advances to corporate customers, of which:	774 864	648 669
- loans and advances to strategic clients	*179 044*	*131 355*
- other loans and advances	*595 820*	*517 314*
Loans and advances to other banks and to customers (net), of which:	**29 993 069**	**26 071 225**
- loans and advances to retail customers, of which:	12 289 378	9 532 651
- mortgage loans and advances	*8 343 769*	*5 846 276*
- loans to Small Business	*1 533 963*	*1 470 003*
- other loans and advances	*2 411 646*	*2 216 372*
- loans and advances to corporate customers, of which	17 703 691	16 538 574
- loans and advances to strategic clients	*7 172 516*	*7 236 419*
- other loans and advances	*10 531 175*	*9 302 155*

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Movements in impairment losses

	2010	2009
Opening balance	**881 324**	**504 925**
Movements in impairment losses:	**204 157**	**376 399**
- Recognised during the period	*456 377*	*597 286*
- Reversed during the period	*-244 619*	*-303 881*
- Utilised writte-offs	*-38 112*	*-207 693*
- Amounts recovered from loans previously written off	*28 047*	*51 184*
- FX differences	*2 028*	*-1 244*
- Unwinding interest	*-13 166*	*-4 278*
- Amount of previous FV adjustment for restructuring unmatured FM assets	*27 204*	*246 698*
- Other	*-13 602*	*-1 673*
Closing balance	**1 085 481**	**881 324**

Increase in provisions results among others from impairments on derivative transactions (mostly FX options). Total amount of the above provisions is PLN 25,267,000 in 2010 against PLN 115,187,000 in 2009.

In 2009, the Group parent company concluded a sales agreement regarding a portfolio of identified problem loans with the company called Copernicus Capital Towarzystwo Funduszy Inwestycyjnych S.A. The total amount of debt claims (on and off the balance sheet) sold as part of the above agreement totalled PLN 216.6 million (the principal, matured interest and related accounts receivable). As a result of the said agreement, the Group parent company released provisions worth PLN 15.5 million. No such agreement was concluded by the Group in 2010.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 _(PLN thousand)_

Movements in impairment losses concerning loans and advances

The below table presents movements in impairment losses concerning loans and advances by client segment.

2010

Impairment losses concerning loans and advances to retail customers

	mortgage loans and advances	loans to Small Businessu	other loans and advances	TOTAL
Opening balance	**39 258**	**71 420**	**113 411**	**224 089**
Movements in impairment losses:	**2 154**	**44 334**	**34 861**	**81 349**
- Recognised and reversed during the period	_2 583_	_43 667_	_34 740_	**_80 990_**
- Utilised writte-offs	_-404_	_-817_	_-3 720_	**_-4 941_**
- Amounts recovered from loans previously written off	_0_	_3 401_	_14 209_	**_17 610_**
- FX differences	_-74_	_3_	_791_	**_720_**
- Unwinding interest	_102_	_-707_	_-5 557_	**_-6 162_**
- Other	_-53_	_-1 213_	_-5 602_	**_-6 868_**
Closing balance	**41 412**	**115 754**	**148 272**	**305 438**

Impairment losses concerning loans and advances to corporate customers

	loans to strategic customers	other loans and advances	TOTAL
Opening balance	**131 355**	**517 314**	**648 669**
Movements in impairment losses:	**47 689**	**78 506**	**126 195**
- Recognised and reversed during the period	_37 714_	_93 054_	**_130 768_**
- Utilised writte-offs	_-4 189_	_-28 982_	**_-33 171_**
- Amounts recovered from loans previously written off	_0_	_10 437_	**_10 437_**
- FX differences	_1 535_	_-227_	**_1 308_**
- Unwinding interest	_-3 321_	_-3 683_	**_-7 004_**
- Amount of previous FV adjustment for restructuring unmatured FM assets	_16 558_	_10 646_	**_27 204_**
- Other	_-608_	_-2 739_	**_-3 347_**
Closing balance	**179 044**	**595 820**	**774 864**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

2009

Impairment losses to loans and advances to retail customers

	mortgage loans and advances	loans to Small Businessu	other loans and advances	TOTAL
Opening balance	**14 460**	**45 335**	**104 177**	**163 972**
Movements in impairment losses:	**24 798**	**26 085**	**9 234**	**60 117**
- Recognised and reversed during the period	*24 738*	*27 629*	*11 635*	***64 002***
- Utilised writte-offs	*-221*	*-6 069*	*-24 399*	***-30 689***
- Amounts recovered from loans previously written off	*154*	*4 065*	*20 737*	***24 956***
- FX differences	*-25*	*71*	*150*	***196***
- Unwinding interest	*157*	*246*	*338*	***741***
- Other	*-5*	*143*	*773*	***911***
Closing balance	**39 258**	**71 420**	**113 411**	**224 089**

Impairment losses to loans and advances to corporate customers

	loans to strategic customers	other loans and advances	TOTAL
Opening balance	**20 951**	**311 289**	**332 240**
Movements in impairment losses:	**110 404**	**206 025**	**316 429**
- Recognised and reversed during the period	*87 004*	*142 399*	***229 403***
- Utilised writte-offs	*-33 160*	*-143 844*	***-177 004***
- Amounts recovered from loans previously written off	*-4 144*	*30 372*	***26 228***
- FX differences	*-945*	*-495*	***-1 440***
- Unwinding interest	*-2 459*	*-2 560*	***-5 019***
- Amount of previous FV adjustment for restructuring unmatured FM assets	*64 558*	*182 140*	***246 698***
- Other	*-450*	*-1 987*	***-2 437***
Closing balance	**131 355**	**517 314**	**648 669**

21. Investments in controlled entities recognised under the equity method

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

General financial information on an associated entity

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

	end of 2010	end of 2009
Share in the equity	20%	20%
Assets	826 582	636 049
Liabilities	37 103	56 180
Net assets	789 479	579 869
Revenues	391 867	472 015
Net profit (loss)	208 070	257 525

Carrying value of the share in associated entity

	2010	2009
Opening balance	115 600	107 261
Profit share	41 232	52 082
Dividend paid	0	-43 743
Closing balance	**156 832**	**115 600**

In the standalone financial statements, the Group parent company discloses shares in the following subsidiaries and associated entities:

Name of entity	Type of capital relation	Bank's percentage share in the business's equity	Carrying value of shares (at cost)	
			end of 2010	end of 2009
ING Securities S.A.	subsidiary	100.00%	30 228	30 228
ING Bank Hipoteczny S.A.	subsidiary	100.00%	213 450	213 450
Solver Sp. z o.o.	subsidiary	82.30%	7 870	7 870
Centrum Banku Śląskiego Sp. z o.o.	subsidiary	100.00%	160 168	21 616
ING Powszechne Towarzystwo Emerytalne S.A.	associated company	20.00%	40 000	40 000
Total			**451 716**	**313 164**

Changes to investments in controlled entities in the reporting period

Making an in-kind contribution of the organised part of the enterprise to the subsidiary

On 1 July 2010, ING Bank Śląski took up 138,552 new shares in a subsidiary called Centrum Banku Śląskiego Sp. z o.o. In return for the shares, the Bank made an in-kind contribution of two investment real properties with the organised part of the enterprise, consisting of the Commercial Property Management Section separated within the Bank internal structures. The Section was tasked with providing comprehensive service and settlement within the area of the said real properties management.

The aim of the above actions was to centralize the management of the real property area within the Capital Group as well as to entrust the management to the

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Centrum Banku Śląskiego S.A., which is an entity responsible for professional management of real properties.

Making an in-kind contribution of the organised part of the enterprise to the company was preceded with the decisions of: the Bank Management Board dated 23 February 2010, the Bank Supervisory Board dated 5 March 2010 and the general Meeting dated 8 April 2010.

On 30 June 2010, the Extraordinary General Meeting of Centrum Banku Śląskiego Sp. z o.o. adopted resolution on increasing the Company share capital, which amounted to PLN 91,791,000, up by PLN 138,552,000 to PLN 230,343,000 by issuing 138,552 new, equal and indivisible shares with the nominal value of PLN 1,000 each.

22. Investment real estates

	2010	2009
Value at the beginning of period	129 667	151 458
Revaluation at the fair value	-11 480	-21 791
Value at the end of period	**118 187**	**129 667**

The Group is the owner of the one investment property located in Katowice. The Group earns income therefrom in the form of rent instalments. Under the accounting principles adopted by the Group, the property is measured at fair value. The fair value was determined by an independent appraiser. The appraisal was made based on the discounted cash flows over the term of 10 years. Generally adopted market parameters were applied for the appraisal while considering the building occupancy level.

The investment property is measured in EUR (as at 31 Dec 2010, the estate value was EUR 29,557,000 versus EUR 31,313,000 as at 31 Dec 2009).

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

On account of owning investment property the Group generated revenue and incurred costs in the amount presented in the below table:

	2010	2009
Income rental from the investment property	16 370	17 853
Maintance expenses relating to the investment property	-4 604	-8 500

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

23. Property, plant and equipment

	end of 2010	end of 2009
Real estate and leasehold improvements	342 835	371 558
Computer hardware	56 323	43 162
Vehicles	120	199
Other fixtures and fittings	110 057	95 640
Constructions in progress	34 876	38 288
Total	**544 211**	**548 847**

2010

	Real estate and leasehold improvements	Computer hardware	Vehicles	Other fixtures and fittings	Constructions in progress	**TOTAL**
Gross value at the beginning of period	728 470	191 749	974	395 444	38 288	**1 354 925**
Additions, due to:	14 265	35 797	0	39 870	56 118	**146 050**
- purchases	*164*	*25 995*	*0*	*3 946*	*56 118*	***86 223***
- investment take-overs	*14 101*	*9 802*	*0*	*35 920*	*0*	***59 823***
- other	*0*	*0*	*0*	*4*	*0*	***4***
Disposals, due to:	-14 952	-31 612	-200	-27 308	-60 004	**-134 076**
- sale and liquidation	*-766*	*-31 342*	*-199*	*-27 070*	*0*	***-59 377***
- investment take-overs	*0*	*0*	*0*	*0*	*-59 823*	***-59 823***
- reclassification to assets held for sale	*-14 186*	*0*	*0*	*0*	*0*	***-14 186***
- other	*0*	*-270*	*-1*	*-238*	*-181*	***-690***
Revaluation at the fair value	-15 995	683	0	-683	0	**-15 995**
Transfers	-33 157	188	0	-3 944	474	**-36 439**
Gross value at the end of period	**678 631**	**196 805**	**774**	**403 379**	**34 876**	**1 314 465**
Accumulated depreciation at the begining of the period	-356 912	-148 587	-775	-299 804	0	**-806 078**
Changes in the period (due to):	21 116	8 105	121	6 482	0	**35 824**
- amortisation charges	*-25 235*	*-22 039*	*-62*	*-23 533*	*0*	***-70 869***
- sale and liquidation	*121*	*29 933*	*183*	*26 444*	*0*	***56 681***
- transfers	*45 816*	*-42*	*0*	*3 411*	*0*	***49 185***
- reclassification to assets held for sale	*414*	*0*	*0*	*0*	*0*	***414***
- other	*0*	*253*	*0*	*160*	*0*	***413***
Accumulated depreciation at the end of the period	**-335 796**	**-140 482**	**-654**	**-293 322**	**0**	**-770 254**
Net value at the end of period	**342 835**	**56 323**	**120**	**110 057**	**34 876**	**544 211**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

2009

	Real estate and leasehold improvements	Computer hardware	Vehicles	Other fixtures and fittings	Constructions in progress	**TOTAL**
Gross value at the beginning of period	720 057	197 326	1 323	372 971	23 134	**1 314 811**
Additions, due to:	14 042	25 098	17	32 759	56 675	**128 591**
- purchases	*3 150*	*21 442*	*0*	*4 488*	*56 675*	***85 755***
- investment take-overs	*10 892*	*3 213*	*0*	*26 494*	*0*	***40 599***
- other	*0*	*443*	*17*	*1 777*	*0*	***2 237***
Disposals, due to:	-3 552	-28 991	-461	-8 793	-41 552	**-83 349**
- sale and liquidation	*-3 552*	*-28 993*	*-461*	*-8 793*	*-538*	***-42 337***
- investment take-overs	*0*	*0*	*0*	*0*	*-40 599*	***-40 599***
- other	*0*	*2*	*0*	*0*	*-415*	***-413***
Revaluation at the fair value	-2 161	-1 677	95	0	0	**-3 743**
Transfers	84	-7	0	-1 493	31	**-1 385**
Gross value at the end of period	**728 470**	**191 749**	**974**	**395 444**	**38 288**	1 354 925
Accumulated depreciation at the begining of the period	-329 971	-156 348	-1 007	-283 322	0	**-770 648**
Changes in the period (due to):	-26 941	7 761	232	-16 482	0	**-35 430**
- amortisation charges	*-30 101*	*-20 371*	*-87*	*-23 513*	*0*	***-74 072***
- sale and liquidation	*3 118*	*28 137*	*319*	*8 564*	*0*	***40 138***
- transfers	*0*	*0*	*0*	*3*	*0*	***3***
- other	*42*	*-5*	*0*	*-1 536*	*0*	***-1 499***
Accumulated depreciation at the end of the period	**-356 912**	**-148 587**	**-775**	**-299 804**	**0**	-806 078
Net value at the end of period	**371 558**	**43 162**	**199**	**95 640**	**38 288**	**548 847**

The item *Real estate and leasehold improvements* comprises, among others, land whose value considering the fair value measurement as at 31 Dec 2010 was PLN 6,531,000 (as at 31 Dec 2009, it was PLN 6,773,000).

As at 31 Dec 2010, PLN 47,370,000, which amount (including deferred tax) refers to the real properties assessed at fair value, is recognised in the revaluation reserve. As at 31 Dec 2009 the same item amounted to PLN 51,115,000.

Measurement of real properties at fair value

The Group measures the owned real properties at fair value. The measurement is carried out in line with the applicable principles of the real property appraisal depending on the type of the building (for administrative buildings – replacement cost method was applied, and for operational buildings – the DCF method was applied).

The following appraisals were carried out in 2010:

– Head Office of ING Bank Śląski S.A. in Katowice – as at 31 December 2010, the value of the building was PLN 126,684,000; the change in the value of this property for 2010 decreased the financial result by PLN 9,012,000 (or PLN 7,300,000 upon including deferred tax), and

- 13 other properties located all over Poland; change in the value of the properties for 2010 increased the revaluation reserve with figure of PLN 4,544,000 (or PLN 3,680,000 upon including deferred tax) and the 2010 financial result by PLN 229,000 (or PLN 185,000 upon including deferred tax). Upon carrying out appraisals, two of the real properties were reclassified to the portfolio of real properties held for sale.

The following appraisals were carried out in 2009:

- Head Office of ING Bank Śląski S.A. in Katowice – as at 31 December 2009, the value of the building was PLN 139,104,000, the change in the value of this property for 2009 increased the revaluation reserve by PLN 1,040,000 (or, PLN 842,000 upon including deferred tax), and
- one building located in Warsaw – the value of which was PLN 10,240,000 as at 31 December 2009, the change in the value of this property was charged to the revaluation reserve with figure of PLN 3,492,000 (or, PLN 2,829,000 upon including deferred tax).

The value of the appraised real properties estimated at the historical cost upon including impairment loss and depreciation charges would amount to PLN 284,354,000 as at 31 December 2010 against PLN 308,454,000 as at 31 December 2009.

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

Contractual obligations to purchase property, plant and equipment

In 2010, the Group concluded agreements with counterparties regarding future purchase of non-current assets to the amount of PLN 2,971,000. The agreements are related to the general construction works, general workmanship, ventilation and A/C works, and furnishing purchase. As in the previous year, the Group concluded framework agreements -- the value of those agreements will result from the costs estimates calculated in the course of the project.

In 2009, the Group concluded agreements with counterparties regarding future purchase of non-current assets to the amount of PLN 15,271,000. The agreements are related to the IT area, general construction works, ventilation and A/C works. The Group also concluded framework agreements concerning general construction works – the value of those agreements will result from the costs estimates calculated in the course of the project.

Net value of assets accepted under financial lease agreements

Net value of property, plant and equipment includes, among other things, the assets accepted under financial lease agreements, the net value of which amounted to PLN 1,000 as at 31 December 2010 against PLN 3,000 as at 31 December 2009.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

24. Intangible assets

	end of 2010	end of 2009
Goodwill	223 821	223 821
Software	77 164	79 490
Other intangible assets	6	250
Outlays for intangible assets	41 222	23 782
Total	**342 213**	**327 343**

2010

	Goodwill	Software	Other intangible assets	Outlays for intangible assets	**TOTAL**
Gross value at the beginning of period	223 821	326 925	7 882	23 782	**582 410**
Additions, due to:	0	48 476	0	60 689	**109 165**
- purchases	*0*	*5 320*	*0*	*60 689*	***66 009***
- investment take-overs	*0*	*42 367*	*0*	*0*	***42 367***
- other	*0*	*789*	*0*	*0*	***789***
Disposals, due to:	0	-1 770	0	-42 774	**-44 544**
- sale and liquidation	*0*	*-980*	*0*	*0*	***-980***
- investment take-overs	*0*	*0*	*0*	*-42 367*	***-42 367***
- other	*0*	*-790*	*0*	*-407*	***-1 197***
Transfers	0	-44	-215	-475	**-734**
Gross value at the end of period	**223 821**	**373 587**	**7 667**	**41 222**	**646 297**
Accumulated depreciation at the begining of the period	0	-247 435	-7 632	0	**-255 067**
Changes in the period (due to):	0	-48 988	-29	0	**-49 017**
- amortisation charges	*0*	*-50 014*	*-102*	*0*	***-50 116***
- sale and liquidation	*0*	*980*	*0*	*0*	***980***
- transfers	*0*	*46*	*73*	*0*	***119***
Accumulated depreciation at the end of the period	**0**	**-296 423**	**-7 661**	**0**	**-304 084**
Net value at the end of period	**223 821**	**77 164**	**6**	**41 222**	**342 213**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

2009

	Goodwill	Software	Other intangible assets	Outlays for intangible assets	**TOTAL**
Gross value at the beginning of period	223 821	284 241	7 882	9 430	**525 374**
Additions, due to:	0	45 346	0	51 490	**96 836**
- purchases	*0*	*8 331*	*0*	*49 789*	***58 120***
- investment take-overs	*0*	*37 015*	*0*	*0*	***37 015***
- other	*0*	*0*	*0*	*1 701*	***1 701***
Disposals, due to:	0	-3 957	0	-37 171	**-41 128**
- sale and liquidation	*0*	*-3 957*	*0*	*0*	***-3 957***
- investment take-overs	*0*	*0*	*0*	*-37 015*	***-37 015***
- other	*0*	*0*	*0*	*-156*	***-156***
Transfers	0	1 295	0	33	**1 328**
Gross value at the end of period	**223 821**	**326 925**	**7 882**	**23 782**	**582 410**
Accumulated depreciation at the begining of the period	0	-201 661	-7 526	0	**-209 187**
Changes in the period (due to):	0	-45 774	-106	0	**-45 880**
- amortisation charges	*0*	*-49 731*	*-106*	*0*	***-49 837***
- sale and liquidation	*0*	*3 957*	*0*	*0*	***3 957***
Accumulated depreciation at the end of the period	**0**	**-247 435**	**-7 632**	**0**	**-255 067**
Net value at the end of period	**223 821**	**79 490**	**250**	**23 782**	**327 343**

Contractual obligations to purchase intangible assets

In the year 2010, the Group concluded agreements with the contractors for the future purchase of intangible assets to the amount of PLN 29,600,000. These agreements refer to the purchase of licence and implementation of software.

In 2009, the Group concluded similar agreements amounting to PLN 18,345,000 and EUR 50,000.

Impairment test of cash generating units with respective goodwill

The goodwill impairment test is carried out at least twice yearly, irrespective of detecting any objective evidence of impairment.

In the Group parent, the impairment test is applied to the goodwill created as the result of the in-kind contribution of ING Bank NV. The smallest identifiable cash-generating units were determined and goodwill of total amount of PLN 223,343,000 was assigned thereto. No other additional elements of intangible value and indefinite useful life were identified that could be assigned to the identified cash-generating units.

The input data for the test's needs cover the economic capital, risk-weighted assets and profit before tax per segments.

The test is performed based on the model that calculates and compares the current value of free cash flow of the unit to the estimated book value of the unit's funds. The free cash flows of the unit are defined as net profits less capital needed to maintain the solvency ratio at the required level. To discount the cash flows, 8% discount rate is used that represents the cost of capital calculated by the Group parent. The remaining assumptions include: forecasts of income tax rate, nominal growth rate after the forecast period and predicted 3M WIBOR rate.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

The recoverable value was determined based on the estimation of the useable value of the assets component taking into account the estimated forecast of expected future cashflow generated during the continued use. The cashflow forecasts are based on rational assumptions that reflect the most accurate appraisal of the management regarding all the conditions that will appear during the remaining lifetime of the assets. The cashflow forecasts are based on mid-term plan approved by the Group parent company and the strategy covering the maximum period of the next three years. The data regarding the subsequent two years are the result of extrapolation. Extrapolation assumes that the cashflow generating centre will maintain the gross profit to risk weighted assets ratio at the level from the last year of the Bank's forecast and its profits will increase by previously determined growth rate. Legitimacy of the assumptions made is verified periodically, and any divergence between the cashflows estimated based on the future cashflows and the actual ones is analysed as appropriate.
The test carried out as at 31 December 2010 showed the surplus of present value over the net book value of the cash-generating unit, totalling PLN 4,519 million; thus, no impairment thereof was determined.

For the discount rate lower by 1p.p. the surplus of present value of cash flows over the net book value of the cash-generating unit would amount to PLN 5,812 million; for the rate higher by 1p.p. the surplus of the present value of cash flows over the net book value of the cash-generating unit would be PLN 3,653 million.

25. Property, plant and equipment held for sale

	2010	**2009**
Value at the beginning of period	224	248
Additions, due to:	13 772	0
- reclassification from property, plant and equipment	*13 772*	*0*
Disposals, due to:	0	-24
- sale and liquidation	*0*	*-24*
Value at the end of period	**13 996**	**224**

As at 31 Dec 2010 and 31 Dec 2009, the amount of "Property, plant and equipment held for sale" includes mainly real properties and means of transportation taken over under the recovery process. The Group intends to sell them by way of tender procedure.

Additionally in 2010, three real properties presented previously under the category *Property, plant and equipment* were reclassified to the portfolio of property, plant and equipment held for sale. Each real property comprises a building with the perpetual usufruct right.

The reclassified properties were mainly used in the Group activity, one of them was trade and services building and the others were the office buildings. In two properties, part of the space was designated for residential premises.

