



2012

**Annual
Financial
Statements
of the ING Bank
Śląski S.A.
for the year 2012**



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INCOME STATEMENT	Note	the period from 01 Jan 2012 to 31 Dec 2012	the period from 01 Jan 2011 to 31 Dec 2011
- Interest income	2	3 678,6	3 383,1
- Interest expenses	2	1 747,3	1 544,3
Net interest income	2	1 931,3	1 838,8
- Commission income	3	1 058,5	1 091,6
- Commission expenses	3	119,8	124,1
Net commission income	3	938,7	967,5
- Net income on instruments measured at fair value through profit and loss and FX result	4	83,6	17,3
- Net income on investments	5	61,7	142,1
- Net income on hedge accounting	6	-13,3	-33,4
- Net income on other basic activities	7	-1,2	1,4
Result on basic activities		3 000,8	2 933,7
- General and administrative expenses	8	1 710,8	1 621,5
- Result on other operating income and expenses	9	0,7	-8,1
- Impairment losses and provisions for off-balance sheet liabilities	10	350,1	172,4
Profit before tax		940,6	1 131,7
Income tax	11	182,8	227,9
Net result for the current period		757,8	903,8
Net profit		757,8	903,8
Weighted average number of ordinary shares		130 100 000	130 100 000
Earnings per ordinary share (PLN)¹	12	5,82	6,95

¹ In 2012 and 2011, there were no dilution factors at the Bank, 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

Mirosław Boda

Vice President

Signed on the Polish original

Michał Boleśławski

Vice President

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Justyna Kesler

Vice President

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Oscar Edward Swan

Vice President

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Ignacio Juliá Vilar

Vice President

Signed on the Polish original

SIGNATURE OF THE PERSON ENTRUSTED WITH KEEPING THE ACCOUNTING BOOKS

Tomasz Biłous

Director of Accounting Department

Chief Accountant

Signed on the Polish original

Katowice, 05-03-2013

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

STATEMENT OF COMPREHENSIVE INCOME		the period from 01 Jan 2012 to 31 Dec 2012	the period from 01 Jan 2011 to 31 Dec 2011
Net result for the period		757,8	903,8
Other comprehensive income, of which:			
- Gains/losses on remeasurement of available-for-sale financial assets charged to equity	34	590,5	36,8
including deferred tax		-142,4	-5,3
- Reclassification to the financial result as a result of sale of available-for-sale financial assets	34	-20,4	-24,2
including deferred tax		4,8	5,6
- 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	34	-0,2	-0,3
including deferred tax		0,1	0,1
- Remeasurement of property, plant and equipment	34	-0,7	4,7
including deferred tax		0,2	-1,1
- Effective part of cash flow hedging instruments revaluation	34	308,8	57,8
including deferred tax		-72,4	-13,4
- Merger with subsidiary		0,0	-0,7
including deferred tax		0,0	0,0
- Disposal of property, plant and equipment	34, 35	1,0	1,0
including deferred tax		0,1	0,0
Total other comprehensive income		879,0	75,1
Total comprehensive income for the period		1 636,8	978,9

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Katowice, 05-03-2013

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

STATEMENT OF FINANCIAL POSITION	Note	as of 31 Dec 2012	as of 31 Dec 2011
ASSETS			
- Cash in hand and balances with the Central Bank	14	4 071,6	1 493,1
- Loans and receivables to other banks	20	1 365,3	967,1
- Financial assets measured at fair value through profit and loss	15	1 554,6	639,6
- Valuation of derivatives	16, 39	1 822,7	1 858,4
- Investments	17	17 880,5	20 450,1
- available-for-sale	17, 39	17 880,5	15 467,8
- held-to-maturity	17	0,0	4 982,3
- Derivative hedge instruments	19, 39	1 112,6	433,4
- Loans and receivables to customers	20	45 764,0	42 298,7
- Investments in controlled entities	21	454,4	238,3
- Property, plant and equipment	22	587,2	562,4
- Intangible assets	23	355,9	360,8
- Property, plant and equipment held for sale	24	22,1	22,4
- Current income tax assets		0,0	146,5
- Deferred tax assets	25	0,0	15,4
- Other assets	26	168,3	138,1
Total assets		75 159,2	69 624,3

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

STATEMENT OF FINANCIAL POSITION	Note	as of 31 Dec 2012	as of 31 Dec 2011
EQUITY AND LIABILITIES			
LIABILITIES			
- Liabilities due to other banks	27	1 870,0	4 951,8
- Financial liabilities measured at fair value through profit and loss	28, 39	3 003,4	1 814,7
- Valuation of derivatives	16, 39	1 778,3	1 694,1
- Derivative hedge instruments	19, 39	1 364,0	900,6
- Liabilities due to customers	29	57 782,6	53 044,3
- Liabilities under issue of debt securities	30	567,1	0,0
- Provisions	31	68,9	56,6
- Current income tax liabilities		70,0	0,0
- Deferred tax provision	25	27,3	0,0
- Other liabilities	32	748,8	930,7
Total liabilities		67 280,4	63 392,8
EQUITY			
- Share capital	33	130,1	130,1
- Supplementary capital - issuance of shares over nominal value		956,3	956,3
- Revaluation reserve	34	990,7	113,4
- Revaluation of share-based payment		41,3	30,8
- Retained earnings	35	5 760,4	5 000,9
Total equity		7 878,8	6 231,5
Total equity and liabilities		75 159,2	69 624,3
Solvency ratio		14,00%	11,58%
Net book value		7 878,8	6 231,5
Number of shares		130 100 000	130 100 000
Net book value per share (PLN)		60,56	47,90

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Katowice, 05-03-2013

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

STATEMENT OF CHANGES IN EQUITY

the period from 01 Jan 2012 to 31 Dec 2012

	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	Total equity
Opening balance of equity	130,1	956,3	20,4	34,8	58,2	30,8	5 000,9	6 231,5
Net result for the current period	-	-	-	-	-	-	757,8	757,8
Other comprehensive income, of which:	0,0	0,0	569,9	-1,4	308,8	0,0	1,7	879,0
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-	-	590,5	-	-	-	-	590,5
- reclassification to the financial result as a result of sale of available-for-sale financial assets	-	-	-20,4	-	-	-	-	-20,4
- 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	-	-	-0,2	-	-	-	-	-0,2
- remeasurement of property, plant and equipment	-	-	-	-0,7	-	-	-	-0,7
- effective part of cash flow hedging instruments revaluation	-	-	-	-	308,8	-	-	308,8
- disposal of property, plant and equipment	-	-	-	-0,7	-	-	1,7	1,0
Transactions with owners, of which:	0,0	0,0	0,0	0,0	0,0	10,5	0,0	10,5
- revaluation of share-based payment	-	-	-	-	-	10,5	-	10,5
Closing balance of equity	130,1	956,3	590,3	33,4	367,0	41,3	5 760,4	7 878,8

Note: 33, 34, 35

the period from 01 Jan 2011 to 31 Dec 2011

	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	Total equity
Opening balance of equity	130,1	956,3	8,1	35,6	0,4	21,1	4 286,5	5 438,1
Net result for the current period	-	-	-	-	-	-	903,8	903,8
Other comprehensive income, of which:	0,0	0,0	12,3	-0,8	57,8	0,0	5,8	75,1
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-	-	36,8	-	-	-	-	36,8
- reclassification to the financial result as a result of sale of available-for-sale financial assets	-	-	-24,2	-	-	-	-	-24,2
- 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	-	-	-0,3	-	-	-	-	-0,3
- remeasurement of property, plant and equipment	-	-	-	4,7	-	-	-	4,7
- effective part of cash flow hedging instruments revaluation	-	-	-	-	57,8	-	-	57,8
- merger with subsidiary	-	-	-	-	-	-	-0,7	-0,7
- disposal of property, plant and equipment	-	-	-	-5,5	-	-	6,5	1,0
Transactions with owners, of which:	0,0	0,0	0,0	0,0	0,0	9,7	-195,2	-185,5
- revaluation of share-based payment	-	-	-	-	-	9,7	-	9,7
- dividends paid	-	-	-	-	-	-	-195,2	-195,2
Closing balance of equity	130,1	956,3	20,4	34,8	58,2	30,8	5 000,9	6 231,5

Note: 33, 34, 35

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Katowice, 05-03-2013

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

CASH FLOW STATEMENT	Note	the period from 01 Jan 2012 to 31 Dec 2012	the period from 01 Jan 2011 to 31 Dec 2011
OPERATING ACTIVITIES			
Net profit		757,8	903,8
Adjustments		-3 385,8	-2 929,2
- Depreciation and amortisation	8, 22, 23	145,7	131,3
- Interest accrued (from the profit and loss account)	2	1 931,3	1 838,8
- Interest paid		1 788,2	1 522,6
- Interest received		-3 878,0	-3 702,7
- Dividends received	5	-41,3	-109,0
- Gains (losses) on investment activities		-7,1	-1,6
- Income tax (from the profit and loss account)	11	182,8	227,9
- Income tax paid		76,4	-364,6
- Change in provisions	31	12,3	2,2
- Change in loans and other receivables to other banks	20, 42	-233,5	676,9
- Change in financial assets at fair value through profit or loss	15, 42	-915,5	-3,4
- Change in available-for-sale financial assets	17, 42	-1 808,3	1 363,7
- Change in valuation of derivatives	16	119,9	-298,1
- Change in derivative hedge instruments	19	93,0	29,3
- Change in loans and other receivables to customers	20, 42	-3 448,2	-8 304,1
- Change in other assets		-38,5	-19,7
- Change in liabilities due to other banks	27, 42	-3 082,0	796,5
- Change in liabilities at fair value through profit or loss	28	1 188,7	-2 866,7
- Change in liabilities due to customers	29, 42	4 699,7	5 639,4
- Change in other liabilities		-171,4	512,1
Net cash flow from operating activities		-2 628,0	-2 025,4
INVESTMENT ACTIVITIES			
- Purchase of property plant and equipment	22	-119,8	-135,1
- Disposal of property, plant and equipment		0,5	2,6
- Purchase of intangible assets	23	-56,0	-78,5
- Purchase of investments in subordinated entities	21	-216,1	0,0
- Disposal of fixed assets held for sale		9,4	0,0
- Redemption of held-to-maturity financial assets	17	4 998,5	1 290,4
- Interest received from held-to-maturity financial assets	17	148,3	260,2
- Dividends received	5	41,3	109,0
Net cash flow from investment activities		4 806,1	1 448,6
FINANCIAL ACTIVITIES			
- Issue of debt securities	30	565,0	0,0
- Dividends paid	13	0,0	-195,2
Net cash flow from financial activities		565,0	-195,2
Effect of exchange rate changes on cash and cash equivalents		-100,7	104,5
Net increase/decrease in cash and cash equivalents		2 743,1	-772,0
Opening balance of cash and cash equivalents		2 305,7	3 077,7
Closing balance of cash and cash equivalents	42	5 048,8	2 305,7

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Katowice, 05-03-2013

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

1. Key Bank data

ING Bank Śląski S.A. ("Bank", "Company") 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 Bank statistical number is REGON 271514909, and the taxation identification number is NIP 634-013-54-75.

2. Scope and duration of operations

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 duration of the Bank was determined as indefinite in the Bank's charter.

3. Share capital

The share capital of ING Bank Śląski S.A. is PLN 130,100,000 and is divided in 130,100,000 ordinary bearer shares with a par value of PLN 1.00 each. Shares of the Bank are quoted on the Warsaw Stock Exchange (sector: banks).

4. Shareholding structure of ING Bank Śląski S.A.

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31st December 2012 held 75% share in the share 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.

As at the date 31st December 2012, the shareholders owning 5% and more votes at the General Shareholders Meeting of ING Bank Śląski Spółka Akcyjna were:

No.	Entity	Number of shares and votes	% of total number of shares and votes at General Shareholders Meeting
1.	ING Bank N.V.	97,575,000	75.00
2.	Otwarty Fundusz Emerytalny PZU "Złota Jesień" and Dobrowolny Fundusz Emerytalny PZU	6,631,428	5.097

5. Entity authorised to audit financial statements

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.

6. Approval of 2011 financial statements

The annual financial statements of the ING Bank Śląski S.A. for the period from 1st January 2011 to 31st December 2011 were approved by the General Meeting on 19th April 2012.

II. Significant events in 2012

1. Changes to the Capital Group of ING Bank Śląski S.A. structure

- purchase of 100% of ING ABL Polska S.A. shares

On 29th December 2011, an agreement of purchase of 1,585,858 shares of ING ABL Polska S.A. company (ING ABL), corresponding to 100% of its share capital, by ING Bank Śląski S.A. was concluded. The Bank acquired shares from ING Lease Holding N.V. with the registered office in Amsterdam (Seller). ING ABL is a dominant entity to ING Lease Polska Sp. z o.o. company (ING Lease) and ING Commercial Finance S.A. company (ING CF), where it holds 100% of the share capital. In line with the agreement, the ownership rights were transferred to the Bank on 1st January 2012. The main objective of acquiring the said companies, whose operations cover leasing and factoring, was to extend the product offer with ABL products for the corporate segment clients.

In keeping with the agreement, the purchase price was set at PLN 206.1 million; the transaction was finally settled on 31st March 2012.

The consolidated assets and liabilities of ING ABL developed in compliance with the IAS/IFRS as at the consolidation date (1st January 2012) and as at the 31st December 2012 have been presented in the table below:

	as of 31 Dec 2012	as of 01 Jan 2012
ASSETS		
Cash in hand and on accounts	195.4	100.1
Receivables to customers, in which:	6 304.8	5 940.2
- loans and advances	1 344.1	1 474.7
- leasing receivables	3 164.5	3 034.1
- factoring receivables	1 796.2	1 431.4
Intangible assets	0.9	1.1
Property, plant and equipment	1.6	1.5
Other assets	59.9	25.9
TOTAL ASSETS	6 562.6	6 068.8
LIABILITIES		
Liabilities, in which:	6 303.7	5 868.6
- loans received from banks	5 802.3	5 424.8
- in which from ING Bank Śląski S.A.	3 138.3	1 974.1
- other liabilities	501.4	443.8
Equity	258.9	200.2
TOTAL LIABILITIES	6 562.6	6 068.8

ING ABL consolidated income statement in line with the Bank's approach has been presented below:

	the period from 01 Jan 2012 to 31 Dec 2012
Net interest income	103.2
Net commission income	23.9
Net income on financial instruments measured at fair value through profit and loss and FX result	2.0
Net income on other basic activities	4.1
Result on basic activities	133.2
General and administrative expenses	65.2
Result on other operating income and expenses	-0.1
Impairment losses and provisions for off-balance sheet liabilities	12.7
Profit (loss) before tax	55.2
Income tax	-3.6
Net profit (loss)	58.8

- incorporation of ING Usługi dla Biznesu S.A.

On 5th January 2012, the ING Usługi dla Biznesu S.A. company was established; ING Bank Śląski holds 100% shares thereof. The operations of the newly established company include provision of a wide array of services for Bank's clients as regards handling their business operations.

2. Changes to the statutory authorities of ING Bank Śląski S.A.

On 9th January 2012, the Supervisory Board of ING Bank Śląski S.A. appointed Mr. Ignacio Juliá Vilar for the position of the Vice-President of the Bank Management Board as of 1st February 2012. Apart from the above mentioned change, there were no other changes to the composition of the governing bodies of ING Bank Śląski S.A.

3. Election of the chartered auditor

On 12th April 2012, the ING Bank Śląski S.A. Supervisory Board elected Ernst & Young Audit Spółka z o.o. with the registered office in Warsaw as the chartered auditor of financial statements of ING Bank Śląski S.A. and the Capital Group of ING Bank Śląski S.A. for the period of 1 year starting from the review of the report for Q1 2012 and ending with the audit of the financial statements for 2012. ING Bank Śląski S.A. has been using the services of Ernst & Young Audit Spółka z o.o. for auditing the Bank's financial statements since 2008.

4. General Meeting of ING Bank Śląski S.A.

On 19th April 2012, the General Meeting of ING Bank Śląski S.A. was held, during which the following resolutions were passed:

- on approval of the 2011 annual financial statements (consolidated and stand-alone financial statements),
- on approval of the Management Board Report on Operations in 2011 (consolidated and standalone reports),

- on acknowledgement of the fulfilment of duties of the Management Board and Supervisory Board Members for 2011,
- on 2011 profit distribution.

5. Programme of ING Bank Śląski S.A. debt securities issue

On 19th April 2012, the Supervisory Board of ING Bank Śląski S.A. consented to establishing the Programme of ING Bank Śląski S.A. Debt Securities Issue ("Programme"). By establishing the Programme, the Bank will be able to obtain long-term funding to use for further growth of non-current assets and diversify funding sources.

With the Resolution of 6th November 2012, the Management Board of ING Bank Śląski S.A. accepted the specific terms and conditions of the Programme of Bank Debt Securities Issue with the following parameters:

<i>Issuer</i>	ING Bank Śląski S.A.
<i>Programme</i>	Programme whereunder the Issuer will make multiple issues of Bonds in series provided that the total nominal value of the issued and unredeemed Bonds in the said period does not exceed the Programme Amount
<i>Instrument</i>	Bonds issued under the Act on Bonds ("Bonds "). Unsubordinated Coupon Bonds (with fixed or floating interest) or Discount ones (zero-coupon) bonds
<i>Legal grounds</i>	The Act on Bonds dated 29 June 1995 – consolidated text, Journal of Laws of 2001, No. 120, item 1300, as amended ("Act on Bonds")
<i>Programme Amount</i>	PLN 5 billion
<i>Programme duration</i>	Unlimited
<i>Currency</i>	PLN
<i>Maturity</i>	Up to 10 years
<i>Security</i>	No security
<i>Law</i>	Polish

On 6th December 2012, the Bank issued the first bonds under the Programme of ING Bank Śląski S.A. Debt Securities Issue. The bonds were issued as bearer bonds of 5Y maturity. The bonds are denominated in PLN and were offered under a private issue. The total nominal value of bonds is PLN 565.0 million and the nominal value of one bond is PLN 100.0 thousand. The issue price equals the bonds' nominal value. Bonds will be redeemed through payment of the amount of cash equal to the bonds' nominal value. The redemption date for bonds is 6th December 2017.

Bonds bear floating interest, paid every 6 months. Interest is determined using 6M WIBOR plus margin of 0.9% AER. The first interest will be paid out on 6th June 2013.

III. Statement of compliance with International Financial Reporting Standards

These annual financial statements for the period from 1st January 2012 to 31st December 2012 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").

Income statement, statement of comprehensive income, statement of changes in equity, and cash flow statement for the period from 1st January 2012 to 31st December 2012, and statement of financial position as at 31st December 2012 together with comparable data were prepared according to the same principles of accounting for each period.

1. Going-concern

These annual financial statements were 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 these statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the ING Bank Śląski S.A. is endangered.

2. Discontinued operations

No operations were discontinued during the 2012 and 2011.

3. Financial statements scope and currency

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

These annual financial statements have been developed in Polish zloties ("PLN"). Unless provided for otherwise, all values were given rounded up to PLN million. Therefore, some totals and individual notes can be inconsistent in mathematical terms.

4. Term of the statements and comparable data

These annual financial statements of the ING Bank Śląski S.A. cover the period from 1st January 2012 to 31st December 2012 and include the comparative data:

- items from the statement of financial position as at 31st December 2011,
- items in the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the period from 1st January 2011 to 31st December 2011.

5. Changes to accounting standards

In these annual financial statements the Bank took account of the following binding standards and interpretations approved by the European Union for annual periods starting on or after 1st January 2012:

Change	Scope	Influence on the Bank statements
IFRS 7 <i>Financial Instruments: Disclosures – Transfer of Financial Assets</i>	The change specifies the requirements as to disclosures for the transactions being transfer of financial assets. Implementation of the said change also provides for the revision made with the retroactive Commission Regulation (EC) dated 13 December 2012; i.e., effective as of 1 July 2011 or later.	Although the said changes will cause the scope of disclosures to increase, their scale will not have a material impact on the financial statements of the Bank.

The published standards and interpretations which were already issued but are still ineffective as they were not approved by the European Union or were approved by the European Union but were not previously applied by the Bank:

Change	Scope	Influence on the Bank statements
IAS 1 <i>Presentation of Financial Statements</i>	The changes result from co-operation between IASB and FASB (US GAAP has been changed in the same manner) and refer to the guidelines for items presentation under other total income. Application date: the accounting year starting on 1 July 2012 or later.	The analyses show that the change will have impact on the structure of the financial statements of the Bank but it will be of immaterial nature.
IAS 12 <i>Income Taxes – Deferred Income Tax: Recovery (Settlement) of carrying amount of assets</i>	The changes pertain to classification of the revenue depending on expectations of the entity whether or not it will recover the carrying amount of a given asset either through use or sale. Application date: as of the beginning of the first accounting year starting at the effective date of the EU Regulation or later – i.e., 1 January 2013.	The analysis of the said change shows that it will not have a material impact on the financial statements of the Bank.
IAS 19 <i>Employee Benefits</i>	The changes made refer to the removal of the possibility to defer income and costs recognition (i.e., elimination of the "corridor method"), presentation under other total income and requirements for disclosure. Application date: the accounting year starting on 1 January 2013 or later.	The analysis of the said change shows that it will have impact on the financial statements of the Bank but it will be of immaterial nature.
IAS 27 <i>Separate Financial Statements</i>	The change introduces the necessity to recognize investments in subsidiaries, jointly controlled entities and associates at cost or in line with rules set forth in IFRS 9 Financial Instruments in separate financial statements. The name of the standard was also changed. The change published on 31 October 2012, specifying the guidelines for investment entities. Application date: the accounting year starting on 1 January 2014 or later.	The Bank is currently analysing the impact of changes on the financial statements. The preliminary analyses show that the change made will not have a material impact on the financial statements of the Bank.
IAS 28 <i>Investments in Associates and Joint Ventures</i>	The changes pertain to the accounting principles for investments in associates and determine the requirements that have to be met in order to apply accounting using the equity method for investments in associates and jointly controlled entities. Application date: the accounting year starting on 1 January 2014 or later.	The Bank is currently analysing the impact of changes on the financial statements. The preliminary analyses show that the change made will not have a material impact on the financial statements of the Bank.
IAS 32 <i>Financial Instruments: Presentation – Offsetting of Financial Assets and Liabilities</i>	The change specifies the meaning of the phrase "have the on-going possibility to exercise the right to set-off" and that certain systemic gross settlements can be treated as the equivalent of net settlement. Application date: as for the changes to IFRS 7; i.e., for paragraph 43 – the accounting year starting on 1 January 2013 or later, for the remainder – the accounting year starting on 1 January 2014 or later.	The Bank is currently analysing the impact of changes on the financial statements. The preliminary analyses show that the change made will not have a material impact on the financial statements of the Bank.

<p>IFRS 1 <i>First-time Adoption of International Financial Reporting Standards: severe hyperinflation and removal of fixed dates for those who adopt IFRS for the first time. Government cash loans.</i></p>	<p>The change specifies the guidelines related to reinstitution of the financial statements presentation in line with the IFRS following the term when the functional currency was exposed to significant hyperinflation, thus enabling the given entity to fulfil the IFRS requirements and to delete the fixed dates of IFRS first-time application.</p> <p>Application date: as of the beginning of the first accounting year starting at the effective date of the EU Regulation or later – i.e., 1 January 2013.</p> <p>The change concerning cash loans obtained from the government below market rates.</p> <p>Application date: the accounting year starting on 1 January 2013 or later.</p>	<p>No impact on the financial statements of the Bank.</p>
<p>IFRS 7 <i>Financial Instruments: Disclosures – Offsetting of Financial Assets and Liabilities</i></p>	<p>Change of requirements for disclosures related to offsetting of financial assets and liabilities.</p> <p>Application date: the accounting year starting on 1 January 2013 or later.</p>	<p>Although the said changes will cause the scope of disclosures to increase, the preliminary analyses show that their scale will not have a material impact on the financial statements of the Bank.</p>
<p>IFRS 9 <i>Financial Instruments</i></p>	<p>The standard is the result of the outcome of the first stage of IASB Project focusing on the replacement of IAS 39 and it comprises the classification and valuation of assets and financial liabilities. In 2012, IASB started the procedure to revise the adopted and published guidelines which provides for expanding the catalogue of categories of financial assets with an additional, third category being the financial assets carried at fair value through other total income. The subsequent stages of IASB Project will cover hedge accounting and permanent impairment of financial assets.</p> <p>The change concerns shift of the obligatory date for standard application from 1 January 2013 to 1 January 2015.</p> <p>Application date: the accounting year starting on 1 January 2015 or later.</p>	<p>Standard implementation may affect the structure of the financial statements; however, the Bank will comprehensively assess the impact of the new standard together with the guidelines for hedge accounting and impairment, which have not been published yet.</p>
<p>IFRS 10 <i>Consolidated Financial Statements</i></p>	<p>New standard presenting the guidelines for financial statements consolidation including in particular but not limited to the indications confirming the requirement to include entities in the consolidated financial statements.</p> <p>The change published on 28 June 2012 is to specify implementation requirements.</p> <p>Application date: the accounting year starting on 1 January 2013 or later.</p> <p>The change published on 31 October 2012 specifying the guidelines for investment entities which due to the purpose of their business are excluded from the requirement to include subsidiaries in consolidation and are required to carry them at fair value through profit or loss.</p> <p>Application date: the accounting year starting on 1 January 2014 or later.</p>	<p>The analyses show that the changes made will not materially affect the financial statements of the Bank.</p>
<p>IFRS 11 <i>Joint Arrangements</i></p>	<p>New standard sets out the requirements for joint arrangements recognition and measurement.</p> <p>The change published on 28 June 2012 is to specify implementation requirements.</p> <p>Application date: the accounting year starting on 1 January 2013 or later.</p>	<p>The analyses show that the changes made will not materially affect the financial statements of the Bank.</p>

IFRS 12 <i>Disclosure of Interest in Other Entities</i>	<p>New standard sets out the disclosures of interest in other entities. The change published on 28 June 2012 is to specify implementation requirements.</p> <p>Application date: the accounting year starting on 1 January 2013 or later.</p> <p>The change published on 31 October 2012, specifying the guidelines for investment entities in consequence of parallel changes made to IFRS 10.</p> <p>Application date: the accounting year starting on 1 January 2014 or later.</p>	The analyses show that the changes made will not materially affect the financial statements of the Bank.
IFRS 13 <i>Fair Value Measurement</i>	<p>New standard sets out comprehensive guidelines for fair value measurement of financial and non-financial assets and liabilities. The standard is introduced to make the said requirements more coherent and transparent by compiling them in one standard, specify the guidelines and terms used as well as increase the scope of disclosures.</p> <p>Application date: the accounting year starting on 1 January 2013 or later.</p>	The analyses show that the changes made will not materially affect the financial statements of the Bank.
IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	<p>The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.</p> <p>Application date: the accounting year starting on 1 January 2013 or later.</p>	Not applicable.
The changes following the IFRS review (published in May 2012), applying to annual periods starting on 1 January 2013.	<p>The changes cover the issues discussed during the IFRS reviews commenced in 2009 and considered in the draft changes earlier presented for consultation, but not included in the final changes published in earlier periods.</p> <p>The changes published on 17 May 2012 impact IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34 and are of specifying nature.</p> <p>Application date: the accounting year starting on 1 January 2013 or later.</p>	The analyses show that the changes made will not materially affect the financial statements of the Bank.

IV. Material accounting principles

1. Basis for preparation of financial statements

The concept of fair value has been applied in the statements for own 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.

2. Accounting estimates

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

Estimations and assumptions applied to the presentation of value of assets, liabilities,

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

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

Below are the most significant booking estimates made by the Bank.

2.1. Impairment

The Bank assesses whether there is objective evidence of impairment of financial assets (individual items or groups) and property, plant and equipment items as at balance sheet date.

