2013

Annual Consolidated Financial Statements of the ING Bank Śląski S.A. Group for the year 2013

ING

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

Annual consolidated financial statements for the period from 1st January 2013 to 31st December 2013 (PLN million)

CONSOLIDATED INCOME STATEMENT	Note	the period from 01 Jan 2013 to 31 Dec 2013	the period from 01 Jan 2012 to 31 Dec 2012
- Interest income	2	3 614.7	3 831.5
- Interest expenses	2	1 572.1	1 782.6
Net interest income	2	**2 042.6**	**2 048.9**
- Commission income	3	1 114.2	1 142.5
- Commission expenses	3	137.6	138.2
Net commission income	3	**976.6**	**1 004.3**
Net income on financial instruments measured at fair value through profit or loss and FX result	4	97.9	85.5
Net income on investments	5	108.8	24.6
Net income on hedge accounting	6	-1.5	-13.3
Net income on other basic activities	7	20.7	15.4
Result on basic activities		**3 245.1**	**3 165.4**
General and administrative expenses	8	1 823.1	1 822.2
Impairment losses and provisions for off-balance sheet liabilities	9	267.2	362.8
Share in net profit (loss) of associated entities recognised under the equity method	10	38.1	35.7
Profit (loss) before tax		**1 192.9**	**1 016.1**
Income tax	11	231.4	183.8
Net profit (loss)		**961.5**	**832.3**
- attributable to shareholders of ING Bank Śląski S.A.		**961.5**	**832.3**

Net profit (loss) attributable to shareholders of ING Bank Śląski S.A.		**961.5**	**832.3**
Weighted average number of ordinary shares		**130 100 000**	**130 100 000**
Earnings per ordinary share (PLN)	12	**7.39**	**6.40**

Diluted earnings per share agrees with earnings per ordinary share

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

Małgorzata Kołakowska
President
Signed on the Polish original

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SIGNATURE OF THE PERSON ENTRUSTED WITH KEEPING THE ACCOUNTING BOOKS

Tomasz Biłous
Director of Bank, Chief Accountant
Signed on the Polish original

Katowice, 04-03-2014

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

Annual consolidated financial statements for the period from 1st January 2013 to 31st December 2013 (PLN million)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Note	the period from 01 Jan 2013 to 31 Dec 2013	the period from 01 Jan 2012 to 31 Dec 2012
Net result for the period		**961.5**	**832.3**
Other comprehensive income, of which:			
Gains/losses on remeasurement of available-for-sale financial assets charged to equity	35	-229.3	590.5
including deferred tax		*53.8*	*-142.4*
Reclassification to the financial result as a result of sale of available-for-sale financial assets	35	-87.7	-20.4
including deferred tax		*20.6*	*4.8*
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	35	0.0	-0.2
including deferred tax		*0.0*	*0.1*
Effective part of cash flow hedging instruments revaluation	35	-161.5	308.8
including deferred tax		*37.9*	*-72.4*
Remeasurement of property, plant and equipment	35, 36	2.5	3.4
including deferred tax		*-0.4*	*-0.8*
Disposal of property, plant and equipment	35, 36	0.3	1.0
including deferred tax		*0.2*	*0.0*
Actuarial gains/losses	35	1.9	0.0
including deferred tax		*-0.5*	*0.1*
Total other comprehensive income		**-473.8**	**883.1**
Total comprehensive income for the period, OF WHICH:		**487.7**	**1 715.4**
- attributable to owners of ING Bank Śląski S.A.		*487.7*	*1 715.4*

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

Annual consolidated financial statements for the period from 1st January 2013 to 31st December 2013 (PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Note	as of 31 Dec 2013	as of 31 Dec 2012	as of 31 Dec 2011
A S S E T S				
- Cash in hand and balances with the Central Bank	14	6 970.1	4 071.6	1 493.1
- Loans and receivables to other banks	15	1 399.8	1 377.1	1 018.1
- Financial assets measured at fair value through profit and loss	16	1 951.4	1 554.6	639.6
- Valuation of derivatives	17, 40	1 471.4	1 822.1	1 858.4
- Investments	18, 40	19 493.6	17 881.1	20 450.7
- Derivative hedge instruments	20, 40	1 051.9	1 112.6	433.4
- Loans and receivables to customers	21	52 237.9	48 985.3	42 329.7
- Receivables from customers due to repo transactions	22	638.8	0.0	0.0
- Investments in associated entities	23	136.5	114.4	105.0
- Non-financial assets	24	1 099.2	1 115.5	1 089.6
- Tax assets	25	119.9	38.6	164.0
- Other assets	26	180.1	193.9	141.8
T o t a l a s s e t s		**86 750.6**	**78 266.8**	**69 723.4**
E Q U I T Y A N D L I A B I L I T I E S				
LIABILITIES				
- Liabilities due to other banks	27	4 827.3	4 554.6	4 961.9
- Financial liabilities measured at fair value through profit and loss	28	1 234.2	3 003.4	1 814.7
- Valuation of derivatives	17, 40	1 493.0	1 778.1	1 694.1
- Derivative hedge instruments	20, 40	1 114.4	1 364.0	900.6
- Liabilities due to customers	29	67 330.4	57 857.5	52 932.1
- Liabilities due to customers under repo transactions	30	433.5	0.0	0.0
- Liabilities under issue of debt securities	31	566.4	567.1	0.0
- Provisions	32	67.8	72.8	58.1
- Tax liabilities	25	111.7	103.0	0.0
- Other liabilities	33	943.3	830.2	945.9
T o t a l l i a b i l i t i e s		**78 122.0**	**70 130.7**	**63 307.4**
EQUITY				
- Share capital	34	130.1	130.1	130.1
- Supplementary capital - issuance of shares over nominal value		956.3	956.3	956.3
- Revaluation reserve	35	524.3	999.7	118.3
- Revaluation of share-based payment		46.1	41.3	30.8
- Retained earnings	36	6 969.5	6 006.4	5 178.2
Equity attributable to shareholders of ING Bank Śląski S.A.		**8 626.3**	**8 133.8**	**6 413.7**
- Non-controlling interests		2.3	2.3	2.3
T o t a l e q u i t y		**8 628.6**	**8 136.1**	**6 416.0**
T o t a l e q u i t y a n d l i a b i l i t i e s		**86 750.6**	**78 266.8**	**69 723.4**
Solvency ratio		**17.28%**	**14.55%**	**11.92%**
Net book value		**8 626.3**	**8 133.8**	**6 413.7**
Number of shares		**130 100 000**	**130 100 000**	**130 100 000**
Net book value per share (PLN)		**66.31**	**62.52**	**49.30**

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Katowice, 04-03-2014

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

Annual consolidated financial statements for the period from 1st January 2013 to 31st December 2013 (PLN million)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

the period from 01 Jan 2013 to 31 Dec 2013

	Share capital	Supplementary capital - issuance of shares over nominal value	Revaluation reserve	Revaluation of share-based payment	Retained earnings	Non-controlling interests	Total equity
Opening balance of equity	**130.1**	**956.3**	**999.7**	**41.3**	**6 006.4**	**2.3**	**8 136.1**
Net result for the current period	-	-	-	-	961.5	-	**961.5**
Other comprehensive income, of which:	**0.0**	**0.0**	**-475.4**	**0.0**	**1.6**	**0.0**	**-473.8**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-	-	*-229.3*	-	-	-	*-229.3*
- reclassification to the financial result as a result of sale of available-for-sale financial assets	-	-	*-87.7*	-	-	-	*-87.7*
- effective part of cash flow hedging instruments revaluation	-	-	*-161.5*	-	-	-	*-161.5*
- remeasurement of property, plant and equipment	-	-	*1.8*	-	*0.7*	-	*2.5*
- disposal of property, plant and equipment	-	-	*-0.6*	-	*0.9*	-	*0.3*
- actuarial gains/losses	-	-	*1.9*	-	-	-	*1.9*
Transactions with owners, of which:	**0.0**	**0.0**	**0.0**	**4.8**	**0.0**	**0.0**	**4.8**
- revaluation of share-based payment	-	-	-	*4.8*	-	-	*4.8*
Closing balance of equity	**130.1**	**956.3**	**524.3**	**46.1**	**6 969.5**	**2.3**	**8 628.6**

Note: 34, 35, 36

the period from 01 Jan 2012 to 31 Dec 2012

	Share capital	Supplementary capital - issuance of shares over nominal value	Revaluation reserve	Revaluation of share-based payment	Retained earnings	Non-controlling interests	Total equity
Opening balance of equity	**130.1**	**956.3**	**118.3**	**30.8**	**5 178.2**	**2.3**	**6 416.0**
Net result for the current period	-	-	-	-	832.3	-	**832.3**
Other comprehensive income, of which:	**0.0**	**0.0**	**881.4**	**0.0**	**1.7**	**0.0**	**883.1**
- 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*
- effective part of cash flow hedging instruments revaluation	-	-	*308.8*	-	-	-	*308.8*
- remeasurement of property, plant and equipment	-	-	*3.4*	-	-	-	*3.4*
- disposal of property, plant and equipment	-	-	*-0.7*	-	*1.7*	-	*1.0*
Transactions with owners, of which:	**0.0**	**0.0**	**0.0**	**10.5**	**-5.8**	**0.0**	**4.7**
- revaluation of share-based payment	-	-	-	*10.5*	-	-	*10.5*
- purchase of subsidiary settlement	-	-	-	-	*-5.8*	-	*-5.8*
Closing balance of equity	**130.1**	**956.3**	**999.7**	**41.3**	**6 006.4**	**2.3**	**8 136.1**

Note: 34, 35, 36

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

Annual consolidated financial statements for the period from 1st January 2013 to 31st December 2013 (PLN million)

CONSOLIDATED CASH FLOW STATEMENT	Note	the period from 01 Jan 2013 to 31 Dec 2013	the period from 01 Jan 2012 to 31 Dec 2012
OPERATING ACTIVITIES			
Net profit (loss)		**961.5**	**832.3**
Adjustments		**2 102.0**	**-2 373.2**
- Share in net profit (loss) of associated entities	10	-38.1	-35.7
- Depreciation and amortisation	8, 24	164.0	148.1
- Interest accrued (from the profit and loss account)	2	2 042.6	2 048.9
- Interest paid		1 496.0	1 748.0
- Interest received		-3 812.5	-4 107.8
- Dividends received	5	-3.4	-4.1
- Gains (losses) on investment activities		-0.7	-8.2
- Income tax (from the profit and loss account)	11	231.4	183.8
- Income tax paid		-304.0	44.6
- Change in provisions	32	-5.0	14.7
- Change in loans and other receivables to other banks	15, 44	-132.2	-233.7
- Change in financial assets at fair value through profit or loss	16, 44	-395.0	-915.5
- Change in available-for-sale financial assets	18, 44	-1 963.8	-1 808.4
- Change in valuation of derivatives	17	65.6	120.3
- Change in derivative hedge instruments	20	-350.4	93.0
- Change in other receivables to customers	21, 44	-3 660.7	-6 561.4
- Change in other assets		38.5	164.9
- Change in liabilities due to other banks	27, 44	398.4	689.9
- Change in liabilities at fair value through profit or loss	28	-1 769.2	1 188.7
- Change in liabilities due to customers	29, 44	9 980.7	4 961.9
- Change in other liabilities		119.8	-105.2
Net cash flow from operating activities		**3 063.5**	**-1 540.9**
INVESTMENT ACTIVITIES			
- Purchase of property plant and equipment	24	-77.5	-121.4
- Disposal of property, plant and equipment		0.1	2.8
- Purchase of intangible assets	24	-77.3	-58.8
- Purchase of investments in subordinated entities	23	0.0	-206.1
- Disposal of fixed assets held for sale		1.8	9.4
- Redemption / sale of held-to-maturity financial assets	18	0.0	4 998.5
- Interest received from held-to-maturity financial assets	18	0.0	148.3
- Dividends received	5	3.4	4.1
Net cash flow from investment activities		**-149.5**	**4 776.8**
FINANCIAL ACTIVITIES			
- Long-term loans received		726.0	458.1
- Long-term loans repaid		-810.5	-1 501.8
- Interest on long-term loans repaid		-39.4	-53.3
- Issue of debt securities	31	0.0	565.0
- Interest on debt securities issued		-0.7	0.0
Net cash flow from financial activities		**-124.6**	**-532.0**
Effect of exchange rate changes on cash and cash equivalents		***37.4***	***-100.7***
Net increase/decrease in cash and cash equivalents		**2 789.4**	**2 703.9**
Opening balance of cash and cash equivalents		**5 060.6**	**2 356.7**
Closing balance of cash and cash equivalents	44	**7 850.0**	**5 060.6**

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Katowice, 04-03-2014

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

Annual consolidated financial statements for the period from 1st January 2013 to 31st December 2013 (PLN million)

Accounting policy and additional explanatory notes

I. Information on the Bank and the Capital Group

1. Key Bank data

ING Bank Śląski S.A. ("Parent company", "parent entity", "Bank") with the headquarters in Katowice, Sokolska Str. 34, was entered into the entrepreneurs National Court Register managed by the Commercial Department of the Regional Court in Katowice under the reference number KRS 5459.The parent entity 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 scope of services offered by the Bank was expanded with leasing and factoring operations, following the acquisition in 2012 of new companies. Additionally through subsidiaries the Group operates brokerage services, real estate, leasing of real estate and advisory and acts as a financial intermediary as well as provides other financial services. The duration of the parent entity and entities forming the Capital Group is indefinite.

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 31 December 2013 held 75% share in the share capital of ING Bank Śląski S.A. and 75% shares in the total number of votes at the General Shareholders Meeting. ING Bank NV belongs to the Capital Group, herein referred to as ING Group.

As at the date 31 December 2013, the shareholders owning 5% and more votes at the General Shareholders Meeting of ING Bank S.A. were:

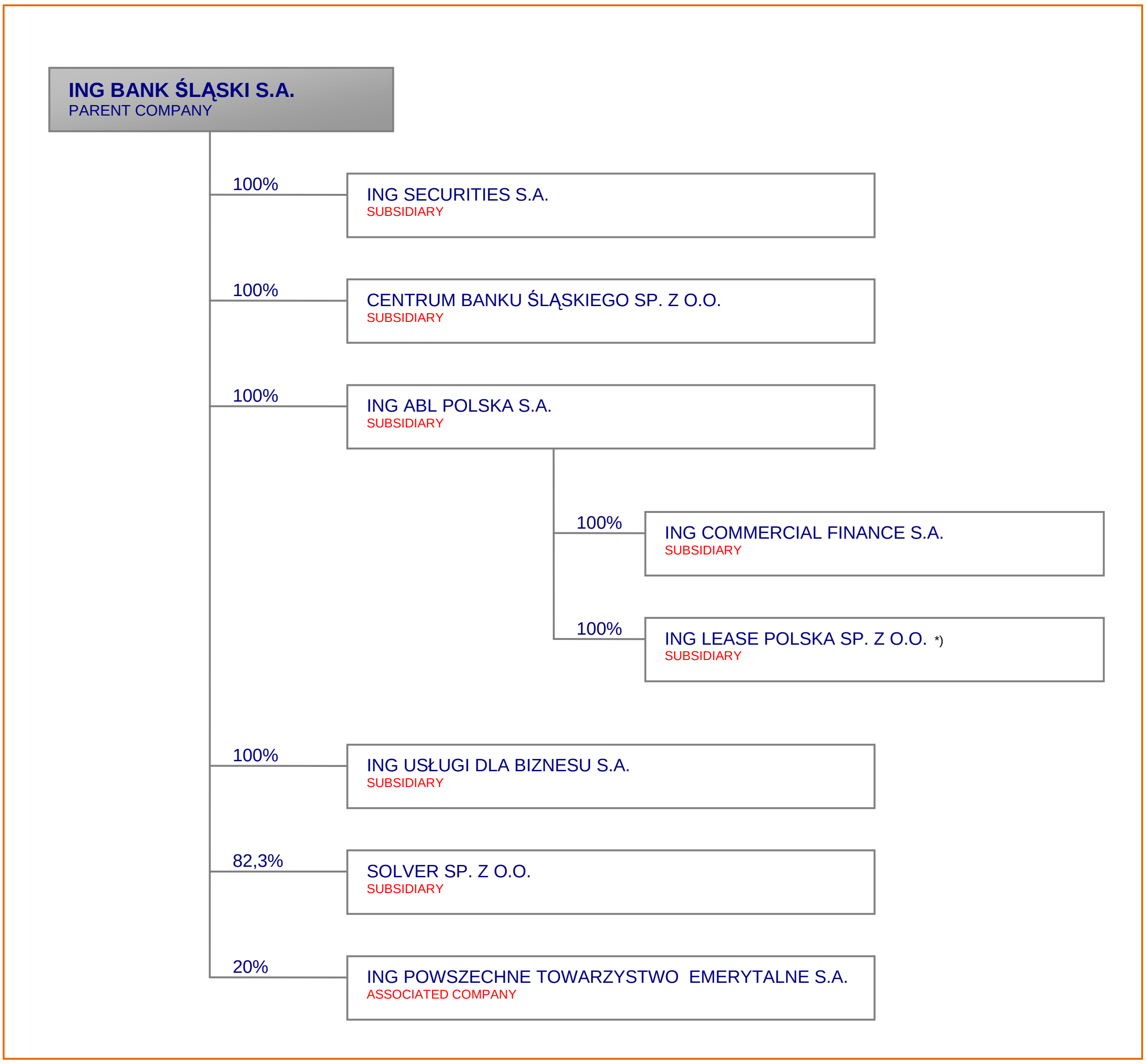
No.	Entity	Number of shares and votes	% of total number of shares and votes at General Meeting
1.	ING Bank NV	97,575,000	75.00
2.	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	6,548,964	5.03

5. Entity authorised to audit financial statements

Entity authorised to audit financial statements is KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with registered office in Warsaw.

6. Capital Group of ING Bank Śląski S.A.

ING Bank Śląski S.A. is the parent company of the ING Bank Śląski S.A. Group (“Capital Group”, “Group”). As at 31 December 2013, the composition of ING Bank Śląski S.A. Capital Group was the following:



*) The capital group of ING Lease Polska Sp. z o.o. is composed of 10 special purpose vehicles wherein ING Lease Polska Sp. z o.o. holds 100% of shares.

7. Approval of 2012 consolidated financial statements

The annual consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 1 January 2012 to 31 December 2012 were approved by the General Meeting on 19 April 2013.

II. Significant events in 2013

1. Changes to the Statutory Authorities of ING Bank Śląski S.A.

On 7 March 2013, the Supervisory Board of ING Bank Śląski S.A. appointed Joanna Erdman as Management Board Vice-President as of 1 April 2013.

2. Selection of Chartered Auditor

On 18 January 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. for the years 2013-2015.

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

3. Agreement with BGK

In March 2013, ING Bank Śląski S.A. concluded with Bank Gospodarstwa Krajowego an agreement inaugurating the governmental programme supporting small and medium enterprises.
Thereby, ING Bank Śląski became one of the banks extending working capital loans with guarantees as part of Portfolio Guarantee Line de minimis (PLD) and Portfolio Surety Line (PLP). The support programme brings a lot of benefits for borrowers seeking additional funds for financing their business with the use of attractive collateral for loans.

4. Changes to the Supervisory Board composition

On 10 April 2013, Mr Ralph Hamers tendered his resignation to the Chair of the Supervisory Board of ING Bank Śląski S.A. as the Member of the Supervisory Board of ING Bank Śląski S.A., effective as of 19 April 2013, after the General Meeting of ING Bank Śląski S.A. The resignation was due to the appointment of Mr Ralph Hamers as CEO of ING Group.

On 19 April 2013, with the Resolution of the Ordinary General Meeting of ING Bank Śląski S.A. Mr Adrianus Johannes Antonius Kas was appointed the Member of the Supervisory Board of ING Bank Śląski S.A.

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

On 19 April 2013, the General Meeting of ING Bank Śląski S.A. was held, during which the following resolutions were passed:

- on approval of the 2012 annual financial statements (consolidated and standalone financial statements),
- on approval of the Management Board Report on Operations in 2012 (consolidated and standalone reports),
- on acknowledgement of the fulfilment of duties of the Management Board and Supervisory Board Members for 2012,
- on 2012 profit distribution,

Annual consolidated financial statements for the period from 1st January 2013 to 31st December 2013 (PLN million)

- on amendment to the Charter of ING Bank Śląski S.A.,
- on the change to the Supervisory Board composition (the said change was delineated in item *4. Changes to the Supervisory Board composition.*

The amendments to the Bank's Charter which were passed by the General Meeting were registered with the Decision of the District Court in Katowice, the Commercial Division of the National Court Register, of 30 April 2013.

6. Shareholders having 5 or more per cent of votes at the Ordinary General Meeting of ING Bank Śląski S.A.

In line with the list of shareholders authorised to participate in the Ordinary General Meeting (GM) of ING Bank Śląski S.A., convened for 19 April 2013, the following entities were authorised to 5 or more per cent of votes:

No.	Entity	Number of shares and votes at GM	% of the number of votes at GM	% of total number of shares and votes
1.	ING Bank NV	97,575,000	86.97	75.00
2.	Otwarty Fundusz Emerytalny PZU "Złota Jesień"	8,250,000	7.35	6.34
3.	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	5,713,382	5.09	4.39

7. Stake increase in the share capital of ING Bank Śląski S.A.

On 3 July 2013, Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK ("Aviva Open-Ended Pension Fund") informed ING Bank Śląski S.A. that as a result of the transaction of purchase of Bank shares concluded on 26 June 2013, the number of shares of the Bank held by Aviva Open-Ended Pension Fund exceeded 5% stake in the total number of shares and votes at the Bank. Prior to the settlement of the abovementioned transaction, as at 28 June 2013, Aviva Open-Ended Pension Fund held 6,483,382 shares of ING Bank Śląski S.A., i.e. 4.98% of the Bank share capital. Following the conclusion and settlement of the purchase transaction, as at 1 July 2013, Aviva Open-Ended Pension Fund held 6,548,964 shares of ING Bank Śląski S.A., i.e. 5.03% of the Bank share capital.

8. Portfolio sale

On 19 July 2013, ING Bank Śląski S.A. concluded with Kredyt Inkaso I Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Loan Collection 1 Non-Standard Closed-End Securitization Investment Fund) with its registered office in Warsaw an agreement on the sale of portfolio of retail receivables recognized as impaired loans or written off the Group balance sheet in full. The total amount of receivables sold under the agreement equalled PLN 295.4 million (principal and interest), which are fully recognized as impairment losses, or written off the Bank balance sheet in full. Contractual price of the portfolio sale was established at PLN 34.9 million. Positive impact of the transaction to the Group income amounted to PLN 10.9 million, whereas for the impairment losses for financial assets and provisions for off-balance-sheet liabilities (risk costs) it was PLN 24.0 million. As a consequence of the agreement described herein, the Bank decreased its non-performing loans portfolio by PLN 155.1 million.

9. Annexes to the credit agreements

- *ING Commercial Finance Polska S.A.*

On 26 July 2013, there was concluded an annex to the credit agreement of 02 January 2012 with ING Commercial Finance Polska S.A. whereby the annual amount of the working capital loan granted to the company was increased by PLN 500.0 million to PLN 2,225.0 million. The total exposure of the Bank towards the ING Commercial Finance Polska S.A. Company is PLN 2,225.3 million. The criterion for regarding the agreement as significant is the ratio of the total loan amounts to the Bank's equity. The borrower is a related entity of ING Bank Śląski S.A.

- *ING Lease Polska Sp. z o.o.*

On 24 September 2013, there was concluded an annex to the credit agreement of 19 January 2012 with ING Lease Polska Sp. z o.o. whereby the amount of the loan granted to the company was increased by PLN 640.0 million. The total exposure of the Bank towards ING Lease Polska Sp. z o.o. is PLN 2,680.3 million. The criterion for regarding the agreement as significant is the ratio of the total loan amounts to the Bank's equity. The borrower is a related entity of ING Bank Śląski S.A.