The Bank has concluded agreement with a specialized company that searches for potential buyers with the use of various, available sources (advertisements, dedicated mailing, contact with other agencies, etc.). The real property should be done within 12 months from the reclassification day.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 _(PLN thousand)_

26. Deferred tax

Movements in temporary differences during the year

2010

Deferred tax assets

	Balance as of 01 Jan 2010	Changes charged to the financial result	Changes charged to equity	Changes charged to retained earnings	**Balance as of 31 Dec 2010**
Interest accrued	-29 005	11 247	0	0	**-17 758**
Revaluation of available-for-sale financial assets	-1 746	0	1 746	0	**0**
Revaluation of cash flow hedging instruments	-227	0	-533	0	**-760**
Provision for impairment losses	-64 869	-8 016	0	0	**-72 885**
Other provisions	-9 825	-2 052	0	0	**-11 877**
Employee benefits	-18 573	-6 636	0	0	**-25 209**
Retirement and holiday benefits	-3 573	-86	0	0	**-3 659**
Accumulated losses settled	-701	-1 261	0	0	**-1 962**
Revaluation of own and investment real estate	-4 672	1 712	0	0	**-2 960**
Correction due to effective interest rate	-12 337	0	0	0	**-12 337**
Other	-17 242	-1 280	0	0	**-18 522**
Total	**-162 770**	**-6 372**	**1 213**	**0**	**-167 929**

Deferred tax provision

	Balance as of 01 Jan 2010	Changes charged to the financial result	Changes charged to equity	Changes charged to retained earnings	**Balance as of 31 Dec 2010**
Interest accrued	33 508	-73 278	0	0	**-39 770**
Settlement of the difference between tax and balance sheet depreciation	10 049	2 712	0	0	**12 761**
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief enjoyed	9 986	-1 728	0	0	**8 258**
Revaluation of property, plant and equipment	11 989	-310	-878	0	**10 801**
Revaluation of available-for-sale financial assets	907	0	664	0	**1 571**
Revaluation of cash flow hedging instruments	0	0	862	0	**862**
Revaluation of own and investment real estate	1 465	0	0	0	**1 465**
Sale of property, plant and equipment held for sale	104	0	0	0	**104**
Other	8 315	-3 835	0	0	**4 480**
Total	**76 323**	**-76 439**	**648**	**0**	**532**

Deferred tax disclosed in the balance sheet	**-86 447**	**-82 811**	**1 861**	**0**	**-167 397**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

2009

Deferred tax assets

	Balance as of 01 Jan 2009	Changes charged to the financial result	Changes charged to equity	Changes charged to retained earnings	**Balance as of 31 Dec 2009**
Interest accrued	-17 300	-11 705	0	0	**-29 005**
Revaluation of available-for-sale financial assets	-26 175	0	24 429	0	**-1 746**
Revaluation of cash flow hedging instruments	0	0	-227	0	**-227**
Provision for impairment losses	-53 827	-11 042	0	0	**-64 869**
Other provisions	-9 509	-316	0	0	**-9 825**
Employee benefits	-22 892	4 319	0	0	**-18 573**
Retirement and holiday benefits	-3 852	279	0	0	**-3 573**
Accumulated losses settled	-376	-325	0	0	**-701**
Revaluation of own and investment real estate	-4 474	-198	0	0	**-4 672**
Correction due to effective interest rate	-12 337	0	0	0	**-12 337**
Other	-17 235	-7	0	0	**-17 242**
Total	**-167 977**	**-18 995**	**24 202**	**0**	**-162 770**

Deferred tax provision

	Balance as of 01 Jan 2009	Changes charged to the financial result	Changes charged to equity	Changes charged to retained earnings	**Balance as of 31 Dec 2009**
Interest accrued	69 829	-36 321	0	0	**33 508**
Settlement of the difference between tax and balance sheet depreciation	8 420	1 629	0	0	**10 049**
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief enjoyed	10 361	-375	0	0	**9 986**
Revaluation of property, plant and equipment	12 399	0	-410	0	**11 989**
Revaluation of available-for-sale financial assets	1 886	0	-979	0	**907**
Revaluation of cash flow hedging instruments	10 692	0	-10 692	0	**0**
Revaluation of own and investment real estate	1 465	0	0	0	**1 465**
Sale of property, plant and equipment held for sale	102	0	0	2	**104**
Other	6 675	1 640	0	0	**8 315**
Total	**121 829**	**-33 427**	**-12 081**	**2**	**76 323**

Deferred tax disclosed in the balance sheet	**-46 148**	**-52 422**	**12 121**	**2**	**-86 447**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

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

	2010	2009
Deferred tax assets		
Interest accrued	11 247	-11 705
Provision for impairment losses	-8 016	-11 042
Other provisions	-2 052	-316
Employee benefits	-6 636	4 319
Retirement and holiday benefits	-86	279
Accumulated losses settled	-1 261	-325
Revaluation of own and investment real estate	1 712	-198
Other	-1 280	-7
Total	**-6 372**	**-18 995**
Deferred tax provisions		
Interest accrued	-73 278	-36 321
Settlement of the difference between tax and balance sheet depreciation	2 712	1 629
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief enjoyed	-1 728	-375
Revaluation of own and investment real estate	-310	0
Other	-3 835	1 640
Total	**-76 439**	**-33 427**
Deferred tax for the reporting period	**-82 811**	**-52 422**

Unrecognised deferred tax assets

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

	end of 2010	end of 2009
Specific provisions whose recoverability will not be proved	941	845
Tax losses	0	2 568
Total	**941**	**3 413**

Year of expiration of temporary differences:

	difference amount end of 2010	difference amount end of 2009
year 2010	0	423
year 2011	471	422
year 2012	470	2 568
Total	**941**	**3 413**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Deferred tax recognised directly in equity

	end of 2010	end of 2009
Revaluation of available-for-sale financial assets	1 571	-839
Revaluation of property, plant and equipment	11 111	11 989
Revaluation of cash flow hedging instruments	102	-227
Total	**12 784**	**10 923**

Temporary differences concerning the measurement of shares in an affiliated company

The Group parent company did not establish any deferred tax on the measurement of the share in associated company, ING Powszechne Towarzystwo Emerytalne S.A. The total amount of temporary differences relating to investments in the associated company, for which provisions due to deferred tax were not established, as at 31 Dec 2010 was PLN 7,834,000 in comparison with PLN 9,896,000 as at 31 Dec 2009.

27. Other assets

	end of 2010	end of 2009
Prepayments	76 660	66 913
- prepaid bank operating expenses	*8 551*	*2 398*
- materials and goods in the warehouse	*574*	*2 001*
- expenses to be settled	*3 098*	*137*
- accrued income	*34 556*	*31 421*
- commission-related settlements	*28 001*	*18 611*
- other	*1 880*	*12 345*
Other assets	132 637	128 681
- interbank settlements	*10 829*	*4 129*
- interbranch settlements	*28 633*	*22 180*
- public and legal settlements	*2 953*	*8 484*
- loans from the Company's Social Benefits Fund	*13 585*	*15 106*
- settlements with off-takers	*11 500*	*6 715*
- settlements due to purchase of materials	*4 980*	*5 216*
- receivables from the non-settled FX transactions	*41 559*	*41 559*
- other	*18 598*	*25 292*
Total other assets (gross)	**209 297**	**195 594**
Impairment losses	-49 630	-45 556
Total other assets (net)	**159 667**	**150 038**

Receivables from Lehman Brothers Inc. and its related entities are presented in item *Receivables from the non-settled FX transactions.* A write-down was established in the full amount (as at 31 December 2010 the write-down amounted to PLN 41,559,000 and as at 31 December 2009 the write-down amounted to PLN 33,346,000) for those receivables. The write-down amount was recognised in this note in item *Impairment losses.*

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

28. Liabilities due to other banks

	end of 2010	end of 2009
Current accounts	278 926	248 720
Interbank deposits	3 086 280	429 024
Repo transactions	657 776	3 241 530
Other liabilities	16 129	54 512
Total	**4 039 111**	**3 973 786**

Liabilities due to other banks by maturity

	end of 2010	end of 2009
up to 1 month	2 184 386	3 941 906
over 1 month and up to 3 months	510 919	0
over 3 months and up to 1 year	1 142 578	21 516
over 1 year and up to 5 years	201 228	10 364
Total	**4 039 111**	**3 973 786**

Interest accrued but unpaid on liabilities presented in this note are shown on the same terms of maturity as the main liabilities.

Repurchase transactions

Repurchase transactions (repo) are shown under the item "Repo transactions". The Group acquires funds by selling financial instruments with the future buy-back commitment at the same price, increased with the interest determined upfront. Repurchase transactions are generally considered as a tool of short-term funding of interest assets, depending on the interest rates.

The following assets were sold under repo transactions concluded with other banks:

end of 2010

	Repurchase date	Nominal value	Carrying amount
Assets from available-for-sale portfolio	2011-01-05	80 000	81 184
Assets from available-for-sale portfolio	2011-01-18	200 000	204 585
Assets from held-to-maturity portfolio	2011-01-10	24 000	25 149
Debt securities from loans and other receivables portfolio	2011-01-24	130 690	136 909
Debt securities from loans and other receivables portfolio	2011-02-21	198 015	209 949
Total		**632 705**	**657 776**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

end of 2009

	Repurchase date	Nominal value	Carrying amount
Debt securities from loans and other receivables portfolio	2010-01-11	973 643	1 063 699
Debt securities from loans and other receivables portfolio	2010-01-13	410 820	410 730
Debt securities from loans and other receivables portfolio	2010-01-19	1 795 283	1 767 101
Total		**3 179 746**	**3 241 530**

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

	end of 2010	end of 2009
Financial liabilities designated as at fair value upon initial recognition, of which:	4 323 698	543 129
Transactions with the buy-back commitment	4 323 698	543 129
Book short position in trading securities	357 726	454 922
Total	**4 681 424**	**998 051**

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

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

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

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

	end of 2010	end of 2009
up to 1 month	4 323 698	543 129
over 1 month and up to 3 months	0	58 483
over 3 months and up to 1 year	52 984	79 466
over 1 year and up to 5 years	256 872	185 127
over 5 years	47 870	131 846
Total	**4 681 424**	**998 051**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

30. Liabilities due to customers

Liabilities due to entities from the financial sector other than banks

	end of 2010	end of 2009
Deposits, of which:	2 540 617	3 306 618
- current accounts	*1 442 475*	*1 685 817*
- term deposit	*1 098 142*	*1 620 801*
Repo transactions	0	286 511
Other liabilities	137 319	92 921
Total	**2 677 936**	**3 686 050**

Liabilities due to entities from the non-financial sector

	end of 2010	end of 2009
Business entities' deposits , of which:	12 483 581	11 861 687
- current accounts	*9 153 387*	*7 815 670*
- term deposit	*3 330 194*	*4 046 017*
Households' deposits, of which:	30 117 734	30 039 683
- current accounts	*4 792 359*	*4 122 157*
- savings accounts	*20 496 940*	*17 197 453*
- term deposit	*4 828 435*	*8 720 073*
Other liabilities	424 008	462 903
Total	**43 025 323**	**42 364 273**

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

	end of 2010	end of 2009
Deposits, of which:	1 694 915	1 508 176
- current accounts	*1 455 261*	*1 303 955*
- term deposit	*239 654*	*204 221*
Repo transactions	0	25 043
Other liabilities	1 895	1 131
Total	**1 696 810**	**1 534 350**

Liabilities due to customers – TOTAL

	end of 2010	end of 2009
Deposits	46 836 847	46 716 164
Repo transactions	0	311 554
Other liabilities	563 222	556 955
Total	**47 400 069**	**47 584 673**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Liabilities due to customers by maturity

	end of 2010	end of 2009
up to 1 month	41 893 860	38 119 885
over 1 month and up to 3 months	1 889 025	5 265 104
over 3 months and up to 1 year	3 458 104	3 599 184
over 1 year and up to 5 years	153 550	595 493
over 5 years	5 530	5 007
Total	**47 400 069**	**47 584 673**

Interest accrued but unpaid on liabilities presented in this note are shown on the same terms of maturity as the main liabilities.

Repurchase transactions

Repurchase transactions (repo) are shown under the item "Repo transactions". The Group acquires funds by selling financial instruments with the future buy-back commitment at the same price, increased with the interest determined upfront. Repurchase transactions are generally considered as a tool of short-term funding of interest assets, depending on the interest rates.

The following assets were sold under repo transactions concluded with customers:

end of 2009

	Repurchase date	Nominal value	Carrying amount
Assets from available-for-sale portfolio	2010-01-04	7 060	7 219
Assets from available-for-sale portfolio	2010-01-05	266 880	270 281
Assets from available-for-sale portfolio	2010-01-08	8 810	9 011
Assets from available-for-sale portfolio	2010-03-16	25 690	25 043
Total		**308 440**	**311 554**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

31. Provisions

	end of 2010	end of 2009
Provision for issues in dispute	20 218	11 690
Provision for off-balance sheet liabilities	11 142	20 061
Provision for retirement benefits	15 888	14 410
Provision for unused holidays	6 256	5 460
Provision for employment restructuring	2 340	3 626
Total	**55 844**	**55 247**

2010

	Provision for issues in dispute	Provision for off-balance sheet liabilities	Provision for retirement benefits	Provision for unused holidays	Provision for employment restructuring	**TOTAL**
Opening balance	11 690	20 061	14 410	5 460	3 626	**55 247**
- provisions recognised	14 693	9 433	1 533	824	0	**26 483**
- provisions applied	-776	0		0	-1 286	**-2 062**
- provisions reversed	-5 389	-17 564	-55	-28	0	**-23 036**
- exchange rate changes	0	-788	0	0	0	**-788**
Closing balance	**20 218**	**11 142**	**15 888**	**6 256**	**2 340**	**55 844**
Expected provision settlement period:						
- up to 1 year	*3 420*	*0*	*1 551*	*6 256*	*2 340*	***13 567***
- more than 1 year	*16 798*	*11 142*	*14 337*	*0*	*0*	***42 277***

2009

	Provision for issues in dispute	Provision for off-balance sheet liabilities	Provision for retirement benefits	Provision for unused holidays	Provision for employment restructuring	**TOTAL**
Opening balance	16 722	9 281	12 544	7 993	4 039	**50 579**
- provisions recognised	3 025	11 049	1 911	0	1 900	**17 885**
- provisions applied	-5 110	0	-30	0	-1 583	**-6 723**
- provisions reversed	-2 947	0	-15	-2 533	-730	**-6 225**
- exchange rate changes	0	-269	0	0	0	**-269**
Closing balance	**11 690**	**20 061**	**14 410**	**5 460**	**3 626**	**55 247**
Expected provision settlement period:						
- up to 1 year	*11 602*	*0*	*1 358*	*5 460*	*3 626*	***22 046***
- more than 1 year	*88*	*20 061*	*13 052*	*0*	*0*	***33 201***

Provision for issues in dispute

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

The recognised amount of provisions as at 31 Dec 2010 comprises:

1) disputable cases connected with negligent performance of agreements: PLN 18,217,000 (PLN 6,355,000 as at 31 Dec 2009),
2) criminal cases: PLN 1,747,000 (PLN 5,315,000 as at 31 Dec 2009),
3) cases relating to claims filed by former employees: PLN 254,000 (PLN 20,000 as at 31 Dec 2009).

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

The value of proceedings conducted in 2010 concerning liabilities and debt claims did not exceed 10% of the Group equity.

In view of the Group, none of the proceedings conducted in 2010 before court, competent authority for arbitrage proceedings or public administration authority, individually and in total, pose a risk to the Group financial liquidity.

Provision for retirement benefits

The Group recognises provisions for retirement benefits in accordance with IAS 19. Provisions for retirement benefits granted as a part of benefits required by the Labour Code are estimated based on actuarial valuation. The provision resulting from actuarial valuation is recognised and re-measured on an annual basis.

The reserve was calculated by individual method for each employee. The reserve is evaluated based on the present value of future long-term obligations of the Group due to retirement and disability packages.

The expected amount of the retirement package or disability package that the Group is obliged to pay under the General Terms and Conditions of Remuneration, which are binding in each unit of the Group, is the basis for calculating the reserve per employee. The expected amount is calculated by multiplying:

– The expected base amount of the retirement/ disability package in line with the General Terms and Conditions of Remuneration for each Entity,
– The expected increase of the base amount until reaching the retirement age,
– The percentage ratio depending on the years of service (in line with the General Terms and Conditions of Remuneration).

The resulting amount is discounted on an actuarial basis as at the year end day. As at 31 December 2010 the discount rate amounting to 5.75% was adopted. The discounted amount is decreased by the amounts of annual write-offs, which have been discounted on an actuarial basis and which have been made to increase the reserve per employee. The actuarial discount is the result of multiplying financial discount and the probability that a given individual will reach the retirement age as the Group's employee.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

The amounts of annual write-offs and the probability are calculated on the basis of models, which take account of the following three risks:

- the probability that a given person will resign from work,
- the risk of total incapacity to work,
- the risk of death.

The probability that the employee will resign from work was estimated by means of probability distribution while taking account of statistical data of the Group. The probability that the employee will resign depends on the employee's age and remains constant in each year of service.

The risk of death was expressed by means of the most recent statistics from the Polish life expectancy tables for men and women as published by the Central Statistical Office as at the valuation date.

As required under IAS 19, the financial discount rate for calculation of the present value of obligations due to employee benefits was determined based on the market rates of return on T-bonds whose currency and redemption date match the currency and estimated date of exercising obligations due to employee benefits.

The Group adopts the corridor approach for recognising a specific part of the cumulated net actuarial gains and losses. Under this method, when determining an obligation due to certain benefits, the Group recognises some actuarial gains and losses as revenue or costs, when the net value of accumulated unrecognised actuarial gains and losses as at the end of the previous reporting period exceeds the higher of the following two values:

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

A portion of the actuarial gains and losses above the said limit is recognised in the profit and loss account as the quotient of the above named excess and the average expected remaining working life of the Group employees.

In consolidated statement of financial position, Group presets net liabilities which include current value of liabilities and unpleased actuarial gains/losses.

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

	2010	**2009**
Opening balance	14 410	12 544
Costs included in the profit and loss account, out of which:	1 722	2 010
- regular employment costs	*911*	*1 147*
- costs of interest	*811*	*863*
Paid benefits	-245	-249
Actuarial gains / losses recognised in the profit and loss account	1	105
Closing balance, including:	**15 888**	**14 410**
- current value of the liability	*15 451*	*13 760*
- not included actuarial gains/ losses	*437*	*650*

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Provision for employment restructuring

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

At the end of 2008, the Group started headcount restructuring, which was continued throughout 2009 and 2010. The restructuring resulted from projects run at the Group to optimise the activity of the operating area (centralising certain activities, consolidating operating units and limiting co-operation with intermediaries).

32. Other liabilities

	end of 2010	end of 2009
to employees	17 625	19 903
due to leases	2	6
accruals	237 029	173 468
- due to operating expenses	*1 883*	*2 377*
- due to employee benefits	*135 664*	*92 138*
- due to commission	*91 240*	*70 509*
- other	*8 242*	*8 444*
other liabilities	401 704	358 971
- interbank settlements	*168 424*	*164 258*
- public and legal settlements	*35 780*	*36 458*
- settlements with suppliers	*150 539*	*123 662*
- other	*46 961*	*34 593*
Total	**656 360**	**552 348**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Liabilities due to financial lease

	end of 2010	end of 2009
Gross liabilities due to financial leases by maturity, of which:	**2**	**6**
- up to 1 year	2	4
- over 1 year and up to 5 years	0	2
Present value of lease instalments due by maturity, of which:	**2**	**7**
- up to 1 year	2	5
- over 1 year and up to 5 years	0	2
Reconciliation of differences between gross liabilities due to financial leases and present value of minimum lease installments	**2**	**7**
- Gross liabilities due to financial leases	2	6
- Unrealised financial expenses	0	1

The Group is a lessee in financial lease agreements concerning a part of the hardware and premises used by the Group. Those agreements do not provide for any contingent fees to be paid by the lessee; no constraints arise from the provisions of the lease agreements. In some cases the agreements provide for the possibility of prolonging the agreement, using the possibility of purchase or price change.

33. Share capital

The Group parents company's share capital is PLN 130,100,000 and is sub-divided into:

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

Each ordinary share entitles its owner to dividend and one vote during the general meeting of the parents company's shareholders.

Neither the value of the share capital nor the number of shares changed in 2010 and throughout 2009.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

34. Revaluation reserve

	end of 2010	end of 2009
Revaluation reserve from measurement of available-for-sale financial assets	8 586	-1 383
- including deferred tax	*-1 571*	*839*
Revaluation reserve from measurement of property, plant and equipment	47 370	51 115
- including deferred tax	*-11 111*	*-11 989*
Revaluation reserve from measurement of cash flow hedging instruments	431	-968
- including deferred tax	*-102*	*227*
Total	**56 387**	**48 764**

2010

	Revaluation reserve from measurement of available-for-sale financial assets	*including deferred tax*	Revaluation reserve from measurement of property, plant and equipment	*including deferred tax*	Revaluation reserve from measurement of cash flow hedging instruments	*including deferred tax*	TOTAL
Opening balance of revaluation reserve	**-1 383**	***839***	**51 115**	***-11 989***	**-968**	***227***	**48 764**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	8 471	*-2 059*	0	*0*	0	*0*	**8 471**
- reclassified to the financial result as a result of sale of available-for-sale financial assets	2 288	*-537*	0	*0*	0	*0*	**2 288**
- correction of the measurement of the securities reclassified from the AFS portfolio to the loans and receivables one	-790	*186*	0	*0*	0	*0*	**-790**
- remeasurement of property, plant and equipment	0	*0*	-3 619	*848*	0	*0*	**-3 619**
- effective part of cash flow hedging instruments revaluation	0	*0*	0	*0*	1 399	*-329*	**1 399**
- other	0	*0*	-126	*30*	0	*0*	**-126**
Closing balance of revaluation reserve	**8 586**	***-1 571***	**47 370**	***-11 111***	**431**	***-102***	**56 387**

2009

	Revaluation reserve from measurement of available-for-sale financial assets	*including deferred tax*	Revaluation reserve from measurement of property, plant and equipment	*including deferred tax*	Revaluation reserve from measurement of cash flow hedging instruments	*including deferred tax*	TOTAL
Opening balance of revaluation reserve	**-100 981**	***24 289***	**52 864**	***-12 399***	**45 581**	***-10 692***	**-2 536**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	96 302	*-22 678*	0	*0*	0	*0*	**96 302**
- reclassified to the financial result as a result of sale of available-for-sale financial assets	794	*-186*	0	*0*	0	*0*	**794**
- correction of the measurement of the securities reclassified from the AFS portfolio to the loans and receivables one	2 502	*-586*	0	*0*	0	*0*	**2 502**
- remeasurement of property, plant and equipment	0	*0*	-1 704	*400*	0	*0*	**-1 704**
- effective part of cash flow hedging instruments revaluation	0	*0*	0	*0*	-46 549	*10 919*	**-46 549**
- other	0	*0*	-45	*10*	0	*0*	**-45**
Closing balance of revaluation reserve	**-1 383**	***839***	**51 115**	***-11 989***	**-968**	***227***	**48 764**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

35. Retained earnings

	end of 2010	end of 2009
Other supplementary capital	75 055	74 931
Reserve capital	2 681 623	2 159 469
General risk fund	850 179	790 179
Retained earnings	126 979	113 807
Result for the current year	753 100	595 052
Total	**4 486 936**	**3 733 438**

2010

	other supplemen-tary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Opening balance of retained earnings	**74 931**	**2 159 469**	**790 179**	**708 859**	**0**	**3 733 438**
- net result for the current period	0	0	0	0	753 144	**753 144**
- share of minority shareholders in the net financial result	0	0	0	0	-44	**-44**
- profit allocation, including:	47	522 154	60 000	-582 201	0	**0**
- profit written off to supplementary capital	*47*	*0*	*0*	*-47*	*0*	***0***
- profit written off to reserve capital	*0*	*522 154*	*0*	*-522 154*	*0*	***0***
- profit written off to general risk fund	*0*	*0*	*60 000*	*-60 000*	*0*	***0***
- other	77	0	0	321	0	**398**
Closing balance of retained earnings	**75 055**	**2 681 623**	**850 179**	**126 979**	**753 100**	**4 486 936**

2009

	other supplemen-tary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Opening balance of retained earnings	**74 889**	**1 763 929**	**730 179**	**569 319**	**0**	**3 138 316**
- net result for the current period	0	0	0	0	595 066	**595 066**
- share of minority shareholders in the net financial result	0	0	0	0	-14	**-14**
- profit allocation, including:	34	395 568	60 000	-455 602	0	**0**
- profit written off to supplementary capital	*34*	*0*	*0*	*-34*	*0*	***0***
- profit written off to reserve capital	*0*	*395 568*	*0*	*-395 568*	*0*	***0***
- profit written off to general risk fund	*0*	*0*	*60 000*	*-60 000*	*0*	***0***
- transfer to retained earnings due to subsidiary liquidation	0	-28	0	28	0	**0**
- other	8	0	0	62	0	**70**
Closing balance of retained earnings	**74 931**	**2 159 469**	**790 179**	**113 807**	**595 052**	**3 733 438**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Supplementary capital

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

Reserve capital

Reserves are established regardless of the supplementary capital created from the appropriations from profit after tax, in the amount resolved at the General Meeting. The reserves are used for covering special losses and expenses. The decision on the use of the reserves is taken at the General Meeting.