2.1.1. Impairment of financial assets

Objective evidence of impairment of financial assets stems from occurrence of one or more events which have a direct impact on valuation of future asset-related cash flows.

The estimates can take into account observable data indicating occurrence of unfavourable payment situation on the part of borrowers from a certain group or unfavourable economic situation of a given country or its part, which translates into the problems sustained by this group of assets. For IBNR and INSFA portfolios, calculations are made with the use of PD, EAD and LGD parameters plus the disclosure period. Historical loss parameters are adjusted with the data coming from current observations in order to account for current market factors which were not present during the period covered with historical observations and exclusions of effects of past developments which are no longer present today. Detailed disclosures as to credit risk estimation models used by the Bank are presented further in this report, see Chapter: *Risk Management at ING Bank Śląski S.A.*, item discussing credit risk management.

To determine impairment (or reverse it), the present value of expected future cash flows has to be calculated. The methodology and assumptions used to estimate both the amount and the time of future cash flows are regularly reviewed and adjusted as needed. Further, data are backtested to compare the actual amounts with estimated credit impairment.

Item 5.10. *Impairment* discusses some examples of impairment conditions for financial assets and the recording rules applied therefor.

2.1.2. Impairment of other non-current assets

For property, plant and equipment, valuation is based on estimating the recoverable amount of non-current assets being the higher of their value in use and net realisable value at the review date. The value in use of an item of property, plant and equipment (or a cash-generating unit when the recoverable amount of an asset item forming joint assets cannot be determined) is estimated, among others, through adoption of estimation assumptions for amounts, times of future cash flows which the Bank may generate from a given asset item (or a cash-generating unit) and other factors. Adoption of different valuation assumptions could affect the carrying amount of certain property, plant and equipment items. To

determine the value in use, the estimated future cash flows are discounted to their present value at pre-tax discount rate, which reflects the current market expectations as regards value of money and the specific risk of a given asset item.

When estimating the fair value less costs of sale, the Bank makes use of relevant market data available or valuations made by independent appraisers which are based on estimates by and large.

The relevant recording rules were delineated in item 7.4. *Impairment of other non- financial assets*.

2.2. Credit risk connected with derivative instruments

The Bank has been systematically reviewing the level of credit risk concerning derivative instruments portfolio.

The approach employed by the Bank to estimate credit risk for derivatives with future settlement date (active deals unsettled as at the balance sheet date) is consistent with its approach to assessing credit risk for credit receivables. Valuation adjustments are estimated per counterparty considering the expected presettlement exposures and the same risk incurred by the Bank. It is a concept assuming the possibility of occurrence of risk of bilateral value adjustments. The adjustment is made using the expected positive exposure estimated through numerous simulations (the results from the scenarios leading to a negative outcome are eliminated and the present market value (or its estimation through referencing to comparable data) of credit default swaps (CDS). Own risk of the Bank and the risk of realisation of a scenario of client and Bank insolvency are calculated by analogy.

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

The two types of fair value adjustments as mentioned above were differently reflected in the 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 and 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 and 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* and the added part of the impairment charge for such already matured transaction is presented in the profit and 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.

In addition, the Bank assesses the level of FX option risk, being the consequence of:

- fair value change of the FX rate-based derivatives,
- change to the counterparty credit risk assessment made by the Bank.

The assessment is made at the balance sheet date based on the valuation figures as at that date and taking into account the risk assessment as at that day. The Bank will perform periodic assessment of the financial condition of clients holding similar instruments.

2.3. 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-option derivatives, the models based on discounted cash flows apply. Options are valued using option valuation models.

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

2.4. Retirement and pension benefit provision

The Bank establishes the provisions for retirement and pension benefit in accordance with IAS 19. The provision for retirement and pension benefit pay awarded as part of the benefits under the Labour Code regulations is calculated using the actuarial method by an independent actuary as the current value of the future long-term Bank obligations towards its employees according to the headcount and payroll state as at the updating date.

The provisions are calculated based on the range of assumptions, related to both macroeconomic conditions as well as to those related to staff rotation, death risk and others. The employees provision is calculated based on the estimated retirement or pension benefit which the Bank undertakes to pay under the General Conditions of Remuneration. The estimated retirement amount is calculated as the product of the following elements:

- the estimated assessment basis for retirement and pension benefit, in keeping with the General Conditions of Remuneration for each Entity,
- the estimated growth of assessment basis by the time of reaching the retirement age,
- percentage rate depending on seniority (in keeping with the General Conditions of Remuneration).

The resulting amount is discounted on an actuarial basis as at the year end day. In accordance with IAS 19 requirements, the financial discount rate used for calculating the current value of the employee benefit obligations is determined on the basis of the market yield on government bonds, whose currency and maturity date is consistent with the currency and estimated term of the employees benefit obligations.

The discounted amount is lowered by the annual impairment provisions discounted using actuarial method as at the same day, the purpose whereof is to increase the employee provisions. The actuarial discount stands for the product of the financial discount and the probability that the given individual will survive until the retirement age as the Bank employee.

The amount of annual impairments and the probability are calculated based on the models assuming the following three risks:

- probability of quitting work,
- full incapacity to work,
- death.

The probability of quitting work is estimated according to the statistical distribution principle, with the consideration of the Bank's statistical data. The probability of employee quitting work depends on the age of employee and is at fixed level in every work year.

The risk of death has been reflected in the latest statistical data from the Polish life-tables for men and women published by the Central Statistical Office as at the valuation date.

The provision being the result of the actuarial valuation is updated annually.

The Bank applies the corridor approach to recognition of the defined part of accumulated net actuarial gains and losses until the relevant requirements of account standards have been implemented. Under this method when determining an obligation due to certain benefits the Bank recognises some actuarial gains and losses as revenue or costs when the net value of accumulated unrecognised actuarial gains and losses as at the end of the previous reporting period exceeds the higher of the following two values:

- 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 income statement as the quotient of the above named excess and the average expected remaining working life of the Bank employees. The Bank presents in the balance sheet the net value of the liability comprising the current value of the liability and unrecognised actuarial gains/ losses.

The potential impact of implementation of the planned changes to IAS 19 on the Bank financial statements considered as immaterial was presented in Chapter III. *Compliance with International Financial Reporting Standards* in the item related to changes to the accounting standards.

2.5. Valuation of incentive schemes

2.5.1. Valuation of options granted under LEO Plan

The fair value of the options granted under the LEO Plan (Incentive Scheme) was measured with the Monte Carlo simulation. The model takes the risk-free interest (from 2.02% to 4.62%) as well as the expected exercise date for the options granted (from 5 to 9 years), the option exercise price, the present option price (EUR 2.9 – EUR 26.05), the expected volatility of ING Group share certificates (25% – 84%) and the expected dividend yield (from 0.94% to 8.99%).

The ING incentive scheme determines the volatility used to price the stock options, which is defined by the volatility of market data and not the historical volatility.

2.5.2. Valuation of variable remuneration programme benefits

As at the balance sheet date, the Bank presents in the books the estimated present value of benefits to be rendered under the variable remuneration programme. Benefits will be granted to employees covered with the programme, based on their performance appraisal for a given year. Since the programme was launched in 2012, this year will be the first one of performance appraisal thereunder.

Benefits granted as phantom stock are valued based on the median of closing prices of Bank's shares on the Warsaw Stock Exchange during a certain period.

The fair value of the deferred benefit element is adjusted with the reduction factor which accounts for probability of occurrence of an event requiring adjustment of the value of the granted benefit which the employee is not fully eligible to as at the balance sheet date. The catalogue of events has been defined in the programme assumptions. The present value of the said benefits is determined at market discount rate.

2.6. Leased object residual value

The expected residual value is usually the agreed future price of non-current asset purchase by the client after the end of the leasing term. The value is calculated as at the leasing commencement, based on the non-current asset initial value. The residual values are usually established based on certain contractual amount and recognised in net leasing investment position. Recovery of non-current asset residual value in leasing operations depends on the fulfilment of terms and conditions of leasing agreement and completion thereof.

3. Investments in subsidiaries and affiliated companies

Investments in subsidiaries and affiliated companies are measured at purchase price minus impairment charges.

3.1. Consolidation with subsidiary in legal terms

When settling the transactions of consolidating the Bank with its subsidiary (subject to joint control), the Bank applies the approach consistent with the terms and conditions of the approach whereunder shares are consolidated under the Accounting Act of 29 September 1994, following implementation of IAS 8 guidelines.

Under this approach, individual items of relevant assets and liabilities of the consolidated subsidiary are included in the standalone financial statements of the Bank according to values recognized in the consolidated financial statements of the dominant entity as at the consolidation date. The consolidation does not affect the comparable data; thus the data do not require any change.

3.2. Assumption of control over an entity subject to common control under IFRS 3.

The Bank applies the method discussed in item 3.1. hereinabove also to recognise the fact of control assumption over the entity subject to common control under IFRS 3 in the consolidated financial statements.

The Bank adopted the approach whereunder comparable data are not adjusted when control is assumed over an entity subject to common control under IFRS 3.

3.3. Assumption of control over an entity other than the ING Group member

The takeover approach is applied when settling the purchase of entities from non-associated parties. At the takeover date, the Bank recognizes, separately from goodwill, purchased identifiable assets and taken over identifiable liabilities, taking into account recognition criteria and all non-controlling interests in the taken over entity.

4. Foreign currency

4.1. The functional currency and the presentation's currency

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

4.2. 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 and 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.

5. Financial assets and liabilities

5.1. Classification

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

5.1.1. Financial assets and liabilities valued at fair value through profit and loss

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

- are classified as held for trading. A financial asset or financial liability is classified as held for trading if it is: acquired or incurred principally for the purpose of selling or repurchasing it in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also classified as held for trading (other than those that are designated and effective hedging instruments),
- upon initial recognition it is designated by the Bank as at fair value through profit and loss. Such designation can be made only if:
 - 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 Bank's investment strategy.

5.1.2. Investment held to maturity

Those are the financial assets other than derivatives with payments specified or possible to specify and with the maturity date specified, other than those defined as loans or receivables, which the Bank intends to and is able to hold by the maturity date.

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 Bank must not classify any financial assets as investments held to maturity for 2 years.

In 2012, the Bank took decision to reclassify all investments held to maturity to the category of assets available for sale, being aware of the consequences described hereinabove.

5.1.3. 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 and 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.

5.1.4. 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 and loss.

5.1.5. 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 profit and loss, being a deposit or loan received.

5.1.6. 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.

5.2. Recognition

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

to an entity or by an entity. Loans and receivables are recognized on distribution of the cash to borrower.

5.3. Derecognition

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

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

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

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

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

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

5.4. Measurement

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

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

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity investments 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 Bank measures all financial liabilities at amortised cost using the effective interest method, except for:

- financial liabilities at fair value through profit and 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.

5.5. Reclassification

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

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

Note 17.1. *Reclassification of debt securities* is a detailed disclosure of reclassification of debt securities from available-for-sale financial assets to loans and other receivables, made in 2008.

5.6. 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 and loss is recognised in the income statement;
- 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 income statement.

As of impairment of items of financial assets or a group of financial assets, the Bank carries the amount of contractual interest not paid at the impairment date through profit and loss.

Since then, the Bank accrues interest on the items of financial assets or a group of financial assets less the impairment charge. Interest is accrued at the interest rate used to calculate the impairment charge for the financial assets affected. Later, the value is adjusted with the contractual interest paid in a given period.

Dividends on an available-for-sale equity instrument are recognised in the income statement 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 income statement.

At the moment of derecognition of financial assets from the balance sheet, cumulated gains and losses recognized previously in equity, are transferred to the income statement. If any objective evidence exists that a financial asset or group of financial assets is impaired, the Bank recognizes impairment in accordance with the established rules of determination of impairment of financial assets.

The fair value of 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.

5.7. Derivative instruments and hedge accounting

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

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

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

The Bank uses derivative instruments in order to hedge against FX and interest rate risk, arising from activity of the Bank. 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.

5.7.1. Hedge accounting

Hedge accounting presents the offset effects of fair value changes of both hedging instruments and hedged items which impact the income statement.

The Bank designates certain derivative instruments as fair value hedge or cash flow hedge.

The Bank uses hedge accounting, if the following conditions are met:

- 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 Bank. In the documentation, the Bank designates the hedging instrument to hedge a given position or transaction, and specifies the type of risk to be hedged against. The Bank specifies the manner for assessing the effectiveness of the hedging instrument in compensating for changes in cash flows due to the hedged transaction in terms of mitigation of risk the Bank 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.

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

b) 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.

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

In 2012, the Bank implemented a new hedging strategy to hedge against FX risk and base risk being the consequence of funding the CHF or EUR-indexed mortgage loans portfolio with PLN liabilities using FX interest rate swaps; i.e.: Currency Interest Rate Swap (CIRS).

With one economic link between the concluded CIRS transactions and the extended CHF or EUR loans as well as PLN deposits used to fund them, the Bank sets two hedge links for cash flow hedge accounting purposes. The foregoing is made by separating the real CIRS transaction part hedging the portfolio of CHF or EUR-indexed loans against FX risk and interest rate risk and the real CIRS transaction part hedging PLN liabilities against interest rate risk.

5.7.2. *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 and 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 and 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 and loss and FX-result.

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

5.9. Repo/reverse repo transactions

The Bank 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 Bank after the transfer.

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

5.9.1. Rules of repo/reverse repo transactions valuation

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.

5.9.2. Rules of Sell-buy-back/Buy-sell-back transactions valuation

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

5.10. Impairment

5.10.1. Assets valued at amortized cost

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets

is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- 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 Bank first assesses whether objective evidence of impairment exists for financial assets. If after the assessment we find that for a given financial assets item there are no objective reasons for impairment the item is included in the group of financial assets with similar credit risk characteristics, which indicate that the debtor is capable to repay the entire debt according to provisions of the agreement. Such groups are subject to collective assessment in terms of impairment.

If there is any objective evidence of impairment of loans and receivables, or investments held-to-maturity measured at 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 with the initial effective interest rate of a given financial instrument item. Practically, for significant assets, impairment is calculated per asset item using the discounted future cash flows of a given asset item; for insignificant assets – it is assessed collectively. When estimating future cash flows, the available debtor data are considered; the debtor's capacity to repay the exposure is assessed in particular. For backed credit exposures, the expected future cash flows on collateral execution are also used in the estimation, considering the time, costs and impediments of payment recovery under collateral sale, among other factors.

If the existing objective evidence of impairment of assets item or financial assets group measured at the depreciated cost indicate that there will be no expected future cash flows from the abovementioned financial assets, the impairment loss of assets equals their carrying amount.

The impairment loss assessed collectively is estimated on the basis of historical loss experience for assets with similar credit risk characteristics. 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 on which the historical loss experience is based) and also through elimination of the effects of conditions in the historical period that do not exist currently. The Bank regularly verifies the methodology and assumptions adopted to estimate future cash flows in order to mitigate the differences between estimated and actual losses.

For the purposes of the calculation of the provision against balance sheet exposures analysed collectively, the probability of default (PD) method has been applied. The mode of PD parameter calculation makes it possible to take account of the specific features of individual products and loss identification periods related thereto.

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 income statement.

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 income statement by a proper adjustment of impairment charges.

5.10.2. 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 income statement even though the financial asset has not been derecognised.

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

Impairment losses recognised in the income statement for an investment in an equity instrument classified as available for sale is not reversed through income statement. 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 income statement, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

5.10.3. 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.

6. Investment property

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

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

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

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

7. Non-financial assets

7.1. *Tangible fixed assets*

7.1.1. *Own tangible fixed assets*

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

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

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

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

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

7.1.2. *Subsequent costs*

The Bank recognizes under the balance sheet item property, plant and equipment the costs of replacement of certain elements thereof at the time they are incurred on proviso that the Bank is likely to earn any asset-related prospective economic benefits and the purchase price or the cost may be measured reliably. Other costs are recognised in the income statement at the time they are incurred.

7.2. Intangible fixed 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.

7.2.1. 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 Bank 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.

7.2.2. 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.

7.2.3. Other intangible assets

Other intangible assets purchased by the Bank, are recognized at purchase price or production cost less depreciation and total amount of impairment losses.

7.2.4. Subsequent costs

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

7.3. 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	rent and lease term of maximum 10 year
➤ 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 1st January 2010 the Bank extended the use period to 7 years.

7.4. Impairment of other non- financial assets

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

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

As regards company goodwill, it is tested for impairment as at the balance sheet date regardless of whether or not there are conditions of impairment in place.

7.4.1. Recognition of impairment loss

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

An impairment loss is recognized if the book value of the asset or cash-generating unit exceeds its recoverable amount.

The goodwill impairment is determined by estimating the recoverable amount of the cash-

generating unit the given goodwill applies to. Should the recoverable amount of the cash-generating unit be lower than the carrying amount, impairment loss is made. The impairment loss is recognized in the income statement.

Impairment losses for cash-generating units reduce the goodwill of the cash-generating units (group of units) in the first place and then reduce proportionally the book value of other assets in the unit (group of units).

7.4.2. 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.

8. Leasing contracts

8.1. The Bank as lessor

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

Leasing agreements are classified by the Bank based on the extent whereto the risk and benefits due to holding of leased asset are attributable to lessor and lessee.

A leasing agreement is considered as financial leasing provided the following terms and conditions are met individually or jointly:

- the agreement transfers the asset ownership to the lessee before the end of leasing term,
- the agreement includes the right of lessee to purchase the asset at the price which, as expected, is that lower than the fair value agreed as at the date when purchase right execution becomes feasible that at the leasing commencement date it is certain that the lessee shall take advantage of this right,
- the leasing term corresponds in majority to the term of asset economic lifetime, even if the legal title is not transferred,
- the present value of minimum leasing fees as at the leasing commencement date in principle equals the leased asset fair value,
- the leased assets are specialised enough that only the lessee may take advantage thereof, without making major modifications thereto,
- the lessee may prolong the agreement (or conclude a new one) for additional term for the fee which is materially lower compared to the market,
- the lessee may terminate the agreement and any losses of the lessor arising therefrom shall be covered by the lessee,
- profits or losses related to fluctuation of asset residual value are attributable to the lessee.

The leasing agreements whereunder the lessor basically retains all the risk as well as benefits arising from holding of leased asset are classified as operational leasing agreements.

The leasing agreement shall be concluded for the term ranging from five to ten years,

including transfer of the legal title to the beneficiary (lessee) after leasing agreement expiry. The ownership of leased asset is the collateral for the liabilities arising from leasing agreements.

There are no conditional leasing fees within the Bank. There are no unguaranteed residual values attributable to the lessor within the Bank.

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.

8.2. The Bank as lessee

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

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

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

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

8.3. Factoring services

The Bank provides factoring services in local and international trade. Handling and financing receivables as well as risk management are their essence. Further, as part of factoring, the Bank offers additional services being financial limits for debtors, debt recovery and takeover of trading risk. Local factoring without taking over risk (without recourse) prevails in the factoring operations of the Bank.

Factoring amounts due classified as at the purchase date (initial recognition date) as cash loans and amounts due are thus measured at amortised cost at effective interest rate considering commission income.

Factoring receivables are purchased by the Bank under agreements negotiated with clients case by case. The said receivables are recognized in the balance sheet as an increase in financial assets or decrease in cash, or increase in financial liabilities. Receivables can be held until maturity and maturity dates can be postponed.

Factoring receivables with recourse and without recourse are presented differently in the

financial statements. Factoring receivables with recourse are presented in the balance sheet as net amounts due; i.e., only financed receivables less the amount of the security deposit. The factoring receivables without recourse are presented separately; i.e., all financial and non-financial receivables are presented as amounts due, while receivables excluded from funding and the security deposit are shown as liabilities.

The base income on factoring operations comprises commissions and interest on the advance payments made for the receivables purchased. Commission income is carried through profit or loss at the time of execution of activity under the factoring agreement concluded.

Income on provision of factoring services comprises factoring commissions, limit fees, preparation fees, insurance fees, handling fees and other fees as given in the price list.

Interest income includes regular and discount interest. Interest is accrued monthly on the actual factoring exposure. Discount interest is charged up-front on the amount of factoring receivables acquired, considering their maturity.

Interest income is shown in the income statement, in item *Net interest income*, while commission income is shown in item *Net commission income*.

9. Other balance sheet items

9.1. 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.

9.2. Liabilities

Other 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 financial liabilities are recognized in the amounts due.

9.3. Non current assets held for sale and discontinued operation

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

recognition as a completed sale within one year from the date of classification.

Non current assets held for sale are priced at the lower of 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 Bank will no longer classify that asset as an asset for sale (or a group of assets for sale) but reclassify it as appropriate. In such a case, the Bank measures the asset that is no longer classified as an asset for sale (or that is no longer part of a group for sale) at the lower of the following amounts:

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

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

9.4. 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.

10. 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.

10.1. Share capital

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

10.1.1. Own shares

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

10.1.2. 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.

10.2. Share premium

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

10.3. Revaluation reserve

Revaluation reserve is created as a result of:

- revaluation of financial instruments classified as available for sale,
- valuation of derivatives for the element being the effective cash flow hedge,
- 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.

10.4. Retained earnings

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

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

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

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

The net financial result represents the gross result under the performance statement for the current year, adjusted with the corporate income tax.

11. Prepayments and deferred income

11.1. 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 Bank 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.

11.2. 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.

12. Employee benefits

12.1. Benefits under the Act on employee pension programmes

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

12.2. Short-term employee benefits

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

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

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

12.3. Long-term employee benefits

12.3.1. Benefits under the Labour Code regulations

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

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

The Bank adopts a corridor approach to recognition of a determined portion of the cumulated net value of actuarial gains and losses. The details of the method used are presented in the item concerning estimates on retirement and pension benefits provision.

12.3.2. LEO long-term incentive system benefits

The Bank 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 ING 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 Bank recognises in its books the measurement of options and performance shares held by the employees of the Bank. The fair value of options granted is recognised as personnel costs (on the other side of the balance sheet – in capitals) and is allocated for the term of acquisition of rights thereto.

12.3.3. Variable remuneration programme benefits

The Bank implemented the variable remuneration programme, addressed to:

- persons holding managerial positions having material impact on the Bank risk profile (to satisfy the requirements of PFSA Resolution No. 258/2011) and
- employees displaying special potential and skills.

Ultimately, the variable remuneration programme is to be replaced with the LEO incentive programme. The objective of the Programme is to correlate the performance of key employees with the Bank's results through tying some of the allocated variable remuneration to the price of Bank's shares. Variable remuneration is defined based on appraisal of performance of the programme participants.

Programme benefits will be granted in two options:

- in the former, the benefit will have two equal parts:
 - the one paid in cash and
 - the other being phantom stock, making the holder eligible to obtain a cash payment whose final amount will be conditional on the price of Bank's shares (the median of closing prices of Bank's shares on the Warsaw Stock Exchange during a certain period),
- in the latter, the entire benefit will be granted as phantom stock.

The cash element will be paid out:

- for the non-deferred part – immediately after the year of work the employee's performance is appraised for,
- for the deferred part – payments will be made after deferral periods (of 1, 2 or 3 years).

For the benefits rendered under option one, during the deferral period the amount of variable remuneration will be verified according to the programme assumptions.

The programme element paid in cash is recognised following the approach of projected unit rights and is settled over time for the term of acquisition of rights thereto by employees (both during the appraisal period understood as the year of work for which results employees obtain benefits and during the deferral period – adequate benefit components). The value of benefit is recognised as the obligation towards employees in correspondence with the income statement.

The benefits granted as phantom stock are subject to one -year holding period, applicable to both the part granted after the year during which the appraisal was made and the deferred part on the terms as applicable to the cash element (i.e., of 1, 2 or 3 years). The employee who was granted the benefit shall not exercise the phantom stock-related rights during the holding period.

The fair value of phantom stock determined using the principles adopted (based on the estimates made upon applying the reduction factor) is allocated for the term of acquisition of rights. The value of benefit is recognised as the obligation towards employees in correspondence with the income statement.

13. Principles of EU programmes settlement

The Bank participates in the *Human Capital* training programme taking advantage of EU funds. The funds received are recognised at the time when there are reasonable grounds to conclude that the terms of funds granting were met and the funds will be paid out. The funds obtained are recognised in the Bank's financial statements in the manner ensuring commensurability with the corresponding costs for which the plan is to set them off with the EU funds obtained.

If the funding concerns an asset item, then the fair value is recognised as the deferred income, and is subsequently carried through profit and loss – gradually in equal annual write-offs – during the expected use period of the related asset item.

14. Provisions

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

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

The Bank establishes provisions for restructuring costs only on condition that the general criteria of recognising provisions under IAS 37 be fulfilled and in particular but not limited to the situation when the Bank is in possession of the specific, formal restructuring plan determining at least the operations or a part thereof, basic locations, place of employment, the functions and estimated number of employees entitled to compensation, the expenditure to be undertaken and the term of execution. The commencement of restructuring procedure or the public announcement thereof is the condition indispensable for establishing the provision. The established provisions comprise only the direct and necessary expenditures to be undertaken due to the restructuring procedure, which are not related to the current business operations nor cover the future operating costs.

The Bank maintains the detailed record of court cases and other amounts due of legal claims nature. Potential future settlements will be recognised under established provisions.

The Bank recognises the provisions for all estimated losses. In certain justified cases, despite the fact that the Bank is entitled to reimburse the funds due to the provisions established, because of the uncertainty whether the expected economic benefits be earned or not, the Bank may decide not to recognise the assets there under in the financial statements.

In 2012, the Bank adjusted valuation of derivatives. The modification is to reflect the changing market derivative pricing standard following the practice of hedging transactions on deposits placed to the amounts approximating their present market value and considering their funding costs.

15. Profit and loss

15.1. 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 *Net interest income*.

15.2. Net commission income

Commission income arises from providing financial services by the Bank and comprises fees for extending a loan, the Bank's pledge to extend a loan, cards issue, cash management services, brokerage services, insurance products-related services and asset management services. Commission income comprises also margins on FX derivatives transactions concluded with corporate clients.

Fees and commissions (both income and expenses) directly attributed to rise of financial assets with repayment schedule are recognised in the Income Statement as effective interest rate component and are part of the interest income.

Other fees and commissions attributed to rise of financial assets without the repayment schedule (e.g. commission on overdrafts) are settled using a straight-line method throughout the agreement term. Fees on pledge to extend a loan, which is likely to be taken, are deferred and as at the date of financial assets rise are settled as the component of effective interest rate or using straight-line method based on above mentioned criterion.

Other fees and commissions relating to the financial services offered by the Bank – like cash management services, brokerage services and asset management services – are recognised in the income statement at the time of service provision. The fees and commissions on the services bound with insurance products are recognized accordingly, as they form a separate product offer, not directly relating to occurrence of financial assets; Clients may choose any offer and resign from it at any time without any consequences. The income on provision of services of that type is additionally adjusted by the estimated amounts of potential reimbursements of fees and commissions in case of early termination of insurance coverage before the end of the insurance term.

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

Net income on instruments measured at fair value through profit and 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 and loss account.

Result on financial instruments through profit and 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 and loss is recognized as interest income.

15.4. 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 and loss account when the shareholders' right to receive payment is established.

15.5. 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.

15.6. Net income on other basic activities

Net income on other basic activities comprise of expense and income not attributed directly to Bank'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.

16. Taxes**16.1. Income tax**

Income tax is recognized as current and deferred tax. Current income tax is recognized in the profit and loss account. Deferred income tax is recognized in profit and loss 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.

16.2. Deferred income tax

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

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

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

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

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

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

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

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

16.3. 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

In the annual financial statements for the period from 1st January 2012 to 31st December 2012 the Bank did not change the principles of presentation, compared to the annual financial statements for the period started on 1st January 2011 to 31st December 2011.

VI. Notes to the financial statements

1. Segment reporting

Segments of operation

The management of ING Bank Śląski is conducted within the areas defined in the Bank's business model.