10. Stake decrease in the share capital of ING Bank Śląski S.A.

On 8 August 2013, Powszechne Towarzystwo Emerytalne PZU S.A. (Pension Fund), acting on behalf of Otwarty Fundusz Emerytalny PZU "Złota Jesień" ("Golden Autumn" Open Pension Fund) informed ING Bank Śląski S.A. that as a result of the sale transaction of Bank shares concluded on 26 July 2013, the number of shares and votes at ING Bank Śląski S.A. held by "Golden Autumn" Open Pension Fund was reduced below 5%.

Prior to the settlement of the abovementioned transactions, "Golden Autumn" Open Pension Fund held 6,543,407 shares of ING Bank Śląski S.A. or 5.03% of the Bank share capital. After the settlement of the sale transaction, "Golden Autumn" Open Pension Fund held 6,263,405 Company shares or 4.81% of the Bank share capital.

11. Dismissal of action

On 24 September 2013, the Management Board of ING Bank Śląski S.A. were informed that with the ruling of 22 July 2013 the Regional Court in Katowice dismissed the entire action lodged by Związek Zawodowy Górników w Polsce (Polish Miners Trade Union) and Związek Zawodowy "Kadra" Pracowników Katowickiego Holdingu Węglowego S.A. ("Kadra" Trade Union of Katowice Coal Holding S.A. Employees) for declaring invalid the resolutions of the General Meeting of ING Bank Śląski S.A. passed on 8 April 2010.

12. Change of interest for ING Bank Śląski S.A.'s bonds

On 6 December 2013, due to commencing new, third coupon period and setting a new WIBOR rate for six-month deposits per the coupon period, the interest was changed for bonds series INGBS061217 of total nominal value of PLN 565,000,000.00 issued by the Bank on 6 December 2012 under the Own Debt Securities Issuance Programme of ING Bank Śląski S.A. The bonds interest for the subsequent coupon period is 3.59% per annum. The next coupon date falls on 6 June 2014. The other rights under the said bonds remain unchanged.

III. Statement of compliance with International Financial Reporting Standards

These annual consolidated financial statements for the period from 1 January 2013 to 31 December 2013 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 Group, 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 Group. IFRS include standards and interpretations accepted by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC").

Consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated cash flow statement for the period from 1 January 2013 to 31 December 2013, and consolidated statement of financial position as at 31 December 2013 together with comparable data were prepared according to the same principles of accounting for each period.

1. Going-concern

These annual consolidated 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 Capital Group is endangered.

2. Discontinued operations

No operations were discontinued during the 2013 and 2012.

3. Financial statements scope and currency

These annual consolidated financial statements of the Capital Group of ING Bank Śląski S.A. for the year 2013 comprises the data of the Bank, its subsidiaries (jointly referred to as the "Group") and shares in the affiliated entity.

These annual consolidated 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 consolidated financial statements of the Capital Group of ING Bank Śląski S.A. cover the period from 1 January 2013 to 31 December 2013 and include the comparative data:

- items from the consolidated statement of financial position as at 31 December 2012,
- items in the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the period from 1 January 2012 to 31 December 2012.

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5. Changes to accounting standards

In these annual consolidated financial statements the Group took account of the following binding standards and interpretations approved by the European Union for annual periods starting on or after 1 January 2013:

Change	Scope/Application date	Influence on the Group statements
IAS 1 *Presentation of Financial Statements*	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.	Implementation of the change had no material impact on the financial statements of the Group (the disclosure structure was changed).
IAS 12 *Income Taxes – Deferred Income Tax: Recovery (Settlement) of carrying amount of assets*	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.	Implementation of the change had no material impact on the financial statements of the Group .
IAS 19 *Employee Benefits*	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.	Implementation of the change impacted the structure of the financial statements of the Group; however, the impact was immaterial.
IAS 32 *Financial Instruments: Presentation – Offsetting of Financial Assets and Liabilities*	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.	Implementation of the change had no material impact on the financial statements of the Group .
IFRS 1 *First-time Adoption of International Financial Reporting Standards: severe hyperinflation and removal of fixed dates for those who adopt IFRS for the first time. Government cash loans.*	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. 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 change concerning cash loans obtained from the government below market rates. Application date: the accounting year starting on 1 January 2013 or later.	No impact on the financial statements of the Group.
IFRS 7 *Financial Instruments: Disclosures – Offsetting of Financial Assets and Liabilities*	Change of requirements for disclosures related to offsetting of financial assets and liabilities. Application date: the accounting year starting on 1 January 2013 or later.	The change will cause the scope of disclosures to increase; however, it will not have a material impact on the financial statements of the Group.

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IFRS 13 *Fair Value Measurement*	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. Application date: the accounting year starting on 1 January 2013 or later.	Implementation of a new standard impacted measurement of derivatives. Its impact on the financial statements was however immaterial. Implementation of IFRS 13 has a considerable impact on scope of disclosures made for fair value.
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	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. Application date: the accounting year starting on 1 January 2013 or later.	Not applicable.
The changes following the IFRS review (published in May 2012), applying to annual periods starting on 1 January 2013.	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. The changes published on 17 May 2012 impact IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34 and are of specifying nature. Application date: the accounting year starting on 1 January 2013 or later.	Implementation of the changes had no material impact on the financial statements of the Group .

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 Group:

Change	**Scope/Application date**	**Influence on the Group statements**
IAS 19 *Employee benefits*	The change concerns simplification of settling contributions which are independent from employee's seniority (e.g. contributions which are calculated as per a given remuneration part). Application date: accounting year starting on 1 July 2014 or later.	The standard implementation will not have a material impact on the financial statements of the Group.
IAS 27 *Standalone Financial Statements*	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 analyses show that the change made will not have a material impact on the financial statements of the Group.
IAS 28 *Investments in Associates and Joint Ventures*	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 analyses show that the change made will not have a material impact on the financial statements of the Group.
IAS 36 *Impairment of Assets Recoverable Amount Disclosures for Non-Financial Assets*	The amendment specifies the requirements for recoverable amount disclosures for non-financial assets. The scope of mandatory disclosures was limited to the recoverable amount of non-financial assets where for impairment is identified based on the fair value less costs of sale. Application date: the accounting year starting on 1 January 2014 or later.	The Group 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 Group.

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IAS 39 *Financial Instruments: Recognition and Measurement* *Novation of Derivatives and Continuation of Hedge Accounting*	The objective of the amendment is to enable novation to a central counterparty (CCP) for the derivatives designated as hedging instruments under the existing hedging relationships. The amendment made allows for continuation of the hedge structure in such conditions. Application date: the accounting year starting on 1 January 2014 or later.	The preliminary analyses show that the amendment made will not have a material impact on the financial statements of the Group. The above follows both the adopted principles whereunder the individual strategies function and the legal obligation to transfer transactions to be cleared through the central counterparty.
IFRS 9 *Financial Instruments*	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. On 19 November 2013 the standard was amended in the scope of 1. a new model of hedge accounting functioning, 2. recognising changes of fair value arising from own credit risk regarding financial liabilities measured at fair value, and 3. deleting the deadline for obligatory standard implementation, i.e. 1 January 2015. The new deadline shall be determined when the new standard project will be in its final stage.	Standard implementation may affect the structure of the financial statements; however, the Group will comprehensively assess the impact of the new standard together with the guidelines for portfolio hedge accounting and impairment incurred but not reported yet.
IFRS 10 *Consolidated Financial Statements*	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. The change published on 28 June 2012 is to specify implementation requirements. 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. Application date: the accounting year starting on 1 January 2014 or later.	The new standard will not impact the consolidated financial statements of the Group because after assessing the supervision over the entities wherein funds were invested in line with the new standard the conclusions as regards the extent whereto the Group supervises the said entities remained unchanged while the Parent Company of the Group does not meet the requirements to be treated as an investment unit.
IFRS 11 *Joint Arrangements*	New standard sets out the requirements for joint arrangements recognition and measurement. The change published on 28 June 2012 is to specify implementation requirements. Application date: the accounting year starting on 1 January 2014 or later.	Standard implementation will not impact the financial statements of the Group because the Group is not a party to any mutual arrangements.
IFRS 12 *Disclosure of Interest in Other Entities*	New standard sets out the disclosures of interest in other entities. The change published on 28 June 2012 is to specify implementation requirements. The change published on 31 October 2012, specifying the guidelines for investment entities in consequence of parallel changes made to IFRS 10. Application date: the accounting year starting on 1 January 2014 or later.	The analyses show that the implemented change will not have a material impact on the financial statements of the Group (the number of required disclosures will go up).

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IFRIC 21 *Levies– Interpretation of Recognition of Levies Imposed by Governments*	IFRIC 21 is the interpretation of the requirements given in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and it concerns recognition of a liability for a levy imposed by the government; i.e., the levies other than the income tax. The interpretation specifies that the obligating event that gives rise to the recognition of liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. Application date: the accounting year starting on 1 January 2014 or later.	The analyses show that application of the new interpretation will not have impact on the financial statements of the Group.
Changes arising from IFRS reviews executed during the 2010-2012 cycle (published in December 2013)	The changes cover the matters discussed during the IFRS reviews commenced in 2010 and considered in the draft changes earlier presented for consultation, but not included in the final changes published in previous periods. The changes published apply to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38 and are of specifying nature. The deadlines for mandatory changes implementation were indicated in relevant standards.	Implementation does not have a material impact on the financial statements of the Group.
Changes arising from IFRS reviews executed during the 2011-2013 cycle (published in December 2013)	The changes cover the matters discussed during the IFRS reviews commenced in 2011 and considered in the draft changes earlier presented for consultation, but not included in the final changes published in previous periods. The changes published apply to IFRS 1, IFRS 3, IFRS 13, IAS 40 and are of specifying nature. The deadlines for mandatory changes implementation were indicated in relevant standards.	Implementation does not have a material impact on the financial statements of the Group.
IFRS 14 *Regulatory Deferral Accounts*	The standard allows the IFRS first-time adopters to continue to apply their previous principles whereunder they recognised regulatory deferral accounts both when they adopt the IFRS for the first time and in their subsequent financial statements.	Not applicable (the new standard applies only to entities that are IFRS first-time adopters).

IV. Significant accounting principles

1. Basis for preparation of consolidated 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 Group the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes thereto.

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

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

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

2.1. Impairment

The Group 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 (Incurred But Not Reported) and INSFA (Individually Non- Significant Financial Assets) portfolios, calculations are made with the use of PD, EAD and LGD parameters plus the loss identification period in line with the following formula:
Impairment loss $= (1-(1-PD)^{(M/12)}) \times (EAD + EI) \times LGD$

Where:

- PD – probability of an impairment trigger occurrence over a 12 month horizon in line with the Point in Time approach
- EAD (exposure at default) – current balance sheet exposure plus the projected balance sheet equivalent of unutilised credit lines and off-balance sheet liabilities including the conversion rate (the so called CCF or K-factor) in line with relevant EAD models.
- EI (effective interest) – contractual interest accrued and unpaid including outstanding commissions and effective interest rate adjustment for those exposures for which the effective interest rate is set and contractual interest accrued and unpaid for those exposures for which the effective interest rate is not set,
- LGD – the expected loss ratio, which is the complement to unity of the ratio of the recoverable amount and the basis for impairment losses including all direct costs incurred as of the impairment date until the end of the debt recovery process.
- M – a loss identification period expressed in months, which is:
  - 6 months for the corporate and strategic client segments, or
  - 9 months for the retail client segment.

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 Group are presented further in this report, see Chapter: *Risk Management at the ING Bank Śląski S.A. Capital Group*, 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.

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 Group may generate from a given asset item (or a cash-generating unit) and other factors. 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 Group 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 approach employed by the Group 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 Group.

This approach 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 Group and the risk of realisation of a scenario of concurrent client and Group insolvency are calculated by analogy.

In addition for matured or terminated and unsettled transactions as at the balance sheet date, the Group establishes impairment losses using the methodology for assessing the risk of impaired loans.

The two types of fair value adjustments as mentioned above were differently reflected in the consolidated financial statements. Fair value adjustments due to risk for non-matured transactions were presented under the item *Net income on instruments measured at fair value through profit or loss and FX result,* whereas the impairments losses for matured transactions under the item *Impairment losses 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 item *Net income on instruments measured at fair value through profit or loss and FX result* becomes mature or subject to restructuring, then the amount of the previous fair value adjustment is moved to the item *Impairment losses* and the added part of the impairment loss for such already matured transaction is presented in the income statement in the item *Impairment losses for financial assets and provisions for off-balance-sheet liabilities.*

Therefore the financial result is impacted only by the amount of surplus of the current impairment loss (or write-down) for a mature transaction above the amount of the fair value adjustment established before the transaction has matured.

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

The fair value of financial instruments not quoted in active markets is measured using valuation models. For non-option derivatives, the models based on discounted cash flows apply. Options are measured using appropriate option valuation models.

Valuation models used by the Group are verified prior to their usage. Where possible, in models the Group uses observable data from active markets. However, in certain circumstances, to choose the right valuation parameter, the Group makes an estimation by comparing a given instrument to another one present on another market but having similar or identical features.

Application of the prudence principle requiring to choose the lower value of assets and the higher value of liabilities as being more probable – especially in the conditions of lower liquidity or/and volatility of the financial markets – is fundamental in the valuation made based on this approach. The change of assumptions concerning these factors may influence valuation of some financial instruments.

2.4. Retirement and pension benefit provision

The Group 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 Group obligations towards its employees according to the headcount and payroll status as at the update 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 Group undertakes to pay under the General Conditions of Remuneration effective in every Group unit.

The estimated benefit amount is calculated as the product of the following elements:

- the estimated assessment basis for retirement or 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 yearend date. In accordance with IAS 19 requirements, the financial discount rate used to calculate 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 are consistent with the currency and estimated term of the employees benefit obligations.

The discounted amount is lowered by the annual provisions discounted using actuarial method as at the same date, 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 Group employee. The amount of annual provisions and the probability are calculated based on the models assuming the following three risks:

- probability of termination of employment,
- full incapacity to work,
- mortality.

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

The mortality risk 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 actuarial valuation is updated annually based on the valuation of the independent actuary, and in quarterly intervals, based on the quarterly forecasts indicated in the valuation.

In line with the Commission Regulation (EU) No 475/2012 of 5 June 2012 amending Regulation No 1126/2008 and amending some IAS/IFRS, IAS 19, among others, as of 1 January 2013 the Bank recognises the actuarial gains and losses in other total income at the moment when they arise, so that the net amount of the retirement assets or liabilities recognised in the statement of financial position reflects full amount of the financial surplus or deficit of the programme. The amendment is of forward-looking nature due to immateriality of the amounts concerned.

2.5. Valuation of incentive schemes

2.5.1. Valuation of options granted under ING Group incentive system benefits

The fair value of the options granted under the ING Group incentive system benefits 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 Group 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. Residual value of leased assets

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.

2.7. Cost basis of investment of debt and capital securities

Estimation of fair value of and result on sale of securities requires application of a certain cost basis for investment. The cost basis for investment applied in that respect is based on the interpretation resulting in application by an analogy to the guidelines given in IAS 2 *Inventories,* however only as far as possible considering the unique nature of the financial instruments of this type. The Group applies the “weighted average purchase price” as the effective cost basis for investment to estimate fair value of and result on sale of securities with the capital rights.

The Group changed the cost basis for investment used for debt securities from the “weighted average purchase price” into the “first-in first-out” (FIFO) method. The changed method for relevant estimates was applied on a prospective basis, effective as of this accounting year.

3. Consolidation policies

3.1. Subsidiaries

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

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

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

3.2. Consolidations of companies

3.2.1. Legal consolidation of subsidiaries

When settling the transactions of consolidating the Bank with its subsidiary (subject to joint control), the Group 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.

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

The Group applies the method discussed in item *3.2.1.* 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 Group adopted the approach whereunder comparable data are not adjusted when control is assumed over an entity subject to common control under IFRS 3.

3.2.3. 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 Group 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.

3.3. Associates

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

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

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

3.4. Transactions eliminated in consolidation process

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

4. Foreign currency

4.1. The functional currency and the presentation currency

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

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 Group 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 Group 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 Group'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 Group 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 for sale category. In such a case, the Group must not classify any financial assets as investments held to maturity for 2 years.

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 Group recognizes financial assets or liabilities on the balance sheet when, and only when it becomes a party to the contractual provisions of the instrument. Purchase and sale transactions of financial assets valued at fair value through profit 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 Group derecognises a financial asset when, and only when: the contractual rights to the cash flows from the financial asset expire or the Group transfers the contractual right to receipt of the cash flow from the financial asset. On transferring a financial asset, the Group evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. Accordingly, where the Group:

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

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

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

The Group most frequently writes down receivables as impairment loss when irrevocability of financial assets is declared, and also when repayment claim costs exceed the amount of the receivable.

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

5.4. Measurement

When a financial asset or financial liability is recognised initially, it is measured at its fair value plus, in the case of a financial asset or financial liability not carried 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 Group measures financial assets, including derivatives that are assets, at their fair values, 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, all financial liabilities are measured at amortised cost using the effective interest method, except for:

- financial liabilities carried 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 amortised 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 Group intend and be able to maintain this financial asset in the foreseeable future or until its maturity. Fair value of the financial asset on the reclassification date is deemed as its new cost or new amortised 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 _18.1. 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 Group carries the amount of contractual interest not paid at the impairment date through profit and loss. Since then, the Group 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 Group recognizes impairment in accordance with the established rules of determination of impairment of financial assets.

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

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

- Level I: financial assets/liabilities measured directly on the basis of prices quoted in the active market,
- 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 Group verifies on a monthly basis whether any changes occurred to the quality of the input data used for individual measurement techniques and determines the reasons and their impact on the fair value calculation for the component of financial assets/liabilities. Each identified case is reviewed individually. Following detailed analyses, the Group takes a decision whether its identification entails any changes to the approach for fair value measurement or not.

In justified circumstances, the Group decides to make changes to the fair value measurement methodology and their effective date construed as the circumstances change date. Then, it assesses the impact of changes on the classification to the individual categories of the fair value measurement hierarchy. Any amendments to the measurement methodology and its rationale are subject to detailed disclosures in a separate note to the financial statements.

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

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

The Group uses derivative instruments in order to hedge against FX and interest rate risk, arising from activity of the Group. Those derivatives, which were not designated as hedge instruments pursuant to the principles of hedge accounting, are classified as trading instruments 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 Group designates certain derivative instruments as fair value hedge or cash flow hedge. The Group uses hedge accounting, if the following conditions are met:

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

- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

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

In 2012, the Group 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 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 financial 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 financial 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 financial instruments measured at fair value through profit and loss and FX result*.

5.8. Offsetting financial instruments

The Group offsets financial assets and financial liabilities and reports them in the net amount in the statement of financial position when and only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

In order to mitigate credit risk, the Group concludes special master agreements with contracting parties, with which the Group concludes transactions. These special master agreements provide for offsetting financial assets and liabilities in case of a breach of the master agreement.

5.9. Repo/reverse repo transactions

The Group presents sold financial assets with the repurchase clauses (repo, sell–buy–back transactions) in its statement of financial position, simultaneously recognising a financial liability under a repurchase clause. This is done in order to reflect the risks and benefits arising on this assets item that are retained by the Group after the transfer.

For the securities purchased with a repurchase clause (reverse repo, buy–sell–back), the financial assets held are presented as receivables arising from repurchase clause, hedged with securities.

Starting from the second quarter of 2013, the Group ceased to designate newly concluded sell-buy-back/buy-sell-back transactions upon initial recognition through profit or loss.

Transactions are measured in line with their intention. Accordingly, the transactions made for the category of financial instruments held for trading are carried at fair value through profit or loss. Other transactions are recognised at amortized cost using the effective interest method.

5.10. Impairment

5.10.1. Assets valued at amortized cost

At each balance sheet date, the Group assesses whether there is any objective evidence that a financial assets item or a group of financial assets is impaired. A financial asset item 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 item (a 'loss event') and that loss event (or events) has (have) an impact on the expected future cash flows of the financial asset item or a group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

During the impairment identification process, the Group first assesses whether conditions of impairment exist for financial assets items.

Considering the special nature of individual credit exposures portfolios, the Group defined the following events as impairment conditions for a financial assets item:

a) ***Impairment conditions for retail credit exposures***

- a debtor has a default of +90 DPD for a material exposure (under Resolution No. 76/2010 of the Polish Financial Supervision Authority);
- there have been enforcement proceedings instituted against the debtor;
- there is a high probability of bankruptcy or a debtor is in bankruptcy;
- debtor's credit agreement has been terminated;
- the debtor's/ entrepreneur's financial standing is poor which is reflected by a relevant risk rating assigned thereto as provided for by the model used by the Bank;
- the credit receivables wherefor the present value of debt was significantly reduced is in restructuring;
- some credit receivables wherefor impairment was recognized is redeemed/ written down;
- there is a reasonable suspicion of credit wangling;
- other debtor's accounts found under the same product segment show impairment;
- that the credit facility will be regularly repaid was not lent credence to under the circumstances where the term of regular credit repayment is shorter or equals 90 days (3 months).

b) ***Impairment conditions for strategic- and corporate-clients credit exposures***

- there is a high probability of bankruptcy or other financial restructuring of the debtor;
- the debtor discontinued to repay the principal, interest or commissions with the default of +90 DPD;
- the debtor sustains material financial problems which can adversely influence future cash flows from a given financial assets item;
- the debtor seriously breached the contractual terms and conditions, the fact which indicates a measurable decline in estimated future cash flows from a given financial assets item; i.e.:
  - collateral of significant value was sold or liquidated,
  - collateral of significant value was established for another lender,

  - significant debt was drawn with another financial institution, or
  - significant debt was prepaid with another financial institution,
- the active market for that financial assets item disappeared because of financial difficulties of the debtor, adversely influencing future cash flows from a given financial assets item;
- credit receivables were restructured for non-profit reasons; i.e.: the Group provided the debtor with facilities for economic or legal reasons related to their financial problems whereby the future cash flows expected by the Group from the said credit exposure are reduced below the carrying amount of that exposure;
- the balance sheet credit exposure was questioned by the debtor under court procedure; and
- neither the debtor's place of stay is known nor their property has been disclosed.

c) <u>Conditions of credit exposure impairment assessment</u>

The entire lending portfolio of retail, strategic and corporate network clients is tested for exposure impairment. The debtor's credit exposure is tested for impairment at the monitoring dates in place for the regular and irregular portfolios. For each credit exposure impairment condition identified, the debtor has to be reclassified to the irregular portfolio and analysed (tested) for impairment based on the expected future cash flows.

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 under to the contractual terms and conditions. Impairment loss for such groups is subject to collective assessment. If there is any objective evidence of impairment of loans and receivables, or investments held-to-maturity measured at amortised cost, then the amount of the impairment is the difference between the carrying amount of an asset and the present 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 assets item using the discounted future cash flows of a given assets item; for insignificant assets – it is calculated 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 an assets item or financial assets group measured at the amortised 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 calculated 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 Group regularly verifies the methodology and assumptions adopted to estimate future cash flows in order to mitigate the differences between estimated and actual losses.

For the purposes of calculation of the provision for the balance sheet and off-balance sheet exposures shown as EAD, the probability of default (PD) method (modified PD parameter) is applied, among others. The mode of PD parameter calculation makes it possible to take account of the specific features of individual products and related loss identification periods as well as the historical loss adjustments made using the data available currently. The Group also verifies the conversion rate (the so-called CCF or K-factor) of utilisation of the free part of the credit limit in the period from the reporting date to the default date to assure compliance with IAS 37 concerning provisions for contingent off-balance sheet liabilities.

This approach allows specifically for identification of:

- the losses that have already occurred, and
- the losses that occurred as at the impairment date, but have not been documented yet (the so-called provision for incurred but not reported losses – IBNR).

The impairment is presented as a reduction of the carrying amount of the assets item through use of an impairment loss and the amount of the loss (the impairment loss formed) is recognised in the income statement for the period.

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

5.10.2. Financial assets available for sale

The Group assesses as at each balance sheet date whether there is any objective evidence of impairment of financial assets classified as available for sale.