The General Risk Fund

The General Risk Fund is established in accordance with the Banking Law Act from the after-tax profit and is used for unidentified risk related to banking activity. The decision on the use of the Fund is taken by the Management Board.

Dividend payout limitations

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

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

As of 31 Dec 2010, no other dividend payout limitations are evident.

36. Currency structure of consolidated statement of financial position and off-balance sheet items

Herein below, consolidated statement of financial position of the Group and off-balance sheet items were presented per base currencies. The following currency rates were applied to calculate values in original currency:

	31 Dec 2010	31 Dec 2009
EUR	3.9603	4.1082
USD	2.9641	2.8503
CHF	3.1639	2.7661

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

end of 2010

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		other currencies	TOTAL
		after translation into PLN	*in currency*	after translation into PLN	*in currency*	after translation into PLN	*in currency*	(after translation into PLN)	
A S S E T S									
- Cash in hand and balances with the Central Bank	2 168 318	202 221	*51 062*	16 966	*5 724*	1 000	*316*	5 691	**2 394 196**
- Loans and receivables to other banks	178 935	796 793	*201 195*	10 448	*3 525*	61 492	*19 436*	133 437	**1 181 105**
- Financial assets measured at fair value through profit and loss	582 576	77 030	*19 451*	0	*0*	0	*0*	0	**659 606**
- Valuation of derivatives	555 001	376 381	*95 039*	178 669	*60 278*	90	*28*	48 756	**1 158 897**
- Investments	23 001 839	1 018	*257*	3 955	*1 334*	0	*0*	0	**23 006 812**
- Derivative hedge instruments	104 659	137	*35*	0	*0*	0	*0*	0	**104 796**
- Loans and receivables to customers	26 956 819	5 585 178	*1 410 292*	338 690	*114 264*	1 591 047	*502 875*	37 265	**34 508 999**
- Investments in controlled entities recognised under the equity method	156 832	0	*0*	0	*0*	0	*0*	0	**156 832**
- Investment real estates	118 187	0	*0*	0	*0*	0	*0*	0	**118 187**
- Property, plant and equipment	544 211	0	*0*	0	*0*	0	*0*	0	**544 211**
- Intangible assets	342 213	0	*0*	0	*0*	0	*0*	0	**342 213**
- Property, plant and equipment held for sale	13 996	0	*0*	0	*0*	0	*0*	0	**13 996**
- Current tax assets	614	0	*0*	0	*0*	0	*0*	0	**614**
- Deferred tax assets	167 397	0	*0*	0	*0*	0	*0*	0	**167 397**
- Other assets	156 683	2 831	*715*	102	*34*	30	*9*	21	**159 667**
T o t a l a s s e t s	**55 048 280**	**7 041 589**	***1 778 046***	**548 830**	***185 159***	**1 653 659**	***522 664***	**225 170**	**64 517 528**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

end of 2010

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		other currencies	TOTAL
		after translation into PLN	*in currency*	after translation into PLN	*in currency*	after translation into PLN	*in currency*	(after translation into PLN)	
E Q U I T Y A N D L I A B I L I T I E S									
LIABILITIES									
- Liabilities due to other banks	2 127 632	628 054	*158 587*	13 301	*4 487*	1 133 884	*358 382*	136 240	**4 039 111**
- Financial liabilities measured at fair value through profit and loss	4 665 554	15 870	*4 007*	0	*0*	0	*0*	0	**4 681 424**
- Valuation of derivatives	706 623	271 498	*68 555*	261 254	*88 139*	4 946	*1 563*	48 340	**1 292 661**
- Derivative hedge instruments	136 364	464 091	*117 186*	0	*0*	0	*0*	0	**600 455**
- Liabilities due to customers	42 039 743	3 814 307	*963 136*	1 409 519	*475 530*	6 247	*1 974*	130 253	**47 400 069**
- Provisions	55 844	0	*0*	0	*0*	0	*0*	0	**55 844**
- Current income tax liabilities	138 499	0	*0*	0	*0*	0	*0*	0	**138 499**
- Other liabilities	654 080	1 694	*428*	546	*184*	1	*0*	39	**656 360**
T o t a l l i a b i l i t i e s	**50 524 339**	**5 195 514**	***1 311 899***	**1 684 620**	***568 340***	**1 145 078**	***361 919***	**314 872**	**58 864 423**
EQUITY									
- Share capital	130 100	0	*0*	0	*0*	0	*0*	0	**130 100**
- Supplementary capital - issuance of shares over nominal value	956 250	0	*0*	0	*0*	0	*0*	0	**956 250**
- Revaluation reserve from measurement of available-for-sale financial assets	2 427	2 204	*557*	3 955	*1 334*	0	*0*	0	**8 586**
- Revaluation reserve from measurement of property, plant and equipment	47 370	0	*0*	0	*0*	0	*0*	0	**47 370**
- Revaluation reserve from measurement of cash flow hedging instruments	431	0	*0*	0	*0*	0	*0*	0	**431**
- Revaluation of share-based payment	21 080	0	*0*	0	*0*	0	*0*	0	**21 080**
- Retained earnings	4 486 936	0	*0*	0	*0*	0	*0*	0	**4 486 936**
Equity attributed to the holding company	**5 644 594**	**2 204**	***557***	**3 955**	***1 334***	**0**	***0***	**0**	**5 650 753**
- Minority equity	2 352	0	*0*	0	*0*	0	*0*	0	**2 352**
T o t a l e q u i t y	**5 646 946**	**2 204**	***557***	**3 955**	***1 334***	**0**	***0***	**0**	**5 653 105**
T o t a l e q u i t y a n d l i a b i l i t i e s	**56 171 285**	**5 197 718**	***1 312 456***	**1 688 575**	***569 674***	**1 145 078**	***361 919***	**314 872**	**64 517 528**

Off-balance sheet items

Off-balance sheet liabilities granted	12 478 252	1 224 598	*309 218*	810 218	*273 344*	17 414	*5 504*	15 409	**14 545 891**
Off-balance sheet liabilities received	15 270 903	1 719 460	*434 174*	132 472	*44 692*	29 382	*9 287*	1 336	**17 153 553**
Off-balance sheet financial instruments	90 657 152	27 097 732	*6 842 343*	11 459 387	*3 866 060*	1 162 902	*367 553*	1 143 983	**131 521 156**
Total	**118 406 307**	**30 041 790**	***7 585 735***	**12 402 077**	***4 184 096***	**1 209 698**	***382 344***	**1 160 728**	**163 220 600**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

end of 2009

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		other currencies	TOTAL
		after translation into PLN	*in currency*	after translation into PLN	*in currency*	after translation into PLN	*in currency*	(after translation into PLN)	
A S S E T S									
- Cash in hand and balances with the Central Bank	2 583 642	52 312	*12 734*	14 160	*4 968*	265	*96*	6 214	**2 656 593**
- Loans and receivables to other banks	311 677	629 901	*153 328*	151 164	*53 034*	38 347	*13 863*	53 014	**1 184 103**
- Financial assets measured at fair value through profit and loss	7 901 189	366 472	*89 205*	0	*0*	0	*0*	0	**8 267 661**
- Valuation of derivatives	681 022	686 131	*167 015*	155 587	*54 586*	7	*3*	43 905	**1 566 652**
- Investments	14 160 458	1 054	*257*	4 769	*1 673*	0	*0*	0	**14 166 281**
- Derivative hedge instruments	90 444	0	*0*	0	*0*	0	*0*	0	**90 444**
- Loans and receivables to customers	23 363 068	5 484 419	*1 334 993*	257 742	*90 426*	1 452 684	*525 174*	34 881	**30 592 794**
- Investments in controlled entities recognised under the equity method	115 600	0	*0*	0	*0*	0	*0*	0	**115 600**
- Investment real estates	129 667	0	*0*	0	*0*	0	*0*	0	**129 667**
- Property, plant and equipment	548 847	0	*0*	0	*0*	0	*0*	0	**548 847**
- Intangible assets	327 343	0	*0*	0	*0*	0	*0*	0	**327 343**
- Property, plant and equipment held for sale	224	0	*0*	0	*0*	0	*0*	0	**224**
- Current tax assets	762	0	*0*	0	*0*	0	*0*	0	**762**
- Deferred tax assets	86 447	0	*0*	0	*0*	0	*0*	0	**86 447**
- Other assets	148 225	1 671	*407*	84	*29*	25	*9*	33	**150 038**
T o t a l a s s e t s	**50 448 615**	**7 221 960**	***1 757 939***	**583 506**	***204 716***	**1 491 328**	***539 145***	**138 047**	**59 883 456**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

end of 2009

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		other currencies (after translation into PLN)	TOTAL
		after translation into PLN	*in currency*	after translation into PLN	*in currency*	after translation into PLN	*in currency*		
EQUITY AND LIABILITIES									
LIABILITIES									
- Liabilities due to other banks	411 165	3 424 256	*833 517*	92 777	*32 550*	4 108	*1 485*	41 480	**3 973 786**
- Financial liabilities measured at fair value through profit and loss	998 051	0	*0*	0	*0*	0	*0*	0	**998 051**
- Valuation of derivatives	435 884	506 350	*123 253*	185 319	*65 017*	10 477	*3 788*	55 914	**1 193 944**
- Derivative hedge instruments	128 625	353 938	*86 154*	0	*0*	0	*0*	0	**482 563**
- Liabilities due to customers	42 702 328	3 587 200	*873 180*	1 138 507	*399 434*	4 368	*1 579*	152 270	**47 584 673**
- Provisions	55 247	0	*0*	0	*0*	0	*0*	0	**55 247**
- Current income tax liabilities	156 133	0	*0*	0	*0*	0	*0*	0	**156 133**
- Other liabilities	536 644	15 204	*3 701*	490	*172*	2	*1*	8	**552 348**
Total liabilities	**45 424 077**	**7 886 948**	***1 919 805***	**1 417 093**	***497 173***	**18 955**	***6 853***	**249 672**	**54 996 745**
EQUITY									
- Share capital	130 100	0	*0*	0	*0*	0	*0*	0	**130 100**
- Supplementary capital - issuance of shares over nominal value	956 250	0	*0*	0	*0*	0	*0*	0	**956 250**
- Revaluation reserve from measurement of available-for-sale financial assets	-8 264	2 112	*514*	4 769	*1 673*	0	*0*	0	**-1 383**
- Revaluation reserve from measurement of property, plant and equipment	51 115	0	*0*	0	*0*	0	*0*	0	**51 115**
- Revaluation reserve from measurement of cash flow hedging instruments	-968	0	*0*	0	*0*	0	*0*	0	**-968**
- Revaluation of share-based payment	15 846	0	*0*	0	*0*	0	*0*	0	**15 846**
- Retained earnings	3 733 438	0	*0*	0	*0*	0	*0*	0	**3 733 438**
Equity attributed to the holding company	**4 877 517**	**2 112**	***514***	**4 769**	***1 673***	**0**	***0***	**0**	**4 884 398**
- Minority equity	2 313	0	*0*	0	*0*	0	*0*	0	**2 313**
Total equity	**4 879 830**	**2 112**	***514***	**4 769**	***1 673***	**0**	***0***	**0**	**4 886 711**
Total equity and liabilities	**50 303 907**	**7 889 060**	***1 920 319***	**1 421 862**	***498 846***	**18 955**	***6 853***	**249 672**	**59 883 456**

Off-balance sheet items

Off-balance sheet liabilities granted	12 042 934	1 475 298	*359 111*	511 162	*179 336*	47 101	*17 028*	20 208	**14 096 703**
Off-balance sheet liabilities received	10 675 618	1 627 021	*396 042*	180 377	*63 284*	239	*86*	11	**12 483 266**
Off-balance sheet financial instruments	59 731 119	35 507 020	*8 642 963*	20 099 127	*7 051 583*	2 529 778	*914 565*	1 219 519	**119 086 563**
Total	**82 449 671**	**38 609 339**	***9 398 116***	**20 790 666**	***7 294 203***	**2 577 118**	***931 679***	**1 239 738**	**145 666 532**

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

37. Off-balance sheet items

	end of 2010	end of 2009
Off-balance sheet liabilities granted	14 545 891	14 096 703
Off-balance sheet liabilities received	17 153 553	12 483 266
Off-balance sheet financial instruments	131 521 156	119 086 563
Total	**163 220 600**	**145 666 532**

38. Off-balance sheet liabilities

Off-balance sheet liabilities granted

	end of 2010	end of 2009
Credit card limits	653 355	679 304
Undrawn credit facilities	9 820 649	8 782 256
Undrawn overdrafts in current account	1 029 607	1 973 490
Guarantees	2 869 088	2 241 017
Letters of credit	173 192	135 606
Deposits to be issued	0	285 030
Total	**14 545 891**	**14 096 703**

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

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

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

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

The tables below present maturity analysis of total off-balance sheet liabilities granted and additionally the maturity analysis of issued financial guarantee contracts.

Off balance sheet liabilities granted by maturity

	end of 2010	end of 2009
up to 1 month	2 068 098	3 221 568
over 1 month and up to 3 months	615 547	701 826
over 3 months and up to 1 year	3 396 859	3 380 221
over 1 year and up to 5 years	5 249 157	4 328 042
over 5 years	3 216 230	2 465 046
Total	**14 545 891**	**14 096 703**

Issued financial guarantee contracts by maturity

	end of 2010	end of 2009
up to 1 month	104 279	110 671
over 1 month and up to 3 months	195 939	195 991
over 3 months and up to 1 year	1 103 703	667 199
over 1 year and up to 5 years	1 414 696	1 206 403
over 5 years	50 471	60 753
Total	**2 869 088**	**2 241 017**

Off-balance sheet liabilities received

	end of 2010	end of 2009
Guarantee conditioned liabilities	17 123 217	12 288 255
Financing liabilities	30 336	195 011
Total	**17 153 553**	**12 483 266**

Information on issue guarantees granted to other issuers

At the end of 2010, the Group held obligations to purchase bonds issued by two issuers. The total amount of the obligation (understood as the unused limit of the total nominal guarantee liabilities) amounted to PLN 423.5 million. At the end of 2009 Group held obligations to purchase bonds issued by three issuers for the total amount of PLN 533.7 million.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

39. Off-balance sheet financial instruments (including hedging derivatives)

end of 2010

	Nominal value of instruments with the period remaining to maturity				Fair value measurement*	
	up to 3 months	over 3 months and up to 1 year	over 1 year	TOTAL	Assets	Liabilities and equity
Interest rate derivatives, of which:	**45 795 302**	**15 639 825**	**32 917 966**	**94 353 093**	**782 477**	**1 469 543**
Forward rate agreements (FRA)	0	5 620 666	0	**5 620 666**	1 229	3 525
Interest rate swaps (IRS)	45 683 338	9 180 272	31 865 779	**86 729 389**	757 893	1 440 356
CAP options	111 964	838 887	1 052 187	**2 003 038**	23 355	25 662
FX derivatives, of which:	**15 235 661**	**9 435 065**	**1 364 410**	**26 035 136**	**437 240**	**378 200**
FX contracts (swap, forward)	14 202 553	8 397 318	932 956	**23 532 827**	238 975	160 975
CIRS	0	0	341 785	**341 785**	185 962	119 658
Currency options (purchased)	424 762	578 835	4 684	**1 008 281**	12 303	0
Currency options (sold)	608 346	458 912	84 985	**1 152 243**	0	97 567
Current off-balance sheet transactions, of which:	**10 136 345**	**0**	**0**	**10 136 345**	**4 046**	**5 492**
FX operations	8 571 701	0	0	**8 571 701**	2 095	3 979
Securities operations	1 564 644	0	0	**1 564 644**	1 951	1 513
Stock market derivatives, of which:	**0**	**990 506**	**6 076**	**996 582**	**36 754**	**36 775**
Options for stock market (buy)	0	496 217	3 042	**499 259**	36 754	0
Options for stock market (sold)	0	494 289	3 034	**497 323**	0	36 775
Fair value measurement of other financial instruments	-	-	-	-	3 176	3 106
Total	**71 167 308**	**26 065 396**	**34 288 452**	**131 521 156**	**1 263 693**	**1 893 116**

end of 2009

	Nominal value of instruments with the period remaining to maturity				Fair value measurement*	
	up to 3 months	over 3 months and up to 1 year	over 1 year	TOTAL	Assets	Liabilities and equity
Interest rate derivatives, of which:	**8 619 868**	**15 743 198**	**31 880 913**	**56 243 979**	**755 309**	**1 125 266**
Forward rate agreements (FRA)	0	1 678 000	0	**1 678 000**	823	520
Interest rate swaps (IRS)	8 619 868	13 970 728	30 407 959	**52 998 555**	740 993	1 111 086
CAP options	0	94 470	1 472 954	**1 567 424**	13 493	13 660
FX derivatives, of which:	**36 272 526**	**10 480 622**	**1 706 648**	**48 459 796**	**846 853**	**496 520**
FX contracts (swap, forward)	30 066 763	7 570 605	1 350 412	**38 987 780**	479 010	253 898
CIRS	0	0	0	**0**	221 096	135 613
Currency options (purchased)	2 874 275	1 205 461	184 878	**4 264 614**	146 747	0
Currency options (sold)	3 331 488	1 704 556	171 358	**5 207 402**	0	107 009
Current off-balance sheet transactions, of which:	**12 240 657**	**0**	**0**	**12 240 657**	**8 701**	**8 581**
FX operations	6 025 255	0	0	**6 025 255**	5 896	2 354
Securities operations	6 215 402	0	0	**6 215 402**	2 805	6 227
Stock market derivatives, of which:	**379 955**	**786 843**	**975 333**	**2 142 131**	**44 532**	**44 318**
Options for stock market (buy)	192 945	399 776	487 921	**1 080 642**	44 532	0
Options for stock market (sold)	187 010	387 067	487 412	**1 061 489**	0	44 318
Fair value measurement of other financial instruments	-	-	-	-	1 701	1 822
Total	**57 513 006**	**27 010 663**	**34 562 894**	**119 086 563**	**1 657 096**	**1 676 507**

*) Fair value measurement is presented under assets and liabilities of the consolidated statement of financial position of the Group in the items *Valuation of derivatives* and *Derivative hedge insruments*.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Currency contracts

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

	end of 2010	**end of 2009**
PLN		
- up to 3 months	6 359 068	12 096 639
- from 3 months to 1 year	4 039 136	3 267 535
- over 1 year	467 954	619 502
EUR		
- up to 3 months	4 934 498	15 576 181
- from 3 months to 1 year	3 480 888	5 176 365
- over 1 year	510 006	1 044 888
USD		
- up to 3 months	2 740 986	6 830 464
- from 3 months to 1 year	1 817 400	1 534 937
- over 1 year	44 665	8 251
GBP		
- up to 3 months	16 534	10 664
- from 3 months to 1 year	15 826	2 667
other currencies		
- up to 3 months	1 184 575	1 758 577
- from 3 months to 1 year	81 815	499 118
- over 1 year	341 785	34 008
Total	**26 035 136**	**48 459 796**

Embedded derivatives

At the end of 2010 Group had deposits in PLN (at the end of 2009 in PLN and EUR) with embedded derivatives. Embedded instruments are FX, stock exchange index, commodity market and participation in investment funds options. Valuation of embedded derivatives as per 31 Dec 2010 was PLN 8,837,000 against PLN 50,050,000 as per 31 Dec 2009.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

40. Hedge accounting

Fair value hedge accounting

In the consolidated financial statements as at 31 Dec 2010, the Group used fair value hedge accounting for securities.

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

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

The measurement of the hedging and hedged transactions is shown in the consolidated income statement under the note 6. “Net income on hedge accounting”.

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

	end of 2010		**end of 2009**	
	Nominal value	Fair value	Nominal value	Fair value
Hedged items	**6 203 272**	**6 489 862**	**6 262 747**	**6 399 582**
- Debt securities from available-for-sale portfolio, of which:	3 138 000	3 221 405	3 083 000	3 137 714
- Treasury bonds	*3 138 000*	*3 221 405*	*3 083 000*	*3 137 714*
- Debt securities from loans and other receivables portfolio, of which:	3 065 272	3 268 457	3 179 747	3 261 868
- Treasury bonds	*3 065 272*	*3 268 457*	*3 179 747*	*3 261 868*
Hedging instruments	**6 240 711**	**-571 730**	**6 249 668**	**-469 449**
- Interest Rate Swap – positive valuation	430 000	14 930	338 000	3 715
- Interest Rate Swap – negative valuation	5 810 711	-586 660	5 911 668	-473 164

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

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Cash flow hedge accounting

In the consolidated financial statements as at 31 December 2010, the Group applied the rules of accounting of cash flow hedges with regard to a specific portfolio of assets/ liabilities/ highly probable planned financial transactions of the Group (e.g. extrapolation of cash flows arising from revolving deposits/ overdrafts) against the risk of changes to the future cash flows due to the interest rate risk. The hedged item is the specified portfolio of assets and/or financial liabilities or the portfolio of planned transactions, which includes financial instruments with variable interest rate (financial products based on the WIBOR / EURIBOR market interest rate) that are therefore exposed to the risk of future cash flows arising from the change of the WIBOR / EURIBOR market interest rate. Interest rate swaps of the type “pay variable, get fixed” are used as hedging instruments for assets, and interest rate swaps of the type “pay fixed, get variable” are used to hedge liabilities.