The Bank's business model, above all for the purpose of management reporting, includes division of clients into two main segments:

- retail banking segment,
- corporate banking segment.

The segments are separated based on the financial (especially turnover, level of collected assets) and subject-related criteria. The specific rules of putting clients to respective segments are governed by the clients segmentation criteria specified in the Bank's internal regulations.

Retail banking segment

Within the framework of retail banking, the Bank provides services for individual customers (segments of mass customers and wealthy customers) and for sole traders.

This activity is analysed by the leading products, including i.e.: 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), deposit products (current accounts, term deposits, savings accounts), structured product, ING fund units, brokerage services and bank cards.

Corporate banking segment

Corporate banking area encompasses as follows:

- providing services to institutional clients,
- Financial Markets products.

Services to institutional clients encompasses strategic clients, large corporate entities and mid-sized companies. For corporate activity, the Bank provides reporting broken down by leading products covering i.e. loan products (working loans, investment loans), deposit products (current accounts, term deposits and negotiated deposits, savings accounts), financial markets products, trust services, capital market operations and operations of intermediation in lease services.

Financial Markets products 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.

Measurement

The measurement of the segment's assets and liabilities, segment's revenue and costs is based on the accounting standards applied by the Bank, included in notes describing applied accounting standards. 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 Bank 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 2012, the Bank changed reporting for its operating segments. The change was the consequence of client resegmentation and update of the allocation key for ALCO income. Data for the 12 months of 2012 presented herein were made comparable.

Geographical segments

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

2012

	Retail banking segment	Corporate banking segment	TOTAL
Revenue total*	1 433.4	1 567.4	3 000.8
net interest income	902.0	1 029.3	1 931.3
<i>external</i>	148.3	1 783.0	1 931.3
<i>internal</i>	753.7	-753.7	0.0
net commission income	433.5	505.2	938.7
other income/expenses	97.9	32.9	130.8
Operational expenses	1 070.8	639.3	1 710.1
personnel expenses	497.3	336.9	834.2
depreciation	103.6	42.1	145.7
other	469.9	260.3	730.2
Result before risk	362.6	928.1	1 290.7
Risk cost	44.5	305.6	350.1
Result after risk cost (profit before tax)	318.1	622.5	940.6
CIT	-	-	182.8
Result after tax	-	-	757.8

2011

	Retail banking segment	Corporate banking segment	TOTAL
Revenue total*	1 525.4	1 408.3	2 933.7
net interest income	929.5	909.3	1 838.8
<i>external</i>	232.3	1 606.5	1 838.8
<i>internal</i>	697.2	-697.2	0.0
net commission income	459.2	508.3	967.5
other income/expenses	136.7	-9.3	127.4
Operational expenses	1 028.5	601.1	1 629.6
personnel expenses	488.6	316.8	805.4
depreciation	93.1	38.2	131.3
other	446.8	246.1	692.9
Result before risk	496.9	807.2	1 304.1
Risk cost	55.1	117.3	172.4
Result after risk cost (profit before tax)	441.8	689.9	1 131.7
CIT	-	-	227.9
Result after tax	-	-	903.8

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

end of year 2012

	Retail banking segment	Corporate banking segment	TOTAL
Assets of the segment	16 211.4	57 583.2	73 794.6
Segment investments in controlled entities	272.1	182.3	454.4
Other assets (not allocated to segments)	0.0	0.0	910.2
Total assets	16 483.5	57 765.5	75 159.2
Segment liabilities	39 029.3	27 336.1	66 365.4
Other liabilities (not allocated to segment)	0.0	0.0	915.0
Equity	0.0	0.0	7 878.8
Total equity and liabilities	39 029.3	27 336.1	75 159.2

2012

	Retail banking segment	Corporate banking segment	TOTAL
Capital expenditure	243.9	145.6	389.5
Net cash flow from operating activities	898.3	-3 198.2	-2 299.9
Net cash flow from operating activities (not allocated to segment)	0.0	0.0	-328.1
Net cash flow from operating activities total	898.3	-3 198.2	-2 628.0
Net cash flow from investment activities	-204.8	5 010.9	4 806.1
Net cash flow from financial activities	0.0	565.0	565.0

end of year 2011

	Retail banking segment	Corporate banking segment	TOTAL
Assets of the segment	14 854.3	53 509.4	68 363.7
Segment investments in controlled entities	161.0	77.3	238.3
Other assets (not allocated to segments)	0.0	0.0	1 022.3
Total assets	15 015.3	53 586.7	69 624.3
Segment liabilities	35 234.8	27 170.7	62 405.5
Other liabilities (not allocated to segment)	0.0	0.0	987.3
Equity	0.0	0.0	6 231.5
Total equity and liabilities	35 234.8	27 170.7	69 624.3

2011

	Retail banking segment	Corporate banking segment	TOTAL
Capital expenditure	248,0	145,0	393,0
Net cash flow from operating activities	170,6	-1 874,1	-1 703,5
Net cash flow from operating activities (not allocated to segment)	0,0	0,0	-321,9
Net cash flow from operating activities total	170,6	-1 874,1	-2 025,4
Net cash flow from investment activities	-30,9	1 479,5	1 448,6
Net cash flow from financial activities (not allocated to segment)	0,0	0,0	-195,2

2. Net interest income

Interest income

	2012	2011
Interest on loans and receivables to banks	135.0	127.4
Interest on loans and receivables to customers, of which:	2 766.8	2 285.6
- interest on entities from the financial sector other than banks	206.6	135.0
- interest on entities from the non-financial sector	2 288.1	1 900.3
- interest on entities from the government and self-government institutions' sector	272.1	250.2
Interest on debt securities held for trading	14.0	18.4
Interest on debt securities designated as fair value at initial recognition	6.3	1.7
Interest on available-for-sale debt securities ^{*)}	542.0	653.9
Interest on held-to-maturity debt securities	164.5	312.9
Interest result on derivatives	50.0	-16.7
Total interest income	3 678.6	3 383.1

*) Interest result on money bills classified as financial assets available for sale was reduced with the cost of that portfolio financing using sell-buy-back transactions.

Interest revenue related to financial assets is calculated on the basis of the net exposure amounts; i.e. the amounts including effective impairment losses.

In the year 2012 the amount of PLN 60.7 million represents revenue from financial assets for which impairment loss was recognised. In the year 2011, the amount reached PLN 59.3 million.

Interest expenses

	2012	2011
Interest on deposits from banks	77.7	162.9
Interest on deposits from customers, of which:	1 667.6	1 381.4
- interest on entities from the financial sector other than banks	155.5	128.7
- interest on entities from the non-financial sector	1 454.9	1 203.4
- interest on entities from the government and self-government institutions' sector	57.2	49.3
Interest on issue of debt securities	2.0	0.0
Total interest expenses	1 747.3	1 544.3

Net interest income	1 931.3	1 838.8
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3. Net commission income

	2012	2011
Commission income		
- The transaction margin on currency exchange transactions	270.6	263.9
- Commission related to keeping accounts	249.8	255.7
- Commission related to payment and credit cards	207.0	208.4
- Commission related to loans	178.8	178.6
- Commission related to distribution of participation units	60.3	78.6
- Commissions related to insurance products offering	31.6	29.9
- Fiduciary and custodian fees	27.5	31.2
- Foreign commercial business	14.2	14.3
- Commission related to subscription of structured products	1.5	10.8
- Other	17.2	20.2
Total commission income	1 058.5	1 091.6
Commission expenses		
- Commission paid on intermediation in selling deposit products	16.3	20.3
- Commission paid on trading in securities	6.9	7.0
- Commission paid on disclosing credit information	6.4	6.3
- Commission paid on electronic banking services	6.0	8.2
- Commission related to brokerage activity	4.6	4.8
- Costs of the Bank Guarantee Fund (BFG)	44.0	36.4
- Costs of the National Clearing House (KIR)	5.0	6.6
- Other	30.6	34.5
Total commission expenses	119.8	124.1
Net commission income	938.7	967.5

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

	2012	2011
Net income on financial assets and liabilities held for trading, of which:	-311.4	-130.1
- Net income on debt instruments	14.9	29.1
- Net income on derivatives, of which:	-326.3	-159.2
- Currency derivatives ^{*)}	-356.1	-161.5
- Interest rate derivatives	27.5	-0.1
- Securities derivatives	2.3	2.4
Net income on financial assets and liabilities measured at fair value upon initial recognition, of which	-0.6	-0.8
- Net income on debt instruments	-0.6	-0.8
FX result	395.6	148.2
Net income on instruments measured at fair value through profit and loss and FX result	83.6	17.3

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

Result on derivatives includes net result on trading and fair value measurement of interest rate derivatives (FRA, IRS/CIRS, cap options), FX derivatives (swaps and options), as well as stock exchange index options.

*) Item Net income on derivatives - currency derivatives of the above note shows the impact of inclusion of credit risk in the fair value measurement for the transactions made on FX options concluded with the Bank clients. In the year 2012 was realized the write-off of PLN 23.3 million (in the year 2011 was established the write-off of PLN 25.9 million).

5. Net income on investments

	2012	2011
Net income on debt instruments available-for-sale	41.3	109.0
Net income on equity instruments available-for-sale	18.4	29.7
Dividend income	6.8	1.4
Impairment losses	-4.8	0.0
Other	0.0	2.0
Net income on investments	61.7	142.1

6. Net income on hedge accounting

	2012	2011
Fair value hedge accounting for securities	-9.5	-35.7
- valuation of the hedged transaction	203.9	173.9
- valuation of the hedging transaction	-213.4	-209.6
Cash flow hedge accounting	-3.8	2.3
- ineffectiveness that arises from cash flow hedges	-3.8	2.3
Net income on hedge accounting	-13.3	-33.4

Detailed information on the hedge accounting applied in the Bank is provided in the subsequent part of the financial statements in note no. 38 *Hedge accounting*.

7. Net income on the other basic activities

	2012	2011
Result on disposal of fixed assets and intangible assets	-1.7	2.1
Banking activity-related compensations and losses	-1.5	-1.8
Impairment on other non-financial assets	-0.2	-0.2
Other	2.2	1.3
Total	-1.2	1.4

8. General and administrative expenses

	2012	2011
Personnel expenses, of which:	834.2	805.5
- wages and salaries, including:	704.3	677.0
- variable remuneration programme	11.8	0.0
- incentive programme LEO	10.7	13.4
- retirement benefits	2.6	2.2
- employee benefits, including:	129.9	128.5
- training expenses	8.3	22.1
General and administrative expenses, of which:	730.9	684.7
- maintenance and rental of buildings	195.6	192.6
- consulting	114.2	97.6
- cost of marketing and promotion	89.1	73.9
- communication services	49.2	51.2
- lease of computer resources	43.4	41.7
- equipment and other operating assets	40.9	34.0
- refurbishment services	39.3	42.0
- leasing services	22.1	19.2
- licences and patents	20.2	20.4
- taxes and charges	2.7	3.1
- other external services	114.2	109.0
Depreciation and amortisation, of which:	145.7	131.3
- on property, plant and equipment	84.9	72.6
- on intangible assets	60.8	58.7
Total	1 710.8	1 621.5

8.1. Employee benefits

8.1.1. Variable Remuneration Programme

In 2012, the Variable Remuneration Programme was initiated. The Programme is addressed to:

- persons holding managerial positions having material impact on the Group risk profile (to satisfy the requirements of PFSA Resolution No. 258/2011) and
- employees displaying special potential and skills.

Benefits will be granted to the employees covered with the Programme, based on their performance appraisal for a given year. 2012 will be the first assessment period under the Programme.

The Programme description and characteristics are included in Chapter V. *Material Principles of Accounting* in item 12.3.3. *Variable Remuneration Programme Benefits*.

In this note, the Personnel expenses – remuneration item covers the costs of the Variable Remuneration Programme borne by the Bank, in 2012 these expenses totalled PLN 11.8 million.

8.1.2. Incentive programme LEO

The Bank 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 chapter no. V. *Material accounting principles* in the point no. 12.3.2. *LEO long-term incentive system benefits*.

Option funding costs and system administration costs incurred by the Bank are recognized in item *Personnel expenses – wages and salaries*. The costs amounted to PLN 0.2 million in 2012 as compared to PLN 3.7 million in 2011.

The measurement of the awarded options at fair value is also recognized in the item. For the year 2012, the said measurement was minus PLN 10.5 million (as compared to minus PLN 9.7 million for the year 2011) and it encumbered the Bank'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.

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 2012 and 2011:

	2012		2011	
	<i>min</i>	<i>max</i>	<i>min</i>	<i>max</i>
risk free interest rate	2.02%	4.62%	2.02%	4.62%
expected term of realisation	5 lat	9 lat	5 lat	9 lat
current share price	2.9 EUR	26.05 EUR	2.9 EUR	26.05 EUR
expected volatility of the certificates of shares	25 %	84%	25 %	84%
expected dividends	0.94%	8.99%	0.94%	8.99%

Changes in option rights outstanding

	Options outstanding (in numbers)		Weighted average exercise price (in euros)	
	2012	2011	2012	2011
Opening balance	794 648	1 019 837	13.74	15.24
- transferred	21 270	-7 041	9.25	17.64
- granted	0	0	0.00	0.00
- made	20 827	0	2.90	0.00
- forfeited	11 352	111 382	16.51	14.73
- expired	51 556	106 766	21.97	26.37
Closing balance	732 183	794 648	13.26	13.74

As per 31 Dec 2012 total options outstanding consists of 439,727 options relating to equity-settled share-based payment arrangements and 328,079 options relating to cash-settled share-based payment arrangements (as per 31 Dec 2011 189,185 and 605,463 respectively).

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

2012

Range of exercise price in euros	Options outstanding as at 31 Dec 2012	Weighted average remaining contractual life	Weighted average exercise price (in EUR)	Options exercisable as at 31 Dec 2012	Weighted average remaining contractual life	Weighted average exercise price (in EUR)
0.00 - 5.00	86 658	6.22	2.90	86 658	6.22	2.90
5.00 - 10.00	286 863	6.33	7.65	36 072	0.17	9.71
10.00 - 15.00	24 167	1.97	14.34	24 167	1.97	14.34
15.00 - 20.00	180 132	4.18	17.08	180 132	4.18	17.08
20.00 - 25.00	89 494	4.21	24.68	89 494	4.21	24.68
25.00 - 30.00	64 869	3.24	25.19	64 869	3.24	25.19
	732 183			481 392		

2011

Range of exercise price in euros	Options outstanding as at 31 Dec 2011	Weighted average remaining contractual life	Weighted average exercise price (in EUR)	Options exercisable as at 31 Dec 2011	Weighted average remaining contractual life	Weighted average exercise price (in EUR)
0.00 - 5.00	99 417	7.22	2.90	0	-	-
5.00 - 10.00	283 334	7.27	7.67	38 025	1.17	9.71
10.00 - 15.00	25 794	2.86	14.36	25 794	2.86	14.36
15.00 - 20.00	181 996	5.15	17.10	181 996	5.15	17.10
20.00 - 25.00	136 579	3.57	23.99	136 579	3.57	23.99
25.00 - 30.00	67 528	4.24	25.18	67 528	4.24	25.18
	794 648			449 922		

The aggregate intrinsic value of options outstanding and exercisable as at 31 Dec 2012 was EUR 360,584 and EUR 360,584 EUR respectively in comparison with EUR 264,449 and EUR 0 as at 31 Dec 2011.

9. Result on the other operating income and expenses

	2012	2011
Other operating expenses due to disputed claims	1.1	-1.5
Measurement of fixed assets at fair value	0.8	-5.9
Donations made	-0.8	-1.4
Other	-0.4	0.7
Total	0.7	-8.1

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

	2012	2011
Impairment losses on loans and other receivables	627.4	510.2
Reversed impairment losses on loans and other receivables	-289.3	-336.9
Net impairment losses on loans and other receivables, of which:	338.1	173.3
- losses on loans and other receivables with evidence of impairment	381.4	172.0
- losses on loans and other receivables with no evidence of impairment (IBNR)	-43.3	1.3
Increase of provisions for off-balance liabilities	20.0	7.5
Reversed provision for off-balance sheet liabilities	-8.0	-8.4
Net provisions for off-balance sheet liabilities recognized, of which:	12.0	-0.9
- on the portfolio with evidence of impairment	13.5	-2.5
- on the portfolio with no evidence of impairment (IBNR)	-1.5	1.6
Total increase of provisions	647.4	517.7
Total reversed impairment losses	-297.3	-345.3
Net impairment losses and provisions for off-balance sheet liabilities	350.1	172.4

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 2012 totalled PLN 11.5 million compared with PLN 20.2 million in 2011.

Amounts as to recognition and reversal of impairment losses on loans and other receivables broken down by clients are represented below.

Impairment losses on loans and other receivables by client's sector

	2012	2011
Impairment losses on loans and other receivables, of which	627.4	510.2
- banks	0.5	0.1
- entities from the financial sector other than banks	0.7	2.1
- entities from the non-financial sector	626.0	507.4
- entities from the government and self-government institutions' sector	0.2	0.6
Reversed impairment losses on loans and other receivables, of which:	-289.3	-336.9
- banks	-0.1	0.0
- entities from the financial sector other than banks	-0.4	-2.1
- entities from the non-financial sector	-288.0	-334.0
- entities from the government and self-government institutions' sector	-0.8	-0.8
Net impairment losses on loans and other receivables, of which:	338.1	173.3
- banks	0.4	0.1
- entities from the financial sector other than banks	0.3	0.0
- entities from the non-financial sector	338.0	173.4
- entities from the government and self-government institutions' sector	-0.6	-0.2

Impairment losses on loans and other receivables by client's segment

	2012	2011
Impairment losses on loans and other receivables, of which:	627.4	510.2
- corporate banking	428.7	309.8
- retail banking	198.7	200.4
Reversed impairment losses on loans and other receivables, of which:	-289.3	-336.9
- corporate banking	-177.8	-226.7
- retail banking	-111.5	-110.2
Net impairment losses on loans and other receivables, of which:	338.1	173.3
- corporate banking	250.9	83.1
- retail banking	87.2	90.2

11. Income tax*Income tax recognised in the profit and loss account*

	2012	2011
Current portion, of which:	349.7	92.6
Current year	321.0	83.0
Adjustment of last-year tax settlement	28.7	9.6
Deferred tax, of which:	-166.9	135.3
Recognised and reversed temporary differences	-166.9	135.3
Total income tax recognised in the profit and loss account	182.8	227.9

Effective tax rate calculation

	2012	2011
A. Profit before tax	940.6	1 131.7
B. 19% of profit before tax	178.7	215.0
C. Increases – non-deductible expenses, of which:	12.9	35.0
- setting up a provision against disputable debt claims and other assets	2.5	2.9
- thin capitalisation	1.5	8.8
- expenses due to loan and non-loan receivables written off	1.2	13.8
- PFRON	1.2	1.2
- impairment on receivables in a part not covered with the deferred tax	1.0	0.4
- representation expenses	0.9	1.5
- tax loss on the sale of the portfolio of receivables	0.3	1.6
- expenses due to foreign payments	0.0	0.2
- other	4.3	4.6
D. Decreases – tax exempt income, of which:	8.8	22.1
- dividends received	7.0	19.9
- release of provisions against disputable debt claims	1.3	1.5
- income exempt due to the entity	0.5	0.5
- other	0.0	0.2
E. Income tax from profit and loss account (B+C-D)	182.8	227.9
Effective tax rate (E : A)	19,43%	20,14%

12. Earnings per ordinary share

Basic earnings per share

The calculation of basic earnings per one share of the parent company as for the year 2012 was based on net profit amounting to PLN 757.8 million (in the year 2011, it was PLN 903.8 million) and weighted average number of ordinary shares at the end 2012 i 2011 equalling 130 100 000.

	2012	2011
Net profit (loss) assigned to shareholders of the ING Bank Śląski S.A.	757.8	903.8
Weighted average number of ordinary shares	130 100 000	130 100 000
Earnings per ordinary share (in PLN)	5.82	6.95

Diluted earnings per share

In 2012 as well as in 2011, there were no factors that would dilute the profit per one share. Within the described period ING Bank Śląski S.A. issued neither bonds convertible to shares nor options for shares. The share capital comprises of ordinary shares only (no privileged shares). Therefore, the diluted earnings per share is the same as the underlying profit per one share.

13. Dividends paid/proposed

The Management Board of ING Bank Śląski S.A. has not adopted resolution on 2012 profit dividend payout by the day of signing this financial statements. When submitting the recommendation on 2012 profit allocation the Bank Management Board will consider the necessity to ensure appropriate solvency ratio and capital level indispensable to the Bank's growth.

On 19 April 2012, the General Shareholders Meeting resolved not to pay out the dividend for the year 2011 and approved earmark the entire 2011 net profit for equity.

14. Cash in hand and balances with the Central Bank

	end of 2012	end of 2011
Cash in hand	772.7	645.3
Balances with the Central Bank	3 298.9	847.8
Total	4 071.6	1 493.1

The Bank maintains a mandatory provision - at the level of 3.5% of the value of deposits received by the Bank - in its current account kept with the National Bank of Poland.

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

- PLN 1 965.3 million for the period from 31 Dec 2012 to 30 Jan 2013,
- PLN 1 829.9 million for the period from 30 Nov 2011 to 01 Jan 2012.

The Bank may utilise the credit limit with the National Bank of Poland representing 85% of the face value of Treasury securities subject to pledge, which as at 31 Dec 2012 represented PLN 8 489.3 million compared with PLN 4 918.0 million as at 31 Dec 2011.

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

	end of 2012	end of 2011
Financial assets held for trading	507.6	444.7
Financial assets designated as at fair value upon initial recognition	1 047.0	194.9
Total	1 554.6	639.6

Financial assets at fair value through profit and loss by maturity

	end of 2012	end of 2011
up to 1 month	1 047.9	258.9
over 1 month and up to 3 months	0.1	59.1
over 3 months and up to 1 year	108.3	30.7
over 1 year and up to 5 years	271.4	187.9
over 5 years	126.9	103.0
Total	1 554.6	639.6

Movements in financial assets at fair value through profit and loss

	2012	2011
Opening balance	639.6	636.7
Increases, of which:	569 935.0	563 651.4
- purchase of debt securities	569 896.4	563 615.5
- increase in the value of securities	38.6	35.9
Decreases, of which:	569 020.0	563 648.5
- sales of debt securities	567 874.9	562 905.3
- redemption of debt securities	965.6	548.0
- drop in the value of securities	179.5	195.2
Closing balance	1 554.6	639.6

Interest revenue from financial assets carried at fair value through profit and 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 *Net income on instruments measured at fair value through profit and loss and FX result*.

Financial assets held for trading

	end of 2012	end of 2011
Debt instruments, of which:	507.6	444.7
- Treasury bonds	506.6	385.5
- Treasury bills	1.0	59.2
Total financial assets held for trading, of which:	507.6	444.7
- listed instruments	506.6	385.5
- unlisted instruments	1.0	59.2

Financial assets designated as at fair value upon initial recognition

	end of 2012	end of 2011
Transactions with the buy-back commitment	1 047.0	194.9
Total financial assets designated as at fair value upon initial recognition	1 047.0	194.9

The Bank designated all buy-sell-back and sell-buy-back transactions for fair value measurement through profit and loss. As of the end of 2010 also debt securities in the form of bonds issued by 1 entity from non-financial sector were designated for fair value measurement through profit and loss.

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

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

16. Valuation of derivatives

The below table shows face values for derivatives whose valuation is presented on the assets side (positive valuation) and liabilities side (negative valuation) of the Bank's statement of financial position.

end of 2012

	Valuation of derivatives		Nominal value of instruments with the period remaining to maturity			TOTAL
	Assets	Liabilities	up to 3 months	over 3 months and up to 1 year	over 1 year	
Interest rate derivatives, of which:	1 582.7	1 513.3	11 354.0	20 156.4	37 531.5	69 041.9
- Forward rate agreements (FRA)	1.2	2.3	0.0	2 848.0	0.0	2 848.0
- Interest rate swaps (IRS)	1 578.1	1 507.6	11 354.0	16 741.7	35 287.3	63 383.0
- CAP options	3.4	3.4	0.0	566.7	2 244.2	2 810.9
FX derivatives, of which:	231.7	255.6	16 146.1	4 916.9	476.7	21 539.7
- FX contracts (swap, forward)	128.5	99.9	15 594.7	4 723.0	475.2	20 792.9
- CIRS ^{*)}	91.6	132.8	0.0	0.0	0.0	0.0
- Currency options (purchased)	11.6	0.0	298.5	84.1	0.0	382.6
- Currency options (sold)	0.0	22.9	252.9	109.8	1.5	364.2
Current off-balance sheet transactions, of which:	1.4	2.6	6 087.0	0.0	0.0	6 087.0
- FX operations	0.6	0.7	2 793.4	-	-	2 793.4
- Securities operations	0.8	1.9	3 293.6	-	-	3 293.6
Stock market derivatives, of which:	4.3	4.3	45.4	46.3	1 177.2	1 268.9
- Options for stock market (buy)	4.3	0.0	22.9	23.4	597.7	644.0
- Options for stock market (sold)	0.0	4.3	22.5	22.9	579.5	624.9
Fair value measurement of other financial instruments	2.6	2.5	-	-	-	-
Total	1 822.7	1 778.3	33 632.5	25 119.6	39 185.4	97 937.5

*) CIRS derivatives with the value date preceding the date hereof are shown in the value being the total of fair value measurement and nominal differential. The so-determined value is presented in the statement of financial position in the item *Valuation of derivatives* on the assets side (positive valuation) or liabilities side (negative valuation).

end of 2011

	Valuation of derivatives		Nominal value of instruments with the period remaining to maturity			TOTAL
	Assets	Liabilities	up to 3 months	over 3 months and up to 1 year	over 1 year	
Interest rate derivatives, of which:	1 133.9	1 055.9	9 907.1	16 701.9	41 863.9	68 472.9
- Forward rate agreements (FRA)	2.7	1.7	0.0	6 100.0	0.0	6 100.0
- Interest rate swaps (IRS)	1 127.6	1 050.6	9 727.0	10 496.4	40 339.6	60 563.0
- CAP options	3.6	3.6	180.1	105.5	1 524.3	1 809.9
FX derivatives, of which:	713.7	628.4	35 356.5	11 495.9	899.9	47 752.3
- FX contracts (swap, forward)	597.9	394.7	34 563.4	11 044.1	864.5	46 472.0
- CIRS ¹⁾	107.6	143.6	0.0	0.0	0.0	0.0
- Currency options (purchased)	8.2	0.0	375.2	106.7	17.7	499.6
- Currency options (sold)	0.0	90.1	417.9	345.1	17.7	780.7
Current off-balance sheet transactions, of which:	6.5	5.6	13 881.8	0.0	0.0	13 881.8
- FX operations	6.2	4.2	10 262.0	-	-	10 262.0
- Securities operations	0.3	1.4	3 619.8	-	-	3 619.8
Stock market derivatives, of which:	2.5	2.4	0.0	6.6	1 128.9	1 135.5
- Options for stock market (buy)	2.5	0.0	0.0	3.3	567.5	570.8
- Options for stock market (sold)	0.0	2.4	0.0	3.3	561.4	564.7
Fair value measurement of other financial instruments	1.8	1.8	-	-	-	-
Total	1 858.4	1 694.1	59 145.4	28 204.4	43 892.7	131 242.5

Embedded derivatives

At the end of 2012 and 2011 the Bank had deposits in PLN 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 2012 was PLN 8.0 million against PLN 8.4 million as per 31 Dec 2011.