The evidence indicating that a financial asset or a group of financial assets have been impaired may result from one or more conditions which are presented hereinbelow:

- significant financial problems of the issuer (e.g. material negative equity, losses incurred in the current year exceeding the equity, termination of credit facility agreement of material value at other bank),
- breach of contractual terms and conditions, specifically with regard to default or delay in repayment of liabilities due (e.g. interest or nominal value), interpreted as materialisation of the issuer's credit risk,
- awarding the issuer with repayment facilities by their creditors, which would not be awarded in different circumstances,
- high probability of bankruptcy or other financial restructuring of the issuer,
- identification of financial assets impairment in the previous period,
- disappearance of the active market for financial assets that may be due to financial difficulties of the issuer,
- published analyses and forecasts of rating agencies or other units which confirm a given (high) risk profile of the financial asset,
- other tangible data pointing to determinable decrease in estimated future cash flows resulting from financial assets group which appeared upon their initial recognition in the Group books. The data referred to hereinabove may concern unfavourable changes in the payment situation on the part of issuers from a certain group or unfavourable economic situation of a given country or its part, which translates into the repayment problems sustained by this group of assets.

Additional conditions indicating the possibility of impairment which, due their nature, concern equities:

- significant or long-lasting decrease in fair value of equities below their price/cost of purchase,
- decrease in fair value of equities is disproportionately high as compared to equities issued by other entities from the same sector,
- significant unexpected deterioration of the issuer's profits, flows or net assets as of the purchase date,
- reduction or cessation of dividend payout,
- significant reduction of the issuer's credit rating which took place after their purchase/initial recognition in the Group books.

Significant or long-lasting decrease in fair value is evaluated on the basis of the following quantitative criteria pointing to the possibility of impairment occurrence:

- the current market price stays 25% below the purchase price for longer than 6 months,
- the current market price stays 40% below the purchase price,
- the current market price stays 10%-25% below the purchase price for longer than 12 months.

The quantitative criteria are used objectively (i.e. their occurrence constitutes the basis for impairment identification), however in case of confirming indisputable evidence it is also possible that:

- impairment is not identified, and
- impairment is identified, although quantitative criteria do not confirm it, yet other available, identified and confirmed conditions prove that such impairment has occurred.

In case of objective evidence for impairment of available-for-sale financial assets item, the aggregated losses so far recognized directly as equity are derecognized therefrom and recognized in the income statement, even if financial assets item has not been excluded from the balance sheet.

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

Impairment losses 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 Group (acting as the owner or the lessee under a finance lease) to earn rentals or for capital appreciation or both. At the same time, such a real property is:

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

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

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

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 Group's needs or to be transferred to other entities, based on the lease contract or for administrative purposes.

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

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

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

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

7.1.2. Subsequent costs

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

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 Group, 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 Group. 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	3 years

7.4. Impairment of other non- financial assets

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

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 Group 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 and factoring services

8.1. The Group as lessor

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

Leasing agreements are classified by the Group 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 Group. There are no unguaranteed residual values attributable to the lessor within the Group.

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 Group as lessee

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

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

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

Lease payments for contracts which do not fulfil qualifications of a finance lease agreement are recognized as costs in the profit and loss account in a straight-line method throughout the period of the lease. Currently, the Group does not act as a lessee under financial lease.

8.3. Factoring services

The Group 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 Group 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 Group.

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

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

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

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

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

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

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 item *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 attributable to owners of the parent of current year.

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

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

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

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 Group by counterparties, as well as insurance costs paid in advance to be settled in the future periods. Prepayments are presented in the balance sheet in *Other assets* caption.

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

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

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

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 Group 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. ING Group long-term incentive system benefits

By 2012, the Group was a participant of the Longterm Sustainable Performance Plan (LSPP), formerly LEO (i.e. Longterm Equity Ownership), introduced by ING Group. The system motivates employees of ING Group entities by correlating additional benefits granted thereto with ING Group financial results. The programme was addressed to Bank Management Board Members, executive staff and senior specialists. The system functioned in two options:

- Standard – employee may become a holder of ING shares or obtain pecuniary benefit; two instruments are offered under the Standard system:
  - share options, and
  - performance shares,
- Phantom – employee may obtain pecuniary benefit; two instruments are offered under the system:
  - phantom option, and
  - performance units.

Both above mentioned system options have a 10Y maturity and may be exercised after 3 years of their issue provided that the option holder is an employee of the Bank (or another ING Group entity) or has retired.

The option exercise price is the difference between the option exercise price as set by Euronext Amsterdam at the exercise date in the so-called open period, after the ING Group General Meeting, and the initial price guaranteed in the option strike price.

Performance shares / performance units are granted provided that certain conditions have been met. The number of instruments received depends on the ING Group results as at the end of a 3Y period. To this effect, the Total Shareholder Return (TSR) ratio is determined for each 3Y period versus the ratio computed for the group of ING Group's peers. Depending on the ING Group's position in the ranking, the number of performance shares / performance units to be exercised may be from 200% for ranks 1-3 to 0% for ranks 18-20. The exercise price is set as for share options / phantom options.

As at the balance sheet date, the Group recognizes in its books the measurement of instruments held by Group employees.

The fair value of options granted is recognised as personnel costs (on the other side of the balance sheet – in capitals) and is allocated throughout the vesting period.

12.3.3. Variable remuneration programme benefits

The Group implemented the variable remuneration programme, 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 (whereto a part of the programme related to the financial instrument granted is addressed).

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

Programme benefits are granted in two options:

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

The cash element is 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 are 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 is 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 throughout the vesting period (i.e., both during the appraisal period understood as the year of work for which 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 (i.e. based on the estimates made upon applying the reduction factor) is allocated throughout the vesting period. The value of benefit is recognised as the obligation towards employees in correspondence with the income statement.

13. Principles of EU programmes settlement

The Group 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 Group'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 Group has a legal or constructive obligation (common law) as a result of past events, as well as when it is probable that an outflow of resources will be required to settle the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability.

This is also applicable for the recognition of provisions for risk-bearing off-balance sheet commitments including guarantees, letters of credit and irrevocable unused credit lines.

Provisions for the irrevocable unutilised credit lines for corporate exposures are formed and recognised together with impairment losses for credit receivables.

The Group 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 Group 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 Group 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 Group recognises the provisions for all estimated losses. In certain justified cases, despite the fact that the Group 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 Group may decide not to recognise the assets there under in the financial statements.

In 2012, the Group 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 is 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 Group and comprises fees for extending a loan, the Group'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 Group – like cash management services, brokerage services and asset management services – are recognised in the income statement at the time of service provision.

15.2.1. Net commission income from bancassurance services

Income from bancassurance services is recognized in the profit and loss considering the rules described in point *15.2.* Prior to implementation of insurance-related product the Group analyses all its characteristics and its relation to bank product in order to specify its proper recognition in the profit and loss.

In this analysis, the Group takes account of the prevalence of the economic content over the legal form. The factors analysed by the Group include:

- the manner in which an insurance product is offered, option of purchasing a banking product without the insurance product as well as option of purchasing only the insurance product at the Group;
- pricing conditions of the two products sold together and separately;
- profitability of the insurance and banking products sold together and separately;
- sales target of combined products versus sales target of the same banking products sold without insurance;
- option of concluding an insurance agreement outside the Group;
- number of resignations and the value of refunded insurance premiums;
- settlement cycle with a client; and
- the scope of activities performed by the Group for the insurer and their duration.

For the majority of insurance products linked with lending products functioning at the Group, the income on insurance products is earned based on monthly settlements with both the insurer and the client. Since the client may resign at any time from the insurance coverage for the following month, the Group treats such insurances as renewed each month and settled for each month separately. At the same time, having regard to the adopted settlement mode, there is no need to form a provision for refunds as there is no risk of refund. Therefore, the income on insurance products settled monthly is recognised in the income statement also on a monthly basis. The Group recognises the income on such insurances in the commission income on insurance products.

The income on the insurance settled in advance and linked with a cash loan product is settled with the effective interest method and recognised in the interest income.

Most insurance products linked with the Group's deposit products (current accounts and savings accounts) use the monthly- settlement structure. Therefore, the income on insurance products settled monthly is recognised in the income statement also on a monthly basis. The Group recognises the income on such insurances in the commission income on insurance products.

Income from insurance products not linked to products offered by the Group are recognized in the profit and loss:

- using straight-line method in the insurance period – if apart from sale services the Group provides additional services in the insurance period,
- at the time of service provision – if the Group does not provide other services in the insurance period and if there is no risk of full of partly return of income.

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

Net income on financial 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 Group's banking and brokerage activity. These include in particular: the result due to holding an investment property, sale of assets (non-current assets and intangible assets), revenues from sales of other services, revenues due to recovered bad debts, received and paid damages, penalties and fines.

15.7. Net profit (loss) attributable to non-controlling interests

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

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 Group creates a provision for deferred tax in respect of all taxable temporary difference and deferred tax asset with regard to all deductible temporary differences to extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised according to accounting regulations and according to legal regulations concerning corporate income taxation. A positive net difference is recognized in liabilities as *Deferred tax provision*. 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 provisions are estimated with the use of the tax rates which are expected to be in force when the asset is realized or provision 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 provisions are recognized by the Group in the balance sheet after offsetting at level of each entity included in consolidation. The Group offsets deferred tax assets and deferred tax provisions, where it has legal title to effect such offsetting, and the deferred assets and provisions 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.

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V. Comparability of financial data

Amendments to the income statement

In the annual consolidated financial statements for the period from 1 January 2013 to 31 December 2013 the Group made disclosure-related amendments regarding some items in the income statement, compared to the annual consolidated financial statements for the period from 1 January 2012 to 31 December 2012. The change consisted in aggregating the *General and administrative expenses* item and the *Result on other operating income and expenses* to one item - *General and administrative expenses.*

The individual items of the consolidated income statement are presented below as they were presented in the annual consolidated financial statements for 2012 and in the current statements.

	4 quarters 2012 the period from 1 Jan 2012 to 31 Dec 2012	*change*	**4 quarters 2012** the period from 1 Jan 2012 to 31 Dec 2012
General and administrative expenses	1 817.7	-4.5	1 822.2
Result on other operating income and expenses	*-4.5*	*4.5*	*-*

Amendments to the statement of financial position

In the annual consolidated financial statements for the period from 1 January 2013 to 31 December 2013 the Group made a few disclosure-related amendments to the statement of financial position, compared to the annual consolidated financial statements for the period from 1 January 2012 to 31 December 2012. The changes included:

1) Aggregation of non-financial-like assets (investment properties, property, plant and equipment, intangible assets and non-current assets held for sale) under one item "*Non-financial assets*".
2) Aggregation of current and deferred tax assets under one item "*Tax assets*".
3) Aggregation of current tax liabilities and deferred tax provision under one item "*Tax liabilities*".
4) Exclusion of the receivables under repo transactions made with Group clients from "*Loans and receivables to customers*" and their disclosure under a separate item "*Receivables from customers due to repo transactions*". The item value as at 31 December 2012 was PLN 0.0 million.
5) Exclusion of the liabilities under repo transactions made with Group clients from "*Liabilities due to customers*" and their disclosure under a separate item "*Liabilities due to customers under repo transactions*". The item value as at 31 December 2012 was PLN 0.0 million.

The changes discussed in items 1-3 were made to show the total worth of similar items, not that significant on account of their share in the assets/ liabilities total.

The changes discussed in items 4 and 5 herein were made to recognise stable assets/ liabilities measured at amortized cost separately from those characterised by a high volatility in individual reporting periods.

The Group is of the opinion that changes to the statement of financial position improved transparency. Changes did not impact the balance sheet totals of the reporting periods.

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The individual items of the consolidated statement of financial position are presented below as they were presented in the annual consolidated financial statements for 2012 and in the current statements.

	as at 31.12.2012	*change*	Amount of change	as at 31.12.2012
A S S E T S				
- Loans and receivables to customers	48 985.3	*4*	-	48 985.3
- Receivables from customers due to repo transactions	-	*4*	-	0.0
- Investment properties	*120.9*	*1*	*-120.9*	*-*
- Property, plant and equipment	*600.0*	*1*	*-600.0*	*-*
- Intangible assets	*361.6*	*1*	*-361.6*	*-*
- Non-current assets held for sale	*33.0*	*1*	*-33.0*	*-*
- Non-financial assets	-	*1*	1 115.5	1 115.5
- Current tax liabilities	*0.3*	*2*	*-0.3*	*-*
- Deferred tax liability	*38.3*	*2*	*-38.3*	*-*
- Tax assets	-	*2*	38.6	38.6
E Q U I T Y A N D L I A B I L I T I E S				
- Liabilities due to customers	57 857.5	*5*	-	57 857.5
- Liabilities due to customers under repo transactions	-	*5*	-	0.0
- Current tax liabilities	*74.0*	*3*	*-74.0*	*-*
- Deferred tax liability	*29.0*	*3*	*-29.0*	*-*
- Tax liabilities	-	*3*	103.0	103.0

VI. Notes to the consolidated financial statements

1. Segment reporting

Segments of operation

The management of ING Bank Śląski S.A.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 provided by ING Securities SA 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 conducted by the parent and by ING Securities, products related to leasing and factoring services offered by ING Lease Polska Sp. z o.o. and ING Commercial Finance Polska S.A.

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 bonds) 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 2013, the Bank updated the allocation key for ALCO income. The data for the 12 months of 2012 presented herein were made comparable.

Geographical segments

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

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year 2013

	Retail banking segment	Corporate banking segment	TOTAL
Revenue total*	**1 615.8**	**1 667.4**	**3 283.2**
net interest income	1 031.5	1 011.1	2 042.6
external	*362.8*	*1 679.8*	*2 042.6*
internal	*668.7*	*-668.7*	*0.0*
net commission income	422.8	553.8	976.6
other income/expenses	123.4	102.5	225.9
share in net profit (loss) of associated entities recognised under the equity method	38.1	0.0	38.1
Operational expenses	**1 115.2**	**707.9**	**1 823.1**
personnel expenses	539.7	386.9	926.6
depreciation	115.9	48.1	164.0
other	459.6	272.9	732.5
Result before risk	**500.6**	**959.5**	**1 460.1**
Impairment losses	128.4	138.8	267.2
Result after impairment losses (profit before tax)	**372.2**	**820.7**	**1 192.9**
Income tax	-	-	231.4
Result after tax	**-**	**-**	**961.5**
- attributable to shareholders of ING Bank Śląski S.A.	**-**	**-**	**961.5**

year 2012

	Retail banking segment	Corporate banking segment	TOTAL
Revenue total*	**1 549.8**	**1 651.3**	**3 201.1**
net interest income	1 003.5	1 045.4	2 048.9
external	*244.7*	*1 804.2*	*2 048.9*
internal	*758.8*	*-758.8*	*0.0*
net commission income	457.7	546.6	1 004.3
other income/expenses	52.9	59.3	112.2
share in net profit (loss) of associated entities recognised under the equity method	35.7	0.0	35.7
Operational expenses	**1 101.0**	**721.2**	**1 822.2**
personnel expenses	511.5	389.3	900.8
depreciation	104.4	43.7	148.1
other	485.1	288.2	773.3
Result before risk	**448.8**	**930.1**	**1 378.9**
Impairment losses	90.1	272.7	362.8
Result after impairment losses (profit before tax)	**358.7**	**657.4**	**1 016.1**
Income tax	-	-	183.8
Result after tax	**-**	**-**	**832.3**
- attributable to shareholders of ING Bank Śląski S.A.	**-**	**-**	**832.3**

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

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end of year 2013

	Retail banking segment	Corporate banking segment	TOTAL
Assets of the segment	18 092.0	67 346.7	85 438.7
Segment investments in controlled entities recognized under the equity method	136.5	0.0	136.5
Other assets (not allocated to segments)	0.0	0.0	1 175.4
Total assets	**18 228.5**	**67 346.7**	**86 750.6**
Segment liabilities	44 609.1	32 390.1	76 999.2
Other liabilities (not allocated to segment)	0.0	0.0	1 122.8
Equity	0.0	0.0	8 628.6
Total equity and liabilities	**44 609.1**	**32 390.1**	**86 750.6**

2013

	Retail banking segment	Corporate banking segment	TOTAL
Capital expenditure	173.7	110.2	283.9
Net cash flow from operating activities	4 815.8	-1 323.6	3 492.2
Net cash flow from operating activities (not allocated to segment)	0.0	0.0	-428.7
Net cash flow from operating activities total	4 815.8	-1 323.6	3 063.5
Net cash flow from investment activities	-91.8	-57.7	-149.5
Net cash flow from financial activities (not allocated to segment)	0.0	-124.6	-124.6

end of year 2012

	Retail banking segment	Corporate banking segment	TOTAL
Assets of the segment	16 215.3	60 812.9	77 028.2
Segment investments in controlled entities recognized under the equity method	114.4	0.0	114.4
Other assets (not allocated to segments)	0.0	0.0	1 124.2
Total assets	**16 329.7**	**60 812.9**	**78 266.8**
Segment liabilities	39 029.3	30 095.4	69 124.7
Other liabilities (not allocated to segment)	0.0	0.0	1 006.0
Equity	0.0	0.0	8 136.1
Total equity and liabilities	**39 029.3**	**30 095.4**	**78 266.8**

2012

	Retail banking segment	Corporate banking segment	TOTAL
Capital expenditure	237.7	155.7	393.4
Net cash flow from operating activities	3 462.8	-4 799.5	-1 336.7
Net cash flow from operating activities (not allocated to segment)	0.0	0.0	-204.2
Net cash flow from operating activities total	3 462.8	-4 799.5	-1 540.9
Net cash flow from investment activities	-224.0	5 000.8	4 776.8
Net cash flow from financial activities (not allocated to segment)	0.0	-532.0	-532.0

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2. Net interest income

Interest income

	2013	2012
Interest on loans and receivables to other banks, of which:	105.4	135.8
- interest on accounts and deposits	*87.7*	*117.3*
- interest on loans and advanced	*3.8*	*8.4*
- interest on other receivables	*13.9*	*10.1*
Interest on loans and receivables to customers, of which:	2 693.6	2 919.1
*- interest on loans and advanced**	*2 451.3*	*2 645.0*
- interest on leasing agreements	*154.7*	*168.1*
- interest on factoring agreements	*85.8*	*103.0*
- interest on other receivables	*1.8*	*3.0*
Interest on repo transactions concluded with customers	11.6	0.0
Interest on debt securities held for trading	26.8	14.0
Interest on debt securities designated as fair value at initial recognition	0.0	6.3
Interest on available-for-sale debt securities**	736.2	542.0
Interest on held-to-maturity debt securities	0.0	164.5
Interest result on derivatives***	41.1	49.8
Total interest income	**3 614.7**	**3 831.5**

Interest expenses

	2013	2012
Interest on deposits from other banks, of which:	85.0	127.7
- interest on accounts and deposits	*33.2*	*60.4*
- interest on loans	*38.4*	*49.5*
- interest on other payables	*13.4*	*17.8*
Interest on deposits from customers, of which:	1 449.6	1 652.9
*- interest on deposits**	*1 443.3*	*1 645.6*
- interest on other payables	*6.3*	*7.3*
Interest on repo transactions concluded with customers	*10.0*	*0.0*
Interest on issue of debt securities	24.4	2.0
Interest on financial liabilities held for trading	3.1	0.0
Total interest expense	**1 572.1**	**1 782.6**
Net interest income	**2 042.6**	**2 048.9**

*) The Bank applies the principles of cash-flow hedge accounting for a certain portfolio of financial assets/ liabilities. The hedging strategies used are to secure the Bank against the risk of change to the future cash flows due to IR risk. For the strategy used for the portfolio of CHF- or EUR-indexed mortgage loans, the change due to IR risk and FX risk is hedged against simultaneously. The net interest income of the reporting period shows the result on cash-flow hedge accounting of PLN 220.5 million in 2013 versus PLN 44.1 million in 2012.

The hedge accounting strategy of the Bank has been detailed in the latter part hereof: explanatory note 39 *Hedge Accounting.*
**) 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.

***) The net interest income on derivatives item shows the net interest income on derivatives whereto no hedge accounting applies; it includes net interest income on IR instruments (IRS, CIRS) and interest element of FX derivatives (FX Swap, FX Forward).

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 2013 the amount of PLN 59.3 million represents revenue from financial assets for which impairment loss was recognised. In the year 2012, the amount reached PLN 72.0 million.

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3. Net commission income

	2013	2012
Commission income		
- transaction margin on currency exchange transactions*	260.2	271.1
- commission related to keeping accounts	257.7	249.5
- commission related to loans	194.2	178.5
- commission related to payment and credit cards	190.2	207.0
- commission related to distribution of participation units	75.4	61.6
- commission related to brokerage activity	46.3	56.7
- fiduciary and custodian fees*	30.9	27.5
- commission related to factoring and lease agreements	26.3	22.3
- foreign commercial business	16.0	14.1
- commission related to insurance product offering	0.9	31.6
- commission related to subscription of structured products	0.0	1.5
- other	16.1	21.1
Total comission income	**1 114.2**	**1 142.5**
Commission expenses		
- commission related to brokerage activity	15.9	19.4
- commission paid on intermediation in selling deposit products	15.7	16.3
- commission paid on cash handling services	10.2	10.1
- commission paid on trading in securities	8.0	7.2
- commission paid on disclosing credit information	7.4	6.4
- commission paid on electronic banking services	6.2	6.0
- commission related to lease agreements	0.3	1.2
- costs of the Bank Guarantee Fund (BFG)	45.3	44.0
- costs of the National Clearing House (KIR)	6.5	5.0
- other	22.1	22.6
Total commision expenses	**137.6**	**138.2**
Net commission income	**976.6**	**1 004.3**

*) Transaction margin on FX transactions covers the margin on all buy/sell transactions made with spot delivery value date or forward delivery value date.

**) Commissions on custody operations show the commissions earned on custody services, where the Bank receives or invests assets for its clients.

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

	2013	2012
Net income on financial assets and liabilities held for trading, of which	**110.5**	**-311.9**
- Net income on debt instruments	27.1	14.9
- Net income on derivatives, of which:	83.4	-326.8
- Currency derivatives)*	*53.1*	*-356.1*
- Interest rate derivatives	*27.5*	*27.0*
- Securities derivatives	*2.8*	*2.3*
Net income on financial assets and liabilities measured at fair value upon initial recognition, of which	**0.0**	**-0.6**
- Net income on debt instruments	0.0	-0.6
FX result	**-12.6**	**398.0**
Net income on financial instruments measured at fair value through profit and loss and FX result	**97.9**	**85.5**

Result on debt instruments includes net income on trading in treasury securities 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 Group clients. In the year 2013 was realised the write-off of PLN 4.5 million (in the year 2012 was realised the write-off of PLN 23.3 million).

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5. Net income on investments

	2013	2012
Net income on debt instruments available-for-sale	104.9	18.5
Net income on equity instruments available-for-sale	0.5	6.8
Dividend income	3.4	4.1
Impairment losses	0.0	-4.8
Net income on investments	**108.8**	**24.6**

6. Net income on hedge accounting

	2013	2012
Fair value hedge accounting for securities	**-1.1**	**-9.5**
- valuation of the hedged transaction	-204.3	203.9
- valuation of the hedging transaction	203.2	-213.4
Cash flow hedge accounting	**-0.4**	**-3.8**
- ineffectiveness that arises from cash flow hedges	-0.4	-3.8
Net income on hedge accounting	**-1.5**	**-13.3**

Detailed information on the hedge accounting applied in the Group is provided in the subsequent part of the financial statements in note no. 39 *Hedge accounting.*

7. Net income on the other basic activities

	2013	2012
Income from sales of other services*	9.6	8.2
Net income on the investment properties, of which::	8.8	10.1
- income from rental of the investment property	*14.4*	*14.8*
- maintenance expenses relating to the investment property	*-5.6*	*-6.3*
- measurement of the investment property at the fair value	*0.0*	*1.6*
Result on disposal of fixed assets and intangible assets	-0.6	-1.0
Banking activity-related compensations and losses	-1.2	-1.5
Other	4.1	-0.4
Total	**20.7**	**15.4**

*) The item *Income from sales of other services* primarily includes the sale of non-financial services by the Group's subsidiaries.