In 2010, the Group followed the rules of cash flow hedge accounting also with regard to payments arising from the Group’s internal administration agreements denominated in / indexed with foreign currencies against the risk of changes to the future cash flows due to both the interest rate risk and FX risk. The subject of hedging were FX cash flows / cash flows indexed with foreign currencies executed in specific months up to the level defined in line with the methodology of determining the hedged item. The hedging instrument was a series of FX Forward transactions maturing in specific months, on the dates compliant with the adopted risk hedging strategy. In line with the assumptions, the hedging strategy was effected during the fiscal year and finished before the year-end. The Group intends to launch a similar strategy also in 2011.

As at 31 December 2010, the revaluation reserve included PLN 431,000 (including deferred tax) related to the effective part of hedging relationship in the cash flow hedge accounting (PLN 968,000 in minus as at 31 December 2009). In 2010, the ineffective part of the hedging relationship resulting from the mismatch in compensating changes in fair value of the hedging instrument and hedged item recognised in the consolidated income statement totalled PLN 125,000 compared with minus PLN 277,000 in 2009.

Fair value of hedging instruments under the cash flow hedge accounting

	end of 2010		**end of 2009**	
	Nominal value	Fair value	Nominal value	Fair value
Hedging instruments	**6 600 754**	**76 071**	**3 945 200**	**77 329**
- Interest Rate Swap – positive valuation	4 513 809	89 866	3 260 200	86 728
- Interest Rate Swap – negative valuation	2 086 945	-13 795	685 000	-9 399

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

Future cash flows in PLN '000

end of 2010

	up to 1 year	over 1 year and up to 3 years	over 3 years and up to 8 years	over 8 years
Cash inflows (assets)	205 336	267 669	154 905	13 336
Cash outflows (liabilities)	-2 212	-5 403	-14 712	-5 300
Net cash flows	**203 124**	**262 266**	**140 193**	**8 036**

end of 2009

	up to 1 year	over 1 year and up to 3 years	over 3 years and up to 8 years	over 8 years
Cash inflows (assets)	120 499	119 438	80 840	0
Cash outflows (liabilities)	-10 458	-26 092	0	0
Net cash flows	**110 041**	**93 346**	**80 840**	**0**

Future cash flows in EUR '000

end of 2010

	up to 1 year	over 1 year and up to 3 years	over 3 years and up to 8 years	over 8 years
Cash inflows (assets)	1 247	3 627	5 188	814
Cash outflows (liabilities)	0	0	0	0
Net cash flows	**1 247**	**3 627**	**5 188**	**814**

41. Fair values

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

Fair value measurement categories for financial assets and liabilities

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

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

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 _(PLN thousand)_

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

end of 2010

	Level I	Level II	Level III	Total
Financial assets, of which:	**12 259 224**	**6 349 184**	**103 692**	**18 712 100**
- Financial assets held for trading, of which:	231 536	281 196	0	512 732
- treasury bills	*0*	*281 196*	*0*	*281 196*
- treasury bonds	*208 667*	*0*	*0*	*208 667*
- equity instruments	*22 869*	*0*	*0*	*22 869*
- Financial assets designated as fair value at initial recognition, of which:	83 175	2 477	61 222	146 874
- corporate bonds	*0*	*0*	*61 222*	*61 222*
- buy-sell-back	*83 175*	*2 477*	*0*	*85 652*
- Valuation of derivatives	0	1 158 897	0	1 158 897
- Financial assets available-for sale, of which:	11 944 513	4 801 818	42 470	16 788 801
- treasury bonds	*10 888 661*	*0*	*0*	*10 888 661*
- NBP bills	*0*	*4 796 736*	*0*	*4 796 736*
- BGK bonds	*1 055 011*	*0*	*0*	*1 055 011*
- other debt instruments	*0*	*98*	*0*	*98*
- equity instruments	*841*	*4 984*	*42 470*	*48 295*
- Derivative hedge instruments	0	104 796	0	104 796
Financial liabilities, of which:	**4 681 424**	**1 893 116**	**0**	**6 574 540**
- Financial liabilities measured at fair value upon initial recognition, of which:	4 323 698	0	0	4 323 698
- sell-buy-back	*4 323 698*	*0*	*0*	*4 323 698*
- Book short position in trading securities	357 726	0	0	357 726
- Valuation of derivatives	0	1 292 661	0	1 292 661
- Derivative hedge instruments	0	600 455	0	600 455

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

end of 2009

	Level I	Level II	Level III	Total
Financial assets, of which:	**11 393 567**	**5 123 492**	**243 573**	**16 760 632**
- Financial assets held for trading, of which:	4 072 114	3 461 520	0	7 533 634
- NBP bills	*0*	*2 997 669*	*0*	*2 997 669*
- treasury bills	*0*	*463 851*	*0*	*463 851*
- treasury bonds	*4 069 977*	*0*	*0*	*4 069 977*
- equity instruments	*2 137*	*0*	*0*	*2 137*
- Financial assets designated as fair value at initial recognition, of which:	537 657	0	196 370	734 027
- corporate bonds	*0*	*0*	*186 468*	*186 468*
- buy-sell-back	*537 657*	*0*	*9 902*	*547 559*
- Valuation of derivatives	0	1 566 652	0	1 566 652
- Financial assets available-for sale, of which:	6 783 796	4 876	47 203	6 835 875
- treasury bonds	*6 584 458*	*0*	*0*	*6 584 458*
- BGK bonds	*198 458*	*0*	*0*	*198 458*
- other debt instruments	*0*	*107*	*0*	*107*
- equity instruments	*880*	*4 769*	*47 203*	*52 852*
- Derivative hedge instruments	0	90 444	0	90 444
Financial liabilities, of which:	**988 108**	**1 676 507**	**9 943**	**2 674 558**
- Financial liabilities measured at fair value upon initial recognition, of which:	533 186	0	9 943	543 129
- sell-buy-back	*533 186*	*0*	*9 943*	*543 129*
- Book short position in trading securities	454 922	0	0	454 922
- Valuation of derivatives	0	1 193 944	0	1 193 944
- Derivative hedge instruments	0	482 563	0	482 563

In 2010, as in 2009, there were no shifts between the measurement level 1 and 2. In 2010, as compared with 2009 the Group shifted the shares of a company from the 3rd to 2nd measurement level. In 2009, the company's shares were not quoted on the active market and were therefore classified into the 3rd measurement level. In 2010, the company issued a new series of shares that were admitted to public trading. The Group measures the shares held based on the price of shares quoted on the active market.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Movements in financial assets / liabilities classified to the Level 3 of the measurement

2010

	Financial assets designated as fair value at initial recognition	Financial assets available for sale	Financial liabilities measured at fair value upon initial recognition
Opening balance	196 370	47 203	9 943
Increases, of which:	0	2 642	0
- purchase in result of restructuring process	*0*	*2 599*	*0*
- measurement concerning revaluation reserve	*0*	*43*	*0*
Decreases, of which:	-135 148	-7 375	-9 943
- sale / redemption	*-114 000*	*-489*	*0*
- settlement of buy-sell-back and sell-buy-back transactions	*-9 923*	*0*	*-9 923*
- redemption of shares in result of restructuring	*0*	*-6 825*	*0*
- measurement referred to profit and loss	*-3 941*	*0*	*-20*
- decreasing the measure of securities	*-7 284*	*-11*	*0*
- shifting to the level 2 of the measurement	*0*	*-50*	*0*
Closing balance	**61 222**	**42 470**	**0**

2009

	Financial assets designated as fair value at initial recognition	Financial assets available for sale	Financial liabilities measured at fair value upon initial recognition
Opening balance	192 150	2 700	0
Increases, of which:	9 902	44 543	9 943
- purchase in result of restructuring process	*0*	*44 515*	*0*
- purchase of securities as a result of buy-sell-back transaction	*9 923*	*0*	*0*
- sale of securities as a result of sell-buy-back transaction	*0*	*0*	*9 923*
- measurement referred to profit and loss	*-21*	*0*	*20*
- increasing the measure of securities	*0*	*28*	*0*
Decreases, of which:	-5 682	-40	0
- sale / redemption	*0*	*-35*	*0*
- measurement referred to profit and loss	*-655*	*0*	*0*
- decreasing the measure of securities	*-5 027*	*-5*	*0*
Closing balance	**196 370**	**47 203**	**9 943**

The fair value measurement changes referring to the income statement are recognised in the item of the consolidated income statement *Result on instruments measured at fair value through profit or loss and FX result.*

Potential changes to the estimates of the measured financial instruments classified to the Level 3 of the measurement do not have significant impact on the Consolidated Financial Statements of the Group.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 _(PLN thousand)_

The table below presents unrealised profit / loss on financial instruments classified into the measurement level 3 that were included in the Group's portfolio as at the reporting date.

	Financial assets designated as at fair value upon initial recognition	Financial assets available for sale
Unrealized result on measurement through profit and loss	765	0
Unrealized result on measurement of revaluation reserve	0	43

Financial assets and liabilities which are not carried at fair value in the statement of financial position

end of 2010

	Carrying amount	**Fair value**
Assets		
Cash in hand and balances with the Central Bank	2 394 196	2 394 196
Loans and receivables to other banks	1 181 105	1 181 101
Loans and receivables to customers, of which:	34 508 999	34 207 857
- to entities from the financial sector other than banks	_2 666 293_	_2 662 730_
- to entities from the non-financial sector	_25 223 801_	_24 825 726_
- to entities from the government and self-government institutions' sector	_6 618 905_	_6 719 401_
Held-to-maturity financial assets, of which:	6 218 011	6 338 347
- Treasury bonds	_6 218 011_	_6 338 347_
Other assets	83 007	83 007
Liabilities		
Liabilities due to other banks	4 039 111	4 039 111
Liabilities due to customers, of which:	47 400 069	47 396 178
- to entities from the financial sector other than banks	_2 677 936_	_2 677 937_
- to entities from the non-financial sector	_43 025 323_	_43 021 399_
- to entities from the government and self-government institutions' sector	_1 696 810_	_1 696 842_

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

end of 2009

	Carrying amount	**Fair value**
Assets		
Cash in hand and balances with the Central Bank	2 656 593	2 656 593
Loans and receivables to other banks	1 184 103	1 184 103
Loans and receivables to customers, of which:	30 592 794	30 517 429
- to entities from the financial sector other than banks	*3 321 925*	*3 321 925*
- to entities from the non-financial sector	*21 370 195*	*21 220 039*
- to entities from the government and self-government institutions' sector	*5 900 674*	*5 975 465*
Held-to-maturity financial assets, of which:	7 330 406	7 421 125
- Treasury bonds	*7 330 406*	*7 421 125*
Other assets	83 125	83 125
Liabilities		
Liabilities due to other banks	3 973 786	3 973 786
Liabilities due to customers, of which:	47 584 673	47 589 099
- to entities from the financial sector other than banks	*3 686 050*	*3 686 050*
- to entities from the non-financial sector	*42 364 273*	*42 368 699*
- to entities from the government and self-government institutions' sector	*1 534 350*	*1 534 350*

The Group discloses the data on the fair value of loans and deposits recognised respectively in the groups of financial assets and financial liabilities carried at amortised cost considering the effective interest rate.

In calculations, the yield curve is used; it takes account of the transfer prices calculated based on:

- PLN: up to 1Y – as the average of BID quotations (WIBID and brokers' BID listings) collected at 9.00am, 11.00am, 12.30pm and 2.00pm; above 1Y – the average of OFFER quotations for IRS contracts converted into the effective rate,
- USD and CHF: up to 1Y on the basis of adequate LIBOR quotations; from 1Y onwards – on the basis of OFFER quotations for IRS contracts converted into the effective rate,
- EUR: up to 1Y - on the basis of adequate EURIBOR quotations, from 1Y onwards – on the basis of OFFER quotations for IRS contracts converted into the effective rate.

Credit loss estimations reflect the loan loss provisioning model in place at the Group.

In certain aspects, the model adopted by the Group is based on the assumptions that do not confirm the prices of verifiable current market transactions referring to the same instrument – the model takes account of neither prepayments nor restructuring-based changes.

Loans and receivables

The credit portfolio is divided into sub-portfolios according to the registration system, the type of product, the client's segment and the currency. In case of loans without any repayment schedules and loans from the impaired group, it is assumed that the fair value for those loans equals their book value. In case of those sub-portfolios the discounting factor is used for each cashflow. The result is the fair value as the sum of the net present value of cashflows of a single loan. The sum of fair values of individual deposits represents the fair value of the portfolio of deposits reviewed.

For loans the discounting factor is assumed as a sum of:

- the market rate based on the yield curve as of the balance sheet date, and
- the average margin based on the portfolio of loans granted in the last six month period.

For that purpose the following assumptions are adopted:

- use of the loans granted in the last six months for calculation,
- division into the abovementioned product groups,
- the spot at the yield curve on the basis of which the relevant market rate is set is reflected by the revaluation date for each loan.

Liabilities due to other banks and to customers

The deposit portfolio is divided according to the type of product, the client's segment and the currency. For deposits paid on demand, it is assumed the fair value equals their book value.

Another phase involves the calculation of future cashflows as the sum of principal- and interest cashflows. After that, by applying the discounting factor for each cashflow one receives the fair value of individual deposits. The sum of fair values of individual deposits represents the fair value of the portfolio of deposits reviewed.

For deposits the discounting factor represents the sum of:

- the market rate based on the yield curve as at the balance sheet date, and
- the average margin based on the portfolio of deposits accepted in the last two months.

For that purpose the following assumptions are adopted:

- use of the deposits accepted in the last two months for calculation,
- division into the abovementioned product groups,
- the spot at the yield curve on the basis of which the relevant market rate is set is reflected by the revaluation date for each deposit.

Financial assets held to maturity

In case of assets classified into the held-to-maturity portfolio, the following approach was applied: to define the fair value the measurement parameters were adopted which would be used had those assets been included in the portfolio of available-for-sale financial assets.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Cash in hand and balances with the Central Bank. Other assets.

As the financial assets recognised in the above item are of short-term nature, it was assumed that the carrying value is approximately the same as the fair value.

Below presented is the comparison of the carrying value with the fair value concerning loans and advances granted to banks and clients as well as deposits of banks and clients by segments.

end of 2010

	Carrying amount	Fair value
Loans and receivables to other banks and to customers, of which:	**29 993 069**	**29 564 388**
- Loans and advances to retail customers, of which:	12 289 378	11 915 601
- mortgages	*8 343 769*	*8 343 769*
- Small Business	*1 533 963*	*1 589 173*
- other	*2 411 646*	*1 982 659*
- Loans and advances to corporate customers, of which:	17 703 691	17 648 787
- strategic clients	*7 172 516*	*7 159 967*
- other	*10 531 175*	*10 488 820*
Deposits of other banks and customers, of which:	**50 202 053**	**50 198 162**
- deposits of retails customers	32 131 279	32 127 172
- deposits of corporate customers, of which:	18 070 774	18 070 990
- strategic clients	*11 220 732*	*11 220 738*
- other	*6 850 042*	*6 850 252*

end of 2009

	Carrying amount	Fair value
Loans and receivables to other banks and to customers, of which:	**26 071 225**	**25 920 467**
- Loans and advances to retail customers, of which:	9 532 651	9 381 893
- mortgages	*5 846 276*	*5 846 276*
- Small Business	*1 470 003*	*1 470 003*
- other	*2 216 372*	*2 065 614*
- Loans and advances to corporate customers, of which:	16 538 574	16 538 574
- strategic clients	*7 236 419*	*7 236 419*
- other	*9 302 155*	*9 302 155*
Deposits of other banks and customers, of which:	**47 393 908**	**47 398 334**
- deposits of retails customers	32 920 147	32 924 573
- deposits of corporate customers, of which:	14 473 761	14 473 761
- strategic clients	*8 114 507*	*8 114 507*
- other	*6 359 254*	*6 359 254*

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

42. Custody activities

As at 31 Dec 2010 Group parent company maintained 3,042 (3,302 as at 31 Dec 2009) customer accounts used to hold customers securities. The accounts do not meet the definition of assets and are not recognised in the consolidated financial statements of the Group.

As at the end of 2010 Group parent company was the depository bank for 105 investment funds and 1 employee pension fund (as at 31 Dec 2009 respectively 97 and 1).

As at 31 Dec 2010 Group parent company co-operated with 29 Polish brokerage houses (26 as at 31 Dec 2009).

43. Operating leases

Group as a lessee

The Group cooperates with ING Car Lease Sp. z o.o. in respect to car leasing and fleet management. The Group also incurs costs due to lease of dwelling units, which is recognised as operating leasing. Those agreements do not provide for any contingent fees to be paid by the lessee; no constraints arise from the provisions of the lease agreements. In some cases the agreements provide for the possibility of prolonging the agreement, using the possibility of purchase or price change.

Lease payments by maturity are disclosed in the table below:

	end of 2010	end of 2009
up to 1 year	106 272	128 577
over 1 year and up to 5 years	176 447	231 717
over 5 years – annual payment amount	27 602	30 668

Group as a lessor

The Group earns income from renting investment real estate. Those agreements are treated as operating lease agreements. Those agreements do not provide for any contingent fees to be paid by the lessee; no constraints arise from the provisions of the lease agreements. In some cases the agreements provide for the possibility of prolonging the agreement or changing the price; however they do not provide for the possibility of purchase.

Lease payments by maturity are disclosed in the table below:

	end of 2010	end of 2009
up to 1 year	7 830	17 624
over 1 year and up to 5 years	36 736	27 863
over 5 years – annual payment amount	11 976	0

Lease payments include only the rent for the building of the Head Office of ING Bank Śląski S.A.. They do not include any payments due to the rent of parking spaces, additional rent for investment outlays, or fees for services and electric energy.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

44. Cash and cash equivalents

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

	end of 2010	end of 2009
Cash in hand *(*presented in note 15)	713 331	716 809
Balances with the Central Bank (presented in note 15)	1 680 865	1 939 784
Current accounts in other banks (presented in note 20.1)	375 718	356 981
Overnight deposits in other banks (presented in note 20.1)	303 348	0
Other receivables (presented in note 20.1)	46 354	34 351
Total	**3 119 616**	**3 047 925**

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

Operating activities include core activities of the Group, not classified as investment or financial activities.

Investment activity involves purchase and disposal of shares in subordinate units, intangible assets, property plant and equipment, purchase and redemption of financial assets held-to-maturity. Furthermore, inflows from investment activity also include dividends received from the shares held in other entities.

Financial activities refer to long-term financial operations (over 1 year) with financial entities. Inflows from financial activities indicate sources of financing of the Group, including for example long-term loans and advances from other banks, as well as financial entities other than banks. Outflows from financial activities refer mainly to repayment of long-term liabilities (e.g. received loans) by the Group and payment of dividends to the owners and other outflows due to profit distribution. The Group did not report any cash flows due to financial activity either in 2010 or in 2009.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

46. The reasons for differences between changes in certain items recognised in consolidated statement of financial position and in consolidated cash flow statement

The reason for differences between changes recognised in statement of financial position and in cash flow statement are as follows:

1) Changes in the individual assets and liabilities were adjusted with interest disclosed in the position "Interest received/ paid".
2) Change in the receivables being an equivalent of cash (current accounts and O/N deposits at other banks) was excluded from the position "Change in loans and other receivables to other banks"; it was disclosed in the position "Net increase / decrease in cash and cash equivalents".
3) "Change in available-for-sale financial assets" does not account for the part of financial assets valuation that was carried through equity (revaluation reserve from measurement of available-for-sale financial assets).
4) In the position "Change in available-for-sale financial assets" and "Changes in loans and other receivables to customers" disclosed reclassification debt securities from category assets for sale to category loans and receivables.
5) In the position "Change in liabilities due to other banks", a change in the amounts due to the Central Bank was recognised.

end of 2010

	changes						
	in statement of financial position	in cash flow statement	*differences of which:*	*1)*	*2)*	*3)*	*4)*
- Change in loans and other receivables to other banks	2 998	329 920	*326 922*	*-7 265*	*334 187*		
- Change in financial assets at fair value through profit or loss	7 608 055	7 563 511	*-44 544*	*-44 544*			
- Change in available-for-sale financial assets	-9 952 926	-9 918 531	*34 395*	*24 426*		*10 759*	*-790*
- Change in loans and other receivables to customers	-3 916 205	-3 916 084	*121*	*121*			
- Change in liabilities due to other banks	65 325	66 853	*1 528*	*1 528*			
- Change in liabilities due to customers	-184 604	-250 022	*-65 418*	*-65 418*			

end of 2009

	changes						
	in statement of financial position	in cash flow statement	*differences of which:*	*1)*	*2)*	*3)*	*5)*
- Change in loans and other receivables to other banks	6 603 122	4 133 359	*-2 469 763*	*-96 902*	*-2 372 861*		
- Change in financial assets at fair value through profit or loss	2 281 158	2 188 274	*-92 884*	*-92 884*			
- Change in available-for-sale financial assets	3 903 215	3 924 854	*21 639*	*-77 959*		*99 598*	
- Change in loans and other receivables to customers	-4 849 955	-4 865 995	*-16 040*	*-16 040*			
- Change in liabilities due to other banks	-2 087 082	-8 044 178	*-5 957 096*	*-24 980*			*-5 932 116*
- Change in liabilities due to customers	517 755	557 200	*39 445*	*39 445*			

47. Related entities

Subsidiaries and Related Entities of ING Bank Śląski:

- ING Securities S.A.,
- ING Bank Hipoteczny S.A.,
- Centrum Banku Śląskiego (CBS) Sp. z o.o.,
- Solver Sp. z o.o.,
- ING Powszechne Towarzystwo Emerytalne S.A.

as part of their business hold current accounts at ING Bank Śląski, via which they perform standard clearing operations and also invest cash funds using term deposits. Furthermore ING Bank Hipoteczny took loans from ING Bank Śląski. Similarly, ING Bank Śląski maintains bank accounts of other members of ING Group, for instance ING Lease (Poland), ING Car Lease and ING Real Estate. The transactions with the above entities are performed on an arm's length basis.

ING Bank Śląski performs operations with ING Bank NV and its subsidiaries on the inter-bank market. These are both short-term deposits and loans, as well as operations in derivatives. The abovementioned transactions are carried out on an arm's length basis.