17. Investments

	end of 2012	end of 2011
Available-for-sale financial assets, including:	17 880.5	15 467.8
- fair value hedge - hedged items	1 042.3	1 020.3
Held-to-maturity financial assets	0.0	4 982.3
Total	17 880.5	20 450.1

Investments by maturity

	end of 2012	end of 2011
up to 1 month	2 498.8	5 995.9
over 3 months and up to 1 year	2 313.0	1 487.2
over 1 year and up to 5 years	8 753.2	9 606.2
over 5 years	4 315.5	3 360.8
Total	17 880.5	20 450.1

Movements in investments

	2012	2011
Opening balance	20 450.1	23 005.9
Increases, of which:	99 660.4	365 964.6
- purchase of debt securities	94 549.3	364 748.8
- reclassification all debt securities held to maturity to the category of available-for-sale financial assets	3 497.3	0.0
- increase in the value of securities	1 613.2	1 213.5
- purchase of shares in other parties	0.6	0.0
- release of provisions for shares	0.0	2.3
Decreases, of which:	102 230.0	368 520.4
- sales of debt securities	6 970.1	18 623.2
- redemption of debt securities	90 842.7	349 078.6
- reclassification all debt securities held to maturity to the category of available-for-sale financial assets	3 497.3	0.0
- drop in the value of securities	919.9	816.3
- sale of shares in other parties	0.0	2.3
Closing balance	17 880.5	20 450.1

In 2012, the Bank sold shares of one company from its investment portfolio. The net income on sale of those shares amounted to PLN +6.8 million.

In 2011, the Bank sold shares of one company from its investment portfolio, the value of which at the acquisition price amounted to PLN 2.3 million whereas its balance-sheet value due to a recognized impairment loss was PLN 0. The net income on sale of those shares amounted to PLN 0.4 million.

In 2011, the Bank generated net income on redemption of some part of shares purchased under restructuring that amounted to PLN +1.0 million.

Available-for-sale financial assets

	end of 2012	end of 2011
Debt securities, of which:	17 863.8	15 437.7
- Fixed rate debt instruments, of which:	11 883.3	10 679.9
- Treasury bonds	7 648.40	3 313.20
- NBP bills	2 498.80	5 995.80
- BGK bonds	1 736.10	1 370.90
- Floating rate debt instruments, of which:	5 980.5	4 757.8
- Treasury bonds	5 980.50	4 757.80
Total debt instruments, of which:	17 863.8	15 437.7
- listed instruments	15 365.00	9 441.90
- unlisted instruments	2 498.80	5 995.80
Equity instruments	16.7	30.1
- Equity instruments at cost	43.8	43.3
- Market value evaluation	0.3	5.3
- Impairment	-27.4	-18.5
Equity instruments – carrying value, of which:	16.7	30.1
- listed instruments	0.4	0.9
- unlisted instruments	16.3	29.2
Total available-for-sale financial assets	17 880.5	15 467.8

The item *Equity Instruments* include stocks and shares of number of entities not quoted on stock exchange which are not presented as fair value. It is difficult or impossible to determine the fair value due to absence of active market for those instruments. The Bank is of the opinion that the purchase price is the best indicator of their value.

Moreover, the Bank hold shares of two companies, purchased under debt restructuring. It's valuation is based on the market rate, including the impairment losses.

Due to the operations of its units, the Bank 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 Bank for disposal (by sale or liquidation).

Held-to-maturity financial assets

	end of 2012	end of 2011
Fixed rate debt instruments, of which:	0.0	4 982.3
- Treasury bonds (listed)	0.0	4 982.3
Total held-to-maturity financial assets	0.0	4 982.3

In 2012, the ING Bank Śląski S.A. took decision to reclassify all investments held to maturity to the category of available-for-sale financial assets. As a consequence of this decision, for the period of 2 years it is forbidden to classify any financial assets to the category of investments held to maturity. At the date of reclassification, the Group recognized in the revaluation reserve amount of PLN 130.9 million resulted from the measurement at fair value of reclassified financial assets.

Fair value hedge - hedged items

	end of 2012	end of 2011
Fixed rate debt instruments, of which:	1 042.3	1 020.3
- Treasury bonds	1 042.3	1 020.3
Total	1 042.3	1 020.3

Specific information on the hedge accounting applied in the Bank is presented later in the report in the note no. 38 *Hedge accounting*.

17.1. Reclassification of the debt securities

The Bank presents the disclosures of reclassification in connection with reclassification executed in 2008. The Bank 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 Bank makes the above securities classify as matching the definition of loans and receivables according to IAS, namely they "are financial assets other than derivatives, with the determined or possible to determine payments, and which are not quoted on active market", and the Bank's intention pertaining thereto, i.e. Bank's intention and possibility to hold them in a foreseeable future, did not change.

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

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

Name of security	Date of reclassification	Fair value as of the date of reclassification	end of 2012		end of 2011	
			carrying amount	fair value	carrying amount	fair value
T-eurobonds	01.10.2008	1 242.9	1 838.6	2 144.7	1 909.9	2 011.3
Corporate bonds	19.12.2008	294.2	13.0	12.9	92.0	92.0
Municipal bonds	19.12.2008	34.4	32.1	32.5	34.1	34.4
Total		1 571.5	1 883.7	2 190.1	2 036.0	2 137.7

Upon reclassification, the above named securities are presented in the financial statements under the item *Loans and other receivables to customers*.

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 Bank 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 not performed

Name of security	Fair value recognised in equity	
	end of 2012	end of 2011
T-eurobonds	306.1	101.4
Corporate bonds	-0.1	0.0
Municipal bonds	0.4	0.3
Total	306.4	101.7

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 Bank such calculations would be prone to error and would rely on hypothetical assumptions that would be difficult to verify.

Costs and revenues included in the profit and loss account

2012

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	77.6	-2.8	1.9	72.6
Corporate bonds	1.4	0.0	0.1	0.0
Municipal bonds	4.8	0.1	-0.1	0.0
Total	83.8	-2.7	1.9	72.6

2011

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	76.2	-2.8	1.9	81.5
Corporate bonds	4.5	0.0	0.6	0.0
Municipal bonds	4.4	0.1	-0.1	0.0
Pledge (mortgage) bonds	0.0	0.2	-0.2	0.0
Total	85.1	-2.5	2.2	81.5

^{*)} measurement due to the hedged interest rate risk

18. Assets securing liabilities

Nominal value of assets securing liabilities

	end of 2012	end of 2011
From the portfolio of financial assets measured at fair value through profit and loss:		
- treasury bonds collateralising the liabilities due to securities sold with a promise of repurchase (sell-buy-back transactions)	1 965.6	1 637.5
- treasury bonds collateralising the liabilities due to securities sold with a promise of repurchase (repo transactions)	0.0	37.5
From the portfolio of financial assets held-to-maturity:		
- treasury bonds constituting a collateral to Bank Guarantee Fund	0.0	865.5
From the portfolio of available-for-sale financial assets:		
- treasury bonds constituting a collateral to Bank Guarantee Fund	358.2	0.0
- treasury bonds collateralising the loan received by the subsidiary of the European Investment Bank	104.5	0.0
- treasury bonds collateralising the liabilities due to securities sold with a promise of repurchase (repo transactions)	80.0	169.1
- treasury bonds collateralising the Bank debt to subsidiary	40.0	0.0
- BGK bonds securing the receivables and liabilities of the merged subsidiary	0.0	93.0
From the portfolio of loans and receivables:		
- treasury bonds collateralising the liabilities due to securities sold with a promise of repurchase (repo transactions)	77.7	1 475.2

Securities are pledged on the terms provided for by:

- the Banking Guarantee Fund Act (Journal of Laws 84 of 2009, item 711),
- Commercial Companies Code, Article 495 (Journal of Laws of 2000, no. 94, item 1037 as amended),
- the basis of the transaction.

Besides the instruments indicated herein, assets limited as to use also include the obligatory reserve which the Bank has to maintain in the current account with NBP. For obligatory reserve details, see note no. 14 *Cash in hand and balances with the Central Bank*.

19. Derivative hedge instruments

Positive valuation

	end of 2012	end of 2011
Balance sheet valuation of instruments hedging the cash flows, of which:	1 112.6	433.4
- Interest Rate Swap	1 060.1	433.4
- Cross Currency Swap	52.0	0.0
- Forward	0.5	0.0
Total	1 112.6	433.4

Negative valuation

	end of 2012	end of 2011
Balance sheet valuation of instruments hedging the fair value of securities, of which:	1 340.8	900.6
- Interest Rate Swap	1 340.8	900.6
Balance sheet valuation of instruments hedging the cash flows, of which:	23.2	0.0
- Interest Rate Swap	23.2	0.0
Total	1 364.0	900.6

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. 38 *Hedge accounting*.

20. Loans and receivables

Loans and other receivables portfolio

	end of 2012		
	gross value	impairment losses	net value
Loans and receivables to other banks, of which:	1 365.8	-0.5	1 365.3
- loans and advances	297.3	-0.5	296.8
Loans and receivables to customers, of which:	47 103.0	-1 339.0	45 764.0
- loans and advances	41 087.5	-1 276.0	39 811.5
Total, of which:	48 468.8	-1 339.5	47 129.3
- loans and advances	41 384.8	-1 276.5	40 108.3

	end of 2011		
	gross value	impairment losses	net value
Loans and receivables to other banks, of which:	967.3	-0.2	967.1
- loans and advances	120.7	-0.2	120.5
Loans and receivables to customers, of which:	43 412.7	-1 114.0	42 298.7
- loans and advances	37 379.0	-1 108.8	36 270.2
Total, of which:	44 380.0	-1 114.2	43 265.8
- loans and advances	37 499.7	-1 109.0	36 390.7

20.1. Loans and receivables to other banks

	end of 2012	end of 2011
Current accounts	977.2	805.7
Interbank deposits, of which:	25.3	40.9
- overnight deposits	0.0	6.9
Loans and advances ^{*)}	297.3	120.7
Reverse repo transactions	66.0	0.0
Total (gross)	1 365.8	967.3
Impairment losses, of which:	-0.5	-0.2
- concerning loans and advances ^{*)}	-0.5	-0.2
Total (net)	1 365.3	967.1

^{*)} The note 20.3. presented further provides detailed information about the quality of the loans and advances portfolio and impairment losses concerning loans and advances.

Loans and receivables to other banks by maturity

	end of 2012	end of 2011
up to 1 month	1 102.1	837.5
over 1 month and up to 3 months	113.1	11.0
over 3 months and up to 1 year	98.3	10.9
over 1 year and up to 5 years	52.3	107.9
Total	1 365.8	967.3

Repurchase transactions

In this note, in the sell-buy-back transactions item the reverse repo transactions are presented. The Bank makes buy-sell-back transactions whereunder financial instruments are sold back at the same price plus the determined interest amount. The reverse repo transactions are used as a liquidity management tool for short-term allocation of funds surplus.

20.2. Loans and receivables to customers

	end of 2012	end of 2011
Loans and advances ^{*)}	41 087.5	37 379.0
Debt securities, of which:	5 945.1	5 959.6
- T-eurobonds	3 779.7	3 872.6
Other receivables	70.4	74.1
Total (gross)	47 103.0	43 412.7
Impairment losses, of which:	-1 339.0	-1 114.0
- concerning loans and advances ^{*)}	-1 276.0	-1 108.6
- concerning debt securities	-57.8	-0.2
- concerning other receivables	-5.2	-5.2
Total (net), of which:	45 764.0	42 298.7
- Loans and other receivables to entities from the financial sector other than banks	4 451.7	2 887.3
- Loans and other receivables to entities from the non-financial sector	33 632.4	31 626.4
- Loans and other receivables to entities from the government and self-government institutions' sector	7 679.9	7 785.0

*) The note 20.3. presented further provides detailed information about the quality of the loans and advances portfolio and impairment losses concerning loans and advances.

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

	end of 2012	end of 2011
Loans and advances, of which:	4 387.5	2 821.8
- in the current account	1 180.5	4.7
- term ones	3 207.0	2 817.1
Other receivables	64.4	65.8
Total (gross)	4 451.9	2 887.6
Impairment losses, of which:	-0.2	-0.3
- concerning loans and advances	-0.2	-0.3
Total (net)	4 451.7	2 887.3

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

	end of 2012	end of 2011
Loans and advances granted to business entities, of which:	16 661.0	15 969.2
- in the current account	4 978.3	4 316.1
- term ones	11 682.7	11 653.1
Loans and advances granted to households, of which:	16 927.7	15 315.2
- in the current account	1 378.9	1 311.3
- term ones	15 548.8	14 003.9
Debt securities	1 376.0	1 446.1
Other receivables	5.7	8.2
Total (gross)	34 970.4	32 738.7
Impairment losses, of which:	-1 338.0	-1 112.3
- concerning loans and advances granted to business entities	-808.6	-731.1
- concerning loans and advances granted to households	-466.4	-375.8
- concerning debt securities	-57.8	-0.2
- concerning other receivables	-5.2	-5.2
Total (net)	33 632.4	31 626.4

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

	end of 2012	end of 2011
Loans and advances, of which:	3 111.3	3 272.8
- in the current account	9.5	34.7
- term ones	3 101.8	3 238.1
Debt securities	4 569.1	4 513.5
Other receivables	0.3	0.1
Total (gross)	7 680.7	7 786.4
Impairment losses, of which:	-0.8	-1.4
- concerning loans and advances	-0.8	-1.4
Total (net)	7 679.9	7 785.0

*) In 2008, the Bank reclassified a part of the debt securities from the available-for-sale financial assets to the loans and other receivables category. The said securities included, but were not limited to, 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. 17.1.

Loans and receivables to customers by maturity

	end of 2012	end of 2011
up to 1 month	7 884.6	6 626.5
over 1 month and up to 3 months	2 447.2	1 906.9
over 3 months and up to 1 year	4 863.9	4 108.3
over 1 year and up to 5 years	12 862.0	12 628.5
over 5 years	17 007.2	16 564.5
overdue	2 038.1	1 578.0
Total	47 103.0	43 412.7

Fair value hedge - hedged items

Below table presents value of securities classified to the category of loans and advances and hedged within FVH accounting.

	end of 2012	end of 2011
Fixed rate debt instruments, of which:	3 779.7	3 872.6
- Treasury bonds	3 779.7	3 872.6
Total	3 779.7	3 872.6

Detailed information on the hedge accounting applied in the Bank is presented in the subsequent part of the report in note no. 38 *Hedge accounting*.

Repayment security

In line with the credit policy, the Bank accepts collateral to secure repayment of the loans extended in the form of blocked borrower's account funds and the borrower's assets. More information about collaterals is presented in the part "*Risk Management in ING Bank Śląski S.A.*", in the point no 5.4. *Repayment Security and Other Forms of Credit Risk Mitigation*.

20.3. Quality of portfolio of loans and receivables**Loans and advances by client segment**

	end of 2012		
	gross value	impairment losses	net value
Corporate banking segment	24 843.7	-806.3	24 037.4
Retail banking segment, of which:	16 541.1	-470.2	16 070.9
- mortgages	12 602.3	-87.8	12 514.5
- other loans and advances	3 938.8	-382.4	3 556.4
Total	41 384.8	-1 276.5	40 108.3

	end of 2011		
	gross value	impairment losses	net value
Corporate banking segment	22 490.8	-726.0	21 764.8
Retail banking segment, of which:	15 008.9	-382.8	14 626.1
- mortgages	11 272.6	-72.3	11 200.3
- other loans and advances	3 736.3	-310.5	3 425.8
Total	37 499.7	-1 108.8	36 390.9

Loans and receivables portfolio classified according to impaired / unimpaired

	end of 2012	end of 2011
Loans and advances to customers from corporate banking segment		
Gross value, of which:	24 843.7	22 490.8
- unimpaired (IBNR ^{*)})	23 710.8	21 357.5
- impaired, of which:	1 132.9	1 133.3
- measured individually (ISFA ^{*)})	1 030.3	1 074.6
- measured as the portfolio (INSFA ^{*)})	102.6	58.7
Impairment losses, of which:	-806.3	-726.0
- unimpaired (IBNR ^{*)})	-53.9	-63.0
- impaired, of which:	-752.4	-663.0
- measured individually (ISFA ^{*)})	-685.7	-622.6
- measured as the portfolio (INSFA ^{*)})	-66.7	-40.4
Loans and advances to customers from retail banking segment		
Gross value, of which:	16 541.1	15 008.9
- unimpaired (IBNR ^{*)})	16 024.4	14 589.1
- impaired	516.7	419.8
Impairment losses, of which:	-470.2	-382.8
- unimpaired (IBNR ^{*)})	-70.1	-96.9
- impaired	-400.1	-285.9
Total gross value, of which:	41 384.8	37 499.7
- unimpaired (IBNR) portfolio	39 735.2	35 946.6
- impaired portfolio	1 649.6	1 553.1
Total impairment losses, of which:	-1 276.5	-1 108.8
- unimpaired (IBNR) portfolio	-124.0	-159.9
- impaired portfolio	-1 152.5	-948.9
Loans and advances (net)	40 108.3	36 390.9

^{*)} IBNR – Incurred But Not Reported; ISFA – Individually Significant Financial Assets; INSFA – Individually Non- Significant Financial Assets

Movements in impairment losses concerning loans and advances

	2012	2011
Opening balance	1 108.8	1 077.0
Movements in impairment losses, of which:	167.7	31.8
- Recognised during the period	577.8	510.2
- Reversed during the period	-297.3	-336.9
- Utilised writte-offs	-129.8	-171.3
- Amounts recovered from loans previously written off	11.5	22.0
- Unwinding interest	-1.7	-10.2
- Amount of previous FV adjustment for restructuring unmatured FM assets ^{*)}	28.4	34.5
- Other	-21.2	-16.5
Closing balance	1 276.5	1 108.8

^{*)} FM assets – credit receivable arising from restructuring derivative transaction concluded by the Bank with its clients.

Movements in impairment losses concerning loans and advances by client segments

2012

	impairment losses concerning loans and advances to customers from corporate banking segment	impairment losses concerning loans and advances to customers from retail banking segment			TOTAL
		mortgages	other loans and advances	Total	
Opening balance	726.0	72.3	310.5	382.8	1 108.8
Movements in impairment losses, of which:	80.3	15.5	71.9	87.4	167.7
- Recognised and reversed during the period	190.4	15.9	74.2	90.1	280.5
- Utilised writte-offs	-127.4	-0.1	-2.3	-2.4	-129.8
- Amounts recovered from loans previously written off	2.2	0.0	9.3	9.3	11.5
- Unwinding interest	-1.4	-0.1	-0.2	-0.3	-1.7
- Amount of previous FV adjustment for restructuring unmatured FM assets ^{*)}	28.4	0.0	0.0	0.0	28.4
- Other	-11.9	-0.2	-9.1	-9.3	-21.2
Closing balance	806.3	87.8	382.4	470.2	1 276.5

^{*)} FM assets – credit receivable arising from restructuring derivative transaction concluded by the Bank with its clients.

2011

	impairment losses concerning loans and advances to customers from corporate banking segment	impairment losses concerning loans and advances to customers from retail banking segment		TOTAL
		mortgages	other loans and advances	
Opening balance	772.7	53.8	250.5	1 077.0
Movements in impairment losses, of which:	-46.7	18.5	60.0	31.8
- Recognised and reversed during the period	83.1	17.0	73.2	173.3
- Utilised write-offs	-159.7	-0.1	-11.5	-171.3
- Amounts recovered from loans previously written off	9.9	0.0	12.1	22.0
- Unwinding interest	-5.1	0.2	-5.3	-10.2
- Amount of previous FV adjustment for restructuring unmatured FM assets ^{*)}	34.5	0.0	0.0	34.5
- Other	-9.4	1.4	-8.5	-16.5
Closing balance	726.0	72.3	310.5	1 108.8

^{*)} FM assets – credit receivable arising from restructuring derivative transaction concluded by the Bank with its clients.

Credit Portfolio Sale

In 2012, the Bank did not conclude any agreements regarding the credit portfolio sale.

In 2011, the Bank concluded two agreements regarding the credit portfolio sale:

- 1) The agreement of 9 March 2011 on the sale of portfolio of identified problem loans with Ultimo Niestandardowy Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Ultimo Non-Standardised Closed Securitisation Investment Fund) with its registered office in Warsaw. The total amount of receivables sold as part of the agreement totalled PLN 41.1 million (principal, interest and other incidental dues), which in material part are recognized as impairment losses, or written off the Bank balance sheet in full. Contractual price of the portfolio sale was established at PLN 0.9 million. As a consequence of the agreement described herein, the Bank decreased its impairment losses on loans and other receivables by PLN 12.9 million. Net impact on the Bank net income under portfolio sale amounted to PLN +0.2 million.
- 2) The agreement of 3 October 2011 on the sale of portfolio of corporate receivables recognized as impaired loans or written off the Bank balance sheet in full concluded with Kredyt Inkaso I Niestandardowy Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Loan Collection 1 Non-Standard Closed-End Securitisation Investment Fund). The total amount of receivables sold under the agreement equalled PLN 201.9 million (principal and interest), which in material part are recognized as impairment losses, or written off the Bank balance sheet in full. Contractual price of the portfolio sale was established at PLN 13.6 million. As a consequence of the agreement described herein, the Bank decreased its impairment losses on loans and other receivables by PLN 76.8 million. Net impact on the Bank net income under portfolio sale amounted to PLN +11.3 million.

21. Investments in subsidiaries and associated entities

The Bank has shares in the subsidiared 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 2012	end of 2011
ING Securities S.A.	subsidiary	100.00%	30.2	30.2
Centrum Banku Śląskiego Sp. z o.o.	subsidiary	100.00%	160.2	160.2
ING ABL Polska S.A.	subsidiary	100.00%	206.1	0.0
ING Usługi dla Biznesu S.A.	subsidiary	100.00%	10.0	0.0
Solver Sp. z o.o.	subsidiary	82.30%	7.9	7.9
ING Powszechne Towarzystwo Emerytalne S.A.	associated company	20.00%	40.0	40.0
Total			454.4	238.3

Purchase of ING ABL Polska S.A.

In 2012, ING Bank Śląski S.A. purchased 100% shares of ING ABL Polska S.A. being a dominant entity towards ING Lease Polska Sp. z o.o. and ING Commercial Finance S.A., wherein it holds 100% of the share capital. The main objective of acquiring the said companies, whose operations cover leasing and factoring, was to extend the product offer with ABL products for the corporate segment clients. The transaction is described in detail in Chapter II. *Significant events in 2012.*

Incorporation of ING UdB S.A.

In 2012, the ING Usługi dla Biznesu S.A. company was established; ING Bank Śląski holds 100% shares thereof. The operations of the newly established company include provision of a wide array of services for Bank's clients as regards handling their business operations.

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 2012	end of 2011
Share in the equity	20%	20%
Assets	604.3	553.3
Liabilities	28.5	24.9
Net assets	575.8	528.4
Revenues	292.4	344.7
Net profit (loss)	178.2	206.4

22. Property, plant and equipment

	end of 2012	end of 2011
Real estate and leasehold improvements	337.3	314.1
Computer hardware	54.1	54.7
Other fixtures and fittings	161.2	134.6
Constructions in progress	34.6	59.0
Total	587.2	562.4

2012

	Real estate and leasehold improvements	Computer hardware	Other fixtures and fittings	Constructions in progress	TOTAL
Gross value at the beginning of period	657.0	199.6	403.5	59.0	1 319.1
Additions, due to:	52.4	29.8	61.9	119.7	263.8
- purchases	0.0	0.0	0.0	119.7	119.7
- investment take-overs	52.4	29.8	61.9	0.0	144.1
Disposals, due to:	-21.0	-23.8	-51.7	-144.1	-240.6
- sale and liquidation	-13.2	-23.8	-50.3	0.0	-87.3
- investment take-overs	0.0	0.0	0.0	-144.1	-144.1
- reclassification to assets held for sale	-7.8	0.0	-1.4	0.0	-9.2
Revaluation at the fair value	3.6	-2.9	0.0	0.0	0.7
Gross value at the end of period	692.0	202.7	413.7	34.6	1 343.0
Accumulated depreciation at the beginning of the period	-342.9	-144.9	-268.9	0.0	-756.7
Changes in the period (due to):	-11.8	-3.7	16.4	0.0	0.9
- amortisation charges	-25.5	-26.7	-32.7	0.0	-84.9
- sale and liquidation	12.7	23.0	48.5	0.0	84.2
- reclassification to assets held for sale	1.0	0.0	0.6	0.0	1.6
Accumulated depreciation at the end of the period	-354.7	-148.6	-252.5	0.0	-755.8
Net value at the end of period	337.3	54.1	161.2	34.6	587.2

2011

	Real estate and leasehold improvements	Computer hardware	Other fixtures and fittings	Constructions in progress	TOTAL
Gross value at the beginning of period	662.5	188.9	400.9	34.9	1 287.2
Additions, due to:	36.9	24.5	51.7	127.1	240.2
- purchases	0.0	7.5	0.5	127.1	135.1
- investment take-overs	35.8	16.4	50.9	0.0	103.1
- other	1.1	0.6	0.3	0.0	2.0
Disposals, due to:	-47.7	-13.8	-49.1	-103.0	-213.6
- sale and liquidation	-5.3	-13.8	-47.7	0.0	-66.8
- investment take-overs	0.0	0.0	0.0	-103.0	-103.0
- reclassification to assets held for sale	-42.3	0.0	-1.4	0.0	-43.7
- other	-0.1	0.0	0.0	0.0	-0.1
Revaluation at the fair value	5.3	0.0	0.0	0.0	5.3
Gross value at the end of period	657.0	199.6	403.5	59.0	1 319.1
Accumulated depreciation at the beginning of the period	-331.9	-133.5	-291.1	0.0	-756.5
Changes in the period (due to):	-11.0	-11.4	22.2	0.0	-0.2
- amortisation charges	-22.4	-24.8	-25.4	0.0	-72.6
- sale and liquidation	5.2	13.8	46.8	0.0	65.8
- reclassification to assets held for sale	6.2	0.0	0.7	0.0	6.9
- other	0.0	-0.4	0.1	0.0	-0.3
Accumulated depreciation at the end of the period	-342.9	-144.9	-268.9	0.0	-756.7
Net value at the end of period	314.1	54.7	134.6	59.0	562.4

The item *Real estate and leasehold improvements* comprises, among others, land whose value considering the fair value measurement as at 31 Dec 2012, similar to 31 Dec 2011, was PLN 5.5 million.

As at 31 Dec 2012 PLN 33.4 million, which amount (including deferred tax) refers to the real properties assessed at fair value, is recognised in the revaluation reserve. As at 31 Dec 2011 the same item amounted to PLN 34.8 million.

Measurement of real properties at fair value

The Bank 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).

In 2012, the following real properties were appraised:

- ING Bank Śląski S.A. Head Office in Katowice – as at 31 December 2011, the building's value totalled PLN 122.9 million, the change in the value of this real

property for the year 2012 increased the financial result by PLN 5.1 million (PLN 4.1 million upon including deferred tax) and

- 15 other real properties located across Poland; change in the value of the real properties for the year 2012 decreased the revaluation surplus by PLN 0.8 million (PLN 0.7 million upon including deferred tax) and the 2012 financial result by PLN 1.2 million (PLN 1.0 million upon including deferred tax).

In 2011, the following real properties were appraised:

- ING Bank Śląski S.A. Head Office in Katowice – as at 31 December 2011, the building's value totalled PLN 121.8 million; the change in the value of this real property for the year 2011 decreased the financial result by PLN 9.0 million (PLN 7.3 million upon including deferred tax) and
- 33 other real properties located across Poland; change in the value of the real properties for the year 2011 increased the revaluation surplus by PLN 5.8 million (PLN 4.7 million upon including deferred tax) and the 2011 financial result by PLN 8.4 million (PLN 6.8 million upon including deferred tax). Upon carrying out appraisals, seven of the real properties were reclassified to the portfolio of real properties held for sale.

The real properties results of appraisals were presented in the consolidated income statement in the item *Result on the other operating income and expenses* (in the note no. 9 in detailed item *Measurement of fixed assets at fair value*).

The value of the appraised real properties estimated at the historical cost upon including impairment loss and depreciation charges would amount to PLN 296.0 million as at 31 Dec 2012 against PLN 271.1 million as at 31 Dec 2011.