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8. General and administrative expenses

	2013	2012
Personnel expenses, of which:	**926.6**	**900.8**
- wages and salaries, including:	776.1	762.3
- variable remuneration programme	*18.5*	*14.1*
- ING Group's incentive programme	*4.9*	*10.9*
- retirement benefits	*2.7*	*3.0*
- employee benefits	150.5	138.5
General and administrative expenses, of which:	**732.5**	**773.3**
- maintenance and rental of buildings	209.0	206.3
- cost of marketing and promotion	98.0	90.1
- consulting	75.4	119.6
- lease of computer resources	52.8	46.3
- communication services	51.0	50.6
- refurbishment services	41.5	41.3
- fee for stabilisation fund	4.0	0.0
- other	200.8	219.1
Depreciation and amortisation, of which:	**164.0**	**148.1**
- on property, plant and equipment	90.1	86.3
- on intangible assets	73.9	61.8
Total	**1 823.1**	**1 822.2**

8.1. Employee benefits

8.1.1. Variable Remuneration Programme

In 2013, the Variable Remuneration Programme initiated in 2012, was continued. 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 (part involving the grant of a financial instrument).

Benefits will be granted to the employees covered with the Programme, based on their performance appraisal for a given year. 2013 will be the second assessment period under the Programme. The Programme description and characteristics are included in Chapter IV. *Significant Principles of Accounting* in item 12.3.3. *Variable Remuneration Programme Benefits*

The below table presents basic information about the Programme addressed to persons holding managerial positions having material impact on the Group risk profile.

Programme 2012

Number of shares	**Value of shares (in mio PLN)**	**Number of non-deferred shares - held 1 year (assigned in 2013 – payable in 2014)**	**Number of deferred shares total**	*Phantom stock - 1 year of deferral* (assigned in 2014 – payable in 2015)	*Phantom stock - 2 years of deferral* (assigned in 2015 – payable in 2016)	*Phantom stock - 3 years of deferral* (assigned in 2016 – payable in 2017)	Stock price median for period from 10 Oct 2013 to 20 Nov 2013
96 817	11.5	58 108	38 709	*12 887*	*12 902*	*12 920*	118.35

Programme 2013

Number of shares	**Value of shares (in mio PLN)**	**Number of non-deferred shares - held 1 year (assigned in 2014 – payable in 2015)**	**Number of deferred shares total**	*Phantom stock - 1 year of deferral* (assigned in 2015 – payable in 2016)	*Phantom stock - 2 years of deferral* (assigned in 2016 – payable in 2017)	*Phantom stock - 3 years of deferral* (assigned in 2017 – payable in 2018)	Stock price median for period from 10 Oct 2013 to 20 Nov 2013
75 988	9.0	45 657	30 331	*10 094*	*10 109*	*10 128*	118.35

8.1.2. Incentive programme's ING Group

To the end of 2012 the Group participated in the long-term incentive programme's Group ING LSPP (Longterm Sustainable Performance Plan), formerly known as LEO (Long-term Equity Ownership). Description of system variants is included in the chapter no. IV. *Significant accounting principles* in the point no. 12.3.2. *ING Group long-term incentive system benefits.* The table below presents the parameters taken into account in the valuation model in the years 2013 and 2012:

	2013		**2012**	
	min	***max***	***min***	***max***
risk free interest rate	2.02%	4.62%	2.02%	4.62%
expected term of realisation	5 years	9 years	5 years	9 years
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)**	
	2013	**2012**	**2013**	**2012**
Opening balance	**732 183**	**794 648**	**13.26**	**13.74**
- transferred	37 312	21 270	12.41	9.25
- made	63 266	20 827	6.15	2.90
- forfeited	12 195	11 352	13.59	16.51
- expired	40 969	51 556	10.27	21.97
Closing balance	**653 065**	**732 183**	**14.08**	**13.26**

As per 31 Dec 2013 total options outstanding consists of 109,166 options relating to equity-settled share-based payment arrangements and 543,899 options relating to cash-settled share-based payment arrangements (as per 31 Dec 2012 166,052 and 566,131 respectively).

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

2013

Range of exercise price in euros	**Options outstanding as at 31 Dec 2013**	Weighted average remaining contractual life	Weighted average exercise price (in EUR)	**Options excercisable as at 31 Dec 2013**	Weighted average remaining contractual life	Weighted average exercise price (in EUR)
0,00 - 5,00	74 877	5.22	2.90	74 877	5.22	2.90
5,00 - 10,00	211 926	6.21	7.35	211 926	6.21	7.35
10,00 - 15,00	24 270	0.97	14.37	24 270	0.97	14.37
15,00 - 20,00	183 933	3.18	17.08	183 933	3.18	17.08
20,00 - 25,00	92 096	3.21	24.67	92 096	3.21	24.67
25,00 - 30,00	65 963	2.24	25.19	65 963	2.24	25.19
	653 065			**653 065**		

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 excercisable 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**		

The aggregate intrinsic value of options outstanding and exercisable as at 31 Dec 2013 was EUR 1,121,911 and EUR in comparision with EUR 360,584 as at 31 Dec 2012.

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

	2013	2012
Impairment losses on loans and other receivables	684.5	672.5
Reversed impairment losses on loans and other receivables	-408.6	-321.7
Net impairment losses on loans and other receivables, of which:	**275.9**	**350.8**
- losses on loans and other receivables with evidence of impairment	*262.3*	*393.8*
- losses on loans and other receivables with no evidence of impairment (IBNR)	*13.6*	*-43.0*
Increase of provisions for off-balance liabilities	10.0	20.0
Reversed provision for off-balance sheet liabilities	-18.7	-8.0
Net provisions for off-balance sheet liabilities recognized, of which:	**-8.7**	**12.0**
- on the portfolio with evidence of impairment	*-6.5*	*13.5*
- on the portfolio with no evidence of impairment (IBNR)	*-2.2*	*-1.5*
Total increase of provisions	**694.5**	**692.5**
Total reversed impairment losses	**-427.3**	**-329.7**
Net impairment losses and provisions for off-balance sheet liabilities	**267.2**	**362.8**

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 2013 totalled PLN 13.4 million compared with PLN 11.9 million in 2012.

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

	2013	2012
Impairment losses on loans and other receivables, of which	**684.5**	**672.5**
- banks	*0.8*	*0.5*
- entities from the financial sector other than banks	*0.4*	*1.1*
- entities from the non-financial sector	*682.7*	*670.6*
- entities from the government and self-government institutions' sector	*0.6*	*0.3*
Reversed impairment losses on loans and other receivables, of which:	**-408.6**	**-321.7**
- banks	*-0.5*	*-0.1*
- entities from the financial sector other than banks	*-0.7*	*-0.5*
- entities from the non-financial sector	*-407.0*	*-320.3*
- entities from the government and self-government institutions' sector	*-0.4*	*-0.8*
Net impairment losses on loans and other receivables, of which:	**275.9**	**350.8**
- banks	*0.3*	*0.4*
- entities from the financial sector other than banks	*-0.3*	*0.6*
- entities from the non-financial sector	*275.7*	*350.3*
- entities from the government and self-government institutions' sector	*0.2*	*-0.5*

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

	2013	2012
Impairment losses on loans and other receivables, of which:	**684.5**	**672.5**
- corporate banking	*256.7*	*447.2*
- retail banking	*427.8*	*225.3*
Reversed impairment losses on loans and other receivables, of which:	**-408.6**	**-321.7**
- corporate banking	*-91.0*	*-186.2*
- retail banking	*-317.6*	*-135.5*
Net impairment losses on loans and other receivables, of which:	**275.9**	**350.8**
- corporate banking	*165.7*	*261.0*
- retail banking	*110.2*	*89.8*

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

	2013	2012
ING Powszechne Towarzystwo Emerytalne S.A.	38.1	35.7
Total	**38.1**	**35.7**

Specific information on the associated entity ING Powszechne Towarzystwo Emerytalne S.A. is presented later in the report in the note no. 23 *Investments in subsidiaries and associated entities.*

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11. Income tax

Income tax recognised in the profit and loss account

	2013	2012
Current portion, of which:	**226.5**	**373.7**
Current year	240.2	345.0
Adjustment of last-year tax settlement	-13.7	28.7
Deferred tax, of which:	**4.9**	**-189.9**
Recognised and reversed temporary differences	4.9	-189.9
Total income tax recognised in the profit and loss account	**231.4**	**183.8**

Effective tax rate calculation

		2013	2012
A.	**Profit before tax**	**1 192.9**	**1 016.1**
B.	**19% of profit before tax**	**226.7**	**193.1**
C.	**Increases – non-deductible expenses, of which:**	**14.6**	**16.4**
	- expenses due to loan and non-loan receivables written off	1.9	1.2
	- setting up a provision against disputable debt claims and other assets	1.8	2.5
	- PFRON	1.3	1.3
	- impairment on receivables in a part not covered with the deferred tax	1.1	2.1
	- representation expenses	1.1	1.1
	- thin capitalisation	0.7	1.5
	- tax loss on the sale of the portfolio of receivables	0.0	0.3
	- other	6.7	6.4
D.	**Decreases – tax exempt income, of which:**	**9.9**	**25.7**
	- share in net profit (loss) of associated entities recognised under the equity method	7.3	6.8
	- release of provisions against disputable debt claims	2.0	0.0
	- income exempt due to the entity	0.2	0.5
	- other *)	0.4	18.4
E.	**Income tax from profit and loss account (B+C-D)**	**231.4**	**183.8**
Effective tax rate (E : A)		**19.40%**	**18.09%**

*) In the year 2012, the amount presented in the item *Decreases – other* includes the amount of PLN 16.5 million resulted from changing the methodology whereunder FX differences are calculated for tax purposes in one of the subsidiaries. By the end of 2011, for the purpose of calculating realised and not realised FX differences and their adequate recognition in the tax calculation the company applied the so-called tax approach. As of the beginning of 2012, the company switched to the so-called accounting method whereunder realised and not realised FX differences are recognised identically to costs and income due to FX differences calculated for the accounting purposes.

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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 2013 was based on net profit amounting to PLN 961.5 million (in the year 2012, it was PLN 832.3 million) and weighted average number of ordinary shares at the end 2013 i 2012 equalling 130 100 000.

	2013	2012
Net profit (loss) assigned to shareholders of the ING Bank Śląski S.A.	961.5	832.3
Weighted average number of ordinary shares	130 100 000	130 100 000
Earnings per ordinary share (in PLN)	**7.39**	**6.40**

Diluted earnings per share

In 2013 as well as in 2012, 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. recommend to the General Shareholders Meeting passing a resolution on earmarking the amount of PLN 572 440 thousand from the 2013 profit for dividend payout. Pursuant to the recommendation of the Board the dividend paid per share will be PLN 4.40 gross.

On 19 April 2013, the General Shareholders Meeting resolved not to pay out the dividend for the year 2012 and approved earmark the entire 2012 net profit for equity.

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14. Cash in hand and balances with the Central Bank

	end of 2013	end of 2012
Cash in hand	823.3	772.7
Balances with the Central Bank	6 146.8	3 298.9
Total	**6 970.1**	**4 071.6**

The Group parent company maintains a mandatory provision - at the level of 3,5% of the value of deposits received by the Group parent company - in its current account kept with the National Bank of Poland.

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

- PLN 2 339.5 million for the period from 31 Dec 2013 to 30 Jan 2014,
- PLN 1 965.3 million for the period from 31 Dec 2012 to 30 Jan 2013.

The Group may utilise the credit limit with the National Bank of Poland representing 85% of the face value of Treasury securities subject to pledge, which as at 31 Dec 2013 represented PLN 11 530.1 million compared with PLN 8 489.3 million as at 31 Dec 2012.

15. Loans and receivables to other banks

	end of 2013	end of 2012
Current accounts	869.0	977.2
Interbank deposits	235.7	25.3
Loans and advances	70.6	139.0
Factoring receivables	80.0	158.3
Reverse repo transactions	133.7	66.0
Other	10.9	11.8
Total (gross)	**1 399.9**	**1 377.6**
Impairment losses, of which:	-0.1	-0.5
- concerning loans and advances	-0.1	0.0
- concerning factoring receivables	0.0	-0.5
Total (net)	**1 399.8**	**1 377.1**

Loans and receivables to other banks by maturity

	end of 2013	end of 2012
up to 1 month	1 091.3	1 114.0
over 1 month and up to 3 months	215.5	113.1
over 3 months and up to 1 year	53.1	98.2
over 1 year and up to 5 years	40.0	52.3
Total	**1 399.9**	**1 377.6**

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

	end of 2013	end of 2012
Financial assets held for trading	1 951.4	507.6
Financial assets designated as at fair value upon initial recognition	0.0	1 047.0
Total	**1 951.4**	**1 554.6**

Financial assets held for trading

	end of 2013	end of 2012
Debt instruments, of which:	**1 276.3**	**507.6**
- Treasury bonds	*476.5*	*506.6*
- NBP bills	*799.8*	*1.0*
- Treasury bills	*0.0*	*0.0*
Total financial assets held for trading, of which:	1 276.3	507.6
- listed instruments	*476.50*	*506.60*
- unlisted instruments	*799.80*	*1.00*
Transactions with the buy-back commitment	**675.1**	**0.0**
Total financial assets held for trading	**1 951.4**	**507.6**

Financial assets designated as at fair value upon initial recognition

	end of 2013	end of 2012
Transactions with the buy-back commitment	0.0	1 047.0
Total financial assets designated as at fair value upon initial recognition	**0.0**	**1 047.0**

By the end of 2012, the Group, upon initial recognition, carried all buy-sell-back transactions at fair value through profit or loss. As of 2013, the Group no longer designates new buy-sell-back transactions to this category. Currently, those transactions are valued as per intention of their conclusion. Accordingly, the transactions made for the category of financial instruments held for trading are carried at fair value through profit or loss and presented in the *financial assets held for trading* category, while other transactions are measured at amortized cost using the effective interest method and presented in the *loans and other receivables* category.

Financial assets at fair value through profit and loss by maturity

	end of 2013	end of 2012
up to 1 month	1 485.1	1 047.9
over 1 month and up to 3 months	0.0	0.1
over 3 months and up to 1 year	1.1	108.3
over 1 year and up to 5 years	247.8	271.4
over 5 years	217.4	126.9
Total	**1 951.4**	**1 554.6**

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Movements in financial assets at fair value through profit and loss

	2013	2012
Opening balance	**1 554.6**	**639.6**
Increases, of which:	**290 478.6**	**569 935.0**
- purchase of debt securities	*290 422.8*	*569 896.4*
- increase in the value of securities	*55.8*	*38.6*
Decreases, of which:	**290 081.8**	**569 020.0**
- sales of debt securities	*261 704.4*	*567 874.9*
- redemption of debt securities	*28 300.5*	*965.6*
- drop in the value of securities	*76.9*	*179.5*
Closing balance	**1 951.4**	**1 554.6**

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 financial instruments measured at fair value through profit and loss and FX result.*

17. 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 Group's statement of financial position.

end of 2013

	Valuation of derivatives		*Nominal value of instruments with the period remaining to maturity*			
	Assets	**Liabilities**	*up to 3 months*	*over 3 months and up to 1 year*	*over 1 year*	*TOTAL*
Interest rate derivatives, of which:	**1 229.4**	**1 197.9**	***28 702.1***	***44 968.5***	***60 035.1***	***133 705.7***
- Forward rate agreements (FRA)	9.8	8.8	*18 450.1*	*25 111.5*	*1 550.0*	***45 111.6***
- Interest rate swaps (IRS)	1 214.0	1 182.7	*9 962.7*	*19 599.5*	*55 920.5*	***85 482.7***
- CAP options	5.6	6.4	*289.3*	*257.5*	*2 564.6*	***3 111.4***
FX derivatives, of which:	**235.9**	**289.4**	***16 946.5***	***8 166.5***	***432.9***	***25 545.9***
- FX contracts (swap, forward)	149.3	137.6	*16 554.9*	*7 304.2*	*380.5*	***24 239.6***
- CIRS*)	52.3	98.6	*0.0*	*0.0*	*0.0*	***0.0***
- Currency options (purchased)	34.3	0.0	*119.5*	*329.0*	*26.4*	***474.9***
- Currency options (sold)	0.0	53.2	*272.1*	*533.3*	*26.0*	***831.4***
Current off-balance sheet transactions, of which:	**0.5**	**0.2**	***5 697.3***	***0.0***	***0.0***	***5 697.3***
- FX operations	0.4	0.2	*2 508.8*	-	-	***2 508.8***
- Securities operations	0.1	0.0	*3 188.5*	-	-	***3 188.5***
Stock market derivatives, of which:	**3.6**	**3.6**	***211.4***	***1 028.8***	***30.0***	***1 270.2***
- Options for stock market (buy)	3.6	0.0	*105.7*	*514.4*	*15.0*	***635.1***
- Options for stock market (sold)	0.0	3.6	*105.7*	*514.4*	*15.0*	***635.1***
Fair value measurement of other financial instruments	**2.0**	**1.9**	-	-	-	-
Total	**1 471.4**	**1 493.0**	***51 557.3***	***54 163.8***	***60 498.0***	***166 219.1***

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*) 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).

The amount of fair-value measurement of derivatives includes the credit risk value adjustment (for counterparty insolvency) and debt value adjustment (for Bank insolvency).

end of 2012

	Valuation of derivatives		Nominal value of instruments with the period remaining to maturity			
	Assets	**Liabilities**	***up to 3 months***	***over 3 months and up to 1 year***	***over 1 year***	***TOTAL***
Interest rate derivatives, of which:	**1 582.1**	**1 513.1**	***11 354.0***	***20 156.4***	***37 467.6***	***68 978.0***
- Forward rate agreements (FRA)	1.2	2.3	*0.0*	*2 848.0*	*0.0*	***2 848.0***
- Interest rate swaps (IRS)	1 577.5	1 507.6	*11 354.0*	*16 741.7*	*35 275.8*	***63 371.5***
- CAP options	3.4	3.2	*0.0*	*566.7*	*2 191.8*	***2 758.5***
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	**1 822.1**	**1 778.1**	***33 632.5***	***25 119.6***	***39 121.5***	***97 873.6***

Embedded derivatives

At the end of 2013 and 2012 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 2013 was minus PLN 2.8 million against PLN 1.7 million as per 31 Dec 2012.

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18. Investments

	end of 2013	end of 2012
Available-for-sale financial assets, including:	19 493.6	17 881.1
- fair value hedge - hedged items	*1 971.6*	*1 042.3*
Total	**19 493.6**	**17 881.1**

Available-for-sale financial assets

	end of 2013	end of 2012
Debt securities, of which:	**19 466,3**	**17 863,8**
- Fixed rate debt instruments, of which:	10 018.6	11 883.3
- Treasury bonds	*7 016.2*	*7 648.4*
- NBP bills	*1 099.8*	*2 498.8*
- BGK bonds	*1 902.6*	*1 736.1*
- Floating rate debt instruments, of which:	9 447.7	5 980.5
- Treasury bonds	*9 447.7*	*5 980.5*
Total debt instruments, of which:	19 466.3	17 863.8
- listed instruments	*18 366.5*	*15 365.0*
- unlisted instruments	*1 099.8*	*2 498.8*
Equity instruments	**27.3**	**17.3**
- Equity instruments at cost	40.7	44.7
- Market value evaluation	0.5	0.3
- Impairment	-13.9	-27.7
Equity instruments – carrying value, of which:	27.3	17.3
- listed instruments	*24.6*	*0.4*
- unlisted instruments	*2.7*	*16.9*
Total available-for-sale financial assets	**19 493.6**	**17 881.1**

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 Group is of the opinion that the purchase price is the best indicator of their value.

Moreover, the Group hold shares of one company, purchased under debt restructuring. It's valuation is based on the market rate, including the impairment losses. These shares are classified by the Group for disposal (by sale or liquidation).

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

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Investments by maturity

	end of 2013	end of 2012
up to 1 month	1 099.8	2 498.8
over 3 months and up to 1 year	509.4	2 313.0
over 1 year and up to 5 years	11 275.9	8 753.2
over 5 years	6 608.5	4 316.1
Total	**19 493.6**	**17 881.1**

Movements in investments

	2013	2012
Opening balance	**17 881.1**	**20 450.7**
Increases, of which:	**141 703.6**	**99 660.4**
- purchase of debt securities	*140 828.7*	*94 549.3*
- increase in the value of securities	*873.4*	*1 613.2*
- release of provisions for shares	*1.5*	*0.0*
- reclassification all debt securities held to maturity to the category of available-for-sale financial assets	*0.0*	*3 497.3*
- purchase of shares in other parties	*0.0*	*0.6*
Decreases, of which:	**140 091.1**	**102 230.0**
- sales of debt securities	*9 661.3*	*6 970.1*
- redemption of debt securities	*129 191.3*	*90 842.7*
- drop in the value of securities	*1 235.0*	*919.9*
- sale of shares in other parties	*3.5*	*0.0*
- reclassification all debt securities held to maturity to the category of available-for-sale financial assets	*0.0*	*3 497.3*
Closing balance	**19 493.6**	**17 881.1**

In 2013, the Group sold shares of 4 companies from its investment portfolio. The net income on sale of those shares amounted to PLN +0.5 million. To compare, in 2012, the Group sold shares of one company from its investment portfolio. The net income on sale of those shares amounted to PLN +6.8 million.

Fair value hedge - hedged items

	end of 2013	end of 2012
Fixed rate debt instruments, of which:	1 971.6	1 042.3
- Treasury bonds	*1 745.9*	*1 042.3*
- BGK bonds	*225.7*	*0.0*
Total	**1 971.6**	**1 042.3**

Specific information on the hedge accounting applied in the Group is presented later in the report in the note no. 39 *Hedge accounting*.

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18.1. Reclassification of the debt securities

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

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

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

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 2013		end of 2012	
			carrying amount	fair value	carrying amount	fair value
T-eurobonds	01.10.2008	1 242.9	1 783.5	1 991.0	1 838.6	2 144.7
Corporate bonds	19.12.2008	294.2	10.7	9.9	13.0	12.9
Municipal bonds	19.12.2008	34.4	25.5	24.7	32.1	32.5
Total		**1 571.5**	**1 819.7**	**2 025.6**	**1 883.7**	**2 190.1**

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 Group was to sustain the hedging connection, as of the reclassification date a new hedging strategy was started, i.e. the strategy which hedged the fair value against the interest rate risk related to the securities classified to loans and other receivables category.

Fair value of gain or loss, which would be presented in revaluation reserve once reclassification is not performed

Name of security	Fair value recognised in equity	
	end of 2013	end of 2012
T-eurobonds	207.5	306.1
Corporate bonds	-0.8	-0.1
Municipal bonds	-0.7	0.4
Total	**206.0**	**306.4**

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

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Costs and revenues included in the profit and loss account

2013

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	77.7	-2.8	1.9	-83.8
Corporate bonds	0.6	-0.1	0.1	0.0
Municipal bonds	1.2	0.1	-0.1	0.0
Total	**79.5**	**-2.8**	**1.9**	**-83.8**

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	1.7	0.1	-0.1	0.0
Total	**80.7**	**-2.7**	**1.9**	**72.6**

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

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19. Assets securing liabilities

Market value of assets securing liabilities

	end of 2013	end of 2012
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)	606.0	1 965.6
From the portfolio of available-for-sale financial assets:		
- treasury bonds constituting a collateral to Bank Guarantee Fund	429.2	358.2
- treasury bonds collateralising the loan received by the subsidiary of the European Investment Bank	228.0	104.5
- treasury bonds collateralising the liabilities due to securities sold with a promise of repurchase (repo transactions)	428.3	80.0
- treasury bonds collateralising the Bank debt to subsidiary	42.4	40.0
From the portfolio of loans and receivables:		
- treasury bonds collateralising the liabilities due to securities sold with a promise of repurchase (repo transactions)	28.1	77.7

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),
- agreements,
- the basis of the transaction.

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

The market value of securities under buy-sell-back / reverse repo transactions totalled PLN 1 429.0 million as at 31 Dec 2013, as compared to PLN 1 088.6 million as at 31 Dec 2012.