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

In the period 1.01.2010 – 31.12.2010 the following transactions were made of the total value exceeding EURO 500.000:

- in connection with execution of the Co-operation Agreement concluded by ING Bank Śląski S.A. and ING Bank NV the remuneration for the services provided as to financial consulting in 12 months of 2010 amounted to PLN 52.9 million versus PLN 43.3 million in the analogical period of the previous year (net amounts). Following the implementation of the agreement for provision of data processing and financial information analysis services, concluded by and between ING Bank Śląski S.A. and ING Bank NV, the fee for data processing and financial information analysis services used by ING Bank Śląski amounted to PLN 12.3 million versus PLN 12.6 million in the analogical period of the previous year (net amounts).
- ING Services Polska provides services to ING Bank Śląski with regard to lease of hardware resources. The costs of service were PLN 35.1 million versus PLN 27.7 million in the analogical period of the previous year (gross amounts).
- ING Bank Śląski made a transaction with ING Lease due to sublease of functional rooms totalling PLN 16.8 million versus PLN 18.4 million in the analogical period of the previous year (gross amounts).
- ING Bank Śląski co-operates with ING Car Lease as to leasing of cars and management of car fleet. The derivative amount of payment was PLN 16.6 million in 12 months of 2010 versus PLN 13.4 million in the analogical period of the previous year (gross amounts).

Transactions with related entities (in PLN thousands)

31.12.2010

	Parent company	Other ING Group entities	Associated undertakings*
Receivables			
Deposits placed	677 292	-	-
Nostro accounts	45 578	3 968	-
Loans	-	1 746 285	-
Other receivables	44 984	3 216	-
Liabilities			
Deposits received	2 778 947	316 719	75 566
Loro accounts	15 360	3 510	-
Repo	657 776	-	-
Other liabilities	13 540	40	-
Off-balance-sheet operations			
Contingent liabilities	205 998	844 804	15
FX transactions	2 808 232	557 681	-
Forward transactions	35 212	130 450	-
IRS	48 029 776	6 359 734	-
FRA	474 910	-	-
Options	244 452	911 516	-
Revenue and costs**			
Revenue	-55 555	60 452	-4 783
Costs	65 955	41 342	-

31.12.2009

	Parent company	Other ING Group entities	Associated undertakings*
Receivables			
Deposits placed	564 712	2	-
Nostro accounts	44 866	-	-
Loans	-	1 491 241	-
Other receivables	8 251	1 392	-
Liabilities			
Deposits received	331 321	784 219	23 236
Loro accounts	14 992	300 417	-
Repo	3 241 530	-	-
Other liabilities	10 515	170	-
Off-balance-sheet operations			
Contingent liabilities	47 882	1 083 691	-
FX transactions	9 641 495	3 894 773	-
Forward transactions	1 439 112	537 181	-
IRS	15 575 585	5 158 435	-
Options	812 007	2 673 739	-
Revenue and costs**			
Revenue	-9 370	95 824	-1 210
Costs	57 817	64 289	-

**/ Includes transactions between ING Bank Śląski S.A. affiliates of ING Bank Śląski S.A. Group.*

***/ Revenues and costs are presented in the uniform setting as in the financial statements. The revenues include, among others, the result on valuation of derivatives.*

48. Transactions with the management staff and employees

Employees of the ING Bank Śląski S.A. Group are granted loans on the same terms and conditions as the customers of the Bank (no preferential loans for employees exist). Loans for employees disclosed in the amount of loans for customers as of 31.12.2010 amounted to PLN 110,065 thousand (without loans from the In-House Social Benefits Fund). As at 31.12.2009, their value amounted to PLN 82,512 thousand.

Granting of a loan, cash advance, bank guarantee and surety for the Bank's management staff members is regulated in a separate procedure and monitored in accordance with the Ordinance of the President of ING Bank Śląski S.A.

The financial statements for 2010 contain the loans, cash advances, bank guarantees and sureties for the Bank's management staff (within the meaning of Article 79 of the Banking Law) amounting to PLN 34,629 thousand. As at 31.12.2009, their value amounted to PLN 29,765 thousand.

The employees may use various forms of social assistance within the framework of Internal Social Benefit Funds established in the entities of the Group. The balance of money advances granted from the Internal Social Benefit Funds as of 31.12.2010 amounts to PLN 13,585 thousand versus 15,106 thousand as at 31.12.2009.

The balance of the In-house Social Benefits Fund as at 31.12.2010 was PLN 3,965 thousand versus PLN 4,736 thousand as at 31.12.2009.

Remuneration paid to the Members of the Management Board and Supervisory Board of ING Bank Śląski S.A.

Remuneration to the Members of the Management Board (in PLN thousand)

	2010	2009
Remuneration and bonuses	7 725	8 031
Benefits	3 773	1 906
TOTAL	**11 498**	**9 937**

The total amount of remuneration and bonuses paid or due for 2010 presented above constitutes the gross amount of remuneration paid or due and payable for the period from January to December 2010.

The members of the Management Board have signed non-competition agreements after they stop holding their function on the Bank's Management Board. In the event that a Management Board is not renominated for another term of office or is recalled from his/ her function, he or she is entitled to severance pay. Information on allowances owing to the Management Board Members is contained in their employment contracts and shall be paid only in case of termination of the employment contract by the Bank due to other reasons than those giving rise to termination without notice.

Remuneration paid to the Members of the Supervisory Board of ING Bank Śląski S.A. (in PLN thousand)

	2010	2009
Remuneration and bonuses	500	580
Benefits	0	0
TOTAL	**500**	**580**

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

Among members of the Supervisory Board of the Bank Mr. Wojciech Popiołek held shares of ING Bank Śląski S.A. in the number of 6 shares. The other members of the Bank Management Board and the Bank Supervisory Board did not hold any shares of ING Bank Śląski S.A.

49. Headcount

The headcount in the Capital Group was as follows:

Headcount	31.12.2010	31.12.2009
Individuals	8 472	8 291
FTEs	8 332,3	8 146,6

50. Events after the balance sheet date

None.

51. Changes to the Business Entity / Capital Group Structure

In 12 months 2010 the Group's structure did not change.

52. Approval of the report

These annual consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 1st January 2010 to 31st December 2010 has been approved by the Bank Management Board on 1st March 2011.

Risk Management in Capital Group of ING Bank Śląski S.A.

All of the Group's operations involve the analysis, assessment and management of certain types of risk or their combination. The most important types of risk generated by financial assets include: the credit risk, liquidity risk and market risk that incorporates the FX risk, interest rate risk and pricing risk. Presented below is a description of management of all the risk types that are significant from the Group's perspective.

I. Credit Risk Management

1. Definition of Credit Risk

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

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

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

- risk identification and assessment,
- risk measurement and monitoring,
- risk mitigation and prevention,
- development of tools supporting risk identification and measurement,
- provisioning policy.

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

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Maximum exposure to credit risk

	31 Dec 2010	31 Dec 2009
Loans and receivables to other banks	1 181 105	1 184 103
Financial assets measured at fair value through profit and loss	659 606	8 267 661
Valuation of derivatives	1 158 897	1 566 652
Investments	23 006 812	14 166 281
Derivative hedge instruments	104 796	90 444
Loans and receivables to customers	34 508 999	30 592 794
Receivables presented in other assets	83 007	83 125
Off-balance sheet liabilities granted, including:	14 545 891	14 096 703
- credit card limits	*653 355*	*679 304*
- unutilised credit lines	*9 820 649*	*8 782 256*
- unutilised overdraft facilities	*1 029 607*	*1 973 490*
- guarantees	*2 869 088*	*2 241 017*
- letters of credit	*173 192*	*135 606*
- third-party deposits	*0*	*285 030*
Total	**75 249 113**	**70 047 763**

2. Organisational Structure of Risk Management

For credit risk management, the organisational structure of the Group parent company (Bank) includes the following organisational units:

- Supervisory Board of the Bank,
- Management Board of the Bank together with the Credit Policy Committee that approve certain internal credit risk-related normative acts as part of their powers,
- Credit Policy, Procedures and Strategic Projects Department,
- Risk Modelling, Monitoring and Reporting Department,
- Transactions Management and Approval Strategic Clients and Country Risk Management Department,
- Transaction Approval and Management for North Department
- Transaction Approval and Management for South Department
- Retail Credit Risk Management Department,
- Monitoring and Collection Department,
- Credit Restructuring Department,
- Credit Risk Inspection Department,
- Operational units and credit analysts,
- Internal Audit Department.

The mission of these units is to ensure proper balance between the commercial objectives of the Group and a risk appetite level that is acceptable for the Group, while taking account of the existing economic environment.

This objective is achieved by taking the following actions:

- developing the principles of credit policy, as well as processes and procedures for acceptance of the permissible credit risk level towards entrepreneurs and business partners; supporting the development of tools for risk identification and measurement; enforcing the implementation of credit decisions; establishing provisions for credit risk, and initiating changes that may be necessary to manage the credit process,
- conducting credit analysis and taking credit decisions,
- raising the level of credit- and counterparty risk awareness among the Bank's employees in order to mitigate those risks,
- managing problem loans to minimize the risk and losses of the Bank,
- conducting an independent and objective assessment of the effectiveness, appropriateness and efficiency of the Bank's internal audit system, while ensuring the identification of weaknesses or gaps in its organisation and functioning.

The commercial functions are separated from the functions assessing the transaction- and client risk (the four-eye control principles).

Presented below in more detail are the roles and responsibilities of the individual organisational units involved in the credit risk management process at ING Bank Śląski S.A.

2.1 Supervisory Board

The Supervisory Board assess on a periodic basis the accomplishment by the Management Board of the Bank's credit risk management assumptions and strategy.

2.2 Management Board

The Management Board of ING Bank Śląski S.A.:

- approves the Credit Policy that defines the strategic approach to credit risk and the acceptable risk level,
- appoints and approves the composition of the Credit Policy Committee through which it ensures ongoing oversight of the credit risk management process,
- provides periodic reports, at least once a year, to the Bank's Supervisory Board regarding the risk level and profile, as well as amendments to the Credit Policy,
- promotes implementation and execution of the Credit Policy by actions taken by the individual members of the Management Board in charge of their respective subordinate areas; among the members of the Management Board, there is a Chief Risk Officer who oversees the credit- and market risk management,
- reviews the efficiency of methods used for identifying impaired credit exposures and defining the related write-offs; assesses the adequacy and sensitivity of the methods to changes of external conditions,
- reviews the processes and the methods of monitoring the quality of credit exposures.

2.3 Committees

The following permanent committees are in place at the Bank and their powers include the credit risk areas:

- Credit Policy Committee (or KPK) whose key objective is to oversee the implementation and control the adherence of the organisational units of ING Bank Śląski S.A. to the "Credit Policy Rules",
- Credit Committees:
  - of ING Bank Śląski S.A. (the Bank Credit Committee),
  - the Restructuring Committee.

In the strategic clients area decisions are taken by two individuals authorised by the KPK.

2.4 Credit and Market Risk Management Division

There is a separate division for the credit- and market risk management in the organisational structure of the Bank.

The mission of the Credit and Market Risk Management Division is to maintain an adequate level of the credit- and market risk at the Bank. The division is headed by the Bank Executive Director subordinated and reporting to the Chief Risk Officer.

The Bank Executive Director (Division Director) oversees, among other things, departments whose function includes system management of the Bank's corporate credit risk.

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

Within the above departments, there are units/ teams responsible for the policy and procedures, examination and modelling of the credit risk, as well as the monitoring and reporting of the credit risk of the portfolio.

The tasks of the individual Departments involved in the credit risk management process are as follows:

2.5 Credit Policy, Procedures and Strategic Projects Policy Department

- to develop effective systems for credit risk management by maintenance and expansion of the credit policy principles and description of processes and procedures in order to ensure a proper balance between the current commercial objectives of the Bank and the adequate awareness level/ risk appetite level, while taking account of the market conditions in Poland,
- to ensure effective functioning of the risk area and process, in line with the current conditions, by management, participation in projects, modelling the organisation, review of processes, reacting to the needs of the front office, operations, implementation of the requests of the Bank Management Board and ING Group Head Office.

2.6 Risk Modelling, Monitoring and Reporting Department

- to define and produce management reporting in the risk area,
- to support the management of the client and counterparty credit risk and the transaction risk by developing tools used for the risk identification and measurement, monitoring and reporting in respect of the credit portfolio quality, making recommendations concerning the provisions for credit risk; supporting the units managing the client and counterparty credit risk and the transaction risk in regard to the legal and administration items.

2.7 Transactions Management and Approval Strategic Clients and Country Risk Management Department, Transaction Approval and Management for North Department/ Transaction Approval and Management for South Department

- to manage the credit risk related to client funding by providing advice in respect of the risk in the process of taking credit decisions, executing credit decisions, recommending required changes in the credit process management,
- to supply important data for the credit policy principles as well as processes and procedures in order to accept the acceptable level of the wholesale client risk,
- to raise the level of credit- and counterparty risk awareness among the Bank's employees in order to mitigate those risks,
- to recommend the level of provisions and necessary changes in the management of credit processes and defining products and credit policy in order to mitigate the risk.

2.8 Retail Credit Risk Management Department

- managing the credit risk via: measurement of risk level, defining the criteria of risk acceptance, monitoring the quality of credit portfolio, evaluating potential losses, recommending the financial provisions and necessary changes in managing the credit process, definitions of products, credit policy having in view decreasing the risk,
- valuing current and expected risk level for fixing the risk appetite,
- development and up-dating calculation models of credit capacity,
- initiating the preparing and up-dating of statistic acceptance models (scoring cards for retail credits) and its implementation,
- creating and implementing the impairment rules,
- increasing, among Bank employees, credit risk consciousness, possibilities and methods of its reducing.

2.9 Monitoring and Collection Departament

- collection of the delinquent retail loans to minimize credit risk and losses for all retail segments by conducting collection actions for delinquent customers,
- cooperation with Retail Credit Risk Management to identify adverse trends and non-performing segments in retail asset portfolios,
- supervision of outsourced collection entities and legal agencies.

2.10 Credit Restructuring Department

- to manage problem (wholesale) loans aimed at minimisation of risk and losses for the Bank, resulting from the irregular portfolio, including:
  - restructuring of the biggest irregular exposures,
  - comprehensive debt collection,
- to cooperate with the Regional Risk Management Sections (WZR) and Front Office units in respect of restructuring of problem loans,
- to exercise functional supervision over the Regional Risk Management Sections (WZR) in respect for restructuring of problem loans,
- to set policies related to problem loans management in order to mitigate risk and reduce losses,
- to estimate loan loss provisions for the biggest impaired exposures.

2.11 Credit Risk Inspection Department

- to verify on a regular basis the credit documentation and assess the functioning of the credit process at ING Bank Śląski S.A. at the front-office and back-office levels (the ability to recommend changes to the existing policies and processes to the Credit Policy Committee),
- to analyse selected loans and adequacy of local Risk Management during regular inspections at the Bank organisational units,
- to identify potentially problematic areas and respond to the signals coming from the organisation,
- to control the adherence to the transaction approval criteria, the process of loan disbursement; behaviour patters / statistics regarding repayments, statistics of overdue repayments, adequacy of monitoring of exposures and risk categories and correctness of the credit data entered in the IT system and debt collection.

2.12 Operational Units and Credit Analysts

They represent expert knowledge on the risk characteristics of clients.

2.13 Internal Audit Department (IAD)

The key mission of IAD is to provide the Bank Management Board with an independent and objective assessment of the appropriateness and efficiency of the Bank's internal audit system, ensuring the identification of weaknesses or gaps in its organisation and functioning.

The Internal Audit Department carries out regular audits of the Corporate Governance Model, credit risk policy and procedures. Its observations (together with the proposed changes to the policy and procedures) are then translated into a plan of actions that need to be taken before approval by the Credit Policy Committee.

The predominant objective of IAD is to identify the risks existing in the Bank's operations and to assess and propose actions enhancing control and management of those risks. By its activities, IAD contributes to improving the organisation and management of the Bank and to accomplishing the objectives set by the Bank.

The scope of IAD operations covers the whole business operations conducted by ING Bank Śląski S.A., all of its organisational cells and units, as well as the organisational units of the capital group of ING Bank Śląski S.A.

3. Credit Decision – Making Process

Decision-taking powers in the individual credit cases (credit committees at different levels) are separated from the decisions concerning the credit policy and risk management.

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

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

The delegated authority level is co-related with the level of credit risk arising from the client risk and from the transaction risk. As the credit risk rises, the decisions are taken by collective individuals who – by their nature – have more extensive experience, and thus the ability of broad and thorough risk identification.

Decision-taking level for credit decisions concerning regular credit exposures is determined based on the client's risk grade and the following elements:

- the total exposure of ING Group towards the debtor and the members of the capital group (within Article 3 paragraph 1 item 44 of the Accounting Act of 29 September 1994) of which the debtor is also the member, as well as entities related to the debtor by personal ties by spouses (only when the Bank funds an entrepreneur who is a private individual),
- the subject matter of the credit decision in question.

4. Management of corporate credit risk approach

4.1. Reviews and Credit Risk Rating

Commercial functions who grant credits are separated from the process of transaction- and client risk rating (four-eye control principle). Credit risk is rated (by the Risk Manager) based on the principle of separation from the commercial functions (Relationship Manager).

The following parties are involved in the process of risk rating: Rating Owner (Relationship Manager) and Risk Manager.

The Rating Owner inputs the financial data related to the client and has exclusive responsibility for the correctness of the risk rating, including Review.

There is only one owner of a borrower's risk rating. The risk management unit responsible for restructuring and debt collection becomes a rating owner for borrowers rated 18 to 22.

The final rating is determined by the Risk Manager, or by the Appeal Judge if an appeal has been made.

The Risk Manager is responsible for:

- verifying that the appropriate rating model has been used for the borrower,
- verifying that financial and non-financial data entered are correct,
- challenging unaudited financial data,
- finalizing the rating.

The outcomes of specific models may be subjects to arbitrary adjustments in that the ultimate rating grades are determined as part of the appeal process.

A one notch difference (positive or negative) between the rating calculated by the rating model and the view of the appellant (the person initiating an appeal) is sufficient to start a rating appeal.

Reasons for a rating appeal are for example:

- the rating model is not appropriate for the borrower,
- circumstances that may not (yet) be captured by the rating model but which are likely to have a (usually negative) effect on the borrower's PD, especially if:
  - borrower has or is expected to default on any financial obligation to any party,
  - major disruption of activities,
  - change in legislation that will seriously impact the financial performance.

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

4.2. Frequency of Risk Rating Reviews and Updates (if any)

Only the Rating Owner can review the risk rating. The following rules will apply to rating reviews:

- a risk rating must be reviewed at least annually; a risk rating is considered overdue after 12 months from the last approval date of the risk rating,
- the Rating Owner should take appropriate action to either review or cancel the risk rating if the Bank has terminated the relationship with the Borrower and no credit risk remains; the Rating Owner should perform an interim re-rating when the value of one or more risk drivers has materially changed; events that could cause a consideration for a re-rating are for example a change of risk rating of the influencing parent or a change of any of the qualitative risk drivers,
- without a review till the end of 18 months from the last approval date of the risk rating, a risk rating will automatically expire (not applicable for irregular borrowers whose ratings do not expire).

4.3. Concentration Limits

To mitigate the concentration risk, the Group parent company (Bank) observes the following exposure concentration limits as defined in Article 71 of the Banking Law Act:

- 20% of the Bank's own funds – for exposures to entities related to the Bank,
- 25% of the Bank's own funds – for exposures to other entities,
- 800% of the Bank's own funds – for the aggregate amount of the Bank's "large" exposures, i.e. exposures exceeding 10% of the Bank's own funds.

Furthermore, in keeping with the statutory rules and recommendations of the Banking Regulator, the Bank sets internal concentration limits for exposures to specific sectors, the collaterals accepted, and it monitors on a regular basis the concentration levels in the geographical areas of its operations (the Regions).

The Bank sets the statutory concentration limits on a monthly basis. Based on the data verified, the Bank prepares a report covering the up-to-date balance of the Bank's own funds and the individual statutory limits. The report is then distributed among the Bank units concerned, including among others: the Corporate Banking Centres, the Regional Branches, the departments of the Credit Division, Risk Division and the Internal Audit Department. The Regional Branches redistribute the report among their respective subordinate units.

The Bank monitors the utilisation of limits by preparing a specification of clients and groups of related clients, and by comparing their existing exposure to the current limits.

On the operational level, the control of concentration limits is performed during the writing of credit applications, approving specific transactions and periodic reviews.

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

	Exposure In PLN million	
	31 Dec 2010	**31 Dec 2009**
Bank's own funds	***4 441 144***	***3 855 389***
Client 1 (Group)	2 523.3	3 193.7
Client 2	1 046.3	-
Client 3 (Group)	972.4	-
Client 4 (Group)	913.9	-
Client 5	853.8	633.7
Client 6 (Group)	743.9	506.2
Client 7	700.8	630.4
Client 8 (Group)	680.2	486.8
Client 9 (Group)	466.9	-

To avoid excessive credit risk concentration in the sectors, the Bank monitors the exposures in the individual economy sectors. Based on analyses, the Bank sets the desired directions where its exposure should increase, and the sectors with unfavourable development perspectives in which the exposure should be lowered.

The above tasks also include among other things the determination of limits for groups of sectors with a material share in the Bank's portfolio, i.e. whose total share in the entire credit portfolio is around 60%, and the individual share of a given sector in the corporate portfolio is in excess of 5%. Limits for the individual sectors are determined by the Credit Policy Committee.

Industry concentration of exposures to corporate clients

industry	exposure (on-balance and off-balance)			
	31 Dec 2010		31 Dec 2009	
	exposure in PLN million	*share in total exposure (%)*	*exposure in PLN million*	*share in total exposure (%)*
wholesale trade	4 729.6	15.2%	3 931.3	14.0%
financial intermediation (including banks)	3 975.8	12.7%	3 818.6	13.6%
public administration and national defense	3 196.9	10.2%	2 344.1	8.4%
constructions industry	1 855.8	5.9%	1 555.7	5.6%
remaining services connected with running business	1 826.7	5.9%	1 403.9	5.0%
retail trade	1 674.7	5.4%	1 568.4	5.6%
real estate services	1 385.5	4.4%	1 432.7	5.1%
foodstuff and beverage production	1 372.2	4.4%	1 265.2	4.5%
power industry	860.9	2.8%	1 047.3	3.7%
mechanical vehicles sale, repair and service	752.6	2.4%	683.6	2.4%
remaining non-metal raw materials industries	708.9	2.3%	543.0	1.9%
ready-made metal goods production	688.2	2.2%	672.0	2.4%
engineering industry	664.1	2.1%	678.1	2.4%
chemicals and chemical goods production	559.7	1.8%	457.4	1.6%
post office and telecommunications	551.9	1.8%	607.2	2.2%
rubber industry	536.8	1.7%	609.4	2.2%
fuel industry	515.2	1.7%	500.1	1.8%
metals productions	443.5	1.4%	330.5	1.2%
auxiliary service for transportation	388.0	1.2%	384.0	1.4%
agriculture, forestry, fishery	349.4	1.1%	331.9	1.2%
other	4 168.5	13.4%	3 847.5	13.8%
Total	**31 204.9**	**100.0%**	**28 011.9**	**100.0%**

Exposure concentration in the geographical areas is monitored according to the regional division into the branch network. A 20% limit of the Bank's total portfolio is adopted for controlling concentration at the level of Regions. Exceeding this limit may trigger setting a geographical limit.

However, since geographical concentration is minor and does not increase the credit risk, so far there has been no need for ING Bank Śląski to set geographical limits.