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

Contractual obligations to purchase property, plant and equipment

In 2012, the Bank concluded two agreements with counterparties regarding future purchase of fixed assets to the amount of PLN 0.1 million. The agreements were related to the sanitary and electrical supervision in the bank's buildings. The Bank concluded also the framework agreement, which was related to the air conditioning service - the value of these agreements will result in cost estimates calculated under construction.

There were no agreements with counterparties regarding future purchase of fixed assets as at the end of 2011 .

23. Intangible assets

	end of 2012	end of 2011
Goodwill	223.3	223.3
Software	109.3	101.1
Outlays for intangible assets	22.7	36.4
Other	0.6	0.0
Total	355.9	360.8

2012

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	TOTAL
Gross value at the beginning of period	223.3	454.4	36.4	7.7	721.8
Additions, due to:	0.0	69.0	56.0	0.7	125.7
- purchases	0.0	0.0	56.0	0.0	56.0
- investment take-overs	0.0	69.0	0.0	0.7	69.7
Disposals, due to:	0.0	-2.4	-69.7	0.0	-72.1
- sale and liquidation	0.0	0.0	-69.7	0.0	-69.7
- investment take-overs	0.0	-2.3	0.0	0.0	-2.3
- other	0.0	-0.1	0.0	0.0	-0.1
Gross value at the end of period	223.3	521.0	22.7	8.4	775.4
Accumulated depreciation at the beginning of the period	0.0	-353.3	0.0	-7.7	-361.0
Changes in the period (due to):	0.0	-58.4	0.0	-0.1	-58.5
- amortisation charges	0.0	-60.7	0.0	-0.1	-60.8
- sale and liquidation	0.0	2.3	0.0	0.0	2.3
Accumulated depreciation at the end of the period	0.0	-411.7	0.0	-7.8	-419.5
Net value at the end of period	223.3	109.3	22.7	0.6	355.9

2011

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	TOTAL
Gross value at the beginning of period	223.3	368.8	41.3	7.7	641.1
Additions, due to:	0.0	85.6	71.4	0.0	157.0
- purchases	0.0	7.1	71.4	0.0	78.5
- investment take-overs	0.0	76.3	0.0	0.0	76.3
- other	0.0	2.2	0.0	0.0	2.2
Disposals, due to:	0.0	0.0	-76.3	0.0	-76.3
- investment take-overs	0.0	0.0	-76.3	0.0	-76.3
Gross value at the end of period	223.3	454.4	36.4	7.7	721.8
Accumulated depreciation at the beginning of the period	0.0	-292.5	0.0	-7.7	-300.2
Changes in the period (due to):	0.0	-60.8	0.0	0.0	-60.8
- amortisation charges	0.0	-58.7	0.0	0.0	-58.7
- other	0.0	-2.1	0.0	0.0	-2.1
Accumulated depreciation at the end of the period	0.0	-353.3	0.0	-7.7	-361.0
Net value at the end of period	223.3	101.1	36.4	0.0	360.8

Contractual obligations to purchase intangible assets

In 2012 the Group concluded three agreements with the contractors for the future purchase of intangible assets to the amount of PLN 14.2 million. These agreements refer to the purchase of licence and implementation of software. At the end of 2011 the Bank had 1 agreement with the contractors for the future purchase of intangible assets to the amount of PLN 11.4 million

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 223.3 million 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.

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 Group'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 Dec 2012 showed the surplus of present value over the net book value of the cash-generating unit, totalling PLN 3 423.7 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 4 545.3 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 2 669.1 million.

24. Property, plant and equipment held for sale

	2012	2011
Value at the beginning of period	22.4	3.1
Additions, due to:	7.6	37.1
- reclassification from property, plant and equipment	7.6	36.7
- takeover under the recovery process	0.0	0.4
Disposals, due to:	-6.4	-15.8
- sale	-6.4	-15.8
Revaluation at the fair value	-1.5	-2.0
Value at the end of period	22.1	22.4

As at 31 Dec 2012, the amount of *Property, plant and equipment held for sale* included:

- 12 real properties (buildings together with land), which were reclassified from Property, plant and equipment. The real properties are available to be immediately sold in their current condition. The Bank intends to sell the abovementioned real properties using services of a specialized company that searches for potential buyers with the use of various, available sources (advertisements, direct mailing, contact with other real property agencies, etc.). The real property should be sold within 12 months from the reclassification day.
- Assets acquired from debt collection including real properties (buildings and land) and means of transport. The Bank intends to sell the said assets by using available ways of selling, inclusive of among others: tender procedure

25. Deferred tax

Movements in temporary differences during the year

2012	Balance as of 01 Jan 2012	Changes charged to the financial result	Changes charged to equity	Balance as of 31 Dec 2012
Deferred tax assets				
Interest accrued	-23.1	-21.3	0.0	-44.4
Revaluation	-18.3	0.0	-35.9	-54.2
Impairment losses on credit receivables	-79.8	-43.4	0.0	-123.2
Other provisions	-12.3	-23.1	0.0	-35.4
Employee benefits	-28.4	4.2	0.0	-24.2
Correction due to effective interest rate	-12.3	0.0	0.0	-12.3
Other	-14.1	0.9	0.0	-13.2
Total	-188.3	-82.7	-35.9	-306.9
Deferred tax provision				
Interest accrued	97.2	-64.7	0.0	32.5
Settlement of the difference between tax and balance sheet depreciation	10.3	0.0	0.0	10.3
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief enjoyed	8.1	-0.3	0.0	7.8
Revaluation	41.0	0.0	245.5	286.5
Other	16.3	-19.2	0.0	-2.9
Total	172.9	-84.2	245.5	334.2
Deferred tax disclosed in the balance sheet	-15.4	-166.9	209.6	27.3

2011	Balance as of 01 Jan 2011	Changes charged to the financial result	Changes charged to equity	Balance as of 31 Dec 2011
Deferred tax assets				
Interest accrued	-18.0	-5.1	0.0	-23.1
Revaluation	-0.7	0.0	-17.6	-18.3
Impairment losses on credit receivables	-76.6	-3.2	0.0	-79.8
Other provisions	-11.6	-0.7	0.0	-12.3
Employee benefits	-27.2	-1.2	0.0	-28.4
Correction due to effective interest rate	-12.3	0.0	0.0	-12.3
Other	-13.3	-0.8	0.0	-14.1
Total	-159.7	-11.0	-17.6	-188.3
Deferred tax provision				
Interest accrued	-40.6	137.8	0.0	97.2
Settlement of the difference between tax and balance sheet depreciation	12.3	-2.0	0.0	10.3
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief enjoyed	8.3	-0.2	0.0	8.1
Revaluation	10.6	0.0	30.4	41.0
Other	5.6	10.7	0.0	16.3
Total	-3.8	146.3	30.4	172.9
Deferred tax disclosed in the balance sheet	-163.5	135.3	12.8	-15.4

Unrecognised deferred tax assets

Unrecognised assets due to deferred tax are related to provisions whose recovery will not become probable. The amount of unrecognized temporary differences thereunder amounted as at the end of 2012 was PLN 1.6 million (expiry date of temporary differences: 2014) compared to PLN 1.0 million as at the end of 2011 (expiry date of temporary differences: 2013).

Deferred tax recognised directly in equity

	end of 2012	end of 2011
Revaluation of available-for-sale financial assets	138.5	1.0
Revaluation of property, plant and equipment	7.9	8.2
Revaluation of cash flow hedging instruments	86.0	13.6
Total	232.4	22.8

26. Other assets

	end of 2012	end of 2011
Prepayments, of which:	84.2	85.7
- <i>accrued income</i>	37.4	35.0
- <i>commission-related settlements</i>	23.2	29.1
- <i>prepaid bank operating expenses</i>	17.2	14.6
- <i>expenses to be settled</i>	2.0	2.5
- <i>other</i>	4.4	4.5
Other assets, of which:	132.3	109.7
- <i>settlements due to purchase of materials</i>	3.3	19.4
- <i>interbank settlements</i>	11.5	11.2
- <i>settlements with off-takers</i>	5.9	5.9
- <i>public and legal settlements</i>	2.2	2.5
- <i>receivables from the non-settled FX transactions^{*)}</i>	41.6	41.6
- <i>settlement of securities trading</i>	51.3	0.0
- <i>other</i>	16.5	29.1
Total other assets (gross)	216.5	195.4
Impairment losses	-48.2	-57.3
Total other assets (net)	168.3	138.1

*) 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. The write-down amount was recognised in this note in item *Impairment losses*.

27. Liabilities due to other banks

	end of 2012	end of 2011
Current accounts	896.4	335.6
Interbank deposits	781.6	3 003.2
Repo transactions	176.2	1 594.6
Other liabilities	15.8	18.4
Total	1 870.0	4 951.8

Liabilities due to other banks by maturity

	end of 2012	end of 2011
up to 1 month	1 824.2	4 951.7
over 1 month and up to 3 months	45.7	0.0
over 3 months and up to 1 year	0.1	0.0
over 1 year and up to 5 years	0.0	0.1
Total	1 870.0	4 951.8

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 Bank acquires funds by selling financial instruments with the future buy-back commitment at the same price, increased with the interest determined upfront. Repurchase transactions are generally considered as a tool of short-term funding of interest assets, depending on the interest rates.

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

end of 2012	Repurchase date	Nominal value	Carrying amount
Financial assets from available-for-sale portfolio	2013-01-04	80.0	87.0
Debt securities from loans and other receivables portfolio	2013-01-28	77.7	89.2
Total		157.7	176.2

end of 2011	Repurchase date	Nominal value	Carrying amount
Financial assets from available-for-sale portfolio	2012-01-05	55.0	57.8
Debt securities from loans and other receivables portfolio	2012-01-27	1 475.2	1 496.7
Financial assets measured at fair value through profit and loss	2012-01-30	37.5	40.1
Total		1 567.7	1 594.6

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

	end of 2012	end of 2011
Financial liabilities designated as at fair value upon initial recognition, of which:	2 067.5	1 629.5
<i>Transactions with the buy-back commitment</i>	2 067.5	1 629.5
Book short position in trading securities	935.9	185.2
Total	3 003.4	1 814.7

The Bank designated all buy-sell-back and sell-buy-back transactions for fair value measurement through profit and loss

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

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

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

	end of 2012	end of 2011
up to 1 month	2 077.4	1 629.5
over 1 month and up to 3 months	313.2	100.6
over 1 year and up to 5 years	435.5	56.5
over 5 years	177.3	28.1
Total	3 003.4	1 814.7

29. Liabilities due to customers

	end of 2012	end of 2011
Deposits	57 159.0	52 456.5
Repo transactions	0.0	116.1
Other liabilities	623.6	471.7
Total, of which:	57 782.6	53 044.3
- Liabilities due to entities from the financial sector other than banks	3 908.3	3 250.7
- Liabilities due to entities from the non-financial sector	51 771.7	47 688.9
- Liabilities due to entities from the government and self-government institutions' sector	2 102.6	2 104.7

Liabilities due to entities from the financial sector other than banks

	end of 2012	end of 2011
Deposits, of which:	3 731.8	3 080.5
- current accounts	2 296.6	1 254.4
- term deposit	1 435.2	1 826.1
Repo transactions	0.0	116.1
Other liabilities	176.5	54.1
Total	3 908.3	3 250.7

Liabilities due to entities from the non-financial sector

	end of 2012	end of 2011
Business entities' deposits , of which:	13 850.5	13 969.6
- current accounts	11 399.8	10 225.9
- term deposit	2 450.7	3 743.7
Households' deposits, of which:	37 477.7	33 303.8
- current accounts	7 370.3	4 934.6
- savings accounts	22 986.7	22 766.6
- term deposit	7 120.7	5 602.6
Other liabilities	443.5	415.5
Total	51 771.7	47 688.9

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

	end of 2012	end of 2011
Deposits, of which:	2 099.0	2 102.6
- current accounts	1 982.1	1 930.9
- term deposit	116.9	171.7
Other liabilities	3.6	2.1
Total	2 102.6	2 104.7

Liabilities due to customers by maturity

	end of 2012	end of 2011
up to 1 month	50 590.4	46 844.0
over 1 month and up to 3 months	2 109.5	2 827.0
over 3 months and up to 1 year	4 372.3	2 676.5
over 1 year and up to 5 years	707.2	692.5
over 5 years	3.2	4.3
Total	57 782.6	53 044.3

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 Bank acquires funds by selling financial instruments with the future buy-back commitment at the same price, increased with the interest determined upfront. Repurchase transactions are generally considered as a tool of short-term funding of interest assets, depending on the interest rates.

At the end of 2012 the repo transactions concluded with customers were not recognized. At the end of 2011 the following assets were sold under repo transactions concluded with customers:

end of 2011	Repurchase date	Nominal value	Carrying amount
Financial assets from available-for-sale portfolio	2012-01-02	76.6	78.0
Financial assets from available-for-sale portfolio	2012-01-05	27.6	28.1
Financial assets from available-for-sale portfolio	2012-01-12	9.8	10.0
Total		114.0	116.1

30. Liabilities under issue of debt securities

	end of 2012	end of 2011
Liabilities under issue of debt securities, of which:	567.1	0.0
- Bond issued by ING Bank Śląski S.A.	567.1	0.0
Total	567.1	0.0

In 2012, the Bank issued the first bonds under the *Programme of ING Bank Śląski S.A. Debt Securities Issue*. The detailed information on terms and conditions thereof is provided in Chapter II. *Significant events in 2012*.

Liabilities under issue of debt securities by maturity

	end of 2012	end of 2011
over 1 to 5 years	567.1	0.0
Total	567.1	0.0

31. Provisions

	end of 2012	end of 2011
Provision for issues in dispute	19.5	21.0
Provision for off-balance sheet liabilities	22.3	10.6
Provision for retirement benefits	19.3	16.9
Provision for unused holidays	7.7	6.9
Provision for employment restructuring	0.1	1.2
Total	68.9	56.6

2012

	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	21.0	10.6	16.9	6.9	1.2	56.6
- provisions recognised	1.9	12.0	2.6	0.8	0.0	17.3
- provisions applied	-3.0	0.0	0.0	0.0	-0.2	-3.2
- provisions reversed	-0.4	0.0	-0.2	0.0	-1.1	-1.7
- exchange rate changes	0.0	-0.3	0.0	0.0	0.0	-0.3
- accounting transfers	0.0	0.0	0.0	0.0	0.2	0.2
Closing balance	19.5	22.3	19.3	7.7	0.1	68.9
Expected provision settlement period:						
- up to 1 year	0.3	0.0	0.9	7.7	0.1	9.0
- over 1 year	19.2	22.3	18.4	0.0	0.0	59.9

2011

	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	20.2	11.1	15.4	5.4	2.3	54.4
- provisions recognised	1.8	7.5	1.5	1.5	14.6	26.9
- provisions applied	-0.3	-8.4	0.0	0.0	-0.4	-9.1
- provisions reversed	-0.7	0.0	0.0	0.0	-15.3	-16.0
- exchange rate changes	0.0	0.4	0.0	0.0	0.0	0.4
Closing balance	21.0	10.6	16.9	6.9	1.2	56.6
Expected provision settlement period:						
- up to 1 year	3.0	0.0	1.1	6.9	1.2	12.2
- more than 1 year	18.0	10.6	15.8	0.0	0.0	44.4

Provision for issues in dispute

The recognised amount of provisions as at 31 Dec 2012 comprises:

- disputable cases connected with negligent performance of agreements: PLN 17.6 million (PLN 19.1 million as of 31 Dec 2011),
- criminal cases: PLN 1.6 million (PLN 1.7 million as of 31 Dec 2011),
- cases relating to claims filed by former employees: PLN 0.3 million (PLN 0.2 million as of 31 Dec.2011).

The value of proceedings conducted in 2012 concerning liabilities and debt claims did not exceed 10% of the Bank equity.

In view of the Bank, none of the proceedings conducted in 2012 before court, competent authority for arbitration proceedings or public administration authority, individually and in total, pose a risk to the Bank financial liquidity.

Provision for retirement benefits

Provisions for retirement severance pay are estimated on the basis of actuarial valuation with discount rate, which at the end of 2012 totalled 4.0% compared to 5.75% at the end of 2011. Provision being the result of actuarial valuation is recognised and reviewed per annum.

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

	2012	2011
Opening balance	16.9	15.4
Costs included in the profit and loss account, out of which:	2.6	1.7
- regular employment costs	1.7	0.9
- costs of interest	0.9	0.8
Paid benefits	-0.2	-0.2
Closing balance, including:	19.3	16.9
- current value of the liability	18.7	15.8
- not included actuarial gains/ losses	0.6	1.1

32. Other liabilities

	end of 2012	end of 2011
Accruals, of which:	265.4	249.0
- due to employee benefits	137.1	122.6
- variable remuneration programme	14.6	0.0
- due to commission	108.3	110.9
- other	20.0	15.5
Other liabilities, of which:	483.4	681.7
- interbank settlements	259.1	456.8
- settlements with suppliers	173.9	170.0
- public and legal settlements	38.9	37.7
- other	11.5	17.2
Total	748.8	930.7

33. Share capital

The Bank's share capital is PLN 130 100 000 and is sub-divided into:

- 92 600 000 A-series ordinary bearer's shares with face value of PLN 1.00 each,
- 37 500 000 B-series ordinary bearer's shares with face value of PLN 1.00 each.

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

34. Revaluation reserve

	end of 2012	end of 2011
Revaluation reserve from measurement of available-for-sale financial assets	590.3	20.4
- including deferred tax	-138.5	-1.0
Revaluation reserve from measurement of property, plant and equipment	33.4	34.8
- including deferred tax	-7.9	-8.2
Revaluation reserve from measurement of cash flow hedging instruments	367.0	58.2
- including deferred tax	-86.0	-13.6
Total	990.7	113.4

2012

	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	20.4	-1.0	34.8	-8.2	58.2	-13.6	113.4
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	590.5	-142.4	0.0	0.0	0.0	0.0	590.5
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-20.4	4.8	0.0	0.0	0.0	0.0	-20.4
- correction of the measurement of the securities reclassified from the AFS portfolio to the loans and receivables one	-0.2	0.1	0.0	0.0	0.0	0.0	-0.2
- remeasurement of property, plant and equipment	0.0	0.0	-0.7	0.2	0.0	0.0	-0.7
- effective part of cash flow hedging instruments revaluation	0.0	0.0	0.0	0.0	308.8	-72.4	308.8
- disposal of fixed assets	0.0	0.0	-0.7	0.1	0.0	0.0	-0.7
Closing balance	590.3	-138.5	33.4	-7.9	367.0	-86.0	990.7

2011

	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	8.1	-1.4	35.6	-8.4	0.4	-0.1	44.1
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	36.8	-5.3	0.0	0.0	0.0	0.0	36.8
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-24.2	5.6	0.0	0.0	0.0	0.0	-24.2
- correction of the measurement of the securities reclassified from the AFS portfolio to the loans and receivables one	-0.3	0.1	0.0	0.0	0.0	0.0	-0.3
- remeasurement of property, plant and equipment	0.0	0.0	4.7	-1.1	0.0	0.0	4.7
- effective part of cash flow hedging instruments revaluation	0.0	0.0	0.0	0.0	57.8	-13.4	57.8
- disposal of fixed assets	0.0	0.0	-5.5	1.3	0.0	0.0	-5.5
Closing balance	20.4	-1.0	34.8	-8.2	58.2	-13.5	113.4

35. Retained earnings

	end of 2012	end of 2011
Other supplementary capital	65.4	65.0
Reserve capital	3 963.7	3 109.9
General risk fund	960.2	910.2
Retained earnings	13.3	12.0
Result for the current year	757.8	903.8
Total	5 760.4	5 000.9

2012

	other supplemen- tary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Opening balance	65.0	3 109.9	910.2	915.8	0.0	5 000.9
- net result for the current period	0.0	0.0	0.0	0.0	757.8	757.8
- profit allocation, including:	0.0	853.8	50.0	-903.8	0.0	0.0
- profit written off to reserve capital	0.0	853.8	0.0	-853.8	0.0	0.0
- profit written off to general risk fund	0.0	0.0	50.0	-50.0	0.0	0.0
- disposal of fixed assets	0.4	0.0	0.0	1.3	0.0	1.7
Closing balance	65.4	3 963.7	960.2	13.3	757.8	5 760.4

2011

	other supplemen- tary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Opening balance	62.9	2 662.7	850.1	710.8	0.0	4 286.5
- net result for the current period	0.0	0.0	0.0	0.0	903.8	903.8
- profit allocation, including:	0.0	447.2	60.0	-702.4	0.0	-195.2
- profit written off to reserve capital	0.0	447.2	0.0	-447.2	0.0	0.0
- profit written off to general risk fund	0.0	0.0	60.0	-60.0	0.0	0.0
- dividend paid	0.0	0.0	0.0	-195.2	0.0	-195.2
- merger with subsidiary	1.9	0.0	0.0	-2.6	0.0	-0.7
- disposal of fixed assets	0.2	0.0	0.0	6.3	0.0	6.5
Closing balance	65.0	3 109.9	910.1	12.1	903.8	5 000.9

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.

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

Herein below, statement of financial position of the Bank and contingent liabilities were presented per base currencies. The following currency rates were applied to calculate values in original currency:

	31 Dec 2012	31 Dec 2011
EUR	4.0882	4.4168
USD	3.0996	3.4174
CHF	3.3868	3.6333

end of 2012

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		
ASSETS									
- Cash in hand and balances with the Central Bank	3 871.5	157.0	38.4	29.7	9.6	3.3	1.0	10.1	4 071.6
- Loans and receivables to other banks	197.6	949.9	232.4	148.6	47.9	1.3	0.4	67.9	1 365.3
- Financial assets measured at fair value through profit and loss	1 554.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1 554.6
- Valuation of derivatives	1 123.9	317.7	77.7	325.2	104.9	0.5	0.1	55.4	1 822.7
- Investments	17 879.4	1.1	0.3	0.0	0.0	0.0	0.0	0.0	17 880.5
- Derivative hedge instruments	1 086.7	25.9	6.3	0.0	0.0	0.0	0.0	0.0	1 112.6
- Loans and receivables to customers	37 227.2	6 331.9	1 548.8	648.0	209.1	1 500.5	443.0	56.4	45 764.0
- Investments in controlled entities	454.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	454.4
- Property, plant and equipment	587.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	587.2
- Intangible assets	355.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	355.9
- Property, plant and equipment held for sale	22.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.1
- Other assets	165.1	3.1	0.8	0.1	0.0	0.0	0.0	0.0	168.3
Total assets	64 525.6	7 786.6	1 904.7	1 151.6	371.5	1 505.6	444.5	189.8	75 159.2

end of 2012

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	1 022.8	792.4	193.8	13.2	4.3	25.4	7.5	16.2	1 870.0
- Financial liabilities measured at fair value through profit and loss	3 003.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3 003.4
- Valuation of derivatives	1 155.6	280.6	68.6	321.0	103.6	20.3	6.0	0.8	1 778.3
- Derivative hedge instruments	482.0	882.0	215.7	0.0	0.0	0.0	0.0	0.0	1 364.0
- Liabilities due to customers	51 348.0	4 692.2	1 147.7	1 534.1	494.9	13.5	4.0	194.8	57 782.6
- Liabilities under issue of debt securities	567.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	567.1
- Provisions	63.7	3.8	0.9	0.8	0.3	0.0	0.0	0.6	68.9
- Current income tax liabilities	70.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	70.0
- Deferred tax provision	27.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.3
- Other liabilities	738.6	9.0	2.2	1.1	0.4	0.0	0.0	0.1	748.8
Total liabilities	58 478.5	6 660.0	1 628.9	1 870.2	603.5	59.2	17.5	212.5	67 280.4
EQUITY									
- Share capital	130.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.1
- Supplementary capital - issuance of shares over nominal value	956.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	956.3
- Revaluation reserve	989.3	1.4	0.3	0.0	0.0	0.0	0.0	0.0	990.7
- Revaluation of share-based payment	41.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	41.3
- Retained earnings	5 760.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5 760.4
Total equity	7 877.4	1.4	0.3	0.0	0.0	0.0	0.0	0.0	7 878.8
Total equity and liabilities	66 355.9	6 661.4	1 629.2	1 870.2	603.5	59.2	17.5	212.5	75 159.2
Contingent liabilities granted	13 689.9	1 525.0	373.0	559.6	180.5	0.4	0.1	28.2	15 803.1
Contingent liabilities received	34 341.6	2 293.4	561.0	602.6	194.4	86.7	25.6	0.0	37 324.3
Off-balance financial instruments	102 050.5	16 857.0	4 123.3	13 813.2	4 456.4	380.0	112.2	509.9	133 610.6

end of 2011

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		
ASSETS									
- Cash in hand and balances with the Central Bank	1 278.4	190.4	43.1	14.5	4.2	1.7	0.5	8.1	1 493.1
- Loans and receivables to other banks	153.9	747.9	169.3	8.0	2.3	7.7	2.1	49.6	967.1
- Financial assets measured at fair value through profit and loss	599.1	40.5	9.2	0.0	0.0	0.0	0.0	0.0	639.6
- Valuation of derivatives	1 067.9	324.7	73.5	395.3	115.7	0.2	0.1	70.3	1 858.4
- Investments	20 442.3	1.1	0.2	6.7	2.0	0.0	0.0	0.0	20 450.1
- Derivative hedge instruments	433.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	433.4
- Loans and receivables to customers	33 325.6	6 701.9	1 517.4	506.9	148.3	1 718.9	473.1	45.4	42 298.7
- Investments in controlled entities	238.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	238.3
- Property, plant and equipment	562.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	562.4
- Intangible assets	360.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	360.8
- Property, plant and equipment held for sale	22.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.4
- Current tax assets	146.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	146.5
- Deferred tax assets	15.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.4
- Other assets	133.0	4.9	1.1	0.1	0.0	0.0	0.0	0.1	138.1
Total assets	58 779.4	8 011.4	1 813.8	931.5	272.5	1 728.5	475.8	173.5	69 624.3

end of 2011

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	1 875.9	2 577.6	583.6	306.0	89.5	42.2	11.6	150.1	4 951.8
- Financial liabilities measured at fair value through profit and loss	1 814.3	0.4	0.1	0.0	0.0	0.0	0.0	0.0	1 814.7
- Valuation of derivatives	1 071.3	245.2	55.5	365.9	107.1	1.5	0.4	10.2	1 694.1
- Derivative hedge instruments	164.9	735.7	166.6	0.0	0.0	0.0	0.0	0.0	900.6
- Liabilities due to customers	46 869.7	4 071.6	921.8	1 954.3	571.9	4.5	1.2	144.2	53 044.3
- Provisions	53.0	2.6	0.6	1.0	0.3	0.0	0.0	0.0	56.6
- Other liabilities	921.7	8.3	1.9	0.6	0.2	0.0	0.0	0.1	930.7
Total liabilities	52 770.8	7 641.4	1 730.1	2 627.8	769.0	48.2	13.2	304.6	63 392.8
EQUITY									
- Share capital	130.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.1
- Supplementary capital - issuance of shares over nominal value	956.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	956.3
- Revaluation reserve	104.6	2.1	0.5	6.7	2.0	0.0	0.0	0.0	113.4
- Revaluation of share-based payment	30.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	30.8
- Retained earnings	5 000.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5 000.9
Total equity	6 222.7	2.1	0.5	6.7	2.0	0.0	0.0	0.0	6 231.5
Total equity and liabilities	58 993.5	7 643.5	1 730.6	2 634.5	771.0	48.2	13.2	304.6	69 624.3
Contingent liabilities granted	13 893.9	1 806.5	409.0	1 070.2	313.2	10.9	3.0	11.3	16 792.8
Contingent liabilities received	32 009.5	2 040.4	462.0	174.6	51.1	109.5	30.1	0.8	34 334.8
Off-balance financial instruments	99 532.0	33 413.3	7 565.0	21 893.9	6 406.6	2 563.3	705.5	525.7	157 928.2

37. Contingent liabilities

37.1. Contingent liabilities granted

	end of 2012	end of 2011
Undrawn credit facilities	11 636.1	11 618.1
Guarantees	2 119.3	3 134.9
Undrawn overdrafts in current account	1 056.9	1 080.5
Credit card limits	675.7	637.4
Letters of credit	315.1	321.9
Total	15 803.1	16 792.8

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

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

The Bank charges commissions for contingent liabilities granted, which are settled in line with the specific nature of the particular instrument.