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20. Derivative hedge instruments

Positive valuation

	end of 2013	end of 2012
Balance sheet valuation of instruments hedging the fair value of securities, of which:	8.2	0.0
- Interest Rate Swap	*8.2*	*0.0*
Balance sheet valuation of instruments hedging the cash flows, of which:	1 043.7	1 112.6
- Interest Rate Swap	*995.0*	*1 060.1*
- Cross Currency Swap	*48.7*	*52.0*
- Forward	*0.0*	*0.5*
Total	**1 051.9**	**1 112.6**

Negative valuation

	end of 2013	end of 2012
Balance sheet valuation of instruments hedging the fair value of securities, of which:	724.8	928.6
- Interest Rate Swap	*724.8*	*928.6*
Balance sheet valuation of instruments hedging the cash flows, of which:	389.6	435.4
- Interest Rate Swap	*388.4*	*435.4*
- Cross Currency Swap	*1.2*	*0.0*
Total	**1 114.4**	**1 364.0**

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 consolidated statement of financial position.

Specific information on the hedge accounting applied in the Group is presented later in the report in the note no. 39 *Hedge accounting*.

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21. Loans and receivables to customers

21.1. Loans and other receivables portfolio

	end of 2013	end of 2012
Portfolio of loans and receivables, of which:	**49 982.2**	**46 509.7**
- Loans and advances	41 690.3	38 898.3
- Leasing receivables	3 650.5	3 233.9
- Factoring receivables	2 465.7	2 212.1
- Corporate and municipal bonds	2 175.7	2 165.4
Other receivables, of which:	**3 815.3**	**3 904.8**
- T-eurobonds	3 685.8	3 779.7
- Other	129.5	125.1
Total loans and receivables to customers (gross)	**53 797.5**	**50 414.5**
Impairment losses, of which:	**-1 559.6**	**-1 429.2**
- concerning portfolio of loans and receivables, of which:	**-1 554.4**	**-1 424.0**
- concerning loans and advances	-1 482.8	-1 287.4
- concerning leasing receivables	-59.7	-69.4
- concerning factoring receivables	-11.9	-9.4
- concerning corporate and municipal bonds	0.0	-57.8
- concerning other receivables	**-5.2**	**-5.2**
Total loans and receivables to customers (net), of which:	**52 237.9**	**48 985.3**
- to entities from the financial sector other than banks	*1 568.1*	*1 645.4*
- to entities from the non-financial sector	*43 409.1*	*39 645.0*
- to entities from the government and self-government institutions' sector	*7 260.7*	*7 694.9*

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

	end of 2013	end of 2012
Loans and advances, of which:	1 457.9	1 533.8
- in the current account	*66.8*	*127.9*
- term ones	*1 391.1*	*1 405.9*
Leasing receivables	0.4	0.6
Other receivables	110.6	111.6
Total (gross)	**1 568.9**	**1 646.0**
Impairment losses, of which:	-0.8	-0.6
- concerning loans and advances	-0.8	-0.6
Total (net)	**1 568.1**	**1 645.4**

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<u>*Loans and other receivables to entities from the non-financial sector*</u>

	end of 2013	end of 2012
Business entities, of which:	**25 951.0**	**24 052.9**
Loans and advances, of which:	18 761.5	17 364.0
- in the current account	*5 223.0*	*4 978.3*
- term ones	*13 538.5*	*12 385.7*
Leasing receivables	3 509.9	3 132.8
Factoring receivables	2 416.5	2 168.2
Corporate bonds	1 244.8	1 376.0
Other receivables	18.3	11.9
Households, of which:	**19 015.9**	**17 019.9**
Loans and advances, of which:	18 842.6	16 910.1
- in the current account	*1 435.5*	*1 379.0*
- term ones	*17 407.1*	*15 531.1*
Leasing receivables	140.2	87.9
Factoring receivables	32.6	20.6
Other receivables	0.5	1.3
Total (gross)	**44 966.9**	**41 072.8**
Impairment losses, of which:	**-1 557.8**	**-1 427.8**
- Business entities, of which:	-1 062.3	-960.6
- concerning loans and advances	-986.4	-820.2
- concerning leasing receivables	-59.5	-69.1
- concerning factoring receivables	-11.7	-8.8
- concerning corporate bonds	0.0	-57.8
- concerning other receivables	-4.7	-4.7
- Households, of which:	-495.5	-467.2
- concerning loans and advances	-494.6	-465.8
- concerning leasing receivables	-0.2	-0.3
- concerning factoring receivables	-0.2	-0.6
- concerning other receivables	-0.5	-0.5
Total (net)	**43 409.1**	**39 645.0**

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

	end of 2013	**end of 2012**
Loans and advances, of which:	2 628.3	3 090.4
- in the current account	*32.6*	*9.5*
- term ones	*2 595.7*	*3 080.9*
Leasing receivables	0.0	12.6
Factoring receivables	16.6	23.3
Municipal bonds	930.9	789.4
T-eurobonds	3 685.8	3 779.7
Other receivables	0.1	0.3
Total (gross)	**7 261.7**	**7 695.7**
Impairment losses, of which:	**-1.0**	**-0.8**
- concerning loans and advances	-1.0	-0.8
Total (net)	**7 260.7**	**7 694.9**

In 2008, the Group reclassified a part of the debt securities from the available-for-sale financial assets to the loans and other receivables category. The said securities included, but were not limited to, T-bonds (euro-bonds), commercial papers, and municipal bonds that after reclassification are presented herein. T-bonds are hedged against IR risk in the fair value hedge accounting. Specific disclosures on reclassification are presented in the note no. 18.1.

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Portfolio of loans and receivables by client segment

	end of 2013	end of 2012
Gross value, of which:	**49 982.2**	**46 509.7**
Corporate banking segment, of which:	31 476.7	29 877.7
- loans and advances	*23 357.6*	*22 354.6*
- leasing receivables	*3 510.3*	*3 145.9*
- factoring receivables	*2 433.1*	*2 211.8*
- corporate and municipal bonds	*2 175.7*	*2 165.4*
Retail banking segment, of which:	18 505.5	16 632.0
- mortgages	*14 018.2*	*12 602.3*
- other loans and advances	*4 487.3*	*4 029.7*
Impairment losses, of which:	**-1 554.4**	**-1 424.0**
Corporate banking segment, of which:	-1 067.5	-953.5
- loans and advances	*-994.4*	*-817.7*
- leasing receivables	*-60.9*	*-69.1*
- factoring receivables	*-12.2*	*-8.9*
- corporate and municipal bonds	*0.0*	*-57.8*
Retail banking segment, of which:	-486.9	-470.5
- mortgages	*-137.1*	*-87.8*
- other loans and advances	*-349.8*	*-382.7*
Net value, of which:	**48 427.8**	**45 085.7**
Corporate banking segment, of which:	30 409.2	28 924.2
- loans and advances	*22 363.2*	*21 536.9*
- leasing receivables	*3 449.4*	*3 076.8*
- factoring receivables	*2 420.9*	*2 202.9*
- corporate and municipal bonds	*2 175.7*	*2 107.6*
Retail banking segment, of which:	18 018.6	16 161.5
- mortgages	*13 881.1*	*12 514.5*
- other loans and advances	*4 137.5*	*3 647.0*

Loans and receivables to customers by maturity

	end of 2013	end of 2012
up to 1 month	8 484.3	6 285.6
over 1 month and up to 3 months	2 348.1	3 050.6
over 3 months and up to 1 year	7 046.4	6 291.3
over 1 year and up to 5 years	17 077.6	14 111.7
over 5 years	17 393.9	17 884.9
overdue	1 447.2	2 790.4
Total	**53 797.5**	**50 414.5**

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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 2013	end of 2012
Fixed rate debt instruments, of which:	3 685.8	3 779.7
- Treasury bonds	*3 685.8*	*3 779.7*
Total	**3 685.8**	**3 779.7**

Detailed information on the hedge accounting applied in the Group is presented in the subsequent part of the report in note no. 39 *Hedge accounting*.

Credit portfolio sale

On 19 July 2013, ING Bank Śląski S.A. concluded with Kredyt Inkaso I Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Loan Collection 1 Non-Standard Closed-End Securitization Investment Fund) with its registered office in Warsaw, an agreement on the sale of portfolio of retail receivables recognized as impaired loans or written off the balance sheet in full. The total amount of receivables sold under the agreement equalled PLN 295.4 million (principal and interest), which are fully covered with impairment losses, or written off the Bank balance sheet in full. The contractual price of the portfolio sale was set at PLN 34.9 million. The positive impact of the transaction on the Group's income was PLN 10.9 million, whereas on the change to impairment losses for financial assets and provisions for off-balance-sheet liabilities (risk costs) it was PLN 24.0 million. As a consequence of the agreement described herein, the Bank decreased its non-performing loans portfolio by PLN 155.1 million.

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

Repayment security

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

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21.2. Receivables from finance lease

The future minimum lease payments that are to be received by the Group under lease agreements are as follows:

	end of 2013	end of 2012
up to 1 year	958.7	775.2
over 1 year and up to 5 year	2 009.2	1 655.2
over 5 years	682.5	722.2
Total	**3 650.4**	**3 152.6**

The Group's gross receivables under financial lease under lease agreements are as follows:

	end of 2013	end of 2012
up to 1 year	1 098.6	919.6
over 1 year and up to 5 year	2 272.8	1 942.7
over 5 years	768.6	829.0
Total	**4 140.0**	**3 691.3**

The present value of minimum lease instalments is as follows:

	end of 2013	end of 2012
Receivables (gross) from finance leases	4 140.0	3 691.3
Undue interest	489.6	538.7
The present value of minimum lease instalments	**3 650.4**	**3 152.6**

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21.3. Quality of portfolio of loans and receivables

Lending portfolio division per impairment condition and impairment loss estimation method

	end of 2013	end of 2012
Loans and advances to customers from corporate banking segment		
Gross value, of which:	**31 476.7**	**29 877.7**
- unimpaired (IBNR*)), of which:	29 663.1	28 500.4
- exposures with no impairment conditions	28 608.9	27 986.0
- exposures with impairment conditions but with no actual impairment declared**	1 054.2	514.4
- impaired, of which:	1 813.6	1 377.3
- measured individually (ISFA))*	1 621.4	1 028.6
- measured as the portfolio (INSFA))*	192.2	348.7
Impairment losses, of which:	**-1 067.5**	**-953.5**
- unimpaired (IBNR*)), of which:	-47.9	-58.0
- concerning exposures with no impairment conditions	-41.0	-47.3
- concerning exposures with impairment conditions but with no actual impairment declared**	-6.9	-10.7
- impaired, of which:	-1 019.6	-895.5
- measured individually (ISFA))*	-916.4	-758.9
- measured as the portfolio (INSFA))*	-103.2	-136.6
Loans and advances to customers from retail banking segment		
Gross value, of which:	**18 505.5**	**16 632.0**
- unimpaired (IBNR*))	18 004.5	16 114.3
- impaired	501.0	517.7
Impairment losses, of which:	**-486.9**	**-470.5**
- unimpaired (IBNR*))	-103.5	-70.4
- impaired	-383.4	-400.1
Total gross value, of which:	**49 982.2**	**46 509.7**
- unimpaired (IBNR) portfolio	47 667.6	44 614.7
- impaired portfolio	2 314.6	1 895.0
Total impairment losses, of which:	**-1 554.4**	**-1 424.0**
- unimpaired (IBNR) portfolio	-151.4	-128.4
- impaired portfolio	-1 403.0	-1 295.6
Loans and advances (net)	**48 427.8**	**45 085.7**

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

**) As at 31 December 2013, among the exposures with impairment conditions but with no actual impairment declared, the exposures wherefor the amount of collaterals (mortgage on real property, suretyships, pledges or debt assignments) was considered in the discounted expected future cash flows totalled PLN 962.2 million, while the exposures in default on principal or interest repayment totalled PLN 362.1 million.

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21.4. Movements in impairment losses concerning loans and advances

	2013	2012
Opening balance	**1 424.0**	**1 108.8**
Movements in impairment losses, of which:	**130.4**	**315.2**
- Recognised during the period	*684.8*	*672.2*
- Reversed during the period	*-408.6*	*-321.7*
- Receivable written off as allowances	*-202.7*	*-135.0*
- Amounts recovered from loans previously written off	*13.4*	*12.0*
- Unwinding interest	*-2.1*	*-2.1*
- Amount of previous FV adjustment for restructuring unmatured FM assets)*	*9.0*	*28.4*
- Acquisition of a subsidiary	*0.0*	*82.8*
- Other	*36.6*	*-21.4*
Closing balance	**1 554.4**	**1 424.0**

**) FM assets – credit receivable arising from restructuring derivative transaction concluded by the Group with its clients.*

Movements in impairment losses concerning loans and advances by client segments

2013

	Corporate banking segment			Retail banking segment			TOTAL
	loans and advances	bonds	TOTAL	mortgages	other loans and advances	TOTAL	
Opening balance	**896.0**	**57.5**	**953.5**	**87.8**	**382.7**	**470.5**	**1 424.0**
Movements in impairment losses, of which:	**171.8**	**-57.8**	**114.0**	**49.2**	**-32.8**	**16.4**	**130.4**
- Recognised and reversed during the period	*136.1*	*11.7*	***147.8***	*49.4*	*79.0*	***128.4***	***276.2***
- Receivable written off as allowances	*-53.0*	*0.0*	***-53.0***	*-2.0*	*-147.7*	***-149.7***	***-202.7***
- Amounts recovered from loans previously written off	*0.8*	*0.0*	***0.8***	*0.4*	*12.2*	***12.6***	***13.4***
- Unwinding interest	*-5.4*	*-0.5*	***-5.9***	*-0.8*	*4.6*	***3.8***	***-2.1***
- Amount of previous FV adjustment for restructuring unmatured FM assets	*9.0*	*0.0*	***9.0***	*0.0*	*0.0*	***0.0***	***9.0***
- Other	*84.3*	*-69.0*	***15.3***	*2.2*	*19.1*	***21.3***	***36.6***
Closing balance	**1 067.8**	**-0.3**	**1 067.5**	**137.0**	**349.9**	**486.9**	**1 554.4**

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2012

	Corporate banking segment			Retail banking segment			TOTAL
	loans and advances	bonds	TOTAL	mortgages	other loans and advances	TOTAL	
Opening balance	**725.8**	**0.2**	**726.0**	**72.3**	**310.5**	**382.8**	**1 108.8**
Movements in impairment losses, of which:	**170.2**	**57.3**	**227.5**	**15.5**	**72.2**	**87.7**	**315.2**
- Recognised and reversed during the period	*202.8*	*57.3*	***260.1***	*15.9*	*74.5*	***90.4***	***350.5***
- Receivable written off as allowances	*-132.6*	*0.0*	***-132.6***	*-0.1*	*-2.3*	***-2.4***	***-135.0***
- Amounts recovered from loans previously written off	*2.7*	*0.0*	***2.7***	*0.0*	*9.3*	***9.3***	***12.0***
- Unwinding interest	*-1.8*	*0.0*	***-1.8***	*-0.1*	*-0.2*	***-0.3***	***-2.1***
- Amount of previous FV adjustment for restructuring unmatured FM assets	*28.4*	*0.0*	***28.4***	*0.0*	*0.0*	***0.0***	***28.4***
- Acquisition of a subsidiary	*82.8*	*0.0*	***82.8***	*0.0*	*0.0*	***0.0***	***82.8***
- Other	*-12.1*	*0.0*	***-12.1***	*-0.2*	*-9.1*	***-9.3***	***-21.4***
Closing balance	**896.0**	**57.5**	**953.5**	**87.8**	**382.7**	**470.5**	**1 424.0**

22. Receivables from customers due to repo transactions

Starting from 2013 the Group has been presenting customer receivables under reverse repo and buy-sell-back transactions in a separate item of the statement of financial position. Such presentation is to ensure separate recognition of highly volatile assets measured at amortised cost from stable assets.
Reverse repo/ buy-sell-back transactions (purchase of financial instruments to be sold back in the future at the same price plus the determined interest amount) are used as a liquidity management tool to deposit cash surplus short-term.

	end of 2013	**end of 2012**
Receivables from customers due to repo transactions	638.8	0.0
Total	**638.8**	**0.0**

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23. Investments in subsidiaries and associated entities

23.1. Investments in associated entities

The Group has shares in the associated entity named ING Powszechne Towarzystwo Emerytalne S.A. The shares are recognised under the equity method.

Carrying value of the share in associated entity

	2013	2012
Opening balance	114.4	105.0
Profit share	38.1	35.7
Dividend paid	-16.0	-26.3
Closing balance	**136.5**	**114.4**

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 2013	end of 2012
Share in the equity	20%	20%
Assets, of which:	715.1	604.3
- short term assets	*171.8*	*240.6*
- long term assets	*543.3*	*363.7*
Liabilities, of which:	21.2	28.5
- short term liabilities	*21.2*	*28.5*
- long term liabilities	*0.0*	*0.0*
Net assets	693.9	575.8
Revenues	306.2	292.4
Net profit (loss)	197.6	178.2

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23.2. Investments in subsidiaries

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

Name of entity	Type of capital relation	Bank's percentage share in the business's equity	Carrying value of shares (at cost)	
			end of 2013	end of 2012
ING Securities S.A.	zależny	100,00%	30.2	30.2
Centrum Banku Śląskiego Sp. z o.o.	zależny	100,00%	160.2	160.2
ING ABL Polska S.A.	zależny	100,00%	206.1	206.1
ING Usługi dla Biznesu S.A.	zależny	100,00%	17.0	10.0
Solver Sp. z o.o.	zależny	82,30%	7.9	7.9
Total			**421.4**	**414.4**

Changes in the year of 2013

ING UdB S.A. – share issue

In December 2013, ING Bank Śląski S.A. took up through private subscription 7,000 ordinary registered B-series shares of ING Usługi dla Biznesu S.A. (ING UdB S.A.) company with the nominal value of PLN 1,000 each, for a total amount of PLN 7 million.

Prior to the increase, the share capital of ING UdB S.A. totalled PLN 10 million, while after the increase registration on 19 December 2013 it went up to PLN 17 million.

Changes in the year of 2012

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.

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.

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24. Non-financial assets

	end of 2013	end of 2012
Investment real estates	121.4	120.9
Property, plant and equipment	576.6	600.0
Intangible assets	365.9	361.6
Property, plant and equipment held for sale	35.3	33.0
Total	**1 099.2**	**1 115.5**

24.1. Investment real estates

	2013	2012
Value at the beginning of period	120.9	118.7
Additions, due to:	0.5	0.6
- purchase of additional equipment	*0.5*	*0.6*
Revaluation at the fair value	0.0	1.6
Value at the end of period	**121.4**	**120.9**

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

On account of owning investment property the Group generated income from rental and incurred maintenance expenses, which were presented in the consolidated income statement in the item *Net income on the other basic activities*.

24.2. Property, plant and equipment

	end of 2013	end of 2012
Real estate and leasehold improvements	343.9	348.6
Computer hardware	44.4	54.9
Other fixtures and fittings	155.4	161.9
Constructions in progress	32.9	34.6
Total	**576.6**	**600.0**

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2013

	Real estate and leasehold improvements	Computer hardware	Other fixtures and fittings	Constructions in progress	**TOTAL**
Gross value at the beginning of period	711.9	209.8	421.1	34.6	**1 377.4**
Additions, due to:	37.3	15.9	36.4	73.8	**163.4**
- purchases	*0.8*	*0.5*	*1.6*	*73.8*	***76.7***
- investment take-overs	*25.3*	*15.4*	*34.8*	*0.0*	***75.5***
- reclassification from assets held for sale	*11.2*	*0.0*	*0.0*	*0.0*	***11.2***
Disposals, due to:	-74.9	-17.0	-27.1	-75.5	**-194.5**
- sale and liquidation	*-55.2*	*-17.0*	*-21.0*	*0.0*	***-93.2***
- investment take-overs	*0.0*	*0.0*	*0.0*	*-75.5*	***-75.5***
- reclassification to assets held for sale	*-18.9*	*0.0*	*-4.4*	*0.0*	***-23.3***
- other	*-0.8*	*0.0*	*-1.7*	*0.0*	***-2.5***
Revaluation at the fair value	0.9	-0.1	0.1	0.0	**0.9**
Transfers	0.0	0.5	-0.5	0.0	**0.0**
Gross value at the end of period	**675.2**	**209.1**	**430.0**	**32.9**	**1 347.2**
Accumulated depreciation at the begining of the period	-363.3	-154.9	-259.2	0.0	**-777.4**
Changes in the period (due to):	32.0	-9.4	-16.0	0.0	**6.6**
- amortisation charges	*-24.8*	*-26.2*	*-39.1*	*0.0*	***-90.1***
- sale and liquidation	*55.0*	*16.8*	*20.6*	*0.0*	***92.4***
- reclassification to assets held for sale	*1.0*	*0.0*	*2.6*	*0.0*	***3.6***
- other	*0.8*	*0.0*	*-0.1*	*0.0*	***0.7***
Transfers	0.0	-0.4	0.6	0.0	**0.2**
Accumulated depreciation at the end of the period	**-331.3**	**-164.7**	**-274.6**	**0.0**	**-770.6**
Net value at the end of period	**343.9**	**44.4**	**155.4**	**32.9**	**576.6**

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2012

	Real estate and leasehold improvements	Computer hardware	Other fixtures and fittings	Constructions in progress	**TOTAL**
Gross value at the beginning of period	673.1	205.2	406.4	59.0	**1 343.7**
Additions, due to:	57.8	31.8	66.6	119.7	**275.9**
- purchases	*0.3*	*0.2*	*0.6*	*119.7*	***120.8***
- investment take-overs	*52.4*	*29.8*	*61.9*	*0.0*	***144.1***
- acquisition of a subsidiary	*5.1*	*1.8*	*4.1*	*0.0*	***11.0***
Disposals, due to:	-22.6	-24.3	-51.9	-144.1	**-242.9**
- sale and liquidation	*-14.8*	*-24.3*	*-50.5*	*0.0*	***-89.6***
- 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	**711.9**	**209.8**	**421.1**	**34.6**	**1 377.4**
Accumulated depreciation at the begining of the period	-347.0	-149.9	-271.5	0.0	**-768.4**
Changes in the period (due to):	-16.3	-5.0	12.3	0.0	**-9.0**
- amortisation charges	*-25.8*	*-27.1*	*-33.4*	*0.0*	***-86.3***
- acquisition of a subsidiary	*-4.5*	*-1.2*	*-3.7*	*0.0*	***-9.4***
- sale and liquidation	*13.0*	*23.3*	*48.8*	*0.0*	***85.1***
- reclassification to assets held for sale	*1.0*	*0.0*	*0.6*	*0.0*	***1.6***
Accumulated depreciation at the end of the period	**-363.3**	**-154.9**	**-259.2**	**0.0**	**-777.4**
Net value at the end of period	**348.6**	**54.9**	**161.9**	**34.6**	**600.0**

The item *Real estate and leasehold improvements* comprises, among others, land whose value considering the fair value measurement as at 31 Dec 2013 was PLN 5.4 million (as at 31 Dec 2012, it was PLN 5.8 million).

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

Contractual obligations to purchase property, plant and equipment

In 2013, the Group concluded agreements with counterparties that in the future will effect increase in the value of property, plant and equipment. The agreements refer to real properties (buildings and structures), lease hold improvements, non-current assets under construction and other non-current assets. These are framework agreements and their value will be estimated under cost overviews developed in performance thereof.

In 2012, the Group concluded agreements with counterparties regarding future purchase of fixed assets to the amount of PLN 0.3 million. The agreements were related to the general construction works and the construction supervision. The Group concluded also framework agreements .