Considering the potential risk level, the Bank introduced limits for mortgage loans in accordance with Recommendation S of the Banking Supervision Commission for the following types of facilities:

- loans with low down-payment (insured),
- newly granted loans indexed to foreign exchange rate,
- loans secured with mortgage,
- housing loans.

Adherence to the statutory and internal concentration standards is the subject of a monthly risk report distributed among the Management Board, Credit Policy Committee and Regional Managers. The report is also presented to the Supervisory Board of the Bank on a periodic basis.

Both over the year 2010 and 2009, the exposure concentration limits were not overrun.

4.4. Repayment Security and Other Forms of Credit Risk Mitigation

Even though repayment security is a major factor that allows the Group to mitigate the lending risk, it is the Group's policy to extend loans in amounts and on terms that allow for regular repayment without the need to recover the receivables by liquidating the security.

The Group accepts all types of repayment security permitted by the law; however, the choice in specific cases is conditioned by various factors, including in particular:

- the client's ability to offer specific types of security,
- the type and duration of exposure,
- the level of client's risk,
- the level of transaction's risk,
- the liquidity of security offered (the ability to cash it easily),
- the collateral value.

The *Collateral Policy* of the Group parent company (Bank) covers, among others, the following areas:

- indications of the criteria for accepting the collateral in the capital requirement for credit risk calculation process,
- setting the general rules for the Bank when choosing the collateral forms, inclusive of the acceptable credit risk level,
- adjustment to the collateral-related procedures to the requirements of the new LGD models that are in harmony with the advanced internal ratings' method (the so-called AIRB).

Moreover the Collateral Policy of the Bank takes into account in particular those aspects of the Resolution No. 76/2010 which concern the application of LGD models, legal reliability of security and its monitoring.

The LGD models developed for corporate assets are based on statistically estimated recovery ratios for specific groups of security. The estimations are based on an analysis of historical recovery processes at the Bank. The rates of recover for specific types of security determine their fair value.

The recovery rate for a specific type of security depends on the character of the security item, the legal form of the security and the efficiency of the security liquidation process. The final level of the recovery is also influenced by the costs of debt-collection and the costs of keeping a classified exposure in the Bank's books (until the debt is recovered or cancelled).

Apart from the classic types of security (tangible and personal), the Bank also applies additional instruments to mitigate the risk of loss, namely additional covenants in loan agreements. As part of the basic or standard covenants, the Bank applies protective and financial clauses. The scope of the covenant or combination of covenants to be applied depends on: the term, type of lending product, the specific organisational and legal form or the business objects of the borrower, the risk rating of the client. By including certain covenants in the credit agreements, the Bank is sometimes able to give up some or all of the repayment security.

The structure of individual security types is diversified.

The following types of collateral have the biggest share:

- suretyships and corporate guarantees – there are guarantors from different industry sectors with different economic and financial standing within this group. Therefore, there is no significant risk in terms of concentration. In case of assuming a specific recovery ratio from collateral, greater than 0%, it is necessary to examine the economic and financial standing of the guarantor and determine the risk rating as investment or speculative.

- mortgages – this is due to the fact that mortgages usually secure long-term investment loans. Furthermore, mortgages are the main security for loans to finance commercial real estate.

4.5. Exposure Classification Methodology

Credit Impairment Recognition

The events that provide the basis for credit impairment recognition are the events that occurred in respect of a certain asset or a group of assets and that affected in a negative manner the amount of expected cash flows. The Group parent company (Bank) adopted the following list of impairment events for corporate credit receivables:

- bankruptcy / threat of bankruptcy: the Borrower was announced or will soon be announced bankrupt (whether by the Bank, by third party or on its own initiative), which will result in failure to repay or delay in repayment;
- default in repayment: the Borrower stopped to repay the principal or interest / commission and the said default lasts:
  - for corporate clients (apart from financial institutions) – above 90 days;
  - for financial institutions and government authorities – 0 days or more; however, in that case a 14-day explanation term is applied to determine whether the default in payment is caused by deterioration of the financial institution's credit standing or operational reasons. Default in payment for operational reasons is not considered an impairment event.
- the Bank assesses that the borrower will face difficulty in repaying the debt: the Borrower has such material financial problems that they can be of a negative impact (probability of at least 50%) on future cash flows under a given credit receivable (the 1Y perspective is considered in the assessment);
- credit receivable restructuring not resulting for commercial reasons: due to the borrower's financial problems, the Bank restructured the credit exposure, by granting facilities and exceptions to the borrower, which resulted in reduction of the present value of expected future cash flows from the credit receivable below its balance value.

The case where occurrence of at least one of the aforementioned events is declared stands for appearance of impairment.

Customer Risk Class Determination in case of regular portfolio

Each entity with the Bank's credit exposure must have a rating assigned as is used in a standard manner at the Bank. Determination of the customer risk class forms an integral part of the Bank's credit risk evaluation process for corporate clients.

For entrepreneurs' exposures, the Bank uses a 22 grade rating, employed throughout ING Group. Its classes present the debtor-related risk. The customer is assigned to a given risk class based on the:

- financial model, using the data from the debtors' financial reports,
- evaluation of qualitative factors,

– financial standing of the parent company.

Investment Grade 1-10

Investment grade comprises the entities which we assess as encumbered with a relatively low risk; however, in making risk classification, we take account of the threats arising from economic and business conditions.

Speculative Grade 11-17

It is a group of a relatively large bucket of risk levels, and thus the characteristics of extreme classes within this group varies considerably. In general, we may say that:

– the entities from top classes under this group are fulfilling their financial obligations at present, however the debt cover ratio (principal and interest) over a longer term is not certain, and thus the safety margin is limited; there is real threat of credit risk growth due to unfavourable business or economic conditions;
– the borrowers assigned to the top risk classes (the worst classes from that group) can be characterised by uncertain income perspectives, worse quality of assets and over a longer term the risk of equity mismatch and possibility of loss occurrence.

Problem Loan Grade 18-22

This risk group comprises the Borrowers who showed explicit symptoms of problems with debt service or who are in the default situation.

Borrowers from this risk group are rated only by risk units managing a given client exposure.

For:

– strategic clients - the global ING Group PD model is applied – the debtor is assigned to one of 17 corporate client risk classes in the brackets from 1 to 17,
– corporate clients - the local SME PD model is applied – the debtor is assigned to one of 9 corporate client risk classes in the brackets from 9 to 17.

Corporate Credit Risk Management Tools

In 2007-2010 Bank initiated number of activities within credit risk management area aiming at implementation of KNF resolution 76/2010 regarding scope and detailed requirements of capital requirement calculations. KNF resolution is implementation of CRD directive regarding capital adequacy in line with New Capital Accord. Following the ING Group's decision to implement the Advanced Internal Rating Based Approach (or AIRB), the Bank prepared and implemented local and global models for basic risk parameters:

– PD (probability of default),
– LGD (loss given default),
– EAD (exposure at default)

for various classes of assets in line with AIRB.

Implementation of A-IRB metod for corporate portfolio is planned once approval of KNF is granted.

Among others, the Bank uses the following rating models for corporate exposure classes:

- For local segment of Strategic clients recognised as customers with annual revenues above EUR 100 million
  - Global risk rating model (statistical PD model), based on the global ING Group approach,
  - Global LGD and EAD models (hybrid statistical-expert models), built on the ING Group level.
- For local segments of Mid-sized and Big companies (SME asset class) with annual revenues from EUR 800 thousand to EUR 100 million:
  - Local PD rating model (so-called CEE SME PD) – which is used in Middle-East Europe countries,
  - Local LGD and EAD models (hybrid statistical-expert models), built in the Bank on the basis of internal data and ING Group's methodology.

Besides above, the Bank uses also global models for exposures to banks and other financial institutions and to sovereigns and local governments.

The models are employed to calculate the economic capital allowing its level to be optimised. They contribute to a better quantification of the credit risk for the Bank's portfolio. It is on their basis that the provisions under IFRS, the efficiency of Bank's performance (RAROC, economic profit, goodwill management) and credit prices are estimated, among other positions.

While employing the risk models, the Bank makes use of advanced IT systems supporting the client and transaction risk rating process. An integrated ING Group's environment is the primary IT tool used to manage credit risk. As this tool combines all applications needed to fully meet the New Capital Accord requirements, it enables the Bank to manage risk effectively not only on the Bank's Branch level, but also on the level of individual relationship manager's portfolio.

Credit quality of corporate cliens' credit portfolio that is neither past due nor impaired

risk rating	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	*off-balance*	*on-balance*	*off-balance*
03	0.0	215.1	0.0	180.8
04	0.0	5.5	1 675.2	1 106.1
05	1 976.9	917.8	0.5	3.0
06	254.9	19.1	823.2	212.8
07	2 553.3	1 367.4	184.2	59.8
08	614.4	700.0	1 543.7	1 137.8
09	395.1	1 017.6	1 066.1	657.2
10	1 874.8	2 504.3	1 914.4	1 762.8
11	2 063.8	2 239.1	1 675.5	1 961.8
12	1 423.7	1 156.9	1 248.3	1 183.2
13	2 334.8	1 500.5	2 152.8	1 351.1
14	1 380.4	309.4	984.4	450.9
15	1 299.7	549.2	1 361.9	396.8
16	346.5	105.8	541.5	203.1
17	267.1	124.0	563.5	166.8
18	157.5	14.1	66.4	11.1
19	185.9	41.5	342.4	70.9
Total	**17 128.8**	**12 787.3**	**16 144.0**	**10 916.0**

Analysis of the age of corporate cliens' credit portfolio that is past due as at the end of reporting period but not impaired

number of days overdue	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	*off-balance*	*on-balance*	*off-balance*
1-30	30.0	1.3	30.8	17.2
31-60	36.9	0.0	9.8	3.0
61-90	5.4	0.0	5.9	0.1
91-180	0.3	0.0	17.4	1.5
181-365	0.1	0.0	3.2	0.0
>365	3.8	0.0	0.5	0.0
Total	**76.5**	**1.3**	**67.6**	**21.8**

Credit exposure to corporate clients by risk grades

risk rating	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	*off-balance*	*on-balance*	*off-balance*
03	0.0	215.1	0.0	180.8
04	0.0	5.5	1 675.2	1 106.1
05	1 976.9	917.8	0.5	3.0
06	254.9	19.1	824.9	212.8
07	2 553.3	1 367.4	184.2	59.8
08	618.7	700.0	1 545.7	1 137.8
09	395.1	1 017.6	1 069.6	658.1
10	1 874.9	2 504.5	1 914.5	1 766.0
11	2 066.8	2 239.3	1 675.7	1 965.1
12	1 424.8	1 156.9	1 249.8	1 183.5
13	2 352.8	1 501.4	2 162.1	1 353.4
14	1 400.8	309.4	987.8	452.4
15	1 303.7	549.2	1 370.7	397.0
16	350.1	105.8	547.5	204.5
17	267.7	124.0	565.0	167.3
18	158.4	14.1	66.4	11.1
19	206.4	41.5	372.0	79.1
20	658.5	26.5	429.4	52.6
21	2.4	0.0	5.5	0.0
22	520.4	3.2	370.5	4.5
Total	**18 386.6**	**12 818.3**	**17 017.0**	**10 994.9**

Credit exposures to corporate clients by overdue days

number of days overdue	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	17 587.6	12 817.0	16 437.1	10 973.1
1-30	36.7	1.3	77.6	17.2
31-60	64.5	0.0	13.7	3.0
61-90	21.5	0.0	21.1	0.1
91-180	35.7	0.0	117.8	1.5
181-365	84.2	0.0	153.9	0.0
>365	556.4	0.0	195.8	0.0
Total	**18 386.6**	**12 818.3**	**17 017.0**	**10 994.9**

Exposure toward corporate customers rated 01-19 is covered by Incurred But Not Reported (IBNR) provisions. Exposure toward rating 20-22 is covered by Individually Significant Financial Assets (ISFA) or Individually Non-Significant Financial Assets (INSFA) provisions.

Credit exposure to corporate clients under IBNR (Incurred But Not Reported) impairment provisions by risk grades

risk rating	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	_off-balance_	_on-balance_	_off-balance_
03	0.0	215.1	0.0	180.8
04	0.0	5.5	1 675.2	1 106.1
05	1 976.9	917.8	0.5	3.0
06	254.9	19.1	824.9	212.8
07	2 553.3	1 367.4	184.2	59.8
08	618.7	700.0	1 545.7	1 137.8
09	395.1	1 017.6	1 069.6	658.1
10	1 874.9	2 504.5	1 914.5	1 766.0
11	2 066.8	2 239.3	1 675.7	1 965.1
12	1 424.8	1 156.9	1 249.8	1 183.5
13	2 352.8	1 501.4	2 162.1	1 353.4
14	1 400.8	309.4	987.8	452.4
15	1 303.7	549.2	1 370.7	397.0
16	350.1	105.8	547.5	204.5
17	267.7	124.0	565.0	167.3
18	158.4	14.1	66.4	11.1
19	206.4	41.5	372.0	79.1
Total	**17 205.3**	**12 788.6**	**16 211.6**	**10 937.8**

Credit exposure to corporate clients under IBNR (Incurred But Not Reported) impairment provisions by overdue days

number of days overdue	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	_off-balance_	_on-balance_	_off-balance_
0	17 128.8	12 787.3	16 144.0	10 916.0
1-30	30.0	1.3	30.8	17.2
31-60	36.9	0.0	9.8	3.0
61-90	5.4	0.0	5.9	0.1
91-180	0.3	0.0	17.4	1.5
181-365	0.1	0.0	3.2	0.0
>365	3.8	0.0	0.5	0.0
Total	**17 205.3**	**12 788.6**	**16 211.6**	**10 937.8**

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

risk rating	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	*off-balance*	*on-balance*	*off-balance*
20	628.9	23.7	408.6	51.3
21	1.2	0.0	3.9	0.0
22	428.3	1.0	319.4	2.5
Total	**1 058.4**	**24.7**	**731.9**	**53.8**

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

number of days overdue	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	454.0	24.7	286.2	53.8
1-30	6.4	0.0	46.4	0.0
31-60	24.9	0.0	0.3	0.0
61-90	14.7	0.0	15.2	0.0
91-180	28.9	0.0	88.4	0.0
181-365	65.0	0.0	135.5	0.0
>365	464.5	0.0	159.9	0.0
Total	**1 058.4**	**24.7**	**731.9**	**53.8**

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

risk rating	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	*off-balance*	*on-balance*	*off-balance*
20	29.6	2.8	20.8	1.3
21	1.2	0.0	1.6	0.0
22	92.1	2.2	51.1	2.0
Total	**122.9**	**5.0**	**73.5**	**3.3**

Credit exposure to corporate clients under INSFA (Individually Non-Significant Financial Asset) impairment provision by overdue days

number of days overdue	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	4.8	5.0	6.9	3.3
1-30	0.3	0.0	0.4	0.0
31-60	2.7	0.0	3.6	0.0
61-90	1.4	0.0	0.0	0.0
91-180	6.5	0.0	12.0	0.0
181-365	19.1	0.0	15.2	0.0
>365	88.1	0.0	35.4	0.0
Total	**122.9**	**5.0**	**73.5**	**3.3**

4.6. Restructuring of credit exposures

In some cases, the Group parent company (Bank) will work with an obligor and its other creditors (if any) to restructure the obligor's business and its financial obligations in order to minimize any financial losses to the creditors as a whole, and Bank in particular. This can be accomplished through many means available to the creditors, the most common of which are:

- – extending the repayment period,
- – selling assets,
- – selling business lines of the obligor,
- – forgoing part of the financial obligations,
- – a combination of the above.

The decision to enter into such a restructuring is done only after careful internal assessment and approval by the appropriate (internal) delegated authorities. Once a restructuring is completed, the obligor is again subject to normal credit risk monitoring procedures.

During the year 2010 Bank restructured performing loans totalling PLN 274.9 million, that we believe would have become impaired if we had not restructured them.

Credit exposure to corporate clients without loss that would become loss exposures once restructuring occurred

exposure in PLN million	
31 Dec 2010	31 Dec 2009
274.9	116.0

5. Management of retail credit risk approach

The Group parent company (Bank) regards all the retail receivables (from individual and small business clients) as individually non-significant as well as calculates and makes relevant charges and provisions pursuant to the collective approach.

The expert methodology for estimation of charges and provisions, inclusive of parameters used for their calculation, is admissible if one of the following prerequisites arises:

- the portfolio size and age and/or number of cases subject to impairment in the period under analysis is not sufficient for statistical or mathematical estimation,
- the data quality is insufficient for adequate estimation of charges or provisions,
- an essential change took place in the Bank's economic environment, level of risk appetite, strategies adopted for receivables recovery,
- adopted statistical or mathematical methods of estimation do not correspond to the regulatory requirements or those set by ING Group.

The justification behind the expert methodology and assessment of its results is verified separately for each case and is subject to approval by the Credit Policy Committee. The same principles are applied for the use of data and observations obtained from other institutions, inclusive of the data source acceptance.

Loan impairment triggers

- the Borrower has stopped repaying the principal or interest/ commission and the delay in repayment continues over 90 days. In case of overdraft facilities (personal accounts and current accounts of small business clients) this condition is applicable only for exposures over PLN 200;
- with regard to consumer loans: the Borrower (individual) has exposures other than the exposure in question, which demonstrate the premises of impartment under item 1 and all these exposures belong to the group of consumer loans (non-housing/ mortgage);
- with regard to housing/mortgage loans: the Borrower (individual) has exposures other than the exposure in question, which demonstrate the premises of impartment under item 1 and all these exposures belong to the group of housing/mortgage loans (non-consumer);
- the Borrower (small business) has exposures other than the exposure in question, which demonstrate the premises of impartment under item 1;
- upon impairment the Borrower correctly services the debt; however, the period of correct service is shorter than 3 months (for debt overdue by no longer than 6 months);
- upon impairment the Borrower correctly services the debt; however, the period of correct service is shorter than 6 months (for debt overdue by longer than 6 months);
- the Borrower has been or will be declared bankrupt soon, which shall result in the failure to repay the debt or delay in its repayment (the premise applies in particular to the borrowers from small business segment);
- the credit agreement has been terminated;
- the credit receivables are covered with restructuring. Due to financial difficulties experienced by the borrower, the Bank restructured the credit exposure by providing the borrower with convenient solutions or concessions which result in reducing the current value of expected future cash flows due to the credit receivables to the level below the balance sheet value of these receivables. On the other hand, the revision of lending terms for commercial reasons (inclusive of interest rate change due to market conditions) does not constitute the premise for impairment. The restructuring principles and method of their treatment from the point of view of impairment charges (provisions) are determined by separate procedures.

The starting point for grouping exposures into portfolios pursuant to the collective approach are the principles introduced by the New Capital Accord (the so-called Basel II with appropriate modifications for impairment calculations), which distinguish three basic groups of retail products: renewable, mortgage and consumer loans. The risk drivers contingency within a group constitutes the basis for grouping. The product and its features function as the basic grouping criteria. Criteria of the premises for impairment based on the Basle concept of "default" derive from the product definition. Since the Bank applies the scoring cards (statistical acceptance models), the existing acceptance model constitutes an additional premise for grouping.

Additionally, the grouping is based on:

- type and definition of product,
- type of collateral,
- business positioning of product (e.g. separation of products not offered),
- other elements of acceptance model,
- organisation of credit process.

The separated portfolio should be characterised by a relevant number of cases to ensure the statistical recurrence of phenomena.

For each portfolio we distinguish:

- IBNR part,
- impaired part,
- impaired – non risk part, also referred to as the B portfolio (no further recovery expected).

The Bank applies the following criteria for distinguishing the B portfolio:

- the following period has passed since the impairment premises emergence: 24 months for the portfolio of consumer and small business loans, 36 months for housing loans,
- there are no premises of the debtor having either the income sufficient to repay arrears or assets from which the Bank could recover the receivables and there are no premises that this situation would change in foreseeable future,
- the debtor is covered with bankruptcy procedures and there are justified premises that the Bank shall not recover any amount or shall recover insignificant amounts within this process.

The collective approach to estimation and creation of charges (provisions) is based on the principles introduced by the New Capital Accord (so-called Basel II with appropriate modifications for the impairment calculation) and the concept of expected loss. In view of the fact that pursuant to IAS the provisions are established for the actually incurred loss and not the expected one, the Basel model parameters are subject to modification. The following parameters are used for calculating the provisions:

- PD, or probability of default by the client determined for each sub-portfolio of retail and Small Business receivables,
- LGD, or loss given default recorded for receivables as a result of their incomplete recovery, determined for each sub-portfolio of retail and Small Business receivables,
- EAD, or exposure at default – the amount of current balance sheet exposure increased by the balance sheet equivalents of unutilised credit lines.

The parameter modification derives from the fact that the Basel model defines the probability of expected loss in the period of next 12 months, whereas pursuant to IAS the provisions are established for actual losses. The modification is related to the period assumed for the loss to be recognised (revealed, identified).

PD parameter is modified based on the concept of emergence period, which generally is shorter than 12 months. The emergence period depends among others on the following factors:

– segment to which the borrower is classified,
– type of product.

Adjustment of PD to the IAS requirements consists in reducing the parameter's time horizon and pushing it closer to the current balance sheet date.

For the retail and small business portfolio, the PD definition for product groups is based on the estimation of probability for one of the following cases:

– the Borrower has stopped repaying the principal or interest for longer than 90 days;
– the Borrower will be declared bankrupt (applicable to Small Business);
– the credit agreement is terminated;
– the receivables will be subject to restructuring,

PD calculated in this manner is mapped (allocated) to individual rating grades.

According to Basel II, LGD parameter signifies the loss to be incurred by the Bank at a given credit exposure in case of the borrower's solvency. LGD is given as a percentage of the exposure at the moment of the borrower becoming insolvent (EAD). LGD is a derivative of the adopted legal collateral, i.e. type of collateral and its value (liquidation).

LGD for the retail portfolio is calculated based on the quotient of discounted cash flows on account as of the impairment till the report date and the sum of principal and interest due at the moment of impairment.

The LGD parameter calculated in this manner is adjusted by the estimated debt collection costs that the Bank will have to incur due to the collateral liquidation.

Cash flows upon the impairment date are discounted with interest rate adopted for the entire portfolio.

EAD in the Basel Model stands for the value of credit exposure that shall arise in case of the client's insolvency. In calculation of the expected loss pursuant to Basel II, EAD means the sum of current balance sheet exposure and statistically estimated part of the off balance sheet exposure that the client shall draw by the insolvency date.

For needs of IAS, EAD at the client's level is a current balance sheet exposure at the balance sheet date, increased by the balance sheet equivalents of current off balance sheet items.

The provisions value depends on the amount of exposure as well as PD and LGD parameters (PD for the impaired portfolio is 100% and LGD for the B portfolio is 100 %).