Issued financial guarantee contracts by maturity

	end of 2012	end of 2011
up to 1 month	156.8	147.1
over 1 month and up to 3 months	234.7	703.3
over 3 months and up to 1 year	1 051.7	1 107.7
over 1 year and up to 5 years	594.9	1 104.1
over 5 years	81.2	72.7
Total	2 119.3	3 134.9

Information on issue guarantees granted to other issuers

At the end of 2012, the Bank held obligations to purchase bonds issued by four issuers. The total amount of the obligation (understood as the unused limit of the total nominal guarantee liabilities) amounted to PLN 313.8 million. At the end of 2011 Bank held obligations to purchase bonds issued by two issuers for the total amount of PLN 47.0 million.

37.2. Contingent liabilities received

	end of 2012	end of 2011
Guarantee conditioned liabilities	37 324.3	34 135.8
Financing liabilities	0.0	199.0
Total	37 324.3	34 334.8

38. Hedge accounting

38.1. Fair value hedge accounting

In the financial statements for the year 2012 (similar to year 2011), the Bank used fair value hedge accounting for securities.

The hedged risk is the risk of the change of the fair value of the financial asset resulting from the change of the interest rates. The subject of hedging is the fair value of the fixed interest rate debt instrument, namely the position (or its part) on a given security in the 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 value 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 income statement under the *Net income on hedge accounting*.

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

	end of 2012		end of 2011	
	Nominal value	Fair value	Nominal value	Fair value
Hedged items, of which:	4 147.3	4 822.0	4 401.6	4 892.9
- Debt securities from available-for-sale portfolio, of which:	983.0	1 042.3	983.0	1 020.3
- Treasury bonds	983.0	1 042.3	983.0	1 020.3
- Debt securities from loans and other receivables portfolio, of which:	3 164.3	3 779.7	3 418.6	3 872.6
- Treasury bonds	3 164.3	3 779.7	3 418.6	3 872.6
Hedging instruments, of which:	11 723.0	-1 340.8	8 253.1	-872.7
- Interest Rate Swap – positive valuation	0.0	0.0	667.0	5.0
- Interest Rate Swap – negative valuation	11 723.0	-1 340.8	7 586.1	-877.7

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

38.2. Cash flow hedge accounting

In the consolidated financial statements for the year 2012 (similar to year 2011), the Bank 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 Bank (e.g. extrapolation of cash flows arising from revolving deposits/overdrafts). Hedging strategies are used to hedge the Bank's exposure against changes in the size of future cash flows arising from interest rate risk. In 2012 Bank implemented the new strategy for hedging

the mortgage loans indexed to EUR or CHF against changes arising from interest rate risk and foreign currency risk at the same time.

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 and in part of the portfolio denominated in currencies CHF / EUR exposed to foreign exchange risk arising from changes in the exchange rate.

The instrument hedging asset items in the strategy of hedging the risk of interest rate changes are the Pay-Variable, Receive-Fixed Interest Rate Swaps, while the instrument hedging liabilities items are the Pay-Fixed, Receive-Variable Interest Rate Swaps and the separated parts of the Currency Interest Rate Swap that reflect the Pay-Fixed, Receive-Variable Interest Rate Swaps.

The instrument hedging asset items in the strategy of hedging both the risk of interest rate changes and the currency risk are the separated parts of the Currency Interest Rate Swap that reflect the Pay-Variable in CHF/EUR, Receive-Fixed in PLN Currency Swaps.

In 2012 and 2011, the Bank followed the rules of cash flow hedge accounting also with regard to payments arising from the Bank'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.

As at 31 Dec 2012, the revaluation reserve included PLN367,0 million (including deferred tax) related to the effective part of hedging relationship in the cash flow hedge accounting (PLN 58.2 million as at 31 Dec 2011). In 2011, 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 minus 3.8 million compared with plus 2.3 million in 2011

Fair value of hedging instruments under the cash flow hedge accounting

	end of 2012		end of 2011	
	Nominal value	Fair value	Nominal value	Fair value
Hedging instruments, of which:	23 950.1	1 089.4	18 432.5	405.5
- Interest Rate Swap – positive valuation	23 374.2	1 060.1	15 770.5	428.4
- Interest Rate Swap – negative valuation	382.2	-23.2	2 662.0	-22.9
- Cross Currency Swap - positive valuation	0.0	52.0	0.0	0.0
- Forward - positive valuation	193.7	0.5	0.0	0.0

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

Future cash flows (PLN million)

end of 2012

	<i>up to 1 year</i>	<i>over 1 year and up to 3 years</i>	<i>over 3 years and up to 8 years</i>	<i>over 8 years</i>
Cash inflows (assets)	689.4	674.4	690.1	71.2
Cash outflows (liabilities)	-258.9	-297.4	-269.7	-38.2
Net cash flows	430.5	377.0	420.4	33.0

end of 2011

	<i>up to 1 year</i>	<i>over 1 year and up to 3 years</i>	<i>over 3 years and up to 8 years</i>	<i>over 8 years</i>
Cash inflows (assets)	627.2	638.8	611.6	110.1
Cash outflows (liabilities)	-185.2	-211.4	-234.7	-22.6
Net cash flows	442.0	427.4	376.9	87.5

Future cash flows (EUR million)

end of 2012

	<i>up to 1 year</i>	<i>over 1 year and up to 3 years</i>	<i>over 3 years and up to 8 years</i>	<i>over 8 years</i>
Cash inflows (assets)	0.2	0.7	2.8	0.1
Cash outflows (liabilities)	0.0	0.0	0.0	0.0
Net cash flows	0.2	0.7	2.8	0.1

end of 2011

	<i>up to 1 year</i>	<i>over 1 year and up to 3 years</i>	<i>over 3 years and up to 8 years</i>	<i>over 8 years</i>
Cash inflows (assets)	1.5	2.1	2.6	0.3
Cash outflows (liabilities)	0.0	0.0	0.0	0.0
Net cash flows	1.5	2.1	2.6	0.3

Future cash flows (CHF million)

end of 2012

	<i>up to 1 year</i>	<i>over 1 year and up to 3 years</i>	<i>over 3 years and up to 8 years</i>	<i>over 8 years</i>
Cash inflows (assets)	0.2	0.6	2.8	0.6
Cash outflows (liabilities)	0.0	0.0	0.0	0.0
Net cash flows	0.2	0.6	2.8	0.6

39. 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.

39.1. Fair value of financial assets and liabilities

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

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

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

end of 2012

	Level I	Level II	Level III	Total
Financial assets, of which:	16 914.0	5 440.4	16.0	22 370.4
- Financial assets held for trading, of which:	506.6	1.0	0.0	507.6
- <i>treasury bills</i>	506.6	0.0	0.0	506.6
- <i>treasury bonds</i>	0.0	1.0	0.0	1.0
- Financial assets designated as fair value at initial recognition, of which:	1 042.0	5.0	0.0	1 047.0
- <i>buy-sell-back transactions</i>	1 042.0	5.0	0.0	1 047.0
- Valuation of derivatives	0.0	1 822.7	0.0	1 822.7
- Financial assets available-for sale, of which:	15 365.4	2 499.1	16.0	17 880.5
- <i>treasury bonds</i>	13 628.9	0.0	0.0	13 628.9
- <i>NBP bills</i>	0.0	2 498.8	0.0	2 498.8
- <i>BGK bonds</i>	1 736.1	0.0	0.0	1 736.1
- <i>equity instruments</i>	0.4	0.3	16.0	16.7
- Derivative hedge instruments	0.0	1 112.6	0.0	1 112.6
Financial liabilities, of which:	3 003.4	3 142.3	0.0	6 145.7
- Financial liabilities measured at fair value upon initial recognition, of which:	2 067.5	0.0	0.0	2 067.5
- <i>sell-buy-back transactions</i>	2 067.5	0.0	0.0	2 067.5
- Book short position in trading securities	935.9	0.0	0.0	935.9
- Valuation of derivatives	0.0	1 778.3	0.0	1 778.3
- Derivative hedge instruments	0.0	1 364.0	0.0	1 364.0

end of 2011

	Level I	Level II	Level III	Total
Financial assets, of which:	10 023,2	8 353,7	22,3	18 399,2
- Financial assets held for trading, of which:	385,5	59,2	0,0	444,7
- <i>treasury bills</i>	385,5	0,0	0,0	385,5
- <i>treasury bonds</i>	0,0	59,2	0,0	59,2
- Financial assets designated as fair value at initial recognition, of which:	194,9	0,0	0,0	194,9
- <i>buy-sell-back transactions</i>	194,9	0,0	0,0	194,9
- Valuation of derivatives	0,0	1 858,4	0,0	1 858,4
- Financial assets available-for sale, of which:	9 442,8	6 002,7	22,3	15 467,8
- <i>treasury bonds</i>	8 071,0	0,0	0,0	8 071,0
- <i>NBP bills</i>	0,0	5 995,8	0,0	5 995,8
- <i>BGK bonds</i>	1 370,9	0,0	0,0	1 370,9
- <i>equity instruments</i>	0,9	6,9	22,3	30,1
- Derivative hedge instruments	0,0	433,4	0,0	433,4
Financial liabilities, of which:	1 814,7	2 594,7	0,0	4 409,4
- Financial liabilities measured at fair value upon initial recognition, of which:	1 629,5	0,0	0,0	1 629,5
- <i>sell-buy-back transactions</i>	1 629,5	0,0	0,0	1 629,5
- Book short position in trading securities	185,2	0,0	0,0	185,2
- Valuation of derivatives	0,0	1 694,1	0,0	1 694,1
- Derivative hedge instruments	0,0	900,6	0,0	900,6

Unlike in 2011, in the year 2012, there were no movements among particular valuation levels.

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

2012		Financial assets available for sale	
Opening balance		22.4	
Increases, of which:		1.2	
- purchase in result of restructuring process		0.5	
- valuation charged to revaluation reserve		0.7	
Decreases, of which:		-7.5	
- impairment recognised in profit and loss account		-7.5	
Closing balance		16.1	

2011		Financial assets available for sale	Financial assets designated as fair value at initial recognition
Opening balance		42.5	61.2
Increases, of which:		2.3	0.0
- purchase in result of restructuring process		2.3	0.0
Decreases, of which:		-22.4	-61.2
- sale / redemption		-2.3	-59.2
- impairment recognised in profit and loss account		-18.5	0.0
- measurement referred to revaluation reserves		-1.6	0.0
- decreasing the measure of securities		0.0	-2.0
Closing balance		22.4	0.0

The fair value measurement changes referring to the income statement are recognised in the item of the income statement *Net income on instruments measured at fair value through profit and 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 financial statements of the Bank.

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

	end of 2012		end of 2011	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash in hand and balances with the Central Bank	4 071.6	4 071.6	1 493.1	1 493.1
Loans and receivables to other banks	1 365.3	1 365.4	967.1	967.1
Loans and receivables to customers, of which:	45 764.0	45 307.7	42 298.7	41 656.2
- to entities from the financial sector other than banks	4 451.7	4 415.5	2 887.3	2 883.1
- to entities from the non-financial sector	33 632.4	32 963.0	31 626.4	30 941.9
- to entities from the government and self-government institutions' sector	7 679.9	7 929.2	7 785.0	7 831.2
Held-to-maturity financial assets, of which:	0.0	0.0	4 982.3	5 065.6
- Treasury bonds	0.0	0.0	4 982.3	5 065.6
Other assets	84.1	84.1	52.4	52.4
Liabilities				
Liabilities due to other banks	1 870.0	1 870.0	4 951.8	4 951.8
Liabilities due to customers, of which:	57 782.6	57 777.9	53 044.3	53 042.6
- to entities from the financial sector other than banks	3 908.3	3 908.3	3 250.7	3 250.7
- to entities from the non-financial sector	51 771.7	51 767.0	47 688.9	47 687.2
- to entities from the government and self-government institutions' sector	2 102.6	2 102.6	2 104.7	2 104.7

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

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

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

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

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

Loans and receivables

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.

To estimate the fair value of CHF mortgage loans portfolio, an average margin used when extending EUR mortgage loans adjusted with swap instruments quotations for CHF/ EUR currencies was applied on account of active market dissaperance.

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.

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 segment.

	end of 2012		end of 2011	
	Carrying value	Fair value	Carrying value	Fair value
Loans and advances, of which:	40 108.3	39 345.7	36 390.9	35 646.8
Loans and advances to customers from corporate banking segment, of which:	24 037.4	23 784.9	21 764.8	21 597.3
Loans and advances to customers from retail banking segment, of which:	16 070.9	15 560.8	14 626.1	14 049.5
- mortgages	12 514.5	11 926.3	10 869.1	10 213.4
- other loans and advances	3 556.4	3 634.5	3 757.0	3 836.1
Deposits, of which:	58 837.0	58 832.3	55 795.3	55 793.6
- Deposits of customers from corporate banking segment	21 125.1	21 125.2	21 582.4	21 582.7
- Deposits of customers from retail banking segment	37 711.9	37 707.1	34 212.9	34 210.9

40. Custody activities

As at 31 Dec 2012 the Bank maintained 3 501 (3 198 as at 31 Dec 2011) 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 Bank.

As at the end of 2012 the Bank parent company was the depository bank for 131 investment funds and 1 open pension fund, 1 employee pension fund and 1 voluntary pension fund (as at 31 Dec 2011 respectively 107 and 1, 0, 1).

As at 31 Dec 2012 the Bank parent company co-operated with 29 brokerage houses (30 as at 31 Dec 2011).

41. Operating leases

41.1. Bank as a lessee

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

Lease payments by maturity are disclosed in the table below:

	end of 2012	end of 2011
up to 1 year	77.1	108.2
over 1 year and up to 5 years	155.5	189.3
over 5 years – annual payment amount	27.2	39.4

41.2. Bank as a lessor

The Bank earns income from renting own 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 2012	end of 2011
up to 1 year	5.6	4.9
over 1 year and up to 5 years	9.6	10.9
over 5 years – annual payment amount	0.0	0.3

42. Additional information on cash flow statement

42.1. Cash and cash equivalents

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

	end of 2012	end of 2011
Cash in hand (presented in note 14)	772.7	645.3
Balances with the Central Bank (presented in note 14)	3 298.9	847.8
Current accounts in other banks (presented in note 20.1)	977.2	805.7
Overnight deposits in other banks (presented in note 20.1)	0.0	6.9
Total	5 048.8	2 305.7

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

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

Investment 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 activity pertains to long-term financial transactions (over one year) with financial entities. Inflows from financial activity indicate sources of financing of the Bank, including for example long-term loans and cash loans from other banks, as well as financial entities other than banks. Outflows from financial activity refer mainly to repayment of long-term liabilities (e.g. repayment of received loans) by the Bank and payment of dividends to the owners and other outflows due to profit distribution. In 2012 in the financial activity area were recognised incomes from the issuance of its own securities. In 2011, dividend payout was recognised in the financial activity area.

42.3. 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.

end of 2012	changes		difference of which:	1)	2)	3)	4)
	in statement of financial position	in cash flow statement					
- Change in loans and other receivables to other banks	-398.2	-233.5	164.7	0.1	164.6		
- Change in financial assets at fair value through profit or loss	-915.0	-915.5	-0.5	-0.5			
- Change in available-for-sale financial assets	-2 412.7	-1 808.3	604.4	34.4		570.2	-0.2
- Change in loans and other receivables to customers	-3 465.3	-3 448.2	17.1	17.1			
- Change in liabilities due to other banks	-3 081.8	-3 082.0	-0.2	-0.2			
- Change in liabilities due to customers	4 738.3	4 699.7	-38.6	-38.6			

end of 2011	changes		difference of which:	1)	2)	3)	4)
	in statement of financial position	in cash flow statement					
- Change in loans and other receivables to other banks	554.4	676.9	122.5	-6.6	129.1		
- Change in financial assets at fair value through profit or loss	-2.9	-3.4	-0.5	-0.5			
- Change in available-for-sale financial assets	1 320.1	1 363.7	43.6	31.2		12.7	-0.3
- Change in loans and other receivables to customers	-8 339.4	-8 304.1	35.3	35.3			
- Change in liabilities due to other banks	800.7	796.5	-4.2	-4.2			
- Change in liabilities due to customers	5 613.5	5 639.4	25.9	25.9			

43. Related entities

ING Bank Śląski subsidiaries and affiliated entities:

- ING Securities S.A.,
- Centrum Banku Śląskiego (CBS) Sp. z o.o.,
- ING ABL Polska S.A. (holds 100% of shares of ING Commercial Finance S.A. and ING Lease Polska Sp. z o.o.),
- ING Usługi dla Biznesu S.A.,
- 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. Similarly, ING Bank Śląski maintains bank accounts of other members of ING Group. 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 related entities and ING Bank Śląski. They originated from agreements concluded as to co-operation, sublease of premises, lease of equipment, data processing as well as management and employees' insurance contributions.

In the period from 1st January 2012 to 31st December 2012 the following transactions were made of the total value exceeding EURO 500.000:

- transactions with ING Bank NV – under execution of Co-operation Agreement and Agreement on Provision of Data Processing and Financial Information Analysis Services, the fee for services rendered under financial advisory and the fee for using by ING Bank Śląski the data processing and financial information analysis services for the 12 months of 2012 totalled PLN 87.1 million against PLN 75.6 million in the analogous period of the previous year (net amounts).
- transactions with ING Services Polska – the company renders hardware lease services for ING Bank Śląski. Services' costs amounted to PLN 41.8 million versus PLN 40.0 million in the analogous period of the previous year (gross amounts).

As at 31st December 2012, the total exposure of ING Bank Śląski S.A. towards the members of its Supervisory Board and the entities related thereto in terms of equity and organisation was PLN 49.5 million, in which PLN 33.3 million related to balance sheet exposure and PLN 16.2 million - to off-balance sheet one. Extension of a loan, cash loan, banking guarantee or suretyship to Members of the Bank Management Board and Supervisory Board, persons holding managerial positions at the Bank as well as entities related in capital or organisational terms therewith shall be performed under the *By-Law of Making Use of the Bank Products by the Bank Authorities' Members and the Persons Holding Managerial Positions and the Entities Related to Them in Terms of Capital or Organisation, as well as by Other Entities Stipulated by the By-Law*.

Transactions with related entities (in PLN million)**2012**

	ING Bank NV	Other ING Group	Subsidiary undertakings*	Associated undertakings*
Receivables				
Nostro accounts	29.6	27.1	-	-
Loans	-	3.1	3 138.3	-
Positive valuation of derivatives	379.7	347.6	0.6	-
Repo	66.0	-	-	-
Other receivables	4.8	0.7	-	-
Liabilities				
Deposits received	420.1	1 058.5	515.2	56.7
Loro accounts	20.4	14.8	-	-
Negative valuation of derivatives	363.1	371.2	0.2	-
Repo	89.1	-	-	-
Other liabilities	3.6	-	0.3	-
Off-balance-sheet operations				
Contingent liabilities	27.0	41.0	945.6	-
FX transactions	1 017.5	57.0	-	-
Forward transactions	57.9	2.5	-	-
IRS	7 863.4	5 723.6	11.5	-
Options	722.9	1 770.0	52.4	-
Revenue and costs**				
Revenue	-66.6	-15.7	132.0	-2.8
Costs	81.0	39.8	16.7	-

2011

	ING Bank NV	Other ING Group	Subsidiary undertakings*	Associated undertakings*
Receivables				
Deposits placed	3.6	-	-	-
Nostro accounts	10.2	-	-	-
Loans	-	1 720.1	-	-
Positive valuation of derivatives	648.2	0.7	-	-
Other receivables	23.7	0.2	0.2	-
Liabilities				
Deposits received	1 565.7	1 267.8	252.8	13.3
Loro accounts	33.1	1.0	-	-
Negative valuation of derivatives	702.3	4.2	-	-
Repo	1 594.5	-	-	-
Other liabilities	39.0	-	1.4	-
Off-balance-sheet operations				
Contingent liabilities	316.1	545.8	15.1	-
FX transactions	8 773.9	0.7	-	-
Forward transactions	70.6	-	-	-
IRS	16 994.3	13.4	-	-
Options	1 502.3	712.3	-	-
Revenue and costs**				
Revenue	-23.1	87.3	-10.4	-1.7
Costs	67.6	69.1	3.7	-

*/ 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.

44. Transactions with the management staff and employees

Loans to employees and Bank management

Employees of the ING Bank Śląski S.A. are granted loans on the same terms and conditions as the customers of the Bank (no preferential loans for employees exist). Loans for employees disclosed in the amount of loans for customers as of 31.12.2012 amounted to PLN 126.1 million (without loans from the Internal Social Benefits Fund). As at 31.12.2011, their value amounted to PLN 121.4 million.

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 2012 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 33.9 million. As at 31.12.2011, their value amounted to PLN 34.9 million.

Internal Social Benefit Funds

The employees may use various forms of social assistance within the framework of Internal Social Benefit Funds.. The balance of money advances granted from the Internal Social Benefit Funds as of 31.12.2012 amounts to PLN 10.9 million versus PLN 11.2 million as at 31.12.2011.

The balance of the Internal Social Benefits Fund as at 31.12.2012 was PLN 2.9 million versus PLN 4.1 million as at 31.12.2011.

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

As at the end of 2012, the composition of ING Bank Śląski S.A. Management Board was as follows:

- Ms Małgorzata Kołakowska - Bank Management Board President,
- Mr Mirosław Boda - Bank Management Board Vice-President,
- Mr Michał Bolesławski - Bank Management Board Vice-President,
- Ms Justyna Kesler - Bank Management Board Vice-President,
- Mr Oscar Swan - Bank Management Board Vice-President,
- Mr Ignacio Juliá Vilar - Bank Management Board Vice-President.

	2012	2011
Remuneration and bonuses	9.9	9.2
Benefits	2.0	1.6
TOTAL	11.9	10.8

The total amount of remuneration and bonuses paid or due for 2012 presented above constitutes the gross amount of remuneration paid or due and payable for the period from January to December 2012.

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 million)

In 2012, the Supervisory Board of ING Bank Śląski S.A. worked in the following composition:

- Ms Anna Fornalczyk - Chair, Independent Member,
- Mr Brunon Bartkiewicz - Deputy Chair,
- Mr Wojciech Popiołek - Secretary, Independent Member,
- Mr Roland Boekhout - Member,
- Mr Ralph Hamers - Member,
- Mr Nicolaas Cornelis Jue - Member, and
- Mr Mirosław Kośmider - Member, Independent Member.

	2012	2011
Remuneration and bonuses	0.5	0.5
Benefits	0.0	0.0
TOTAL	0.5	0.5

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.

Volume of ING Bank Śląski shares held by Bank Management Board and Supervisory Board Members

As at 31st December 2012, neither Management Board nor Supervisory Board members held shares of ING Bank Śląski S.A. As at the date of rendering the annual financial statements for 2012 into the public domain, Mr Wojciech Popiołek held 60 shares of ING Bank Śląski. Other Supervisory Board members as well as Management Board members held no shares of ING Bank Śląski S.A. In February 2012, Mr. Wojciech Popiołek sold all shares of ING Bank Śląski S.A. he held.

45. Headcount

The headcount in the ING Bank Śląski S.A. was as follows:

Headcount	end of year 2012	end of year 2011
Individuals	8,244	8,211
FTEs	8,081.9	8,068.7

46. Significant events after the balance sheet date

Selection of Chartered Auditor

On 18 April 2013, the ING Bank Śląski S.A. Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with registered office in Warsaw as their chartered auditor authorised to audit the financial statements of ING Bank Śląski S.A. and the Capital Group of ING Bank Śląski S.A.

KPMG Audyt Spółka z o.o. has been entered on the list of entities authorised to audit financial statements, which is kept by the National Board of Statutory Auditors (KRBR).

The agreement with the said entity will cover the years 2013-2015, starting with the review of the financial statements for H1 2013 until the audit of the annual financial statements for 2015.

During the last 3 years companies from KPMG group cooperated with the Bank as regards tax advisory services, attestation services and support in analysis of selected regulatory matters.

Change of rating perspective

In December 2012, Fitch Agency carried out the annual rating review at the Bank. As a result, all the to-date Bank's ratings were affirmed (the press release of the Fitch agency of 29 January 2013). Nevertheless, on 06 February 2013, the Agency announced that it revised the ratings outlook for three big Dutch banks, ING Bank N.V. inclusive, from stable to negative. It led to an analogical rating revision for ING Bank Śląski S.A. Change of the ratings outlook for the Dutch banks was related to the revision of the Netherlands rating of a day earlier - the country's rating was affirmed at 'AAA' level but the outlook was revised from stable to negative. As a justification the Agency referred to the worsening, in its opinion, macroeconomic standing of the Netherlands.

47. Approval of financial statements

These annual financial statements of the ING Bank Śląski S.A. for the period from 1st January 2012 to 31st December 2012 has been approved by the Bank Management Board on 5th March 2013.

The annual consolidated financial statements of the ING Bank Śląski S.A. Capital Group for the period from 1st January 2012 to 31st December 2012 shall be published and approved on the same day as the standalone financial statements.

Risk Management in ING Bank Śląski S.A.

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

I. Credit Risk Management

1. Definition of Credit Risk

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

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

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

- risk identification and assessment,
- risk measurement and monitoring,
- risk mitigation and prevention,
- development of tools supporting risk identification and measurement,
- provisioning policy.

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

Maximum exposure to credit risk

	end of 2012	end of 2011
Loans and receivables to other banks	1 365.3	967.1
Financial assets measured at fair value through profit and loss	1 554.6	639.6
Valuation of derivatives	1 822.7	1 858.4
Investments	17 880.5	20 450.1
Derivative hedge instruments	1 112.6	433.4
Loans and receivables to customers	45 764.0	42 298.7
Receivables presented in other assets	84.1	52.4
Off-balance sheet liabilities granted, including:	15 803.1	16 792.8
- credit card limits	11 636.1	11 618.1
- unutilised credit lines	2 119.3	3 134.9
- unutilised overdraft facilities	1 056.9	1 080.5
- guarantees	675.7	637.4
- letters of credit	315.1	321.9
Total	85 386.9	83 492.5

2. Organisational Structure of Risk Management

For credit risk management, the organisational structure of the Bank includes the following organisational units:

- Supervisory Board of the Bank,
- Management Board of the Bank together with the Credit Policy Committee that approve certain internal credit risk-related normative acts as part of their powers,
- Corporate Credit Portfolio Management Department,
- Corporate Credit Risk Modeling & Reporting Department,
- Strategic Clients Credit Risk Department
- Corporate Clients Credit Risk Department,
- Retail Credit Risk Management Department,
- Monitoring and Collection Department,
- Corporate Credit Restructuring Department,
- Credit Risk Inspection 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 Corporate 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 oversees departments whose function includes system management of the Bank's corporate credit risk:

- Corporate Credit Portfolio Management Department,
- Corporate Credit Risk Modeling & Reporting Department,
- Strategic Clients Credit Risk Department
- Corporate Clients Credit Risk Department,
- Corporate Credit Restructuring Department.