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24.3. Intangible assets

	end of 2013	end of 2012
Goodwill	223.8	223.8
Software	95.2	111.5
Outlays for intangible assets	46.0	25.7
Other	0.9	0.6
Total	**365.9**	**361.6**

2013

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	**TOTAL**
Gross value at the beginning of period	223.8	542.3	25.7	8.4	**800.2**
Additions, due to:	0.0	57.6	74.8	0.7	**133.1**
- purchases	*0.0*	*3.5*	*73.7*	*0.0*	***77.2***
- investment take-overs	*0.0*	*53.8*	*0.0*	*0.7*	***54.5***
- other	*0.0*	*0.3*	*1.1*	*0.0*	***1.4***
Disposals, due to:	0.0	-0.7	-54.3	-2.3	**-57.3**
- sale and liquidation	*0.0*	*-0.4*	*0.0*	*-2.3*	***-2.7***
- investment take-overs	*0.0*	*0.0*	*-54.3*	*0.0*	***-54.3***
- other	*0.0*	*-0.3*	*0.0*	*0.0*	***-0.3***
Transfers	0.0	0.0	-0.2	0.0	-0.2
Gross value at the end of period	**223.8**	**599.2**	**46.0**	**6.8**	**875.8**
Accumulated depreciation at the begining of the period	0.0	-430.8	0.0	-7.8	-438.6
Changes in the period (due to):	0.0	-73.2	0.0	1.9	-71.3
- amortisation charges	*0.0*	*-73.5*	*0.0*	*-0.4*	*-73.9*
- sale and liquidation	*0.0*	*0.3*	*0.0*	*2.3*	*2.6*
Accumulated depreciation at the end of the period	**0.0**	**-504.0**	**0.0**	**-5.9**	**-509.9**
Net value at the end of period	**223.8**	**95.2**	**46.0**	**0.9**	**365.9**

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2012

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	**TOTAL**
Gross value at the beginning of period	223.8	457.2	36.4	7.7	**725.1**
Additions, due to:	0.0	87.5	59.0	0.7	**147.2**
- purchases	*0.0*	*1.4*	*57.4*	*0.0*	***58.8***
- investment take-overs	*0.0*	*69.0*	*0.0*	*0.7*	***69.7***
- acquisition the subsidiaries	*0.0*	*17.1*	*0.0*	*0.0*	***17.1***
- other	*0.0*	*0.0*	*1.6*	*0.0*	***1.6***
Disposals, due to:	0.0	-2.4	-69.7	0.0	**-72.1**
- sale and liquidation	*0.0*	*-2.4*	*0.0*	*0.0*	***-2.4***
- investment take-overs	*0.0*	*0.0*	*-69.7*	*0.0*	***-69.7***
Gross value at the end of period	**223.8**	**542.3**	**25.7**	**8.4**	**800.2**
Accumulated depreciation at the begining of the period	0.0	-355.4	0.0	-7.7	-363.1
Changes in the period (due to):	0.0	-75.4	0.0	-0.1	-75.5
- amortisation charges	*0.0*	*-61.7*	*0.0*	*-0.1*	*-61.8*
- acquisition the subsidiaries	*0.0*	*-16.1*	*0.0*	*0.0*	*-16.1*
- sale and liquidation	*0.0*	*2.4*	*0.0*	*0.0*	*2.4*
Accumulated depreciation at the end of the period	**0.0**	**-430.8**	**0.0**	**-7.8**	**-438.6**
Net value at the end of period	**223.8**	**111.5**	**25.7**	**0.6**	**361.6**

Contractual obligations to purchase intangible assets

In 2013, the Group concluded agreements with counterparties concerning the future purchase of intangible assets for the total amount of PLN 5.4 million with the proviso that due to the framework nature of some agreements, this is not the ultimate amount. As in the previous year, those agreements concern licence purchase and computer software implementation.

In 2012 the Group concluded agreements with the contractors for the future purchase of intangible assets to the amount of PLN 23.9 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, 11.5% discount rate is used that represents the cost of capital calculated by the Group parent. The remaining assumptions include:

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forecasts of income tax rate, nominal growth rate after the forecast period (3%) 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.

Net present value of cash flows as at 31 Dec 2013 amounted to PLN 4 743.8 million. The test carried out showed the surplus of present value over the net book value of the cash-generating unit, totalling PLN 2 202.5 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 2 593.2 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 1 889.6 million.

24.4. Property, plant and equipment held for sale

	2013	2012
Value at the beginning of period	33.0	33.6
Additions, due to:	8.6	8.0
- reclassification from property, plant and equipment	*8.5*	*7.6*
- other	*0.1*	*0.4*
Disposals, due to:	-1.3	-6.4
- sale	*-1.3*	*-6.4*
Revaluation at the fair value	-5.0	-2.2
Value at the end of period	**35.3**	**33.0**

As at 31 Dec 2013, 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 Group 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 Group intends to sell the said assets by using available ways of selling, inclusive of among others: tender procedure.

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25. Deferred tax

Movements in temporary differences during the year

2013	Balance as of 01 Jan 2013	Changes charged to the financial result	Changes charged to equity	**Balance as of 31 Dec 2013**
Deferred tax assets				
Interest accrued	24.8	9.5	0.0	**34.3**
Revaluation	-55.5	-0.2	16.5	**-39.2**
Impairment losses on credit receivables	-120.1	-19.2	0.0	**-139.3**
Other provisions	-38.5	-10.8	0.0	**-49.3**
Employee benefits	-26.3	-7.1	0.0	**-33.4**
Correction due to effective interest rate	-11.9	0.4	0.0	**-11.5**
Tax losses	0.2	-0.5	0.0	**-0.3**
Operating Lease valuation	-6.7	-16.8	0.0	**-23.5**
Finance Lease valuation	-5.8	1.0	0.0	**-4.8**
Acquisition a subsidiary	-91.2	0.0	0.0	**-91.2**
Other	-18.5	0.0	0.0	**-18.5**
Total	**-349.5**	**-43.7**	**16.5**	**-376.7**
Deferred tax provision				
Interest accrued	32.8	41.9	0.0	**74.7**
Settlement of the difference between tax and balance sheet depreciation	12.4	0.6	0.0	**13.0**
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief enjoyed	7.8	-1.4	0.0	**6.4**
Revaluation	289.0	0.7	-128.1	**161.6**
Operating Lease valuation	-15.2	-1.2	0.0	**-16.4**
Finance Lease valuation	-59.4	0.0	0.0	**-59.4**
Acquisition a subsidiary	77.7	0.0	0.0	**77.7**
Other	-4.9	7.7	0.0	**2.8**
Total	**340.2**	**48.3**	**-128.1**	**260.4**
Deferred tax disclosed in the balance sheet, of which:	**-9.3**	**4.6**	**-111.6**	**-116.3**
- deferred tax assets				***-118.6***
- deferred tax provision				***2.3***

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2012

	Balance as of 01 Jan 2012	Changes of the open balance	Changes charged to the financial result	Changes charged to equity	**Balance as of 31 Dec 2012**
Deferred tax assets					
Interest accrued	-22.4	0.0	47.2	0.0	**24.8**
Revaluation	-19.6	0.0	-1.0	-34.9	**-55.5**
Impairment losses on credit receivables	-75.5	0.0	-44.6	0.0	**-120.1**
Other provisions	-12.4	0.0	-26.1	0.0	**-38.5**
Employee benefits	-30.2	0.0	3.9	0.0	**-26.3**
Correction due to effective interest rate	-12.3	0.0	0.4	0.0	**-11.9**
Tax losses	0.0	0.0	0.2	0.0	**0.2**
Operating Lease valuation	0.0	0.0	-6.7	0.0	**-6.7**
Finance Lease valuation	0.0	0.0	-5.8	0.0	**-5.8**
Acquisition a subsidiary	0.0	-91.2	0.0	0.0	**-91.2**
Other	-19.6	0.0	1.1	0.0	**-18.5**
Total	**-192.0**	**-91.2**	**-31.4**	**-34.9**	**-349.5**
Deferred tax provision					
Interest accrued	97.5	0.0	-64.7	0.0	**32.8**
Settlement of the difference between tax and balance sheet depreciation	11.5	0.0	0.9	0.0	**12.4**
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief enjoyed	8.1	0.0	-0.3	0.0	**7.8**
Revaluation	43.5	0.0	0.0	245.5	**289.0**
Operating Lease valuation	0.0	0.0	-15.2	0.0	**-15.2**
Finance Lease valuation	0.0	0.0	-59.4	0.0	**-59.4**
Acquisition a subsidiary	0.0	77.7	0.0	0.0	**77.7**
Other	14.9	0.0	-19.8	0.0	**-4.9**
Total	**175.5**	**77.7**	**-158.5**	**245.5**	**340.2**
Deferred tax disclosed in the balance sheet, of which:	**-16.5**	**-13.5**	**-189.9**	**210.6**	**-9.3**
- deferred tax assets					***-38.3***
- deferred tax provision					***29.0***

Unrecognised deferred tax assets

Unrecognised assets due to deffered tax are related to provisions whose not recovery will not become probable. The amount of unrecognized temporary differences thereunder amounted as at the end of 2013 was PLN 1.8 million (expiry date of temporary differences: 2015) compared to PLN 1.6 million as at the end of 2012 (expiry date of temporary differences: 2014).

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Deferred tax recognised directly in equity

	end of 2013	end of 2012
Revaluation of available-for-sale financial assets	64.2	138.6
Revaluation of property, plant and equipment	10.1	9.9
Revaluation of cash flow hedging instruments	48.1	86.0
Actuarial gains/losses	0.5	0.0
Total	**122.9**	**234.5**

26. Other assets

	end of 2013	end of 2012
Prepayments, of which:	93.2	89.0
- accrued income	*49.6*	*37.6*
- commission-related settlements	*16.8*	*23.3*
- prepaid bank operating expenses	*19.3*	*21.6*
- expenses to be settled	*6.8*	*2.1*
- other	*0.7*	*4.4*
Other assets, of which:	146.2	154.0
- settlements due to purchase of materials	*3.2*	*3.3*
- interbank settlements	*9.1*	*11.5*
- settlements with off-takers	*5.9*	*8.1*
- public and legal settlements	*49.0*	*17.3*
- receivables from the non-settled FX transactions)*	*41.6*	*41.6*
- settlement of securities trading	*0.0*	*51.3*
- other	*37.4*	*20.9*
Total other assets (gross)	**239.4**	**243.0**
Impairment losses	-59.3	-49.1
Total other assets (net)	**180.1**	**193.9**

*) 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.*

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27. Liabilities due to other banks

	end of 2013	end of 2012
Current accounts	961.9	896.4
Interbank deposits	1 230.7	781.6
Repo transactions	28.7	176.2
Loans received*)	2 580.8	2 664.0
Other liabilities	25.2	36.4
Total	**4 827.3**	**4 554.6**

*) The financing of the long-term leasing contracts in EUR ("the matched funding") received by the subsidiary ING Lease Polska Sp. z o.o. from ING Bank NV and other banks not related to the Group is presented in item *Loans received*.

Liabilities due to other banks by maturity

	end of 2013	end of 2012
up to 1 month	2 320.4	1 912.1
over 1 month and up to 3 months	55.2	84.2
over 3 months and up to 1 year	391.5	455.7
over 1 year and up to 5 years	1 347.6	1 220.5
over 5 years	712.6	882.1
Total	**4 827.3**	**4 554.6**

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

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

	end of 2013	end of 2012
Financial liabilities held for trading, of which:	613.1	0.0
- repo transactions	*613.1*	*0.0*
Financial liabilities designated as at fair value upon initial recognition, of which:	0.0	2 067.5
- repo transactions	*0.0*	*2 067.5*
Book short position in trading securities	621.1	935.9
Total	**1 234.2**	**3 003.4**

By the end of 2012, the Group, upon initial recognition, carried all sell-buy-back transactions at fair value through profit or loss. As of 2013, the Group no longer designates new sell-buy-back transactions to this category. Currently, those transactions are valued as per intention of their conclusion. Accordingly, the transactions made for the category of financial instruments held for trading are carried at fair value through profit or loss and presented in the *financial liabilities held for trading* category, while other transactions are measured at

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amortized cost using the effective interest method and presented in the *liabilities towards banks/clients* category.
As at the balance sheet date, in the measurement amount of financial liabilities designated for carrying at fair value through profit or loss no liability revaluation was recognised that could be attributed to changes of the credit risk originated by the Group as the borrower. In the Group's opinion, the entire financial liability revaluation amount is due to volatile market conditions triggering credit risk.

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

	end of 2013	end of 2012
up to 1 month	613.1	2 077.4
over 1 month and up to 3 months	45.3	313.2
over 1 year and up to 5 years	339.8	435.5
over 5 years	236.0	177.3
Total	**1 234.2**	**3 003.4**

29. Liabilities due to customers

	end of 2013	end of 2012
Deposits	66 326.6	56 793.8
Liabilities from cash collateral	306.3	241.5
Other liabilities	697.5	822.2
Total liabilities due to customers, of which:	**67 330.4**	**57 857.5**
- due to entities from the financial sector other than banks	*2 998.7*	*3 503.8*
- due to entities from the non-financial sector	*62 231.3*	*52 251.1*
- due to entities from the government and self-government institutions' sector	*2 100.4*	*2 102.6*

Liabilities due to entities from the financial sector other than banks

	end of 2013	end of 2012
Deposits, of which:	2 925.7	3 327.2
- current accounts	*1 994.1*	*2 292.6*
- term deposit	*931.6*	*1 034.6*
Liabilities from cash collateral	15.3	10.6
Other liabilities	57.7	166.0
Total	**2 998.7**	**3 503.8**

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Liabilities due to entities from the non-financial sector

	end of 2013	end of 2012
Business entities, of which:	**18 602.4**	**14 567.4**
- Deposits, of which:	17 746.3	13 739.9
- current accounts	*15 184.9*	*11 395.0*
- term deposit	*2 561.4*	*2 344.9*
- Liabilities from cash collateral	230.7	183.4
- Other liabilities	625.4	644.1
Households, of which:	**43 628.9**	**37 683.7**
- Deposits, of which:	43 563.8	37 627.7
- current accounts	*6 456.3*	*7 520.3*
- saving accounts	*32 105.0*	*22 986.7*
- term deposit	*5 002.5*	*7 120.7*
- Liabilities from cash collateral	55.9	43.9
- Other liabilities	9.2	12.1
Total	**62 231.3**	**52 251.1**

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

	end of 2013	end of 2012
Deposits, of which:	2 090.8	2 099.0
- current accounts	*2 029.0*	*1 982.1*
- term deposit	*61.8*	*116.9*
Liabilities from cash collateral	4.4	3.6
Other liabilities	5.2	0.0
Total	**2 100.4**	**2 102.6**

Liabilities due to customers by maturity

	end of 2013	end of 2012
up to 1 month	61 800.0	50 480.8
over 1 month and up to 3 months	2 054.3	2 175.0
over 3 months and up to 1 year	2 593.9	4 491.2
over 1 year and up to 5 years	792.7	707.3
over 5 years	89.5	3.2
Total	**67 330.4**	**57 857.5**

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

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30. Repurchase transactions concluded with customers

Starting from 2013 the Group has been presenting customer receivables under reverse repo and buy-sell-back transactions in a separate item of the statement of financial position. Such presentation is to ensure separate recognition of highly volatile assets measured at amortised cost from stable assets.
Reverse repo/ buy-sell-back transactions (purchase of financial instruments to be sold back in the future at the same price plus the determined interest amount) are used as a liquidity management tool to deposit cash surplus short-term.

At the end of 2013 the following assets were sold under repo transactions concluded with customers:

end of 2013

	Repurchase date	Market value	Carrying amount
Financial assets from available-for-sale portfolio	2014-01-02	424.8	429.9
Financial assets from available-for-sale portfolio	2014-01-03	0.7	0.8
Financial assets from available-for-sale portfolio	2014-01-07	2.8	2.8
Total		**428.3**	**433.5**

At the end of 2012 the repo transactions concluded with customers were not recognized.

31. Liabilities under issue of debt securities

	end of 2013	end of 2012
Liabilities under issue of debt securities, of which:	566.4	567.1
- Bond issued by ING Bank Śląski S.A.	*566.4*	*567.1*
Total	**566.4**	**567.1**

Liabilities under issue of debt securities by maturity

	end of 2013	end of 2012
over 1 to 5 yeras	566.4	567.1
Total	**566.4**	**567.1**

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32. Provisions

	end of 2013	end of 2012
Provision for issues in dispute	21.6	20.6
Provision for off-balance sheet liabilities	13.5	22.3
Provision for retirement benefits	20.4	20.3
Provision for unused holidays	12.2	9.5
Provision for employment restructuring	0.1	0.1
Total	**67.8**	**72.8**

2013

	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	20.6	22.3	20.3	9.5	0.1	**72.8**
- provisions recognised	*1.6*	*10.0*	*2.7*	*3.1*	*0.0*	***17.4***
- provisions reversed	*-0.3*	*-18.7*	*0.0*	*-0.2*	*0.0*	***-19.2***
- provisions used	*-0.3*	*0.0*	*-0.2*	*-0.2*	*0.0*	***-0.7***
- exchange rate changes	*0.0*	*-0.1*	*0.0*	*0.0*	*0.0*	***-0.1***
- actuarial gains / loosses	*0.0*	*0.0*	*-2.4*	*0.0*	*0.0*	***-2.4***
Closing balance	**21.6**	**13.5**	**20.4**	**12.2**	**0.1**	**67.8**
Expected provision settlement period:						
- up to 1 year	*1.1*	*0.0*	*1.2*	*12.2*	*0.1*	***14.6***
- over 1 year	*20.5*	*13.5*	*19.2*	*0.0*	*0.0*	***53.2***

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	17.5	7.8	1.2	**58.1**
- provisions recognised	*1.9*	*20.0*	*3.0*	*1.1*	*0.0*	***26.0***
- provisions reversed	*-4.1*	*-8.0*	*0.0*	*0.0*	*-0.2*	***-12.3***
- provisions used	*-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***
- acquisition a subsidiary	*2.2*	*0.0*	*0.0*	*0.6*	*0.0*	***2.8***
- accounting transfers	*0.0*	*0.0*	*0.0*	*0.0*	*0.2*	***0.2***
Closing balance	**20.6**	**22.3**	**20.3**	**9.5**	**0.1**	**72.8**
Expected provision settlement period:						
- up to 1 year	*1.1*	*0.0*	*0.9*	*9.5*	*0.1*	***11.6***
- over 1 year	*19.5*	*22.3*	*19.4*	*0.0*	*0.0*	***61.2***

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Provision for issues in dispute

The recognised amount of provisions as at 31 Dec 2013 comprises:

- disputable cases connected with negligent performance of agreements: PLN 19.8 million (PLN 18.6 million as of 31 Dec 2012),
- criminal cases: PLN 1.6 million (PLN 1.6 million as of 31 Dec 2012),
- cases relating to claims filed by former employees: PLN 0.2 million (PLN 0.4 million as of 31 Dec 2012).

The value of proceedings conducted in 2013 concerning liabilities and debt claims did not exceed 10% of the Group equity.

In view of the Group, none of the proceedings conducted in 2013 before court, competent authority for arbitrage proceedings or public administration authority, individually and in total, pose a risk to the Group financial liquidity.

Provision for retirement benefits

Provisions for retirement severance pay are estimated on the basis of actuarial valuation with discount rate, which at the end of 2013 (similar to the end of 2012) totalled 4.0%. Provision being the result of actuarial valuation is recognised and reviewed per annum.

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

	2013	**2012**
Opening balance	20.3	17.5
Costs included in the profit and loss account, of which:	2.7	3.0
- regular employment costs	*1.4*	*1.8*
- costs of interest	*0.8*	*1.0*
- future employment costs	*0.5*	*0.0*
- amortisation cost	*0.0*	*0.2*
Actuarial gains / losses	-2.4	0.0
Paid benefits	-0.2	-0.2
Closing balance, including:	**20.4**	**20.3**
- current value of the liability	*20.4*	*19.7*
- not included actuarial gains/ losses	*0.0*	*0.6*

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33. Other liabilities

	end of 2013	end of 2012
Accruals, of which:	345.6	292.2
- due to employee benefits	*184.9*	*148.0*
- variable remuneration programme	*30.6*	*15.1*
- due to commission	*113.2*	*109.4*
- other	*47.5*	*34.8*
Other liabilities, of which:	597.7	538.0
- interbank settlements	*236.6*	*259.1*
- settlements with suppliers	*279.8*	*217.9*
- public and legal settlements	*41.3*	*43.1*
- other	*40.0*	*17.9*
Total	**943.3**	**830.2**

34. Share capital

The Group parents company'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.

35. Revaluation reserve

	end of 2013	end of 2012
Revaluation reserve from measurement of available-for-sale financial assets	273.7	590.7
- including deferred tax	*-64.2*	*-138.6*
Revaluation reserve from measurement of property, plant and equipment	43.2	42.0
- including deferred tax	*-10.1*	*-9.9*
Revaluation reserve from measurement of cash flow hedging instruments	205.5	367.0
- including deferred tax	*-48.1*	*-86.0*
Actuarial gains / losses	1.9	0.0
- including deferred tax	*-0.5*	*0.0*
Total	**524.3**	**999.7**

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2013

	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*	Aktuarial gains / losses	*including deferred tax*	**TOTAL**
Opening balance	**590.7**	***-138.6***	**42.0**	***-9.9***	**367.0**	***-86.0***	**0.0**	***0.0***	**999.7**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-229.3	*53.8*	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	**-229.3**
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-87.7	*20.6*	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	**-87.7**
- effective part of cash flow hedging instruments revaluation	0.0	*0.0*	0.0	*0.0*	-161.5	*37.9*	0.0	*0.0*	**-161.5**
- remeasurement of property, plant and equipment	0.0	*0.0*	1.8	*-0.4*	0.0	*0.0*	0.0	*0.0*	**1.8**
- disposal of fixed assets	0.0	*0.0*	-0.6	*0.2*	0.0	*0.0*	0.0	*0.0*	**-0.6**
- actuarial gains / losses	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	1.9	*-0.5*	**1.9**
Closing balance	**273.7**	***-64.2***	**43.2**	***-10.1***	**205.5**	***-48.1***	**1.9**	***-0.5***	**524.3**

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*	Aktuarial gains / losses	*including deferred tax*	**TOTAL**
Opening balance	**20.8**	***-1.1***	**39.3**	***-9.2***	**58.2**	***-13.6***	**0.0**	***0.0***	**118.3**
- 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*	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*	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*	0.0	*0.0*	**-0.2**
- effective part of cash flow hedging instruments revaluation	0.0	*0.0*	0.0	*0.0*	308.8	*-72.4*	0.0	*0.0*	**308.8**
- remeasurement of property, plant and equipment	0.0	*0.0*	3.4	*-0.8*	0.0	*0.0*	0.0	*0.0*	**3.4**
- disposal of fixed assets	0.0	*0.0*	-0.7	*0.1*	0.0	*0.0*	0.0	*0.0*	**-0.7**
Closing balance	**590.7**	***-138.6***	**42.0**	***-9.9***	**367.0**	***-86.0***	**0.0**	***0.0***	**999.7**

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36. Retained earnings

	end of 2013	end of 2012
Other supplementary capital	136.8	96.7
Reserve capital	4 715.1	4 004.4
General risk fund	1 010.2	960.2
Retained earnings	145.9	112.8
Result for the current year	961.5	832.3
Total	**6 969.5**	**6 006.4**

2013

	other supplemen-tary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Opening balance	**96.7**	**4 004.4**	**960.2**	**945.1**	**0.0**	**6 006.4**
- net result for the current period	0.0	0.0	0.0	0.0	961.5	**961.5**
- profit allocation, including:	40.1	710.7	50.0	-800.8	0.0	**0.0**
- profit written off to supplementarycapital	*40.1*	*0.0*	*0.0*	*-40.1*	*0.0*	***0.0***
- profit written off to reserve capital	*0.0*	*710.7*	*0.0*	*-710.7*	*0.0*	***0.0***
- profit written off to general risk fund	*0.0*	*0.0*	*50.0*	*-50.0*	*0.0*	***0.0***
- remeasurement of property, plant and equipment	0.0	0.0	0.0	0.7	0.0	**0.7**
- disposal of fixed assets	0.0	0.0	0.0	0.9	0.0	**0.9**
Closing balance	**136.8**	**4 715.1**	**1 010.2**	**145.9**	**961.5**	**6 969.5**

2012

	other supplemen-tary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Opening balance	**75.3**	**3 139.8**	**910.2**	**1 052.9**	**0.0**	**5 178.2**
- net result for the current period	0.0	0.0	0.0	0.0	832.3	**832.3**
- profit allocation, including:	21.0	864.6	50.0	-935.6	0.0	**0.0**
- profit written off to supplementarycapital	*21.0*	*0.0*	*0.0*	*-21.0*	*0.0*	***0.0***
- profit written off to reserve capital	*0.0*	*864.6*	*0.0*	*-864.6*	*0.0*	***0.0***
- profit written off to general risk fund	*0.0*	*0.0*	*50.0*	*-50.0*	*0.0*	***0.0***
- settlement of the purchase of subsidiary	0.1	0.0	0.0	-5.9	0.0	**-5.8**
- disposal of fixed assets	0.3	0.0	0.0	1.4	0.0	**1.7**
Closing balance	**96.7**	**4 004.4**	**960.2**	**112.8**	**832.3**	**6 006.4**

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.