Credit quality of retail cliens' credit portfolio that is neither past due nor impaired

risk rating	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	*off-balance*	*on-balance*	*off-balance*
08	27.0	128.4	0.0	0.0
09	8 294.4	829.8	0.0	0.1
10	466.0	340.8	5 921.7	386.7
11	256.9	147.7	9.1	0.8
12	803.9	197.3	451.2	1 296.9
13	547.2	49.8	2 297.3	616.3
14	565.7	137.2	114.1	111.2
15	606.1	527.6	291.9	568.9
16	89.4	39.4	1.5	0.1
17	38.2	4.6	1.3	0.4
18	12.9	2.1	0.2	0.0
19	12.7	1.6	0.0	0.1
Total	**11 720.4**	**2 406.3**	**9 088.3**	**2 981.5**

Analysis of the age of retail cliens' credit portfolio that is past due as at the end of reporting period but not impaired

number of days overdue	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	*off-balance*	*on-balance*	*off-balance*
1-30	346.0	16.7	314.6	27.5
31-60	76.1	2.7	55.4	5.6
61-90	20.1	0.4	15.2	1.0
Total	**442.2**	**19.8**	**385.2**	**34.1**

Credit exposure to retail clients by overdue days

number of days overdue	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	11 760.1	2 414.0	9 113.6	2 986.3
1-30	359.3	17.0	326.5	27.7
31-60	84.2	2.8	62.9	5.8
61-90	27.8	0.5	21.5	1.1
91-120	15.1	0.1	16.4	0.7
121-150	16.2	0.2	11.9	0.2
151-180	11.7	0.0	11.7	0.0
>180	241.2	0.1	139.5	0.1
Total	**12 515.6**	**2 434.7**	**9 704.0**	**3 021.9**

Credit exposure to retail clients under IBNR (Incurred But Not Reported) impairment provision by overdue days

number of days overdue	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	11 720.4	2 406.3	9 088.3	2 981.5
1-30	346.0	16.7	314.6	27.5
31-60	76.1	2.7	55.4	5.6
61-90	20.1	0.4	15.2	1.0
Total	**12 162.6**	**2 426.1**	**9 473.5**	**3 015.6**

Credit exposure to retail clients under INSFA (Individually Non-Significant Financial Asset) impairment provision by overdue days

number of days overdue	exposure in PLN million			
	31 Dec 2010		31 Dec 2009	
	on-balance	*off-balance*	*on-balance*	*off-balance*
<90	68.8	8.2	51.0	5.3
91-120	15.1	0.1	16.4	0.7
121-150	16.2	0.2	11.9	0.2
151-180	11.7	0.0	11.7	0.0
>180	241.2	0.1	139.5	0.1
Total	**353.0**	**8.6**	**230.5**	**6.3**

6. Compliance Reviews

The basic compliance reviews in the credit risk management area are performed by:

- Credit Risk Inspection Department,
- Internal Audit Department,

in the scope defined under items 2.11 and 2.13.

7. Management of Credit Risk of the Group Companies

The ING Bank Śląski Group comprises the following entities:
Subsidiaries:

- ING Bank Hipoteczny S.A. (100% of shares),
- ING Securities S.A. – the company began its operations in 1996 as Dom Maklerski Banku Śląskiego S.A. (100% of shares)
- Centrum Banku Śląskiego Sp. z o.o. (100% of shares),
- Solver sp. z o.o. (82,3% of shares).

Affiliated entities:

- ING Powszechne Towarzystwo Emerytalne S.A. (20% of shares)

In view of the character of operations, the credit risk management is applicable to the following entities from the Group: ING Bank Hipoteczny S.A. and ING Securities S.A. Risk management is realised in line with the ING Group standards in terms of structure and processes (tools) to ensure realization of business targets from risk point of view.

8. Identification of Credit Risk Connected with Derivatives

Each client concluding a derivative transaction with the Group parent company (Bank) must be assigned a relevant transaction limit by the Bank. The transaction limits are assigned pursuant to the credit procedures and authorities binding in the Bank, as for all other credit exposures.

ACR system (Adaptiv Credit Risk) is used to monitor the risk connected with transactions concluded by the Bank's counterparties. ACR is a global system, used by the entire ING Group in which all the FM ("Financial Markets") limits and transactions concluded by dealers are registered.

The transactions that generate risk on the counterparty's side (settlement and pre-settlement risk), and that are input to the Bank systems, require registration in ACR.

The risk connected with the Treasury Department products, such as derivatives, deposits and transactions in securities, is monitored online at the Bank.

From the perspective of risk measurement, it may be divided into:

- pre-settlement – arising for FX and derivative transactions as well as transactions in securities as a result of exchanging the transaction on the market at a potentially unfavourable price,
- credit risk – connected with placing money on the market (deposits).

Pre-settlement Risk

The pre-settlement risk derives from a breach of transaction terms by the Counterparty, before its settlement, which makes necessary to exchange this transaction with a transaction with another Counterparty, according to the market price (potentially unfavourable).

To control the Counterparty's risk, not only the cost of exchange in case of breach is determined (current market value "MtM"), but also the growth of MtM during the transaction duration.

Since the financial markets are not fully predictable and one cannot be 100% sure about the set maximum MtM, the statistical models are used to define the level of trust. Pursuant to the policy of ING Group, this trust level is 97.5%.

Money Market Risk

The Money Market Risk arises when the Bank places deposits with another counterparty (bank). The Bank loses funds in case of terms being breached by the counterparty. Due to this, the risk is measured simply as the deposit face value.

Settlement Risk

The settlement risk is a risk at which the counterparty will not deliver the assets that they are obliged to deliver due to the transaction settlement and the Bank may lose up to 100% of the expected value. This risk arises when the exchange of value is to take place (funds or other instruments) on the same or different delivery date and this delivery is unchecked or expected till the moment when the Bank delivers an irrevocable instruction of payment or the Bank has paid itself or delivered its part of the liability deriving from the transaction.

Some products always generate the settlement risk, some never do, and there are also such products for which the occurrence of this risk is connected with the mechanism of settlements. The settlement risk always arises when the transaction involves a bilateral exchange of funds/ securities but this exchange is not made on the DVP basis (Delivery Versus Payment).

Risk Connected with Securities Purchase/ Sales

The risk connected with securities purchase/sales emerges when the exchange of funds into securities does not take place on the DVP basis. Then the settlement risk arises on the day of transaction settlement, unless the settlement is made in such a way that the Bank can control the transactions so as not to allow the flow of funds/ securities before confirming the obligation execution by the Counterparty.

Risk Weights

Risk Weights used to monitor the utilisation of individual limits are defined for single products, currencies and transaction duration at the level of ING Group. Risk Weights constitute an estimation of the potential future exposure (PFE) for the "at-the-money" contract, as a part of the transaction face value in the period of time remaining till its settlement.

Pre-settlement risk at the transaction level is calculated as:

Pre-settlement risk = Market Value + Face Value x Risk Weight,

where risk weight is based on the period of time remaining till the transaction settlement.

Risk weights are "used" by ACR system to monitor the level of the counterparty limits utilisation.

The portfolio of transactions concluded with the Bank's counterparties, covered by ACR (unsettled transactions), is as follows (all data in EUR million):

	31 Dec 2010	**31 Dec 2009**
Money Market	171.6	204.9
MtM	303.4*	423.0*
Present Value + FM Value	983.6	1 501.4

** Gross amount - transactions where the Bank is "at-the-money" only.*

Credit risk connected with derivative instruments

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

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

Valuation adjustment of unmatured derivatives with Group's customers for 2010 was amounted to PLN +0.8 million (against PLN -185.9 million in 2009) and was presented in the consolidated financial statements in *Net income on instruments measured at fair value through profit and loss and FX result*.

In addition, for transactions matured or terminated and unsettled as at the balance sheet date, the Group made charges using the methodology for assessing the risk of impaired loans. In the year 2010 the net impairment losses amounted to PLN 25.3 million (against PLN 115.2 million in 2009) and was included in the consolidated financial statements as *Impairment losses and provisions for off-balance sheet liabilities*.

The item *Loans and receivables to customers* in the consolidated statement of financial position presents receivables resulting from restructuring of derivative transactions made by the Group with customers. The due amounts equaled to PLN 359.3 million as at 31 Dec 2010 against PLN 346.1 million as at 31 Dec 2009. The carrying value of impairment losses connected with transactions on derivatives amounted to PLN 288.2 million as at 31 Dec 2010 against PLN 263.2 million as at 31 Dec 2009.

II. Market Risk Management

1. General Information

The main goals of Market Risk Management in ING Bank Śląski are to ensure that the Bank's exposure to market risk is understood, properly managed, and - where applicable - within approved limits.

The Bank defines market risk as the potential loss due to unfavourable changes in market prices (e.g. yields, FX rates, equity prices, etc.) and/or market parameters (e.g. volatility of market prices and the correlation between moves in market prices) and/or customer behaviour (e.g. early loan repayments).

The market risk management process within the Bank covers the identification, measurement, monitoring and reporting of risk. The MRM department provides FM Management, selected Board and ALCO Committee members with regular risk updates. Additionally ALCO, Management Board and Supervisory Board receive periodic updates containing the most important market risk metrics. The MRM department is staffed with trained specialists and the independence of this department is ensured by its separation from the Bank units which generate market risk. An important consultative role in the market risk management process is performed by the Bank's majority shareholder – ING Bank NV.

The market risk management process in the Bank also includes the Product Control function which assures correctness of Financial Markets products valuation. It covers independent assessment (comparison to market) of revaluation prices and parameters used for fair market value calculation and proper P&L and valuation reporting in financial system. Decisions about issues related to valuation process e.g. sources of market data used, pricing model reserves calculation etc. are taken by the Parameters Committee which is chaired by Product Control and also includes representatives from the Financial Markets and Finance divisions.

The management of market risk in the Bank is primarily focused on potential changes in the economic result of the Bank (i.e. changes in the present value of expected future cash flows) but attention is also paid to cases where – due to accounting asymmetries – the effect of market rate changes on reported financial results is different from the effect of such changes on economic results.

2. Bank's Book Structure in Context of Market Risk Management

The Bank maintains an intention-based book structure which drives many processes, including the management of market risk. The book structure reflects what kind of market risk is expected and acceptable in different parts of the Bank and where market risk should be internally transferred/hedged within the Bank. Specifically, books are categorized based on intention as *"trading"* (positions taken in expectation of short-term financial gain from market movements) or *"banking"* (all other positions). A high-level view of the Bank's book structure is as follows:

Whole Bank
|___ Trading Books
|___ Banking Books
|___Commercial Banking Books
|___ FM Banking Books

Trading Books

These are Financial Markets ("FM") books (FX, FX Options and Interest Rate Trading) and ING Securities (the Bank's brokerage house) - equity market-making and arbitrage activities (reported under FM structure). These books include positions held intentionally for short-term resale and/or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits, and include, for example, proprietary positions, positions arising from client servicing and/or market making. The market risks of open positions in trading books are limited by various Trading VaR limits or - for the equity market-making and arbitrage activities of ING Securities - volume limits.

Commercial Banking Books

These are Retail and Wholesale Banking books containing commercial loans and deposits. The risk of these positions is internally hedged as well as possible to FM Banking books via internal contracts, which ensures that these books do not contain material levels of economic market risk. However, as described later in more detail, the short-term financial results of these books _are_ sensitive to changes in market rates. The commercial activities of the subsidiaries belong to the commercial banking books except the trading portfolio of ING Securities.

FM Banking Books

These are Liquidity Management & Funding ("LMF") and ALM ("ALM") books. Their primary responsibility is the liquidity and interest rate management of the positions of Commercial Banking Books. Open positions are allowed within approved VaR limits. Like in Commercial Banking Books, there is usually a difference between the sensitivity of economic and financial results to changes in market rates.

3. Approach to market risk management in subsidiaries

It is the policy of ING Bank Śląski S.A. for its subsidiaries to maintain market risk at low levels. The main categories of market risk which can arise as a result of subsidiaries' activities are Foreign Exchange risk and Interest Rate risk. This policy is ensured by periodic measurements and monitoring of the market risks of the bank's subsidiaries. The Management Board, ALCO Committee, Market Risk Management Department and Accounting Department and subsidiaries are involved in the management risk process. One of the major element of the management risk process on the capital group of ING Bank Śląski level is the determination of the limits constrain the risk of each subsidiaries and on the capital group level. The market risk is measured by the same techniques and methods as in the ING Bank Śląski. According to bank's policy the monitoring of the level of market risks and the comparison of these risks to low limits are done on monthly basis.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

4. Value at Risk ("VaR") Concept

The Value at Risk (VaR) is the main methodology used to calculate market risk in FM books, both "Trading" and "Banking". The VaR gives the potential loss that is expected not to be exceeded assuming certain confidence (probability) level. The Bank calculates VaR separately for individual interest rate, FX and FX options portfolios. The following assumptions for VaR calculation are taken: 99% confidence interval and 250 daily market observations are used for volatility and correlation calculation. The VaR measurements done by the Bank are performed in accordance to ING Group standards and market best practice. The VaR model accuracy for "Trading" books is checked in daily back-testing process. P&L figures, both "actual" and "hypothetical or theoretical P&L" (change in end-of-day market value of the positions in a trading portfolio over 1 day, so excluding all intra-day activities that occurred during that day) are compared to the VaR. Any model outliers (large positive and all negative) are investigated and explained.

Event VaR ("stress-tests")

The Bank is aware that normal VaR does not present a full picture of market risk of a portfolio as it does not give an indication of potential losses in extreme cases. Therefore event risk (stress testing) calculations are performed. They cover evaluation of the Bank portfolios against a number of stress scenarios for one or more of the market parameters that determine the value of the portfolios. The worst result from the scenarios is reported as the final event VaR number.

Trading Books Market Risk (VaR statistics)*

VaR numbers in 2010 (in PLN)

Area	Limit	As at 31 Dec 2010	Average	Min	Max
Interest Rate	2 772 210	386 347	561 193	153 088	2 114 126
FX**	3 762 285	166 542	962 629	166 542	2 581 784
FX Options	2 772 210	1 837 579	903 122	224 240	2 586 397

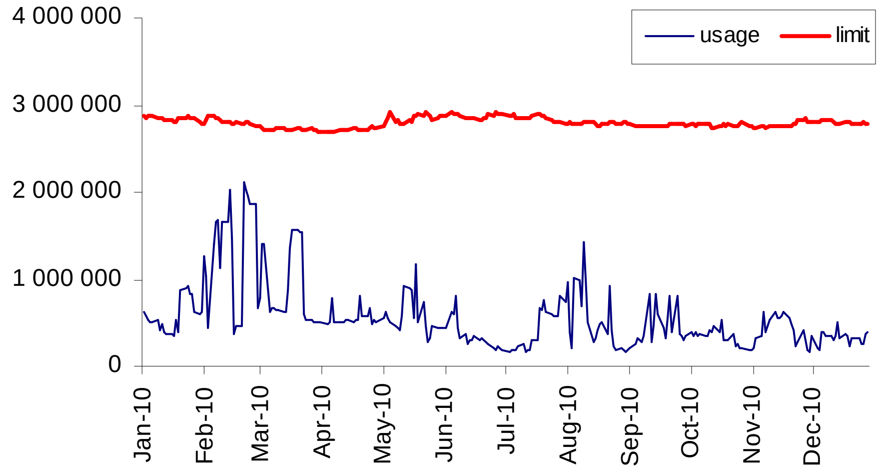
VaR numbers in 2009 (in PLN)

Area	Limit	As at 31 Dec 2009	Average	Min	Max
Interest Rate	2 875 740	611 103	1 272 290	355 128	2 988 384
FX**	3 902 790	2 304 084	1 637 085	382 250	2 907 889
FX Options	2 875 740	2 041 775	2 183 906	947 185	9 003 821

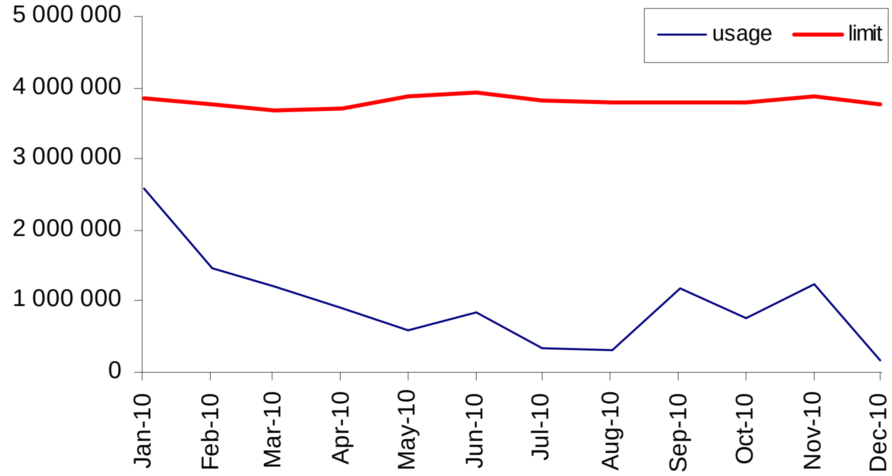
** All VaR limits and their usage in ING Bank Śląski are denominated in EUR. Limit levels and their usage in tables and graphs for the purpose of this document were converted into PLN using daily NBP fixing rate, in column "Limit" numbers are presented using end of year fixing*

*** including subsidiaries, based on monthly measurement*

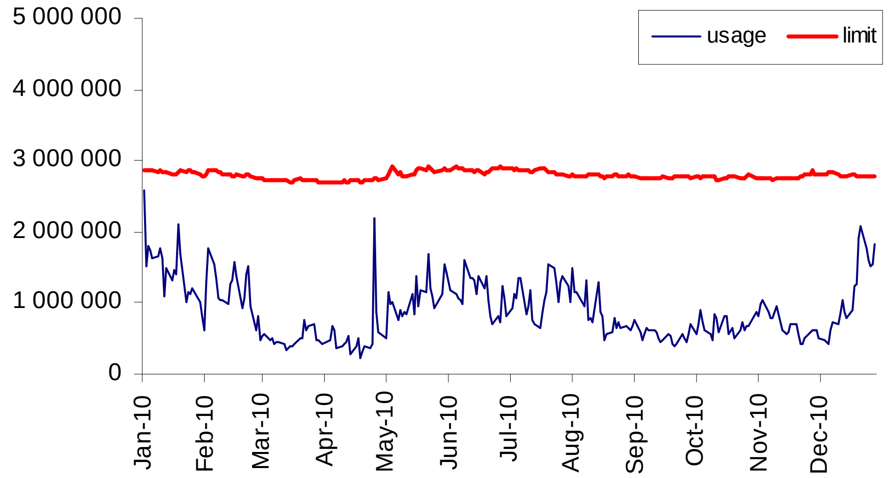
Interest Rate VaR (PLN)



FX VaR (PLN)



FX Options VaR (PLN)



Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Financial Markets kept their trading exposures at reasonable levels comparing to limits. The average usage of limits in 2010 was respectively: 20% for Interest rate trading, 23% for FX Spot and 32% for FX options. The barrier options portfolio decreased substantially during the year as a result of restructuring process, maturing options and limited demand from customers. No VaR limit breaches within trading portfolio were reported in 2010.

Financial Markets Banking Books Market Risk (VaR statistics)*

VaR numbers in 2010 (in PLN)

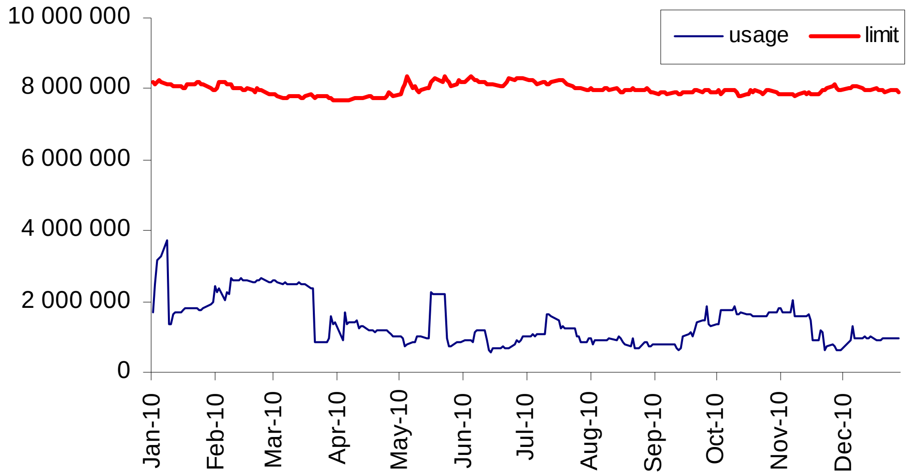
Area	Limit	As at 31 Dec 2010	Average	Min	Max
LMF&ALM	7 920 600	958 666	1 398 735	569 828	3 707 821
LMF	3 960 300	298 828	527 352	173 773	1 001 139
ALM	3 960 300	905 645	1 240 212	310 833	3 782 829

VaR numbers in 2009 (in PLN)

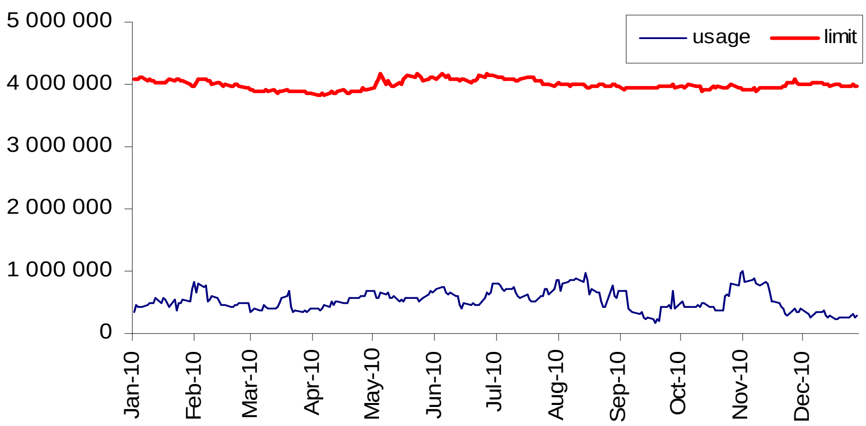
Area	Limit	As at 31 Dec 2009	Average	Min	Max
LMF&ALM	8 216 400	1 480 961	4 015 884	1 230 129	8 924 716
LMF	4 108 200	591 112	1 815 380	337 441	3 979 647
ALM	4 108 200	1 478 217	2 829 741	873 076	5 854 087

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

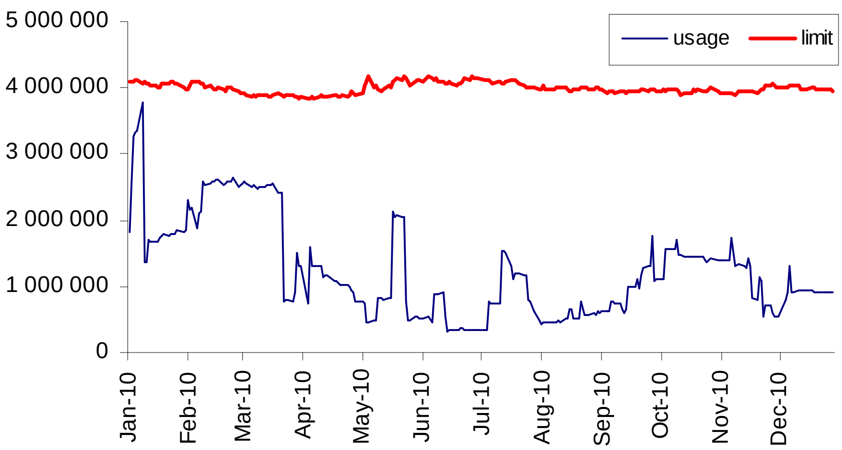
LMF & ALM VaR (PLN)



LMF VaR (PLN)



ALM VaR (PLN)



Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Financial Markets kept their exposures in banking book at reasonable levels comparing to limits. The average usage of limits in 2010 was respectively: 18% for FM banking combined, 13% for LMF and 30% for ALM. No VaR limit breaches within banking portfolio were reported in 2010.