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. Corporate Credit Portfolio Management 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. Corporate Credit Risk Modeling & 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. Strategic Clients Credit Risk Department, Corporate Clients Credit Risk 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 Department

- 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. Corporate Credit Restructuring Department

- management of corporate problem loans oriented on minimising the risk and Bank's losses resulting from the irregular debt portfolio, i.e.:
 - comprehensive debt restructuring and collection,
 - loan loss provisioning for the biggest impaired exposures,
 - rating assigning for irregular clients,
- participation in the Watch List portfolio reviews,
- defining policies related to problem loans management in order to mitigate risks and reduce losses,
- analysis and reporting on corporate problem loans portfolio,
- co-operation with the auditor, banking supervision authorities, inter-bank organizations and appropriate organisational units of the ING Group in respect of problem loans management and loan loss provisioning,
- participation in the projects connected with credit risk management, especially referring to problem loans management and loan loss provisioning, including issuing opinions and recommendations for changes in the areas.

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.

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. Structure of credit exposure portfolio

Credit exposure portfolio ^{*)}	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
Credit exposure to corporate clients , of which:	24 833.1	13 806.7	22.466.6	15.006.4
- IBNR (Incurred But Not Reported)	23 690.9	13 692.8	21.322.5	14.925.7
- Impaired, of which:	1 142.2	113.9	1.144.1	80.7
- ISFA (Individually Significant Financial Asset)	1 011.0	109.0	1.046.2	33.4
- INSFA (Individually Non-Significant Financial Asset)	131.2	4.9	97.9	47.3
Credit exposure to retail clients , of which:	16 466.7	2 138.6	14.965.4	2.349.1
- IBNR (Incurred But Not Reported)	15 930.3	2 133.9	14.525.4	2.343.5
- Impaired, of which:	536.4	4.7	440.0	5.6
- INSFA (Individually Non-Significant Financial Asset)	536.4	4.7	440.0	5.6
Total credit exposure	41 299.8	15 945.3	37.432.0	17.355.5

*) The exposures do not include the interest accrued or adjustments under the effective interest rate

Reconciliation to financial statements

The on-balance exposures taken for analysis from the credit risk perspective, are presented as outstanding capital and do not include the interest accrued or adjustments under the effective interest rate. The table below presents the loans and advances portfolio per gross value presented in the note 20.3 *The quality of loans and advances portfolio* per capital as well as other elements comprising the gross value calculation in the financial statements.

Loans and advances portfolio	gross value in PLN million	
	end of 2012	end of 2011
Loans and advances to customers from corporate banking segment, of which:	24 843.7	22.490.8
- capital	24 833.1	22.466.6
- interest accrued and adjustments under the effective interest rate	10.6	24.2
Loans and advances to customers from retail banking segment, of which:	16 541.1	15.008.9
- capital	16 466.7	14.965.4
- interest accrued and adjustments under the effective interest rate	74.4	43.5
Total, of which:	41 384.8	37.499.7
- capital	41 299.8	37.432.0
- interest accrued and adjustments under the effective interest rate	85.0	67.7

4.1. Credit exposure to corporate clientsCredit exposure to corporate clients by risk grades

risk rating	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
3	0.0	0.3	0.0	0.3
4	0.0	0.0	0.0	4.2
5	0.0	45.4	1 973.4	921.1
6	35.3	50.3	547.5	234.6
7	3 528.1	1 097.6	2 997.7	1 910.8
8	2 503.2	969.3	767.2	429.3
9	2 461.7	2 048.4	635.6	1 090.7
10	2 198.7	2 608.1	1 549.7	2 913.9
11	2 960.2	2 235.6	2 951.0	2 856.3
12	2 163.8	1 099.0	3 047.1	1 382.3
13	3 992.3	1 860.0	3 238.7	1 791.8
14	1 283.3	539.7	1 175.2	429.2
15	1 469.8	609.1	1 528.5	662.7
16	436.7	143.2	367.8	131.9
17	220.2	290.1	231.8	75.6
18	296.1	56.0	144.2	25.7
19	141.5	40.7	167.1	65.3
20	634.6	99.4	637.6	77.6
22	507.6	14.5	506.5	3.1
Total	24 833.1	13 806.7	22 466.6	15 006.4

Credit exposures to corporate clients by overdue days

number of days overdue	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
0	23 863.0	13 793.9	21 808.7	14 987.4
1-30	97.5	12.6	60.5	18.9
31-60	24.6	0.2	6.4	0.1
61-90	66.9	0.0	11.6	0.0
91-180	64.4	0.0	22.6	0.0
181-365	263.0	0.0	49.7	0.0
>365	453.7	0.0	507.1	0.0
Total	24 833.1	13 806.7	22 466.6	15 006.4

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.

4.1.1. IBNR portfolio

Credit exposure to corporate clients under IBNR (Incurred But Not Reported) impairment provisions by risk grades

risk rating	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
3	0.0	0.3	0.0	0.3
4	0.0	0.0	0.0	4.2
5	0.0	45.4	1 973.4	921.1
6	35.3	50.3	547.5	234.6
7	3 528.1	1 097.6	2 997.7	1 910.8
8	2 503.2	969.3	767.2	429.3
9	2 461.7	2 048.4	635.6	1 090.7
10	2 198.7	2 608.1	1 549.7	2 913.9
11	2 960.2	2 235.6	2 951.0	2 856.3
12	2 163.8	1 099.0	3 047.1	1 382.3
13	3 992.3	1 860.0	3 238.7	1 791.8
14	1 283.3	539.7	1 175.2	429.2
15	1 469.8	609.1	1 528.5	662.7
16	436.7	143.2	367.8	131.9
17	220.2	290.1	231.8	75.6
18	296.1	56.0	144.2	25.7
19	141.5	40.7	167.1	65.3
Total	23 690.9	13 692.8	21 322.5	14 925.7

Credit exposure to corporate clients under IBNR (Incurred But Not Reported) impairment provisions by overdue days

number of days overdue	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
0	23 586.1	13 687.6	21 265.4	14 906.7
1-30	82.3	5.0	46.7	18.9
31-60	7.6	0.2	4.2	0.1
61-90	9.5	0.0	3.2	0.0
91-180	4.2	0.0	2.1	0.0
181-365	0.5	0.0	0.2	0.0
>365	0.7	0.0	0.7	0.0
Total	23 690.9	13 692.8	21 322.5	14 925.7

Credit quality of corporate clients' credit portfolio that is neither past due nor impaired

risk rating	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
3	0.0	0.3	0.0	0.3
4	0.0	0.0	0.0	4.2
5	0.0	45.4	1 968.5	921.1
6	35.3	50.3	547.5	234.6
7	3 515.7	1 097.0	2 989.4	1 910.8
8	2 500.7	969.3	767.2	429.3
9	2 461.7	2 047.9	635.3	1 090.3
10	2 197.3	2 606.2	1 545.0	2 913.8
11	2 954.0	2 234.7	2 949.9	2 840.9
12	2 162.0	1 098.9	3 045.3	1 381.8
13	3 959.9	1 859.8	3 228.6	1 790.3
14	1 277.6	539.1	1 168.8	428.9
15	1 453.0	608.7	1 521.2	662.1
16	436.5	143.2	365.9	131.9
17	219.3	290.1	231.5	75.6
18	286.8	56.0	142.7	25.6
19	126.3	40.7	158.6	65.2
Total	23 586.1	13 687.6	21 265.4	14 906.7

Analysis of the age of corporate clients' credit portfolio that is past due as at the end of reporting period but not impaired

number of days overdue	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
1-30	82.3	5.0	46.7	18.9
31-60	7.6	0.2	4.2	0.1
61-90	9.5	0.0	3.2	0.0
91-180	4.2	0.0	2.1	0.0
181-365	0.5	0.0	0.2	0.0
>365	0.7	0.0	0.7	0.0
Total	104.8	5.2	57.1	19.0

4.1.2. ISFA portfolioCredit exposure to corporate clients under ISFA (Individually Significant Financial Asset) impairment provision by risk grades

risk rating	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
20	603.3	96.2	604.8	33.3
22	407.7	12.8	441.4	0.1
Total	1 011.0	109.0	1 046.2	33.4

Credit exposure to corporate clients under ISFA (Individually Significant Financial Asset) impairment provision by overdue days

number of days overdue	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
0	262.9	101.4	527.7	33.4
1-30	10.4	7.6	0.7	0.0
31-60	10.3	0.0	0.3	0.0
61-90	54.1	0.0	6.9	0.0
91-180	46.4	0.0	12.7	0.0
181-365	238.9	0.0	40.2	0.0
>365	388.0	0.0	457.7	0.0
Total	1 011.0	109.0	1 046.2	33.4

4.1.3. INSFA portfolioCredit exposure to corporate clients under INSFA (Individually Non-Significant Financial Asset) impairment provision by risk grades

risk rating	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
20	31.3	3.2	32.8	44.3
22	99.9	1.7	65.1	3.0
Total	131.2	4.9	97.9	47.3

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			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
0	14.0	4.9	15.6	47.3
1-30	4.8	0.0	13.1	0.0
31-60	6.7	0.0	1.9	0.0
61-90	3.3	0.0	1.5	0.0
91-180	13.8	0.0	7.8	0.0
181-365	23.6	0.0	9.3	0.0
>365	65.0	0.0	48.7	0.0
Total	131.2	4.9	97.9	47.3

4.2. Credit exposure to retail clientsCredit exposure to retail clients by risk grades

risk rating	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
2	822.0	44.6	-	-
4	3 032.5	280.7	-	-
5.1	1 431.0	64.8	-	-
5.2	3 888.9	140.1	-	-
6	66.1	161.7	-	-
7	228.9	5.2	-	-
8	2 073.6	199.4	30.5	129.0
9	180.4	190.9	10 728.7	879.6
10	186.6	115.8	473.4	329.6
11	953.0	126.9	244.3	141.5
12	412.8	63.6	785.5	173.8
13	1 004.8	70.2	531.6	44.0
14	1 084.3	591.9	547.5	131.8
15	246.6	62.9	581.5	457.7
16	110.3	9.5	98.9	41.5
17	76.1	1.8	332.4	8.6
18	57.0	3.6	95.4	3.3
19	70.4	0.3	75.7	3.1
19.1	3.6	0.0	-	-
19.2	1.4	0.0	-	-
20	278.1	4.6	256.1	5.4
22	258.3	0.1	183.9	0.2
Total	16 466.7	2 138.6	14 965.4	2 349.1

Change in risk rates compared to the previous year is associated with recalibration of PD model for consumer loans and the implementation of a new PD model for mortgage loans. The changes resulted in increase of the impairment losses in 2012 under impairment of credit receivables by PLN 3.0 million.

Credit exposure to retail clients by overdue days

number of days overdue	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
0	15 467.7	2 120.7	14 045.3	2 330.5
1-30	390.4	15.3	422.7	15.8
31-60	106.5	1.9	93.9	2.1
61-90	45.9	0.3	38.2	0.4
91-120	17.1	0.0	17.4	0.1
121-150	11.8	0.1	12.5	0.0
151-180	12.8	0.0	13.4	0.0
>180	414.5	0.3	322.0	0.2
Total	16 466.7	2 138.6	14 965.4	2 349.1

4.2.1. IBNR portfolioCredit exposure to retail clients under IBNR (Incurred But Not Reported) impairment provision by risk grades

risk rating	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
2	822.0	44.6	-	-
4	3 032.5	280.7	-	-
5.1	1 431.0	64.8	-	-
5.2	3 888.9	140.1	-	-
6	66.1	161.7	-	-
7	228.9	5.2	-	-
8	2 073.6	199.4	30.5	129.0
9	180.4	190.9	10 728.7	879.6
10	186.6	115.8	473.4	329.6
11	953.0	126.9	244.3	141.5
12	412.8	63.6	785.5	173.8
13	1 004.8	70.2	531.6	44.0
14	1 084.3	591.9	547.5	131.8
15	246.6	62.9	581.5	457.7
16	110.3	9.5	98.9	41.5
17	76.1	1.8	332.4	8.6
18	57.0	3.6	95.4	3.3
19	70.4	0.3	75.7	3.1
19.1	3.6	0.0	-	-
19.2	1.4	0.0	-	-
Total	15 930.3	2 133.9	14 525.4	2 343.5

*IBNR – Incurred But Not Reported

Credit exposure to retail clients under IBNR (Incurred But Not Reported) impairment provision by overdue days

number of days overdue	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
0	15 432.1	2 116.8	14 005.4	2 325.7
1-30	374.9	15.1	405.7	15.4
31-60	88.4	1.8	84.1	2.0
61-90	34.9	0.2	30.2	0.4
Total	15 930.3	2 133.9	14 525.4	2 343.5

Credit quality of retail clients' credit portfolio that is neither past due nor impaired

risk rating	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
2	822.0	44.6	-	-
4	3 032.5	280.7	-	-
5.1	1 431.0	64.8	-	-
5.2	3 888.9	140.1	-	-
6	66.1	161.6	-	-
7	228.9	5.2	-	-
8	2 073.4	199.2	30.5	128.9
9	180.2	190.5	10 728.6	879.4
10	186.3	115.4	473.2	329.3
11	921.9	126.0	243.8	141.1
12	409.0	62.3	777.0	171.9
13	886.0	68.0	523.7	43.1
14	1 060.6	589.4	525.2	129.6
15	180.8	59.8	569.5	456.4
16	47.1	7.7	78.0	39.6
17	4.8	0.1	33.3	3.8
18	11.4	1.4	11.3	1.6
19	1.1	0.0	11.3	1.0
19.1	0.1	0.0	-	-
Total	15 432.1	2 116.8	14 005.4	2 325.7

Analysis of the age of retail clients' credit portfolio that is past due as at the end of reporting period but not impaired

number of days overdue	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
1-30	374.9	15.1	405.7	15.4
31-60	88.4	1.8	84.1	2.0
61-90	34.9	0.2	30.2	0.4
Total	498.2	17.1	520.0	17.8

4.2.2. INSFA portfolioCredit exposure to retail clients under INSFA (Individually Non-Significant Financial Asset) impairment provision by risk grades

risk rating	exposure in PLN million			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
20	278.1	4.6	256.1	5.4
22	258.3	0.1	183.9	0.2
Total	536.4	4.7	440.0	5.6

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			
	end of 2012		end of 2011	
	on-balance	off-balance	on-balance	off-balance
<90	80.2	4.3	74.7	5.3
91-120	17.1	0.0	17.4	0.1
121-150	11.8	0.1	12.5	0.0
151-180	12.8	0.0	13.4	0.0
>180	414.5	0.3	322.0	0.2
Total	536.4	4.7	440.0	5.6

5. Rules and process of corporate credit risk management**5.1. 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 (i.e. Corporate Credit Restructuring Department) 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.

5.2. 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).

5.3. Concentration Limits

To mitigate the concentration risk, the Bank in 2012 observes the following exposure concentration limits as defined in Article 71 of the Banking Law Act:

- limit of 25% of the Bank's own funds – as regards other domestic bank, credit institution, foreign bank or a group of equity- or organisationally linked entities consisting in at least one domestic bank, credit institution or foreign bank (increase from 20% as a result of the Banking Law Act amendment in July 2011),
- limit of 25% of the Bank's own funds – as regards other entities.

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.

Both over the year 2012 and 2011, the exposure concentration limits were not overrun.

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%. 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)			
	end of 2012		end of 2011	
	exposure in PLN million	share in total exposure (%)	exposure in PLN million	share in total exposure (%)
financial intermediation (including banks)	5 837.8	15.1%	3 960.5	10.6%
wholesale trade	5 472.0	14.2%	5 509.5	14.7%
public administration and national defense	3 312.8	8.6%	3 524.9	9.4%
constructions industry	2 411.7	6.2%	2 916.0	7.8%
retail trade	2 078.8	5.4%	2 035.4	5.4%
real estate service	2 063.3	5.3%	2 119.1	5.7%
foodstuff and beverage production	1 789.7	4.6%	1 756.0	4.7%
equipment rent	1 185.4	3.1%	957.3	2.5%
power industry	1 113.3	2.9%	1 726.7	4.6%
fuel industry	1 082.4	2.8%	976.6	2.6%
ready-made metal goods productions	972.1	2.5%	863.4	2.3%
engineering industry	939.8	2.4%	1 148.3	3.1%
rubber industry	918.5	2.4%	895.9	2.4%
post office and telecommunications	785.8	2.0%	873.6	2.3%
mechanical vehicles sale, repair and service	762.6	2.0%	718.2	1.9%
remaining non-metal raw materials industries	712.0	1.8%	722.7	1.9%
remaining services connected with running business	671.6	1.7%	551.4	1.5%
chemicals and chemical goods production	641.1	1.7%	781.6	2.1%
means of transport industry	640.2	1.7%	582.3	1.6%
metals productions	603.8	1.6%	670.9	1.8%
computer industry and associated service	598.2	1.5%	632.8	1.7%
land and pipeline transportation	526.1	1.4%	493.1	1.3%
agriculture, forestry, fishery	474.4	1.2%	384.5	1.0%
other	3 046.4	7.9%	2 672.3	7.1%
Total	38 639.8	100.0%	37 473.0	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.

Bank's greatest exposures

The table below presents the breakdown of 20 largest Bank exposures towards entities/ related entities (inclusive of groups of entities wherefor the bank is a parent entity). The amount of exposures takes account of the value of the balance sheet assets (extended loans, deposits made and debt securities), extended off-balance sheet exposures and the value of balance sheet equivalent of derivatives.

client	client's dominant industry	exposure in PLN million	
		end of 2012	end of 2011
Client 1 (Group)	financial intermediation (banking)	8 361.0	6 426.3
Client 2	financial intermediation (banking)	1 741.2	1 384.2
Client 3 (Group)	financial intermediation (banking)	1 014.0	438.7
Client 4 (Group)	financial intermediation (banking)	988.0	739.6
Client 5 (Group)	financial intermediation (banking)	891.7	538.1
Client 6 (Group)	mechanical vehicles sale, repair and service	772.9	639.3
Client 7 (Group)	power industry	758.2	730.6
Client 8 (Group)	fuel industry	719.0	646.2
Client 9 (Group)	power industry	705.7	1 236.3
Client 10 (Group)	mechanical vehicles sale, repair and service	682.1	400.0
Client 11 (Group)	wholesale trade	680.4	1 061.4
Client 12 (Group)	retail trade	508.0	424.4
Client 13 (Group)	post office and telecommunications	453.9	484.3
Client 14 (Group)	financial intermediation (banking)	427.7	372.7
Client 15 (Group)	post office and telecommunications	388.8	369.1
Client 16 (Group)	retail trade	384.8	255.2
Client 17 (Group)	financial intermediation	370.2	206.6
Client 18 (Group)	land and pipeline transportation	346.2	287.8
Client 19 (Group)	fuel industry	339.0	543.4
Client 20 (Group)	wholesale trade	333.7	329.3

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:

- mortgage-backed lending portfolio,
- lending portfolio with low downpayment (insured),
- FX-indexed lending portfolio,
- share of lending portfolio with LTV >90%
- share of consolidated lending portfolio in mortgage loans total,
- mortgage portfolio of above 25 years maturity at the time of opening an account,
- portfolio of credit exposures granted through external sales channels in the mortgage segment,

- share of 30+ DPD loans in the IBNR portfolio of credit exposures granted through external sales channels in the mortgage segment, measured with equity.

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.

5.4. Repayment Security and Other Forms of Credit Risk Mitigation

Even though repayment security is a major factor that allows the Bank to mitigate the lending risk, it is the Group's policy to extend loans in amounts and on terms that allow for regular repayment without the need to recover the receivables by liquidating the security.

The Bank accepts all types of repayment security permitted by the law; however, the choice in specific cases is conditioned by various factors, including in particular:

- the client's ability to offer specific types of security,
- the type and duration of exposure,
- the level of client's risk,
- the level of transaction's risk,
- the liquidity of security offered (the ability to cash it easily),
- the collateral value.

The Bank *Collateral Policy* covers, among others, the following areas:

- indications of the criteria for accepting the collateral in the capital requirement for credit risk calculation process,
- setting the general rules for the Bank 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 with subsequent amendments, 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.

5.5. Exposure Classification Methodology

5.5.1. Credit Impairment Recognition

The events representing impairment triggers are the events which affected a financial asset or a group of financial assets and may have a negative impact on the amount of the expected future cash flow. The Bank adopted the following list of impairment events for corporate credit receivables:

- *bankruptcy / threat of bankruptcy*: the Borrower was announced or will soon be announced bankrupt (whether by the Bank, by third party or on its own initiative), which will result in failure to repay or delay in repayment;
- *default in repayment*: the Borrower stopped to repay the principal or interest/ commission and the said default lasts:
 - for corporate clients (apart from financial institutions) – above 90 days;
 - for financial institutions and government authorities – 0 days or more; however, in that case a 14-day explanation term is applied to determine whether the default in payment is caused by deterioration of the financial institution's credit standing or operational reasons. Default in payment for operational reasons is not considered an impairment event;
- *the Bank assesses that the borrower will face difficulty in repaying the debt*: the Borrower has such material financial problems that they can be of a negative impact on future cash flows under a given credit receivable;
- *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 occurrence of an impairment trigger and recognition of a loss on the basis of the conducted analysis of the expected future cash flow is the evidence of asset impairment.

5.5.2. 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 model PD 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.

5.5.3. Corporate Credit Risk Management Tools

In 2012 Bank initiated number of activities within credit risk management area aiming at implementation of KNF resolution 258/2011 on detailed rules for the functioning of risk management and internal control system and detailed conditions for estimating banks' internal capital and reviewing the process of assessing and maintaining internal capital policies and rules for determining the variable components of remuneration of managers in the bank

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.

The Bank obtained the final approval to apply AIRB method for the corporate credit portfolio from the Dutch National Bank (DNB) and the Polish Financial Supervision Authority on 6 October 2011.

As far as enterprises exposures are concerned, the following models, among others, are applied at the Bank:

- for the strategic clients segment covering businesses with annual income above EUR 100 million:
 - global PD (expert and statistical) ING Group rating model developed at the ING Group level accounting for the local data and monitored regularly on the said data,
 - global LGD and EAD (hybrid expert and statistical models) models also developed at ING Group level accounting for the local data and monitored regularly based on the said data,
- for the local mid-sized and mid-corporate segments (SME assets class) covering clients with annual income from EUR 1.2 to 100 million:
 - local PD (expert and statistical) rating model developed under the supervision of the ING Group based on the Bank's internal data, applied at ING also as a regional model for Central and Eastern European states,
 - local LGD and EAD models (hybrid expert and statistical models) developed under the supervision of ING based on the Bank's internal data and applied at ING as regional models for the Central and Eastern European states.

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.

5.6. Restructuring of credit exposures

In some cases, ING Bank Śląski S.A. will work with an obligor and its other creditors (if any) to restructure the obligor's business and its financial obligations in order to minimize any

financial losses to the creditors as a whole, and ING Bank Śląski S.A. in particular. This can be accomplished through many means available to the creditors, the most common of which are:

- extending the repayment period,
- selling assets,
- selling business lines of the obligor,
- forgoing part of the financial obligations,
- a combination of the above.

The decision to enter into such a restructuring is done 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.

6. Rules and process of retail credit risk management

The Bank regards all the retail receivables (from individual and entrepreneur 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.

6.1. 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 entrepreneurs) this condition is applicable only for exposures over PLN 200;
- with regard to consumer loans: the Borrower (individual) has exposures other than the exposure in question, which demonstrate the premises of impairment under item 1 and all these exposures belong to the group of consumer loans (non-housing/ mortgage);
- with regard to housing/mortgage loans: the Borrower (individual) has exposures other than the exposure in question, which demonstrate the premises of impairment under item 1 and all these exposures belong to the group of housing/mortgage loans (non-consumer);
- the Borrower (entrepreneur) has exposures other than the exposure in question, which demonstrate the premises of impairment under item 1;

- upon impairment the Borrower correctly services the debt; however, the period of correct service is shorter than 3 months (for debt overdue by no longer than 6 months);
- upon impairment the Borrower correctly services the debt; however, the period of correct service is shorter than 6 months (for debt overdue by longer than 6 months);
- the Borrower has been or will be declared bankrupt soon, which shall result in the failure to repay the debt or delay in its repayment (the premise applies in particular to the borrowers from entrepreneurs);
- the credit agreement has been terminated;
- financial and economic situation indicates that the customer from entrepreneurs segment will not repay their loans in full and on time;
- 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.

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:

- default event has occurred and delinquency exceeded 810 days for consumer lending segment and entrepreneurs segment,

- default event has occurred and delinquency exceeded 1 170 days for mortgage exposures,
- 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 entrepreneurs receivables,
- LGD, or loss given default recorded for receivables as a result of their incomplete recovery, determined for each sub-portfolio of retail and entrepreneurs 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. The emergence period for all retail customers and entrepreneurs is equal 9 months.

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 its value (liquidation) and values recovered directly from customer.

LGD for the retail portfolio is calculated based on the quotient of discounted cash flows on account from default event till next 24 months (36 months for mortgage) to exposure at default moment (EAD).

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 realisation or collection activities. Cash flows upon the impairment date are discounted with the nominal interest rate.

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 %).

7. Compliance Reviews

The basic compliance reviews in the credit risk management area are performed by Credit Risk Inspection Department in the scope defined under items 2.11.

8. Identification of Credit Risk Connected with Derivatives

Each client concluding a derivative transaction with the Bank must be assigned a relevant transaction limit by the Bank. The transaction limits are assigned pursuant to the credit procedures and authorities binding in the Bank, as for all other credit exposures.

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).

8.1. 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%.

8.2. 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.

8.3. 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).

8.4. 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.

8.5. 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:

$$\text{Pre-settlement risk} = \text{Market Value} + \text{Face Value} \times \text{Risk Weight},$$

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):

	end of 2012	end of 2011
Money Market	6.1	44.3
MtM ^{*)}	716.7	519.9
Present Value + FM Value	848.5	1 138.7

^{*)} Gross amount - transactions where the Bank is “at-the-money” only.

8.6. Credit risk connected with derivative instruments

In view of a existing credit risk in derivatives transactions (mainly FX options) made by the Bank with clients, the Bank regularly reviews the portfolio of those instruments.

The approach adopted by the Bank to estimation of the credit risk generated by derivative instruments is described in the chapter V. *Significant accounting policies* in the point 2.2. *Credit risk connected with derivative instruments*.

Valuation adjustment of unmatured derivatives with Bank's customers for 2012 was amounted to PLN +23.3 million (against PLN -25.9 million in 2011) and was presented in the 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 Bank made charges using the methodology for assessing the risk of impaired loans. In 2012, the balance of provisions therefor amounted to PLN -10.6 million (provision establishment) compared to PLN +4.6 million (provision release) in 2011 and was included in the financial statements as *Impairment losses and provisions for off-balance sheet liabilities*.

The item *Loans and receivables to customers* in the statement of financial position presents receivables resulting from restructuring of derivative transactions made by the Bank with customers. The due amounts equaled to PLN 244.3 million as at 31 Dec 2012 against PLN 302.6 million as at 31 Dec 2011. The carrying value of impairment losses connected with transactions on derivatives amounted to PLN 209.4 million as at 31 Dec 2012 against PLN 256.8 million as at 31 Dec 2011.

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 includes representatives from MRM, 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:

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. 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 Value-at-Risk and positions/sensitivities 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.

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. 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: one-day period of holding position, 99% confidence interval and 250 daily market observations are used for volatility and correlation calculation. For the individual interest rate and FX portfolios the Bank uses the variance-covariance method, for the FX options portfolio the historical simulation method is used. The VaR measurements done by the Bank are performed in accordance to 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 are investigated and explained.

Stress-testing

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 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.

Moreover, on quarterly basis Bank-wide stress test is performed covering market risk and credit risk under regulatory scenario and various scenarios provided by Economist and approved by ALCO.