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The General Risk Fund

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

Dividend payout limitations

The dividend is paid out based on the financial result as determined in the standalone annual financial statements of the parent entity and Group companies.

The Commercial Companies Code obliges a parent entity to establish supplementary capital for loss coverage. The General Meeting resolves as to the use of the supplementary capital and reserves, but a part of the supplementary capital equal to one third of the share capital may be used only for coverage of the loss recognised in standalone financial statements of a parent entity and cannot be distributed to other purposes.

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

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

	31 Dec 2013	31 Dec 2012
EUR	4.1472	4.0882
USD	3.0120	3.0996
CHF	3.3816	3.3868

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end of 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	PLN	EUR after translation into PLN	EUR in currency	USD after translation into PLN	USD in currency	CHF after translation into PLN	CHF in currency	other currencies (after translation into PLN)	TOTAL
A S S E T S									
- Cash in hand and balances with the Central Bank	6 695.3	231.1	*55.7*	28.5	*9.5*	4.8	*1.4*	10.4	**6 970.1**
- Loans and receivables to other banks	509.8	742.3	*179.0*	84.7	*28.1*	0.5	*0.1*	62.5	**1 399.8**
- Financial assets measured at fair value through profit and loss	1 951.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**1 951.4**
- Valuation of derivatives	1 074.7	241.1	*58.1*	149.1	*49.5*	0.0	*0.0*	6.5	**1 471.4**
- Investments	19 492.8	0.8	*0.2*	0.0	*0.0*	0.0	*0.0*	0.0	**19 493.6**
- Derivative hedge instruments	1 034.7	17.2	*4.1*	0.0	*0.0*	0.0	*0.0*	0.0	**1 051.9**
- Loans and receivables to customers	40 823.8	9 360.2	*2 257.0*	495.5	*164.5*	1 493.3	*441.6*	65.1	**52 237.9**
- Receivables from customers due to repo transactions	638.8	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**638.8**
- Investments in controlled entities	136.5	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**136.5**
- Non-financial assets	1 099.2	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**1 099.2**
- Tax assets	119.9	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**119.9**
- Other assets	173.6	3.6	*0.9*	0.1	*0.0*	0.0	*0.0*	2.8	**180.1**
T o t a l a s s e t s	**73 750.5**	**10 596.3**	***2 555.0***	**757.9**	***251.6***	**1 498.6**	***443.1***	**147.3**	**86 750.6**

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end of 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		other currencies (after translation into PLN)	TOTAL
		after translation into PLN	*in currency*	after translation into PLN	*in currency*	after translation into PLN	*in currency*		
EQUITY AND LIABILITIES									
LIABILITIES									
- Liabilities due to other banks	1 546.5	3 109.7	*749.8*	47.5	*15.8*	103.8	*30.7*	19.8	**4 827.3**
- Financial liabilities measured at fair value through profit and loss	1 234.2	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**1 234.2**
- Valuation of derivatives	1 137.8	165.1	*39.8*	150.7	*50.0*	38.2	*11.3*	1.2	**1 493.0**
- Derivative hedge instruments	401.4	713.0	*171.9*	0.0	*0.0*	0.0	*0.0*	0.0	**1 114.4**
- Liabilities due to customers	60 337.0	5 243.8	*1 264.4*	1 518.4	*504.1*	8.3	*2.5*	222.9	**67 330.4**
- Liabilities due to customers under repo transactions	433.5	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**433.5**
- Liabilities under issue of debt securities	566.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**566.4**
- Provisions	63.6	2.5	*0.6*	1.0	*0.3*	0.0	*0.0*	0.7	**67.8**
- Tax liabilities	111.7	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**111.7**
- Other liabilities	921.0	19.2	*4.6*	3.1	*1.0*	0.0	*0.0*	0.0	**943.3**
Total liabilities	**66 753.1**	**9 253.3**	***2 231.1***	**1 720.7**	***571.2***	**150.3**	***44.5***	**244.6**	**78 122.0**
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	522.4	1.9	*0.5*	0.0	*0.0*	0.0	*0.0*	0.0	**524.3**
- Revaluation of share-based payment	46.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**46.1**
- Retained earnings	6 969.5	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**6 969.5**
Equity attributed to the holding company	**8 624.4**	**1.9**	***0.5***	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**	**8 626.3**
- Minority equity	2.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**2.3**
Total equity	**8 626.7**	**1.9**	***0.5***	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**	**8 628.6**
Total equity and liabilities	**75 379.8**	**9 255.2**	***2 231.6***	**1 720.7**	***571.2***	**150.3**	***44.5***	**244.6**	**86 750.6**

Contingent liabilities granted	16 323.6	2 035.0	*490.7*	660.6	*219.3*	0.0	*0.0*	27.6	**19 046.8**
Contingent liabilities received	31 507.1	4 923.3	*1 187.1*	139.5	*46.3*	57.7	*17.1*	4.3	**36 631.9**
Off-balance financial instruments	181 759.4	22 036.6	*5 313.6*	10 573.9	*3 510.6*	543.8	*160.8*	590.6	**215 504.3**

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end of 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		other currencies	TOTAL
		after translation into PLN	*in currency*	after translation into PLN	*in currency*	after translation into PLN	*in currency*	(after translation into PLN)	
A S S E T S									
- Cash in hand and balances with the Central Bank	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	209.4	949.9	*232.4*	148.6	*47.9*	1.3	*0.4*	67.9	**1 377.1**
- 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	1 123.1	317.9	*77.8*	325.2	*104.9*	0.5	*0.1*	55.4	**1 822.1**
- Investments	17 880.0	1.1	*0.3*	0.0	*0.0*	0.0	*0.0*	0.0	**17 881.1**
- 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	37 850.7	8 667.3	*2 120.1*	788.1	*254.3*	1 622.7	*479.1*	56.5	**48 985.3**
- Receivables from customers due to repo transactions	0.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**0.0**
- Investments in controlled entities	114.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**114.4**
- Non-financial assets	1 115.5	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**1 115.5**
- Tax assets	38.6	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**38.6**
- Other assets	190.7	3.1	*0.8*	0.1	*0.0*	0.0	*0.0*	0.0	**193.9**
T o t a l a s s e t s	**65 035.2**	**10 122.2**	***2 476.1***	**1 291.7**	***416.7***	**1 627.8**	***480.6***	**189.9**	**78 266.8**

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end of 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		other currencies	TOTAL
		after translation into PLN	*in currency*	after translation into PLN	*in currency*	after translation into PLN	*in currency*	(after translation into PLN)	
EQUITY AND LIABILITIES									
LIABILITIES									
- Liabilities due to other banks	1 116.1	3 150.4	*770.6*	119.6	*38.6*	152.4	*45.0*	16.1	**4 554.6**
- 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	1 155.4	280.6	*68.6*	321.0	*103.6*	20.3	*6.0*	0.8	**1 778.1**
- 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	51 453.4	4 629.8	*1 132.5*	1 567.7	*505.8*	11.4	*3.4*	195.2	**57 857.5**
- Liabilities due to customers under repo transactions	0.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**0.0**
- 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	67.6	3.8	*0.9*	0.8	*0.3*	0.0	*0.0*	0.6	**72.8**
- Tax liabilities	103.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**103.0**
- Other liabilities	817.6	11.4	*2.8*	1.1	*0.4*	0.0	*0.0*	0.1	**830.2**
Total liabilities	**58 765.6**	**8 958.0**	***2 191.1***	**2 010.2**	***648.7***	**184.1**	***54.4***	**212.8**	**70 130.7**
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	998.3	1.4	*0.3*	0.0	*0.0*	0.0	*0.0*	0.0	**999.7**
- 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	6 006.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**6 006.4**
Equity attributed to the holding company	**8 132.4**	**1.4**	***0.3***	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**	**8 133.8**
- Minority equity	2.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**2.3**
Total equity	**8 134.7**	**1.4**	***0.3***	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**	**8 136.1**
Total equity and liabilities	**66 900.3**	**8 959.4**	***2 191.4***	**2 010.2**	***648.7***	**184.1**	***54.4***	**212.8**	**78 266.8**

Contingent liabilities granted	14 071.0	1 834.3	*448.7*	624.7	*201.5*	0.4	*0.1*	29.5	**16 559.9**
Contingent liabilities received	34 342.1	3 484.7	*852.4*	602.6	*194.4*	86.7	*25.6*	0.0	**38 516.1**
Off-balance financial instruments	102 032.6	16 811.0	*4 112.1*	13 813.2	*4 456.4*	380.0	*112.2*	509.9	**133 546.7**

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38. Contingent liabilities

38.1. Contingent liabilities granted

	end of 2013	end of 2012
Undrawn credit facilities	14 751.9	12 063.5
Guarantees	2 663.5	2 459.3
Undrawn overdrafts in current account	485.6	1 046.9
Credit card limits	764.1	675.1
Letters of credit	381.8	315.1
Total	**19 046.8**	**16 559.9**

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

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

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

Issued financial guarantee contracts by maturity

	end of 2013	end of 2012
up to 1 month	233.7	268.0
over 1 month and up to 3 months	527.0	286.9
over 3 months and up to 1 year	1 013.7	1 233.6
over 1 year and up to 5 years	758.7	589.6
over 5 years	130.4	81.2
Total	**2 663.5**	**2 459.3**

Information on issue guarantees granted to other issuers

At the end of 2013, the Group held obligations to purchase bonds issued by six issuers. The total amount of the obligation (understood as the unused limit of the total nominal guarantee liabilities) amounted to PLN 545.5 million. At the end of 2012 the Group held obligations to purchase bonds issued by four issuers for the total amount of PLN 313.8 million.

38.2. Contingent liabilities received

	end of 2013	end of 2012
Guarantee conditioned liabilities	35 091.6	37 324.9
Financing liabilities	1 540.3	1 191.2
Total	**36 631.9**	**38 516.1**

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39. Hedge accounting

39.1. Fair value hedge accounting

In the consolidated financial statements for the year 2013 (similar to year 2012), the Group used fair value hedge accounting for securities.

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

For the strategy purposes, the part of the fair value change under the hedged risk is separated with the use of valuation models based on the same assumptions as for interest rate derivatives ones. The valuation curves applied in the model are based on market rates corresponding to revaluation tenors of variable interest rate hedging instruments.

Interest Rate Swap changing fixed interest rate into the floating one is the hedging instrument. As a result, changes to the fair value of the hedging instrument show the opposite trend from the changes to the fair value of the hedged item. Therefore, owing to the established hedging relationship, the fair values of the hedging instrument and the hedged item offset one another in the income statement. The mismatch element caused by application of different valuation curves (i.e. interest rate derivatives measured using valuation curves made taking account of the OIS discounting) impacts effectiveness of the hedging strategy, which is visible in the income statement.

Since only one type of risk (interest rate risk) is hedged against, changes to the fair value of the hedged item included in the available-for-sale assets portfolio and caused by other unsecured risks are carried through the revaluation fund.

The valuation of hedging and hedged transactions is presented in the Group's income statement under the Net income on hedge accounting item. Bilateral value adjustments of hedging instruments do not impact the presented values due to the fact that only the transactions concluded on the interbank market, additionally hedged with a margin made or received, depending on the exposure, were designated as the hedging instrument.

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

	end of 2013		end of 2012	
	Nominal value	**Fair value**	**Nominal value**	**Fair value**
Hedged items, of which:	**5 139.9**	**5 657.4**	**4 147.3**	**4 822.0**
- Debt securities from available-for-sale portfolio, of which:	1 930.0	1 971.6	983.0	1 042.3
- Treasury bonds	*1 730.0*	*1 745.9*	*983.0*	*1 042.3*
- BGK bonds	*200.0*	*225.7*	*0.0*	*0.0*
- Debt securities from loans and other receivables portfolio, of which:	3 209.9	3 685.8	3 164.3	3 779.7
- Treasury bonds	*3 209.9*	*3 685.8*	*3 164.3*	*3 779.7*
Hedging instruments, of which:	**5 125.4**	**-716.7**	**11 723.0**	**-1 340.8**
- Interest Rate Swap – positive valuation	200.0	8.2	0.0	0.0
- Interest Rate Swap – negative valuation	4 925.4	-724.9	11 723.0	-1 340.8

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

In the 2012-annual consolidated financial statements, the structure of negative balance sheet valuation of hedge derivatives was presented incorrectly; i.e., the fair-value hedge accounting amounts were underestimated and the cash-flow hedge accounting amounts were overestimated by PLN 412.2 million. The 2012 amounts presented herein have been adjusted. The face value of instruments has been adjusted accordingly.

39.2. Cash flow hedge accounting

In the consolidated financial statements for the year 2013 (similar to year 2012), the Group applied the rules of accounting of cash flow hedges with regard to a specific portfolio of assets/ liabilities/highly probable planned financial transactions of the Group (e.g. extrapolation of cash flows arising from revolving deposits/overdrafts). Hedging strategies are used to hedge the Group's exposure against changes in the size of future cash flows arising from interest rate risk. In 2012 Group 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 / LIBORCHF market interest rate) that are therefore exposed to the risk of future cash flows arising from the change of the WIBOR/EURIBOR, EURIBOR/LIBORCHF 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.

For the strategy purposes, as regards changes to the fair value calculation for the future cash flows of the portfolio being hedged, the Group applies the hypothetical derivative approach (i.e. the method whereunder it is possible to reflect the hedged item and the nature of the risk hedged in the form of a derivative). The measurement principles are the same as for the interest rate derivatives. Bilateral value adjustments of hedging instruments do not impact the presented values due to the fact that only the transactions concluded on the interbank market, additionally hedged with a margin made or received, depending on the exposure, were designated as the hedging instrument.

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 2013 and 2012, 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 2013, the revaluation reserve included PLN 205.5 million (including deferred tax) related to the effective part of hedging relationship in the cash flow hedge accounting (PLN 367.0 million as at 31 Dec 2012). In 2013, 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 income statement totalled minus PLN 0.4 million compared with minus PLN 3.8 million in 2012.

Fair value of hedging instruments under the cash flow hedge accounting

	end of 2013		**end of 2012**	
	Nominal value	**Fair value**	**Nominal value**	**Fair value**
Hedging instruments, of which:	**44 159.8**	**654.2**	**23 950.1**	**1 089.4**
- Interest Rate Swap – positive valuation	32 603.9	995.0	23 374.2	1 060.1
- Interest Rate Swap – negative valuation	11 555.9	-388.3	382.2	-23.2
- Cross Currency Swap - positive valuation	0.0	48.7	0.0	52.0
- Cross Currency Swap - negative valuation	0.0	-1.2	0.0	0.0
- Forward - positive valuation	0.0	0.0	193.7	0.5

In the 2012-annual consolidated financial statements, the structure of negative balance sheet valuation of hedge derivatives was presented incorrectly; i.e., the fair-value hedge accounting amounts were underestimated and the cash-flow hedge accounting amounts were overestimated by PLN 412.2 million. The 2012 amounts presented herein have been adjusted. The face value of instruments has been adjusted accordingly.

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

Future cash flows (PLN million)

end of 2013

	up to 1 year	***over 1 year and up to 3 years***	***over 3 years and up to 8 years***	***over 8 years***
Cash inflows (assets)	589.0	914.1	1 267.3	152.2
Cash outflows (liabilities)	-85.7	-191.6	-291.3	-41.0
Net cash flows	**503.3**	**722.5**	**976.0**	**111.2**

end of 2012

	up to 1 year	***over 1 year and up to 3 years***	***over 3 years and up to 8 years***	***over 8 years***
Cash inflows (assets)	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**

Future cash flows (EUR million)

end of 2013

	up to 1 year	*over 1 year and up to 3 years*	*over 3 years and up to 8 years*	*over 8 years*
Cash inflows (assets)	1.1	4.8	16.8	3.0
Cash outflows (liabilities)	0.0	0.0	0.0	0.0
Net cash flows	**1.1**	**4.8**	**16.8**	**3.0**

end of 2012

	up to 1 year	*over 1 year and up to 3 years*	*over 3 years and up to 8 years*	*over 8 years*
Cash inflows (assets)	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**

Future cash flows (CHF million)

end of 2013

	up to 1 year	*over 1 year and up to 3 years*	*over 3 years and up to 8 years*	*over 8 years*
Cash inflows (assets)	0.2	1.7	3.5	0.2
Cash outflows (liabilities)	0.0	0.0	0.0	0.0
Net cash flows	**0.2**	**1.7**	**3.5**	**0.2**

end of 2012

	up to 1 year	*over 1 year and up to 3 years*	*over 3 years and up to 8 years*	*over 8 years*
Cash inflows (assets)	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**

40. 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.

40.1. 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.
- 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.

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

end of 2013

	Level 1	Level 2	Level 3	Total
Financial assets, of which:	**18 867.6**	**5 098.0**	**2.7**	**23 968.3**
- Financial assets held for trading, of which:	476.5	1 474.9	0.0	1 951.4
- repo transactions	*0.0*	*675.1*	*0.0*	*675.1*
- treasury bonds	*476.5*	*0.0*	*0.0*	*476.5*
- NBP bills	*0.0*	*799.8*	*0.0*	*799.8*
- Valuation of derivatives	0.0	1 471.4	0.0	1 471.4
- Financial assets available-for sale, of which:	18 391.1	1 099.8	2.7	19 493.6
- treasury bonds	*16 463.9*	*0.0*	*0.0*	*16 463.9*
- NBP bills	*0.0*	*1 099.8*	*0.0*	*1 099.8*
- BGK bonds	*1 902.6*	*0.0*	*0.0*	*1 902.6*
- equity instruments	*24.6*	*0.0*	*2.7*	*27.3*
- Derivative hedge instruments	0.0	1 051.9	0.0	1 051.9
Financial liabilities, of which:	**621.1**	**3 220.5**	**0.0**	**3 841.6**
- Financial liabilities held for trading, of which:	0.0	613.1	0.0	613.1
- repo transactions	*0.0*	*613.1*	*0.0*	*613.1*
- Book short position in trading securities	621.1	0.0	0.0	621.1
- Valuation of derivatives	0.0	1 493.0	0.0	1 493.0
- Derivative hedge instruments	0.0	1 114.4	0.0	1 114.4

end of 2012

	Level 1	Level 2	Level 3	Total
Financial assets, of which:	**16 914.0**	**5 440.3**	**16.1**	**22 370.4**
- Financial assets held for trading, of which:	506.6	1.0	0.0	507.6
- treasury bills	*506.6*	*0.0*	*0.0*	*506.6*
- treasury bonds	*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
- buy-sell-back transactions	*1 042.0*	*5.0*	*0.0*	*1 047.0*
- Valuation of derivatives	0.0	1 822.1	0.0	1 822.1
- Financial assets available-for sale, of which:	15 365.4	2 499.6	16.1	17 881.1
- treasury bonds	*13 628.9*	*0.0*	*0.0*	*13 628.9*
- NBP bills	*0.0*	*2 498.8*	*0.0*	*2 498.8*
- BGK bonds	*1 736.1*	*0.0*	*0.0*	*1 736.1*
- equity instruments	*0.4*	*0.8*	*16.1*	*17.3*
- Derivative hedge instruments	0.0	1 112.6	0.0	1 112.6
Financial liabilities, of which:	**3 003.4**	**3 142.1**	**0.0**	**6 145.5**
- Financial liabilities measured at fair value upon initial recognition, of which:	2 067.5	0.0	0.0	2 067.5
- sell-buy-back transactions	*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	1 778.1	0.0	1 778.1
- Derivative hedge instruments	0.0	1 364.0	0.0	1 364.0

Movements between valuation levels

In 2013, there were movements in terms of valuation levels:

- The movement of all repo transactions from the 1st level to the 2nd level due to a change of approach with respect to fair value measurement.. Previously the repo transactions were valued based on the market prices of the underlying securities. Presently, the valuation is based on the profitability curve with respect to cash instruments
- Shares of one of the companies moved from the 2nd to the 1st valuation level as they were converted from registered privileged shares into ordinary bearer shares. The shares are quoted in the active market and at present directly valuated on quotations. Fair value of the said shares totalled PLN 0.6 million as at 31 December 2013 and PLN 0.8 million as at 31 December 2012. (in the fourth quarter of 2013, the Group sold part of shares of that company, the value of sold shares was PLN 0.3 million at the time of the sale).
- Shares of two companies moved from the 3rd to the 1st valuation level; the said companies were taken over by the Group by means of debt restructuring and the Group used the valuation model to valuate them due to the initial restrictions as regards their trading. The shares of both companies are quoted in the active market and since the beginning of 2013 were valuated directly on quotations. In the fourth quarter of 2013, the Group sold the shares of the one of mentioned companies. Fair value of the shares held in the Group's portfolio totalled PLN 24.0 million as at 31 December 2013 and PLN 13.4 million as at 31 December 2012 (of which PLN 11.7 million related to the shares still held by the Group and PLN 1.7 million related to shares sold by Group).

Valuation of financial instruments classified to the 2nd level

The Group classifies derivatives, cash bills of the National Bank of Poland and repo transactions into the 2nd level of valuation.

Derivatives

The following models are applied for non-linear transactions (FX options), depending on the product type:

- the European vanilla option – the Garman-Kohlhagen model,
- the European digital option - the Garman-Kohlhagen model adjusted by the call spread,
- the touch option – the Murex Skew Model,
- the (American) barrier option – the Murex Skew Model,
- the (European) barrier option – the Garman-Kohlhagen model
- Cap/Floor (back-to-back transactions) – the Black model.

The following are the input data for the models:

- the foreign exchange rate – obtained by the parties from the National Bank of Poland website,
- implied volatilities – obtained from Bloomberg BGN or Bloomberg Synthetic for the currency pair with lower liquidity
- profitability curves similar to those for linear derivatives.

The Bank takes account of the volatility smile in its valuation calculations.

Fair value for linear instruments (other derivatives) is determined based on discounted future cash flows at the transaction levels. The fair value determined in that manner is the PV of those cash flows.

All input data used for the creation of the revaluation curves are observed on the market, and include: deposit market rates, forward points, FRA rates, IRS rates, OIS rates, FX basis points, basis points among the index for variable rate, and FX-rates. The data come from the Reuters system and come mainly from brokers. The quality of those data as well as the data from other sources used in the revaluation process is verified on an annual basis or adjusted ad hoc.

All derivatives except for interest rate derivatives in PLN are valued according to the OIS curve concept on the assumption that there is a hedge of the transaction valuation in the form of a deposit at EONIA rate.

Due to the specific nature of the Polish market, single-currency derivatives in PLN are valued according to one curve for identification of future interest flows and for discount purposes. Similar to linear derivatives in other currencies, the curves taken account of the type of the underlying index.

Cash bills of the National Bank of Poland

Flat profitability curve set at the level of the NBP reference rate is applied for the valuation of NBP cash bills.

T-bills

Profitability curve for T-bills is obtained based on the observation of broker websites.

Repo transactions

Fair value for repo transactions is determined based on future payment flows discounted according to the profitability curve for the so called cash instruments.

Valuation of financial instruments classified to the 3rd level

Shares and participations of several companies for which It is difficult or impossible to determine the fair value due to absence of active market for those instruments are classified into the 3rd valuation level. The Group is of the opinion that the purchase price less the impairment charge (if any) is the best indicator of their value.