Non Financial Markes Banking Books VaR statistics*

VaR numbers in 2010 (in PLN)

Area	Limit	As at 31 Dec 2010	Average	Min	Max
Interest rate	792 060	134 809	112 224	63 791	141 757

VaR numbers in 2009 (in PLN)

Area	Limit	As at 31 Dec 2009	Average	Min	Max
Interest rate	821 640	82 854	118 494	65 372	184 974

** including subsidiary positions*

Commercial Banking Books Market Risk

As these books are materially hedged against changes in economic results, the main indication of the interest rate exposure of Commercial Banking books are Earnings at Risk “EaR” measurements (results of these measurements are presented later in the interest rate sensitivity analysis tables). The positions in Commercial Banking books are also subject to measurements of non-linear interest rate risk. Specifically, the Bank measures optionality risk (the potential losses on these positions given early-withdrawal of deposits and/or early re-payment of loans) and basis risk (the potential losses on these positions arising from non-standard rate-setting mechanisms). The Bank is of the opinion that both of these risks are not material (potential losses typically represent a very small share of historical or projected results).

5. Earnings at Risk (EAR) Concept

EaR measurements are used for the banking book positions which are accrual-accounted. Two approaches are used, as detailed below; both approaches cover a 1-year time horizon and provide the possible changes in accrual results given shock changes of +/-1% and +/-2%. The two approaches taken are as follows:

– A “basic” approach is used for positions comprised of term transactions and/or small volumes of demand positions. This approach assumes that any future funding gaps or surpluses will be financed or invested with a tenor of one month.
– An “advanced” approach is used for material volumes of demand positions. At present it is the Bank’s PLN demand deposit base and its internal investment into FM banking books. The measurements simulate the changes in the Bank’s results coming from the combination of:
    - Current (internal) investment of these funds and replenishment of these investments as previous investments mature and/or new volumes are attracted. Future (re-) investments are predicted based on continued use of current investment rules.

- An assessment of the relation between changes in market rates and the rates that the Bank must pay its clients in order to maintain volumes.

Overall Interest Rate Sensitivity

The following tables provide a good overview of the sensitivity of the consolidated Bank to changes in interest rates. The first table shows the sensitivity of the Bank's results to changes in interest rates; the following should be noted:

– Positions are divided into banking book vs. trading book. Positions include all material currencies; PLN positions represent the vast majority of the interest rate sensitivity of the Bank.

– A basis point value ("BPV") is shown for each (sub-) position; by BPV we mean the change in the economic value of a position for a 0.01% parallel yield curve shift.

– Positions are further split where relevant by accounting method: accrual or MTM. MTM positions' economic and financial sensitivity to a given change in market rates is the same; changes in the market value are fully and immediately reflected in reported results. Accrual-accounted positions display an asymmetry between the economic and financial effect of a given yield curve shift; this is an unavoidable result of accounting regulations. The financial effects of yield curve shifts are calculated in line with the definition of EaR presented earlier. The "advanced" EaR approach is used for PLN demand deposits; the "basic" EaR approach is used for all other accrual-accounted positions. The economic result shown is the predicted change in the present value of future earnings, calculated over a long time horizon.

– As can be seen in the table in case of banking book there is a large difference between the economic and financial sensitivity. Although the bank is aware of the sensitivity of its short-term financial results to changes in interest rates, the most important metric is – in line with the ING Group's "Managing For Value" approach – the sensitivity of the long-term economic results of the bank.

The second table shows the sensitivity of the Bank's capital base to changes in the market value of debt securities classified as Available-for-Sale ("AFS") in FM (the vast majority of AFS-classified securities in the consolidated Bank). It is important to note that the potential changes in capital base shown here are relevant only for the Bank's *regulatory* capital base. The Bank's calculations of its *economic* capital base do not include positive or negative revaluations of AFS-classified debt securities. This is because AFS-classified debt securities positions largely arise from the investment of portions of PLN demand deposit volumes in line with the Bank's economic modelling of these demand deposits.

*Sensitivity of consolidated results to Changes in Interest Rates (all figures in PLN million)**

end of 2010

Book	Accounting Category	BPV	Change in Economic Result for Yield Curve Move				Change in Reported Financial Result for Yield Curve Move			
			-2%	-1%	1%	2%	-2%	-1%	1%	2%
BANKING	MTM	-0.13	21.46	11.26	-13.54	-27.17	21.46	11.26	-13.54	-27.17
	Accrual	0.54	-102.70	-53.05	53.04	104.29	142.95	75.34	-79.70	-159.39
	Total	0.40	-81.24	-41.78	39.50	77.12	164.41	86.61	-93.24	-186.56
TRADING	MTM	0.07	-13.60	-6.80	6.80	13.60	-13.60	-6.80	6.80	13.60
BANK TOTAL	MTM	-0.06	7.86	4.46	-6.74	-13.57	7.86	4.46	-6.74	-13.57
	Accrual	0.54	-102.70	-53.05	53.04	104.29	142.95	75.34	-79.70	-159.39
TOTAL		**0,47**	**-94.84**	**-48.58**	**46.30**	**90.72**	**150.81**	**79.81**	**-86.44**	**-172.96**

end of 2009

Book	Accounting Category	BPV	Change in Economic Result for Yield Curve Move				Change in Reported Financial Result for Yield Curve Move			
			-2%	-1%	1%	2%	-2%	-1%	1%	2%
BANKING	MTM	-0.10	29.09	12.66	-10.74	-22.14	29.09	12.66	-10.74	-22.14
	Accrual	1.01	-224.23	-108.40	97.78	190.16	204.60	102.30	-102.30	-204.60
	Total	0.90	-195.14	-95.74	87.04	168.01	233.69	114.96	-113.04	-226.74
TRADING	MTM	-0.003	0.57	0.29	-0.29	-0.57	0.57	0.29	-0.29	-0.57
BANK TOTAL	MTM	-0.10	29.66	12.95	-11.03	-22.71	29.66	12.95	-11.03	-22.71
	Accrual	1.01	-224.23	-108.40	97.78	190.16	204.60	102.30	-102.30	-204.60
TOTAL		**0,91**	**-194.57**	**-95.45**	**86.75**	**167.45**	**234.26**	**115.25**	**-113.33**	**-227.31**

* *including subsidiaries*

Sensitivity of Capital Accounts to Changes in Interest Rates (all figures in PLN million)

end of 2010

Position	BPV	Approximate Change in Regulatory Capital Base for Yield Curve Move			
		-2%	-1%	+1%	+2%
FM AFS Portfolio	-1.88	376.00	188.00	-188.00	-376.00
IRS classified to macro cash flow hedge portfolio	-1.08	215.39	107.70	-107.70	-215.39
TOTAL	**-2.96**	**591.39**	**295.70**	**-295.70**	**-591.39**

end of 2009

Position	BPV	Approximate Change in Regulatory Capital Base for Yield Curve Move			
		-2%	-1%	+1%	+2%
FM AFS Portfolio	-0.82	164.52	82.26	-82.26	-164.52
IRS classified to macro cash flow hedge portfolio	-0.39	77.36	38.68	-38.68	-77.36
TOTAL	**-1.21**	**241.89**	**120.94**	**-120.94**	**-241.89**

III. Liquidity Risk Management

Liquidity Risk is understood by ING Bank Śląski as the risk of not being able to meet at a reasonable price the cash obligations arising from on- and off-balance sheet positions. It is the policy of the Bank to maintain its liquidity positions in such a way that the cash obligations of the Bank may always be met by cash on hand, inflows from maturing transactions and/or from the liquidation of marketable assets.

This policy is ensured by the following processes, as defined in detail in the *ING Bank Śląski's Liquidity and Funding Policy:*

– production and review of internally-defined reports on liquidity, monitoring of funds concentration according to clients segment and products reports, adherence to any formal limits placed thereupon.
– existence of a clear governance structure assigning roles and responsibilities in normal and stressed liquidity circumstances.
– production and review of regulatory liquidity reports defined by the Polish and Dutch national Banks ("NBP", "DNB") and adherence to any formal limits placed thereupon.
– activities ensuring proper supply of banknotes at branches, and
– activation, in certain defined circumstances, of a contingency funding plan.

The existing *ING Bank Śląski's Liquidity and Funding Policy* was updated and widen based on:

– ALCO Committee's decisions regarding the following issues of liquidity risk:
    - to review of the contingency funding plan (CFP) to maintain liquidity,
    - to change the internal limit for the supervisory liquidity measure – M4,
    - to determine the level of liquidity buffer for short-term investments to keep the bank's liquidity at the good level,
    - to review the position of Financial Markets and Business in the report "Stress adjusted liquidity report";
    - to approve the model for the adjustments of the contractual liquidity for mortgages loans to define the "real life time " of mortgages due to prepayment or early repayment of mortgages
– new structural liquidity report, this report presents information about the mismatch between the future funds and investments, to show the long term liquidity profile.

The formal limits are placed by regulators or the Bank on the various reported metrics. ALCO may decide to include metrics in its KRI (Key Risk Indicators) report wherein liquidity metrics are classified as "acceptable", "under observation" or "not acceptable" based on pre-defined thresholds. The ALCO KRI report is also presented to the Bank's Management and Supervisory Boards.

In case of excesses of hard limits and/or KRI liquidity metrics classified as "unacceptable", the following actions are performed:

– MRM – with help from other departments as necessary – ensures that a real breach has occurred (and not a reporting error).
– MRM informs local and regional ALCO of the limit or KRI breach, the cause of the breach and proposed remedial actions.

– An ad hoc ALCO meeting is held to agree on remedial actions and responsibilities for carrying out these actions. Regional ALCO is informed of decisions taken.

One of the most important processes of the management liquidity risk is the contingency funding plan. The Bank's Contingency Funding Plan (CFP) serves to provide guidance as regards identifying a liquidity crisis and, in case such identification is made, as regards the actions to be taken to survive the crisis. The actions taken in line with the CFP depend on the nature and severity of the liquidity crisis.

The year 2010, was an important year for management of liquidity, taking into account the volatility international financial market situation, ongoing financial credit and sovereign debt crisis. It was an important year for a proper assessment of the Bank's liquidity and solvency situation and taking relevant decisions to reduce liquidity risk.

The Polish Financial Supervision Authority regulation requires banks to calculate the 4 liquidity measures: short term liquidity gap (minimum: zero), short term liquidity ratio (minimum amount: 1.00), own funds to non-liquid assets ratio (minimum amount: 1.00) and own funds and core deposits to non-liquid and semi-liquid assets ratio (minimum amount: 1.00). The bank is obliged to monitor the ratios above on daily basis and keep these ratios with limits predefined in the KNF regulation. In 2010 the bank kept all liquidity measures over their minimum amounts. As of 31 December 2010 liquidity measures of ING Bank Śląski amounted as follows:

Liquidity measurment		Minimum	Amounts 31.12.2010	Amounts 31.12.2009
M1	Short term liquidity gap (in PLN million)	0.00	13 345.07	11 396.65
M2	Short term liquidity ratio	1.00	1.72	1.43
M3	Own Funds to Non-Liquid Assets Ratio	1.00	5.01	3.71
M4	Own Funds and Core Deposits to Non-Liquid and Semi-Liquid Assets Ratio	1.00	1.57	1.80

It is worthwhile to expand on the internally-defined reports as this gives good insight into the Bank's approach to measuring and managing risk and these reports are the basis for the explanatory tables presented in this section.

The most important information from these internally-defined reports is presented below.

Liquidity Cash Profile

On the following pages the report of stress liquidity position as of the end of year 2010 and 2009 is presented.

The report is made in line with the Bank's Liquidity Risk Management policy. The main assumptions of this report are as follows:

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

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

end of 2010

	1 M	1- 3 M	3 - 12 M	Over 1Y
BALANCE-SHEET				
ASSETS				
- Securities	18 663.1	0.0	93.9	953.5
- Money market (given)	550.1	10.8	138.3	198.0
- Term/demand loans	3 227.9	1 178.6	2 959.3	22 671.2
- Other assets	272.0	0.0	0.0	1 541.6
LIABILITIES				
- Money market (taken)	1 822.1	551.1	1 129.5	198.0
- Term deposits	10 066.7	1 702.8	3 268.4	816.5
- Demand deposits	2 687.2	1 710.2	4 433.5	1 014.3
- Savings accounts retail	3 503.8	2 658.0	9 833.7	5 704.8
- Other liabilities	226.3	0.0	0.0	0.0
OFF BALANCE SHEET ITEMS				
ASSETS				
- FX SWAPS / CC-IRS	4 762.6	1 314.5	4 035.8	3 138.2
- Money market / depo strategic clients	29.0	0.0	0.0	0.0
- Repayment of contingent assets	2 539.0	154.4	415.0	1 837.9
LIABILITIES				
- FX SWAPS / CC-IRS	5 226.0	1 339.3	4 046.8	3 132.8
- Money market / depo strategic clients	29.0	0.0	0.0	0.0
- Funding of contingent assets	4 946.4	0.0	0.0	0.0
NET GAP	**1 536.3**	**-5 303.0**	**-15 069.7**	**19 474.1**
CUMULATIVE GAP	**1 536.3**	**-3 766.7**	**-18 836.4**	**637.7**

end of 2009

	1 M	1- 3 M	3 - 12 M	Over 1Y
BALANCE-SHEET				
ASSETS				
- Securities	21 904.1	0.0	209.3	626.7
- Money market (given)	991.7	73.9	51.3	332.3
- Term/demand loans	2 936.6	1 460.1	3 130.3	18 436.1
- Other assets	598.3	0.0	0.0	1 483.4
LIABILITIES				
- Money market (taken)	3 588.2	12.3	20.5	0.0
- Term deposits	10 405.9	4 921.7	3 082.1	1 633.9
- Demand deposits	1 778.4	2 203.7	3 987.9	913.1
- Savings accounts retail	2 185.0	3 003.9	8 281.1	4 804.1
- Other liabilities	220.9	0.0	0.0	0.0
OFF BALANCE SHEET ITEMS				
ASSETS				
- FX SWAPS / CC-IRS	11 704.1	3 682.9	2 897.4	4 128.2
- Money market / depo strategic clients	480.0	0.0	0.0	0.0
- Repayment of contingent assets	2 426.3	191.5	413.9	2 062.3
LIABILITIES				
- FX SWAPS / CC-IRS	11 680.5	3 665.4	3 084.4	4 093.6
- Money market / depo strategic clients	285.0	195.0	0.0	0.0
- Funding of contingent assets	5 094.0	0.0	0.0	0.0
NET GAP	**5 803.2**	**-8 593.5**	**-11 753.9**	**15 624.4**
CUMULATIVE GAP	**5 803.2**	**-2 790.3**	**-14 544.2**	**1 080.2**

As regards the Capital Group of ING Bank Śląski S.A. the Bank's approach to the liquidity risk management, the liquidity characteristics of the specific balance sheet items with difficult liquidity-related standing, are calculated in line with the regulatory reporting requirements for the liquidity risk of the Dutch Central Bank. In order to measure the Group's liquidity risk there are set obligatory limits for the weekly and monthly liquidity gap for capital group and the subsidiaries as well. Below there are presented the weekly and monthly liquidity gaps at the consolidated level.

Liquidity risk in the year 2010 (in PLN thousand)

Area	As at 31 Dec 2010	Average	Min	Max
1 week gap	17 658 852	17 558 785	15 805 938	18 941 475
1 month gap	11 449 180	11 334 115	9 998 943	12 483 755

Liquidity risk in the year 2009 (in PLN thousand)

Area	As at 31 Dec 2009	Average	Min	Max
1 week gap	16 275 274	16 801 791	11 829 424	22 646 580
1 month gap	12 206 905	11 867 289	7 103 000	16 777 630

A maturity analysis for financial liabilities by remaining contractual maturities

The table below presents financial liabilities by remaining contractual maturities. The amounts include future interest payments.

end of 2010 _(PLN thousand)_

	1 M	1- 3 M	3 - 12 M	Over 1Y
- Liabilities due to other banks	2 184 633	512 871	1 145 055	214 232
- Financial liabilities measured at fair value through profit and loss	4 324 112	0	52 984	304 742
- Valuation of derivatives	164 255	532 461	284 482	590 047
- Derivative hedge instruments	-1 652	52 064	344 239	600 013
- Liabilities due to customers	41 897 809	1 898 570	3 511 376	161 966

end of 2009 _(PLN thousand)_

	1 M	1- 3 M	3 - 12 M	Over 1Y
- Liabilities due to other banks	3 942 821	0	21 791	10 709
- Financial liabilities measured at fair value through profit and loss	542 638	58 483	79 466	316 973
- Valuation of derivatives	193 226	173 589	455 675	713 148
- Derivative hedge instruments	-8 281	57 479	37 815	656 662
- Liabilities due to customers	38 125 563	5 308 189	3 645 898	602 239

IV. Regulatory and Economic Capital Management

Acting in accordance with the capital management policy Group performs its activity holding an adequate level of capital (capital base) both in both regulatory and economic aspect. Capital base and capital requirements are calculated according to current legal regulations (Resolution 76/2010 KNF from 10th March 2010 with following changes). Economic capital management is based on internal methodology of ING Group which was adjusted to the local market specifics.

Groups' organisational structure and the model of management are in line with the guidelines of the New Capital Accord (NUK/Basel II). Resolutions of NUK are fully implemented and Group performs its activity in accordance with three pillars:

- Pillar I – Regulatory Capital
- Pillar II – Economic Capital
- Pillar III – Disclosure Requirements

Regulatory capital (Pillar I)

In the Credit Risk area for the purpose of 2010 reporting Standardised Approach (SA) including the use of regulatory parameters set in the Resolution 76/2010 KNF. Once KNF approval is granted Group plans to use A-IRB approach (Advanced Internal Rating Based Approach) for corporate portfolio. This area is managed and monitored by Risk Modelling, Monitoring and Reporting Department.

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

In Market Risk area Group uses standard methods following regulatory requirements of KNF. This area is managed and monitored by Market Risk Management Department.

The table below presents the detailed calculation of base figures of regulatory capital and solvency ratio. Currently Group maintains an adequate capital level which is illustrated by the solvency ratio (calculated based on regulatory capital) exceeds 8%. During the 2010 as well as previous years the solvency ratio did not drop below regulatory requirement.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

Regulatory capital base and solvency ratio

	31 Dec 2010	31 Dec 2009
Own funds components		
Share capital	130 100	130 100
Issue premium	956 250	956 250
Other supplementary capital	75 055	74 931
Capital reserve including retained profit of past years	2 808 602	2 273 276
Net profit of current period in audited part	369 049	263 524
Minority capital	2 352	2 313
General risk fund	850 179	790 179
Revaluation reserve	8 125	-2 382
Funds adjustment by intangibles	-342 213	-327 343
Funds adjustment by capital commitments in financial institutions	-40 000	-40 000
Short-term capital	26 506	65 495
Total own funds	**4 844 005**	**4 186 343**
Capital requirements		
Capital requirements for credit risk, credit counterparty, dilution and delivery of instruments for future settlement	2 581 597	2 432 020
Capital requirement for the risk of settlement - delivery	5 064	2 187
Capital requirements for the capital securities rate risk, debt instruments rates risk, FX risk and commodity rates risk	1 753	15 308
Capital requirement for operational risk	326 871	290 789
Capital requirement for general interest rate risk	19 689	48 000
Capital requirement due to exposure concentration limit and large exposures limit overrun	11 998	0
Total capital requirement	**2 946 972**	**2 788 304**
Solvency ratio	**13.15%**	**12.01%**

Economic capital (Pillar II)

Economic capital is used by the Group description of internal capital defined as amount of capital required to cover all kinds of risk in Groups' activity. Amount of economic capital should cover assumed level of unexpected losses which are expected in the future. During calculation of capital required to cover by unfavorable influence of risk a one year time horizon and reliability equal to Group rating is assumed. For the economic capital calculations Group is using ING Group methodologies, which were adjusted to local market specifics and to fulfill Group requirements.

Group identifies and measures economic capital consisting of:

- capital to cover credit risk (risk of lack of liabilities repayments),
- capital to cover transfer risk (risk of lack of contractual repayments on deals in foreign currencies),
- capital to cover market risk (risk of loss sue to negative changes in financial market, like: interest rate risk, exchange rate risk, etc),
- capital to cover operational risk (risk of direct or indirect loss resulting inappropriate or wrong internal processes, employees and systems, IT risk, reputation risk and legal risk),
- capital to cover business risk (risk of loss in value of banking portfolio due to internal and external events).

Total economic capital figure is the sum of the above capitals adjusted for diversification effect. Diversification is based on the assumption that all of the above risks are not likely to realize at the same moment in time.

The value of capital requirements differs depending on the regulatory or economic approaches. Two key reasons for differences may be distinguished:

– The methods used for assessment and measurement of regulatory capital requirements are determined by KNF, whereas the methodology of measurement of the economic capital requirements is based on internal Banks' models.
– The legal regulations precisely define the risks for which the regulatory capital requirement should be calculated; this does not apply to the estimations of the economic capital calculated in a manner defined by the Bank. Thus, the economic capital covers a broader scope of risks, including those that are significant (material), but not included in regulatory capital.

Currently Group maintains an adequate capital level which is illustrated by the solvency ratio (calculated based on economic capital) exceeds 8%. During the 2010 as well as previous years the solvency ratio did not drop below required level.

Disclosure requirements (Pillar III)

Regulatory disclosure are performed by Corep and Finrep as well as publication of additional qualitative and quantitative information, based on Resolution 385/2008 KNF from 17th December 2008 with following changes, within Policy of disclosing qualitative and quantitative information.

Annual consolidated financial statements for the period from 1st January 2010 to 31st December 2010 (PLN thousand)

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

2011-03-01	**Małgorzata Kołakowska**	President	*(signed on the Polish original)*
2011-03-01	**Mirosław Boda**	Vice-President	*(signed on the Polish original)*
2011-03-01	**Michał Bolesławski**	Vice-President	*(signed on the Polish original)*
2011-03-01	**Evert Derks Drok**	Vice-President	*(signed on the Polish original)*
2011-03-01	**Justyna Kesler**	Vice-President	*(signed on the Polish original)*
2011-03-01	**Oscar Edward Swan**	Vice-President	*(signed on the Polish original)*

SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS

2011-03-01	**Tomasz Biłous**	Director of Accounting Department Chief Accountant	*(signed on the Polish original)*