Trading Books Market Risk (VaR statistics)*

VaR numbers in 2012 (in PLN thousand)

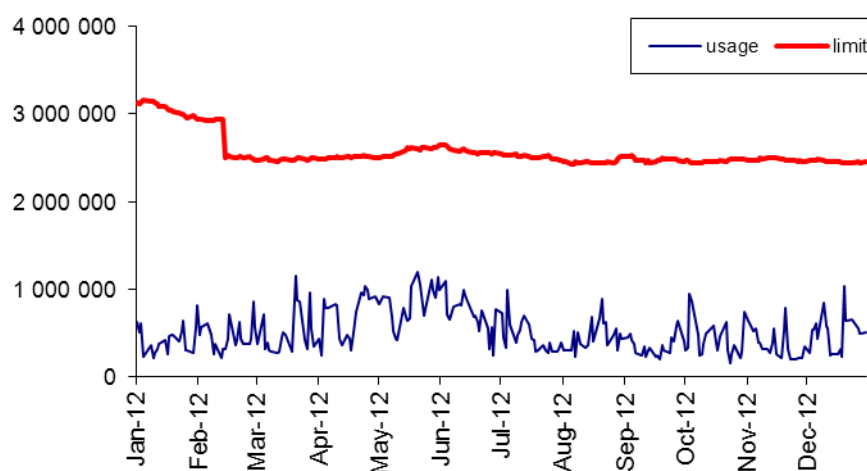
Area	Limit	as at 31 Dec 2012	Average	Min	Max
Interest Rate	2 452.9	508.4	519.9	162.9	1 201.9
FX	3 270.6	94.9	935.3	94.9	2 180.8
FX Options	2 044.1	106.4	336.9	81.4	821.1

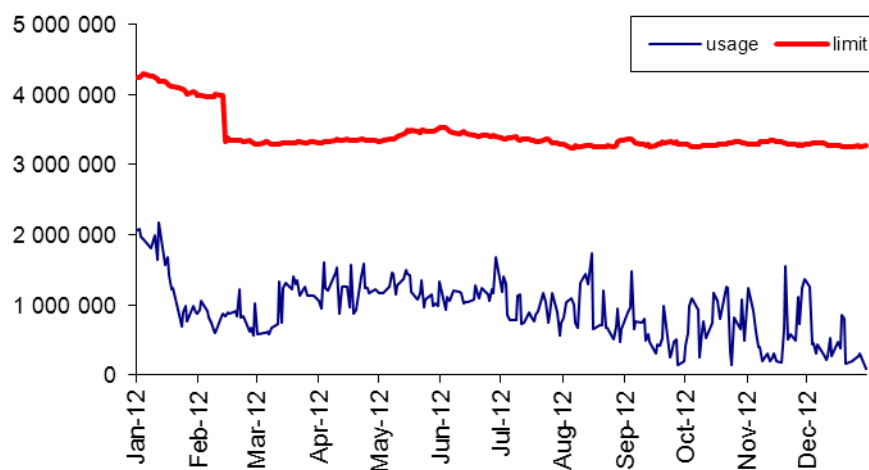
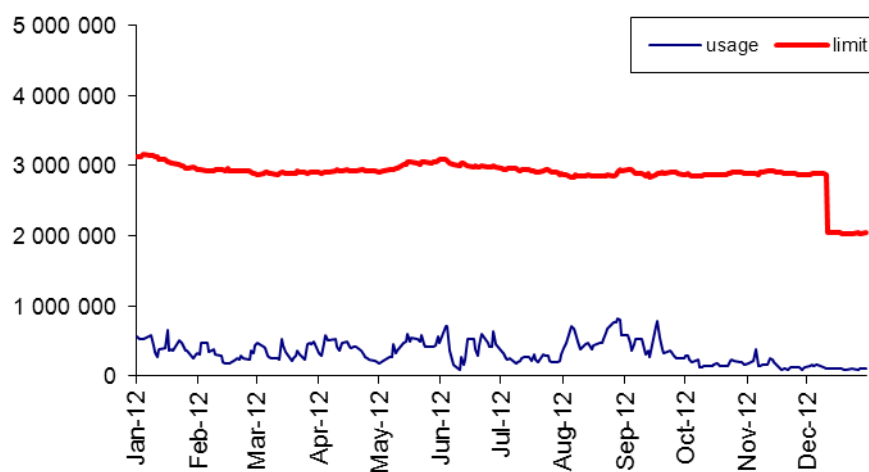
VaR numbers in 2011 (in PLN thousand)

Area	Limit	as at 31 Dec 2011	Average	Min	Max
Interest Rate	3.091.8	473.4	470.1	110.5	1.537.0
FX	4.196.0	1.486.9	1.053.0	23.8	2.512.4
FX Options	3.091.8	518.8	525.3	187.9	1.665.4

* 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

Interest Rate VaR (PLN)



FX VaR (PLN)FX Options VaR (PLN)

Financial Markets kept their trading exposures at reasonable levels comparing to approved limits. The average usage of limits in 2012 was respectively: 20% for Interest rate trading, 27% for FX Spot and 12% for FX options. No VaR limit breaches within trading portfolio were reported in 2012. Management Board decided to decreased VaR limits in each of trading book in 2012.

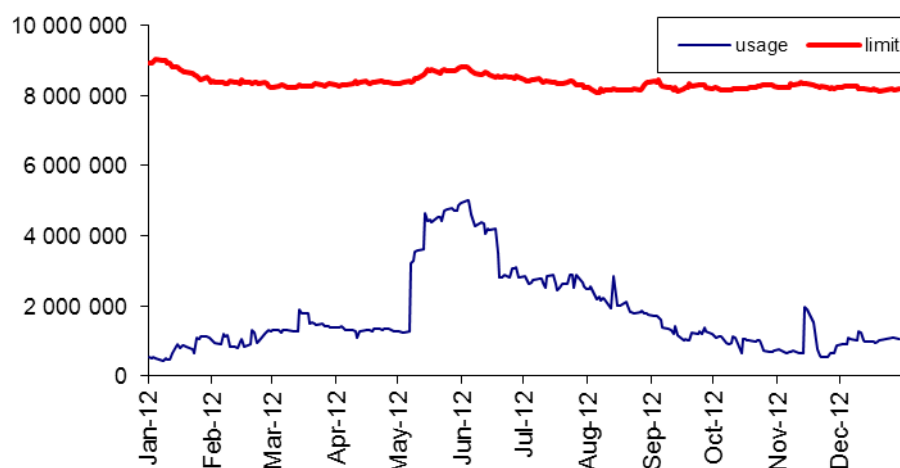
Financial Markets Banking Books Market Risk (VaR statistics)*VaR numbers in 2012 (in PLN thousand)

Area	Limit	as at 31 Dec 2012	Average	Min	Max
LMF&ALM	8 176.4	1 068.2	1 763.3	438.1	5 025.2

VaR numbers in 2011 (in PLN thousand)

Area	Limit	as at 31 Dec 2011	Average	Min	Max
LMF&ALM	8.833.6	542.9	1 046.1	381.6	3 764.1

* In case of LMF (Liquidity Management & Funding) and ALM numbers represent Delta VaR as this measure is formally limited. The delta measurement is based on variance-covariance method. The measurement takes into account only levels and shape of underlying curve (swap) showing the risk of negative impact on the result of underlying curve changes. The spread and its potential change between underlying curve and other profitability curves (for example curve for treasury securities) is not taken into account in measurement.

LMF & ALM VaR (PLN)

Financial Markets kept their exposures in banking book at reasonable levels comparing to approved limits. The average usage of combined limit for FM banking book amounted to 21%. No VaR limit breaches within banking portfolio were reported in 2012.

Non Financial Markets Banking Books VaR statisticsVaR numbers in 2012 (in PLN thousand)

Area	Limit	as at 31 Dec 2012	Average	Min	Max
Interest Rate	613.2	65.7	177.8	65.7	248.4

VaR numbers in 2011 (in PLN thousand)

Area	Limit	as at 31 Dec 2011	Average	Min	Max
Interest Rate	662.5	216.0	198.0	170.1	241.0

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 repayment 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).

FX position generated from banking books is transferred in whole to trading book and managed there.

4. 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 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 Bank). It is important to note that the potential changes in capital base shown here are relevant only for the Bank's *regulatory* capital base. The Bank's calculations of its *economic* capital base do not include positive or negative revaluations of AFS-classified debt securities. This is because AFS-classified debt securities positions largely arise from the investment of portions of PLN demand deposit volumes in line with the Bank's economic modelling of these demand deposits.

Sensitivity of results to Changes in Interest Rates (PLN million)

end of 2012

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	0.07	-7.69	-3.97	6.41	12.31	-7.69	-3.97	6.41	12.31
	Accrual	0.62	-127.25	-61.89	60.13	117.06	15.38	9.82	-9.82	-19.63
	<i>Total</i>	0.68	-134.94	-65.86	66.54	129.37	7.69	5.84	-3.41	-7.32
TRADING	MTM	0.02	-4.25	-2.13	2.13	4.25	-4.25	-2.13	2.13	4.25
BANK TOTAL	MTM	0.09	-11.94	-6.10	8.54	16.56	-11.94	-6.10	8.54	16.56
	Accrual	0.62	-127.25	-61.89	60.13	117.06	15.38	9.82	-9.82	-19.63
TOTAL		0.71	-139.19	-67.99	68.67	133.62	3.44	3.72	-1.28	-3.07

end of 2011

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	-0.11	18.51	6.35	-11.16	-22.68	18.51	6.35	-11.16	-22.68
	Accrual	0.57	-113.39	-56.95	55.38	108.20	135.80	70.35	-78.37	-156.74
	<i>Total</i>	0.46	-94.88	-50.60	44.22	85.52	154.31	76.69	-89.53	-179.42
TRADING	MTM	0.05	-9.74	-4.87	4.87	9.74	-9.74	-4.87	4.87	9.74
BANK TOTAL	MTM	-0.06	8.77	1.47	-6.29	-12.94	8.77	1.47	-6.29	-12.94
	Accrual	0.57	-113.39	-56.95	55.38	108.20	135.80	70.35	-78.37	-156.74
TOTAL		0.51	-104.62	-55.47	49.09	95.27	144.56	71.82	-84.65	-169.67

Sensitivity of Capital Accounts to Changes in Interest Rates (PLN million)

end of 2012

Position	BPV	Approximate Change in Regulatory Capital Base for Yield Curve Move			
		-2%	-1%	+1%	+2%
FM AFS Portfolio	-3.17	633.60	316.80	-316.80	-633.60
IRS classified to macro cash flow hedge portfolio	-4.04	808.51	404.25	-404.25	-808.51
TOTAL	-7.21	1 442.11	721.05	-721.05	-1 442.11

end of 2011

Position	BPV	Approximate Change in Regulatory Capital Base for Yield Curve Move			
		-2%	-1%	+1%	+2%
FM AFS Portfolio	-1.83	365.01	182.50	-182.50	-365.01
IRS classified to macro cash flow hedge portfolio	-2.63	525.65	262.83	-262.83	-525.65
TOTAL	-4.45	890.66	445.33	-445.33	-890.66

III. Liquidity Risk Management

ING Bank Śląski (INGBS) recognizes the process of stable liquidity risk management as one of the most important processes in the Bank.

Liquidity and Funding Risk is understood by INGBS as the risk of not being able to meet at a reasonable price the cash obligations arising from on- and off-balance sheet positions. Bank maintains liquidity in such a way that the cash obligations of the bank can always be done by available funds, inflows from maturing transactions, available funding source at market prices and/or from the liquidation of marketable assets. To optimize its liquidity risk management, INGBS has developed liquidity and funding policy that intends to maximize liquidity access and minimize funding risk and costs. The policy describes general approach to liquidity risk management process in the Bank. The main objective of liquidity and funding risk management process is to maintain sufficient liquidity to ensure safe and sound operations under normal market circumstances and in times of crisis. INGBS's risk and control structure is based on the three lines of defence model (3LOD).

Bank divided the liquidity risk into two groups: risks arising from external vs. bank-specific internal factors. Liquidity (risk) management also can be separated into several types depending on the term.

The last review of INGBS Liquidity and Funding Risk Management Policy was done in 2012 and was based on the regulatory resolutions and good banking practice.

The main changes in INGBS Liquidity and Funding Risk Management Policy related to:

- description of the 3 line of defence method for the effective liquidity and funding risk management,
- update of the contingency funding plan (CFP),
- further develop approach to stress testing, including review of scenarios, adequacy of liquidity buffers etc.,
- review assumptions in the liquidity reporting (in particular related to further works on liquidity modelling).

The general approach to risk management and liquidity financing consists of a cycle of five recurrent activities: risk identification, risk assessment, risk control, monitoring and reporting. The formal limits are placed by regulators or the Bank on the various reported metrics. The Supervisory Board determined the general acceptable level of risk and Management Board decided to include liquidity metrics in ALCO RAS (ALCO Risk Appetite Statement) report. All of these limits are taken into account during the planning process (in sum: realization of approved plans should not lead to excesses of limits). In most cases, limits have a "warning level" set above the minimum (or maximum) limit. Acceptable level of liquidity risk is determined and updated at least annually.

Acceptable level of risk is guaranteed by monitoring of risk in different liquidity and funding reports related to normal/regular activity of the Bank and also prepared in extreme/stress situations. Bank is monitoring the funding concentration, examination of external funding stability and internal liquidity buffer. The Bank pays the special attention to stress test process and on a quarterly basis prepares scenario analysis and sensitivity analysis for liquidity risk.

One of the most imported 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. According to the INGBS Liquidity and Funding Risk Management policy the test of CFP is done on annual basis and is presented on ALCO.

Additionally we use stress testing to evaluate Banks liquidity position under defined stress events. The Bank applies set of stress tests, in particular the mixed one defined as the 'cocktail' approach – stress both in external markets and for INGBS specific. Under such stress scenarios Bank is expected to survive minimum defined survival period. It is achieved by desired balance-sheet structure liquidity buffer portfolio built of highly liquid assets.

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 FSA regulation. In 2012 the bank kept all liquidity measures over their minimum amounts. As of 31 December 2012 liquidity measures of INGBS amounted as follows:

Liquidity measurement		Minimum	as at 31 Dec 2012	as at 31 Dec 2011
M1	Short term liquidity gap (in PLN million)	0.00	10 007.64	6 882.86
M2	Short term liquidity ratio	1.00	1.45	1.25
M3	Own Funds to Non-Liquid Assets Ratio	1.00	6.28	5.45
M4	Own Funds and Core Deposits to Non-Liquid and Semi-Liquid Assets Ratio	1.00	1.35	1.36

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. Bank models the liquidity profile of both assets & liabilities to reflect the real customer behaviour. The analysis is done based on mixed approach i.e. analysis of historic data and expert approach.

One of the internal liquidity reports is the structural liquidity report. This liquidity gap represents the gap at time intervals between assets and liabilities of the Bank on properly functioning market. The report is used to monitor and manage mid-and long-term liquidity positions. It serves as a support in the process of planning and financing of the balance sheet, also indicates any significant need for future financing.

This report is an additional scenario for the current balance sheet in normal market conditions. It does not include any additional balance growth forecasts. However, takes into account typical customer behavior observed in previous periods. For instance, cash flows for mortgage loans include prepayments, while cash flows for savings accounts and current accounts are allocated taking into account the liquidity characteristics.

Structural liquidity report (in PLN milion)

end of 2012

	1-6 months	7-12 months	1-5 years	6-10 years	11-15 years	over 15 years
Direct gap	13 644.7	-2 178.5	-9 952.4	-461.0	2 003.5	-3 056.2
Cumulative gap	13 644.7	11 466.1	1 513.7	1 052.8	3 056.2	0.0

end of 2011

	1-6 months	7-12 months	1-5 years	6-10 years	11-15 years	over 15 years
Direct gap	9 927.0	-2 606.6	-6 854.9	1 232.0	1 318.6	-3 016.0
Cumulative gap	9 927.0	7 320.3	465.4	1 697.4	3 016.0	0.0

Funding structure

The main resource of funding in ING BSK relates to the client deposits (retail and corporate). The bank monitors the funding structure observing diversification by type of products, client segments, currencies, type of funding, concentration of big ticket deposits. The Bank funding structure is well diversified. Please find below the funding structure as of the end of 2011 and 2012 with the split between direct and reciprocal funding.

Direct funding (in PLN million)

General customer type	31 Dec 2012		31 Dec 2011	
	direct funding	percentage share	direct funding	percentage share
Banks	1 189	2%	3 027	5%
Corporate clients	20 163	31%	18 759	31%
Retail clients	37 648	57%	34 219	56%
Equity	6 877	10%	5 328	9%

Reciprocal funding (in PLN million)

General customer type	31 Dec 2012		31 Dec 2011	
	reciprocal funding	percentage share	reciprocal funding	percentage share
Banks	10 531	85%	20 308	89%
Corporate clients	1 910	15%	2 430	11%
Retail clients	0	0%	0	0%

A maturity analysis for financial liabilities by remaining contractual maturities

The below table presents the financial liabilities by other contractual maturities – counting from the reporting date. The amounts include future interest payments. In the case of contingent liabilities extended, the earliest possible date for payment of the aforesaid liabilities by the Bank was taken into consideration when making the maturity analysis.

end of 2012

(in PLN million)

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
- Liabilities due to other banks	1 824.2	46.1	0.1	0.0	0.0
- Financial liabilities measured at fair value through profit and loss	2 077.1	0.0	313.2	435.5	177.3
- Liabilities due to customers	50 594.5	2 123.1	4 478.9	741.0	3.4
- Liabilities due to issue of debt securities	0.0	0.0	30.0	685.0	0.0
- Contingent liabilities granted	15 803.1	0.0	0.0	0.0	0.0

end of 2011

(in PLN million)

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
- Liabilities due to other banks	4 953.4	0.0	0.0	0.1	0.0
- Financial liabilities measured at fair value through profit and loss	1 629.5	0.0	100.6	56.5	28.1
- Liabilities due to customers	46 847.6	2 840.5	2 729.7	746.8	4.3
- Contingent liabilities granted	16 792.8	0.0	0.0	0.0	0.0

Maturity analysis of derivatives by contractual payment dates

The below tables present maturity analysis of derivatives with negative valuation as at the reporting date. The analysis is based on other contractual maturities.

Derivatives settled in net amounts

Derivatives settled net by the Bank cover the IRS and FRA transactions as well as options. For IRS transactions, the below data reflect the undiscounted interest future cash flows; for other transactions, their valuation as at 31 December 2012 and 31 December 2011 respectively was taken as the cash flow amount.

end of 2012

(in PLN million)

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
- Interest Rate Swap, of which:	-128.2	-129.5	-321.4	-1 214.8	-708.5
- hedging transactions in the hedge accounting	-51.8	-37.0	-171.8	-630.1	-434.1
- other derivatives	-1.0	-0.9	-8.2	-6.1	-0.6

end of 2011

(in PLN million)

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
- Interest Rate Swap, of which:	-41.8	-262.3	-119.0	-1 167.6	-402.5
- hedging transactions in the hedge accounting	9.0	-71.9	-13.0	-533.0	-276.7
- other derivatives	-0.3	-9.6	-14.9	-4.3	-2.5

Derivatives settled in gross amounts

Derivatives settled gross by the Bank cover the FX Swap, FX Forward and CIRS transactions. The below data reflect the undiscounted contractual cash outflows and inflows on notes and for CIRS transactions – on interest as at 31 December 2012 and 31 December 2011 respectively.

end of 2012

(in PLN million)

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
- outflows	-1 980.4	-648.2	-1 843.8	-1 881.4	-43.4
- inflows	1 943.4	629.0	1 791.4	1 689.4	34.8

end of 2011

(in PLN million)

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
- outflows	-2 778.5	-4 813.8	-2 316.7	-180.4	0.0
- inflows	2 706.4	4 567.5	2 290.6	166.7	0.0

IV. Regulatory and Economic Capital Management

ING Bank Śląski S.A. is managing its capital on the basis of Banking Law, KNF Resolutions and relevant internal rules. There are two basic internal documents on capital management:

- "Capital Management and ICAAP Process Policy at ING Bank Śląski S.A.";
- "Capital Management Procedure at ING Bank Śląski S.A."

These documents describe department's scope of responsibilities and regulations connected to capital requirements and capital base calculation, allocation, planning, monitoring and reporting.

On the basis of capital adequacy metrics calculated for Bank purposes one can say that it is maintaining sufficient capital to facilitate efficiently and effectively development plan and conduct current operations.

Banks' 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 implemented and Bank performs its activity in accordance with three pillars:

- Pillar I – Regulatory Capital
- Pillar II – Economic Capital
- Pillar III – Disclosure Requirements

Regulatory capital (Pillar I)

For the purpose of 2012 reporting, Bank is calculating credit risk requirement using Mixed Approach. Bank got an agreement by the Polish Supervisory Authority and De Nederlandsche Bank on implementation of AIRB methodology for corporates and credit institutions provided that reported requirement should be not lower then calculated according to Standardised Approach. As a result position called "other and transitional capital requirements" is reported (difference between Standardised Approach and Mixed Approach). Credit risk is managed and monitored by the Corporate Credit Risk Modelling and Reporting Department, Retail Credit Risk Management Department, Corporate Clients Credit Risk Department and Strategic Client Credit Risk Department.

In the area of operational risk Bank uses BIA (Basic Indicator Approach) methodology. This area is managed and monitored by Operational Risk Department, Compliance Department and Anti-fraud Department.

In market risk area Bank uses standard methods following regulatory requirements of KNF. The area is managed and monitored by Market Risk Management Department.

Currently the level of own funds is adequate because capital adequacy ratio ((calculated based on regulatory capital) is over required minimum 12%.

The table below presents the detailed calculation of basic figures of regulatory capital and solvency ratio.

Regulatory capital base and solvency ratio

	end of 2012	end of 2011
Own funds		
A. Own equity in the statement of financial position, of which:	7 878.8	6 231.5
A.I. Own equity included in tier 1 capital, of which:	6 491.5	5 668.8
- share capital	130.1	130.1
- supplementary capital - issuance of shares over nominal value	956.3	956.3
- supplementary capital	65.4	65.0
- revaluation reserve	3 963.7	3 109.9
- the general risk fund	960.2	910.2
- retained earnings and result during the approval	13.3	12.0
- net profit of current period in audited part	404.5	501.3
- revaluation reserve from measurement of available-for-sale financial assets (unrealised losses)	-2.0	-16.0
A.II. Own equity included in tier 2 capital, of which:	585.0	32.9
- revaluation reserve from measurement of available-for-sale financial assets (unrealised gains)	585.0	32.9
A.III. Own equity excluded from own funds calculation, of which:	802.3	529.8
- revaluation reserve from measurement of available-for-sale financial assets	7.3	3.5
- revaluation reserve from measurement of fixed assets	33.4	34.8
- revaluation reserve from measurement of cash flow hedging instruments	367.0	58.2
- revaluation of share-based payment	41.3	30.8
- net profit of current period in not audited part	353.3	402.5
B. Other elements of own funds (decreases and increases), of which:	-729.5	-544.4
B.I. Other elements of tier 1 capital:	-564.9	-552.9
- intangible assets	-355.9	-360.8
- capital commitments in financial institutions (50%)	-138.1	-37.3
- amount of expected losses (50%) – only for AIRB method	-70.9	-154.8
B.II. Other elements of tier 2 capital:	-209.0	-32.9
- capital commitments in financial institutions (50%)	-138.2	-32.9
- amount of expected losses (50%) – only for AIRB method	-70.8	0.0
B.III. Short-term capital	44.4	41.4
Own funds taken into account in solvency ratio calculation according to advanced method (AIRB) (A.I. + A.II. + B.I. + B.II. + B.III.), of which:	6 347.0	5 157.3
- Tier 1 capital (A.I. + B.I.)	5 926.6	5 115.9
- Tier 2 capital (A.II. + B.II.)	376.0	0.0
- Short-term capital (B.III.)	44.4	41.4
Own funds taken into account in solvency ratio calculation according to standard method (SA) (A.I. + A.II. + B.I. + B.II. + B.III.), of which:	6 488.7	5 312.1
- Tier 1 capital (A.I. + B.I.)	5 997.5	5 270.7
- Tier 2 capital (A.II. + B.II.)	446.8	0.0
- Short-term capital (B.III.)	44.4	41.4

Capital requirements	end of 2012	end of 2011
- Capital requirements for credit risk, credit counterparty, dilution and delivery of instruments for future settlement	3 179.4	3 160.9
- including: supplementation of the credit risk capital requirement to the requirement computed using the standard method	441.0	329.3
- Capital requirement for the risk of settlement - delivery	13.0	7.9
- Capital requirement for the risk of equity securities prices, debt securities prices, currency risk and risk of commodity prices	0.0	8.7
- Capital requirement for operational risk	402.6	361.0
- Capital requirement for general interest rate risk	31.4	24.8
- Capital requirement due to exposure concentration limit overrun	0.0	0.0
Total capital requirement computed with Advanced Internal Rating-Based method (AIRB) for calculation of the credit risk requirement	3 185.4	3 234.0
Total capital requirement computed with Standard Approach (SA) for calculation of the credit risk requirement	3 626.4	3 563.3
Solvency ratio – supervisory*)	14.00%	11.58%
Solvency ratio (SA)	14.31%	11.93%
Solvency ratio (AIRB)	15.94%	12.76%

*) Following the letter of the Polish Financial Supervision Authority (PFSA) dated 18 May 2012 related to the decision of 06 October 2011 on a conditional approval of application of the Advanced Internal Rating-Based Approach (AIRB) by the Bank "(...) the solvency ratio should be computed based on the following figures:

- 1) for the capital requirement for credit risk computed with AIRB being lower than the capital requirement for credit risk computed using standard approach:
 - a) for own funds – considering the amount calculated with AIRB,
 - b) for the total capital requirement – considering the supplementary amount of capital requirement for credit risk to the requirement calculated under standard approach (SA),
- 2) for the capital requirement for credit risk computed with AIRB being higher than the capital requirement for credit risk computed under standard approach:
 - a) for own funds – considering the amount calculated with AIRB,
 - b) for the total capital requirement – considering the capital requirement for credit risk calculated with AIRB."

AIRB method may be applied in full to calculate the capital requirement for credit risk for supervisory purposes only upon fulfillment by the Bank of the requirements listed in the aforesaid decision of PFSA. By then the Bank is obliged to consider the supplementary amount of capital requirement for credit risk to the requirement calculated under standard approach - in 100% in the period ending 31 Dec 2012 and in 90% in the period ending 30 Jun 2013.

Economic capital (Pillar II)

Economic capital is a name for internal capital defined as amount of capital required to cover all kinds of risk in Bank's activity. Amount of economic capital should cover assumed level of unexpected losses which bank is endangered to in the future. During calculation of capital required to cover unfavorable influence of risk a year time horizon and confidence level corresponding to Bank's rating (99.95%) are assumed. For the economic capital calculations Bank is using ING Group N.V. methodologies, which were adjusted to local market specifics and to fulfill ING Group N.V. requirements.

Bank 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 due to negative changes in financial market, like: interest rate risk, exchange rate risk, property value risk, equity investment risk),
- 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-mentioned capitals. Until positive KNF decision, Bank is not including diversification effect in capital calculation.

Currently Bank maintains an adequate capital level which is illustrated by the solvency ratio (calculated based on economic capital) significantly above 8%. During the 2012 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 by KNF dated on 17th December 2008 with following changes, within Policy of disclosing qualitative and quantitative information.

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

2013-03-05	Małgorzata Kołakowska	President	(signed on the Polish original)
2013-03-05	Mirosław Boda	Vice-President	(signed on the Polish original)
2013-03-05	Michał Bolesławski	Vice-President	(signed on the Polish original)
2013-03-05	Justyna Kesler	Vice-President	(signed on the Polish original)
2013-03-05	Oscar Edward Swan	Vice-President	(signed on the Polish original)
2013-03-05	Ignacio Juliá Vilar	Vice-President	(signed on the Polish original)

SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS

2013-03-05	Tomasz Biłous	Director of Accounting Department Chief Accountant	(signed on the Polish original)
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