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

	2013	2012
Opening balance	16.1	22.4
Increases, of which:	0.0	1.2
- purchase in result of restructuring process	*0.0*	*0.5*
- valuation charged to revaluation reserve	*0.0*	*0.7*
Decreases, of which:	-13.4	-7.5
- movement to Level 1	*-13.4*	*0.0*
- impairment recognised in profit and loss account	*0.0*	*-7.5*
Closing balance	**2.7**	**16.1**

The fair value measurement changes referring to the income statement are recognised in the item of the income statement *Net income on financial 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 consolidated financial statements of the Group.

40.2. Fair value of non-financial assets

end of 2013

	Level 1	Level 2	Level 3	Total
Investement real estates	-	-	121.4	**121.4**
Real estate owns	-	-	343.9	**343.9**
Property, plant and equipment held for sale	-	-	35.3	**35.3**

end of 2012

	Level 1	Level 2	Level 3	Total
Investement real estates	-	-	120.9	**120.9**
Real estate owns	-	-	348.6	**348.6**
Property, plant and equipment held for sale	-	-	33.0	**33.0**

Fair value measurement

Investement real estates

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

<u>*Real estate owns*</u>

The Group measures the owned real properties at fair value. The measurement is carried out by the independent appraiser 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 2013, the following real properties were appraised:

- ING Bank Śląski S.A. Head Office in Katowice – as at 31 December 2013, the building's value totalled PLN 121.5 million, the change in the value of this real property for the year 2013 increased the financial result by PLN 1.7 million (PLN 1.4 million upon including deferred tax) and
- 11 other real properties located across Poland; change in the value of the real properties for the year 2013 increased the revaluation surplus by PLN 0.6 million (PLN 0.5 million upon including deferred tax) and decreased the 2013 financial result by PLN 6.4 million (PLN 5.2 million upon including deferred tax).

In 2012, the following real properties were appraised:

- ING Bank Śląski S.A. Head Office in Katowice – as at 31 December 2012, 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).

As at 31 Dec 2013 PLN 43.2 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 2012 the same item amounted to PLN 42.0 million.

The value of the appraised real properties estimated at the historical cost upon including impairment loss and depreciation charges would amount to PLN 290.6 million as at 31 Dec 2013 against PLN 296.7 million as at 31 Dec 2012.

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Movements in non-financial assets classified to the Level 3 of the measurement

Investement real estates

	2013	2012
Value at the beginning of period	120.9	118.7
Additions, due to:	0.5	0.6
- purchase of additional equipment	*0.5*	*0.6*
Change in fair value, of which:	0.0	1.6
*- including in income statement**	*0.0*	*1.6*
Value at the end of period	**121.4**	**120.9**

*) in line *net income on the other basic activities* in detailed item *net income on the investment properties*

Real estate owns

	2013	2012
Value at the beginning of period	348.6	326.1
Additions, due to:	37.3	53.3
- purchases	*0.8*	*0.3*
- investment take-overs	*25.3*	*52.4*
- reclassification from assets held for sale	*11.2*	*0.0*
- other	*0.0*	*0.6*
Disposals, due to:	-42.9	-34.4
- amortisation charges	*-24.8*	*-25.8*
- reclassification to assets held for sale	*-17.9*	*-6.8*
- other	*-0.2*	*-1.8*
Change in fair value, of which:	0.9	3.6
*- including in other comprehensive income**	2.2	4.2
*- including in income statement***	-1.3	-0.6
Value at the end of period	**343.9**	**348.6**

*) in detailed item *Revaluation reserve from measurement of property, plant and equipment*
**) in line *general and administrative expenses*, in detailed item *maintenance and rental of buildings*

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<u>*Property, plant and equipment held for sale*</u>

	2013	2012
Value at the beginning of period	33.0	33.6
Additions, due to:	8.6	8.0
- reclassification from property, plant and equipment	*8.5*	*7.6*
- other	*0.1*	*0.4*
Disposals, due to:	-1.3	-6.4
- sale	*-1.3*	*-6.4*
Change in fair value, of which:	-5.0	-2.2
*- including in income statement**	*-5.0*	*-2.2*
Value at the end of period	**35.3**	**33.0**

*) in line *general and administrative expenses,* in detailed item *maintenance and rental of buildings*

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

end of 2013

	Carrying value	Fair value			TOTAL
		Level I	Level II	Level III	
Assets					
Cash in hand and balances with the Central Bank	6 970.1	-	6 970.1	-	**6 970.1**
Loans and receivables to other banks	1 399.8	-	1 399.8	-	**1 399.8**
Loans and receivables to customers	52 237.9	3 912.5	-	46 826.1	**50 738.6**
Receivables from customers due to repo transactions	638.8	-	638.8	-	**638.8**
Other assets	86.9	-	-	86.9	**86.9**
Liabilities					
Liabilities due to other banks	4 827.3	-	4 827.3	-	**4 827.3**
Liabilities due to customers	67 330.4	-	-	67 329.9	**67 329.9**
Liabilities due to customers under repo transactions	433.5	-	433.5	-	**433.5**
Liabilities under issue of debt securities	566.4	-	566.4	-	**566.4**

end of 2012

	Carrying value	Fair value			TOTAL
		Level I	Level II	Level III	
Assets					
Cash in hand and balances with the Central Bank	4 071.6	-	4 071.6	-	**4 071.6**
Loans and receivables to other banks	1 377.1	-	1 377.2	-	**1 377.2**
Loans and receivables to customers	48 985.3	4 086.1	-	44 240.8	**48 326.9**
Other assets	104.9	-	-	104.9	**104.9**
Liabilities					
Liabilities due to other banks	4 554.6	-	4 554.6	-	**4 554.6**
Liabilities due to customers	57 857.5	-	-	57 852.8	**57 852.8**
Liabilities under issue of debt securities	567.1	-	567.1	-	**567.1**

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

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

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

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

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

Loans and receivables

The credit portfolio including debt securities classified to financial assets measured at amortised cost 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/debt security. The sum of fair values of individual loans/debt securities represents the fair value of the portfolio of loans/debt securities reviewed.

For loans/debt securities 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 two month period.

For that purpose the following assumptions are adopted:

- use of the loans granted 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 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.

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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.

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 2013		end of 2012	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Loans and advances, of which:	**48 427.8**	**46 701.8**	**45 085.7**	**44 121.3**
Corporate banking segment, of which	30 409.2	29 913.6	28 924.2	28 469.9
- loans and advances	_22 363.2_	_22 264.0_	_21 536.9_	_21 326.6_
- leasing receivables	_3 449.4_	_3 185.4_	_3 076.8_	_2 832.7_
- factoring receivables	_2 420.9_	_2 429.7_	_2 202.9_	_2 202.7_
- corporate and municipal bonds	_2 175.7_	_2 034.5_	_2 107.6_	_2 107.9_
Retail banking segment, of which:	18 018.6	16 788.2	16 161.5	15 651.4
- mortgages	_13 881.1_	_12 521.5_	_12 514.5_	_11 926.3_
- other loans and advances	_4 137.5_	_4 266.7_	_3 647.0_	_3 725.1_
Deposits, of which:	**66 326.6**	**66 326.1**	**56 793.8**	**56 789.1**
- Deposits of customers from corporate banking segment	22 559.2	22 559.1	18 931.9	18 932.0
- Deposits of customers from retail banking segment	43 767.4	43 767.0	37 861.9	37 857.1

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41. Offsetting financial instruments

Financial assets

end of 2013	*Gross amounts of recognised financial assets*	*Net amounts of financial assets presented in the statement of financial position*	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral received	
- Derivatives, of which:	2 523.6	2 523.6	-1 537.6	0.0	470.7
- valuation of derivatives	*1 471.7*	*1 471.7*	*-1 073.7*	*0.0*	*398.0*
- derivative hedge instruments	*1 051.9*	*1 051.9*	*-463.9*	*0.0*	*588.0*
- derivatives collateral	*-*	*-*	*-*	*-515.3*	*-515.3*
Reverse sale and repurchase agreements, of which:	1 447.6	1 447.6	-4.2	-1 429.0	14.4
- transactioms classified to category of financial assets held for trading	*675.1*	*675.1*	*-4.2*	*-667.4*	*3.5*
- transactioms classified to category of loans and receivables	*772.5*	*772.5*	*0.0*	*-761.6*	*10.9*
					485.1

Financial liabilities

end of 2013	*Gross amounts of recognised financial liabilities*	*Net amounts of financial liabilities presented in the statement of financial position*	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral pledged	
- Derivatives, of which:	2 607.8	2 607.8	-1 537.6	0.0	344.2
- valuation of derivatives	*1 493.4*	*1 493.4*	*-1 073.7*	*0.0*	*419.7*
- derivative hedge instruments	*1 114.4*	*1 114.4*	*-463.9*	*0.0*	*650.5*
- derivatives collateral	*-*	*-*	*-*	*-726.0*	*-726.0*
Sale and repurchase agreements, of which:	1 075.3	1 075.3	-4.2	-1 062.4	8.7
- transactioms classified to category of financial liabilities held for trading	*613.1*	*613.1*	*-4.2*	*-606.0*	*2.9*
- transactioms classified to category of liabilities due to other banks and customers	*462.2*	*462.2*	*0.0*	*-456.4*	*5.8*
					352.9

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42. Custody activities

As at 31 Dec 2013 the Group maintained 3 629 (3 501 as at 31 Dec 2012) customer accounts used to hold customers securities. The accounts do not meet the definition of assets and are not recognised in the consolidated financial statements of the Group.

As at the end of 2013 the Group parent company was the depository bank for 141 investment funds and 1 open pension fund, 1 employee pension fund and 1 voluntary pension fund (as at 31 Dec 2012 respectively 131 and 1, 1, 1).

As at 31 Dec 2013 the Group parent company co-operated with 30 brokerage houses (29 as at 31 Dec 2012).

43. Operating leases

43.1. Group as a lessee

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

Lease payments by maturity are disclosed in the table below:

	end of 2013	**end of 2012**
up to 1 year	107.1	99.4
over 1 year and up to 5 years	236.0	171.0
over 5 years – annual payment amount	29.4	38.5

43.2. Group as a lessor

The Group earns income from renting investment real estate and 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 2013	**end of 2012**
up to 1 year	15.1	34.1
over 1 year and up to 5 years	29.3	29.9
over 5 years – annual payment amount	5.4	19.7

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44. Additional information on consolidated cash flow statement

44.1. Cash and cash equivalents

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

	end of 2013	end of 2012
Cash in hand (presented in note 13)	823.3	772.7
Balances with the Central Bank (presented in note 13)	6 146.8	3 298.9
Current accounts in other banks (presented in note 14)	869.0	977.2
Other receivables (presented in note 14)	10.9	11.8
Total	**7 850.0**	**5 060.6**

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

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

Investment activity involves purchase and disposal of shares in subordinate units, intangible assets, property plant and equipment. 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 Group, including for example long-term loans and cash loans from other banks, as well as financial entities other than banks and issuance of debt securities. Outflows from financial activity refer mainly to repayment of long-term liabilities (e.g. repayment of received loans incuding interest, interest on debt securities issued) by the Group and payment of dividends to the owners and other outflows due to profit distribution.

44.3. 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*.

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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) From the position *Change in liabilities due to other banks* change resulting from repayment of long-term loans to finance subsidiaries was excluded.

end of 2013

	changes						
	in statement of financial position	in cash flow statement	***difference of which:***	*1)*	*2)*	*3)*	*4)*
- Change in loans and other receivables to other banks	-22.7	-132.2	***-109.5***	*-0.4*	*-109.1*		
- Change in financial assets at fair value through profit or loss	-396.8	-395.0	***1.8***	*1.8*			
- Change in available-for-sale financial assets	-1 612.5	-1 963.8	***-351.3***	*-34.3*		*-317.0*	
- Change in loans and other receivables to customers	-3 891.4	-3 660.7	***230.7***	*230.7*			
- Change in liabilities due to other banks	272.7	398.4	***125.7***	*1.8*			*123.9*
- Change in liabilities due to customers	9 906.4	9 980.7	***74.3***	*74.3*			

end of 2012

	changes						
	in statement of financial position	in cash flow statement	***difference of which:***	*1)*	*2)*	*3)*	*4)*
- Change in loans and other receivables to other banks	-359.0	-233.7	***125.3***	*-0.1*	*125.4*		
- 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	-1 808.4	***604.3***	*34.4*		*569.9*	
- Change in loans and other receivables to customers	-6 655.6	-6 561.4	***94.2***	*94.2*			
- Change in liabilities due to other banks	-407.3	689.9	***1 097.2***	*0.2*			*1 097.0*
- Change in liabilities due to customers	4 925.4	4 961.9	***36.5***	*36.5*			

45. Related entities

ING Bank Śląski S.A. subsidiaries and affiliated entities (their list has been presented in Chapter I. *Information on the Bank and the Capital Group* in item 6. *Capital Group of ING Bank Śląski S.A.)* as part of their business hold current accounts at ING Bank Śląski, S.A. via which they perform standard clearing operations and also invest cash funds using term deposits. Similarly, ING Bank Śląski S.A. 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 S.A. 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. S.A. They originated from agreements concluded as to co-operation, sublease of premises, lease of equipment, data processing and employees' insurance contributions.

In the period from 1 January 2013 to 31 December 2013 the following transactions were made of the total value exceeding EURO 500 000:

- transactions with ING Bank NV – under execution of the agreements (among other Cooperation Agreement and Agreement on Provision of Data Processing and Financial Information Analysis Services), the fee for services rendered under financial advisory, the fee for using data processing and financial information analysis services by ING Bank Śląski S.A. and the fee for services rendered under business operations and product development advisory in the PCM area for 12 months of 2013 amounted to PLN 49.8 million versus PLN 87.1 million in the same period last year (net amounts).
- transactions with ING Services Polska – the company renders hardware lease services for ING Bank Śląski S.A. Services' costs amounted to PLN 47.9 million versus PLN 41.8 million in the analogous period of the previous year (gross amounts).

As at 31 December 2013, 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 46.3 million, in which PLN 27.0 million related to balance sheet exposure and PLN 19.3 million - to off-balance sheet one. As at 31 December 2012, the exposure towards the Supervisory Board Members and the entities related thereto in terms of equity and organisation was PLN 49.5 million, out of which PLN 33.3 million related to balance sheet exposure and PLN 16.2 million to off-balance sheet exposure.

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)

2013

	ING Bank NV	Other ING Group	Associated undertakings*
Receivables			
Nostro accounts	24.5	15.6	-
Deposits placed	55.3	-	-
Loans	-	11.5	-
Positive valuation of derivatives	324.8	207.1	-
Repo	133.7	-	-
Other receivables	4.1	0.9	-
Liabilities			
Deposits received	940.9	1 190.6	57.3
Loans received	2 306.0	-	-
Loro accounts	46.7	8.5	-
Negative valuation of derivatives	261.1	229.4	-
Repo	28.8	424.3	-
Other liabilities	3.5	-	-
Off-balance-sheet operations			
Contingent liabilities	1 467.0	57.3	0.1
FX transactions	4 512.5	37.6	-
Forward transactions	10.2	-	-
IRS	10 295.0	3 552.9	-
FRA	829.4	-	-
Options	1 440.7	1 495.3	-
Revenue and costs**			
Revenue	-26.6	-8.3	-2.2
Costs***	52.2	40.0	-

2012

	ING Bank NV	Other ING Group	Associated undertakings*
Receivables			
Nostro accounts	29.6	27.1	-
Loans	-	3.1	-
Positive valuation of derivatives	379.7	347.6	-
Repo	66.0	-	-
Other receivables	4.8	0.7	-
Liabilities			
Deposits received	420.1	1 058.5	56.7
Loans received	2 489.5	-	-
Loro accounts	20.4	14.8	-
Negative valuation of derivatives	363.1	371.2	-
Repo	89.1	-	-
Other liabilities	3.6	-	-
Off-balance-sheet operations			
Contingent liabilities	1 218.3	41.0	-
FX transactions	1 017.5	57.0	-
Forward transactions	57.9	2.5	-
IRS	7 863.4	5 723.6	-
Options	722.9	1 770.0	-
Revenue and costs**			
Revenue	-66.6	-15.7	-2.8
Costs***	81.0	39.8	-

*/ 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.
***/ Costs are presented as per their net value (VAT excluded).

46. Transactions with the management staff and employees

Loans to employees and Bank management

Employees of the ING Bank Śląski S.A. Group are granted loans on the same terms and conditions as the customers of the Bank (no preferential loans for employees exist). Loans for employees disclosed in the amount of loans for customers as of 31.12.2013 amounted to PLN 137.2 million (without loans from the Internal Social Benefits Fund). As at 31.12.2012, their value amounted to PLN 126.1 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 2013 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 31.12.2012, their value amounted to PLN 33.9 million.

Internal Social Benefit Funds

The employees may use various forms of social assistance within the framework of Internal Social Benefit Funds established in the entities of the Group. The balance of money advances granted from the Internal Social Benefit Funds as of 31.12.2013 amounts to PLN 9.3 million versus PLN 10.9 million as at 31.12.2012.

The balance of the Internal Social Benefits Fund as at 31.12.2013 was PLN 3.1 million versus PLN 2.9 million as at 31.12.2012.

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

As at the end of 2013, 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 Joanna Erdman - 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.

Emoluments of Members of ING Bank Śląski S.A. Management Board (PLN million)

	2013	2012
Short-term employee benefits, in which:	10.3	9.0
- remuneration	8.1	7.2
- benefits	2.2	1.8
TOTAL	**10.3**	**9.0**

Short-term employee benefits comprise: base remuneration, insurance, mutual fund contributions, medical care and other benefits awarded by the Supervisory Board.

Long-term employee benefits comprise ING Group long-term incentive system benefits. In 2013, they amounted to PLN 1.1 million compared with PLN 0.2 million in 2012.

Emoluments of Members of ING Bank Śląski S.A. Management Board under the Variable Remuneration Programme (PLN million)

	2013		2012	
	Short-term benefits	Long-term benefits	Short-term benefits	Long-term benefits
Cash payments	2.1	1.4	1.9	1.2
Phantom stock	2.1	1.4	2.5	1.7
TOTAL	**4.2**	**2.8**	**4.4**	**2.9**

Short-term benefits comprise the benefits under the Variable Remuneration Programme – the non-deferred part.
Long-term benefits comprise the benefits under the Variable Remuneration Programme – the deferred part.

Following the remuneration system in place at the Bank, the Bank Management Board Members may be entitled to the 2013 bonus to be paid out in 2014. Accordingly, a reserve was formed for the 2013 bonus for the Bank Management Board Members, which as at 31 December 2013 was PLN 7.0 million.
The Bank Supervisory Board will take the final decision on the bonus amount. As at 31 December 2013, the reserve for the cash payment under the bonus for the Bank Management Board Members was PLN 7.3 million. The bonus for 2012 approved in 2013 by the Bank Supervisory Board was PLN 6.2 million.

In the years ended 31 December 2012 and 31 December 2013, there were no post-employment benefits paid out to the Bank Management Board Members.

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)

As at the end of 2013, 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 Adrianus Johannes Antonius Kas - Member,
- Mr Nicolaas Cornelis Jue - Member, and
- Mr Mirosław Kośmider - Member, Independent Member.

Emoluments of Members of ING Bank Śląski S.A. Supervisory Board (PLN million)

	2013	2012
Short-term employee benefits, in which:	0.5	0.5
- remuneration	0.5	0.5
- benefits	-	-
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 31 December 2013, neither Management Board nor Supervisory Board members held shares of ING Bank Śląski S.A., similarly as at the date of rendering the annual consolidated financial statements for 2012 into the public domain.

47. Headcount

The headcount in the Capital Group was as follows:

Headcount	end of year 2013	end of year 2012
Individuals	8 619	8 687
FTEs	8 502.7	8 519.2

48. Significant events after the balance sheet date

Notice of intention to divide the Centrum Banku Śląskiego Spółka z ograniczoną odpowiedzialnością.

On 17 February 2014, the Management Board of ING Bank Śląski S.A. gave notice that they intended to divide the Centrum Banku Śląskiego Spółka z o.o. company by acquisition; the Bank holds 100% stake in the said company. The division will be effected by transferring all assets of CBŚ Spółka z o.o. to ING Bank Śląski S.A. and Solver Spółka z o.o. wherein the Bank holds 82.3% shares. The Division Plan of CBŚ Spółka z o.o. was agreed by the Management Boards of ING Bank Śląski S.A., Solver Spółka z o.o. and CBŚ Spółka z o.o. on 11 February 2014. The aim of the CBŚ Spółka z o.o. restructuring operation is to optimise real property management costs in the ING Bank Śląski Capital Group.

49. Approval of financial statements

These annual consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 1 January 2013 to 31 December 2013 has been approved by the Bank Management Board on 4 March 2014.

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

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

I. Credit Risk Management

1. Definition of Credit Risk

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

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

Aiming to maintain the balance between the economic value creation and the business activity long-term development the Bank is striving to apply the profitability determining principles and pricing policy rules that are based on the concept of return on risk-weighted assets (RWA). With this end in view, the Bank uses a tool enabling to set the risk premium (level of income to be generated on a transaction/client) depending on the client and transaction risk profile (among others: risk rating, collateral quality). The basis for calculating this premium is the relation of income (less the cost of funding) to risk-weighted assets (RWA).

As part of planning and defining its credit strategy the Bank sets the portfolio risk appetite limits (RAS = Risk Appetite Statement), including, in particular, maximum risk levels linked to the credit portfolio PD and LGD parameters.

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

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

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

Annual consolidated financial statements for the period from 1st January 2013 to 31st December 2013 _(PLN million)_

Maximum exposure to credit risk

	end of 2013	end of 2012
Loans and receivables to other banks	1 399.8	1 377.1
Financial assets measured at fair value through profit and loss	1 951.4	1 554.6
Valuation of derivatives	1 471.4	1 822.1
Investments	19 493.6	17 881.1
Derivative hedge instruments	1 051.9	1 112.6
Loans and receivables to customers	52 237.9	48 985.3
Receivables from customers due to repo transactions	638.8	0.0
Receivables presented in other assets	86.9	104.9
Off-balance sheet liabilities granted, including:	19 046.8	16 559.9
- credit card limits	_14 751.9_	_12 063.5_
- unutilised credit lines	_2 663.5_	_2 459.3_
- unutilised overdraft facilities	_485.6_	_1 046.9_
- guarantees	_764.1_	_675.1_
- letters of credit	_381.7_	_315.1_
Total	**97 378.5**	**89 397.6**

2. Organisational Structure of Risk Management

For credit risk management, the organisational structure of the Group parent company (Bank) includes the following organisational units:

- Supervisory Board of the Bank,
- Management Board of the Bank together with the Credit Policy Committee that approve certain internal credit risk-related normative acts as part of their powers,
- 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,
- independent and objective assessment of efficiency, adequacy and effectiveness of actions of the crediting units and units assessing credit risk owing to regular inspections in those units.

The commercial functions are separated from the functions assessing the transaction- and client risk (the four-eye control principles).

In view of the character of operations, the credit risk management is applicable mainly to ING Commercial Finance Polska S.A. and ING Lease Polska Sp. z o.o. Organisational structure and the credit risk management process in subsidiaries are outlined further in this Chapter in item 8 *Credit Risk Management in Group Companies.*

Presented below in more detail are the roles and responsibilities of the individual organisational units involved in the credit risk management process at the Group parent company.

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" and RAS limits,
- 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 Department 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,
  - risk rating setting and identification of credit exposure impairment for irregular clients,
  - loan loss provisioning for the biggest impaired exposures,
- 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 corporate 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 pattern / 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. Risk is accepted by authorised persons.

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.

In retail segment the decision may be taken on a one-person or two-persons basis. For specified situations decisions are taken automatically by informatics system. In the case of two-person basis, for positive decision, unanimous approval of both decision-makers is always required. The scope of decisions taken on a one-person or two-persons basis and rules of establishing, giving and reviewing of authorities to approval of credit decision are specified in General Terms and Conditions of Lending: "Rules of Taking Credit Decisions".

An appropriate risk acceptance level depends on the overall exposure of the Bank to the client who is obliged to repay the exposure. Each new exposure to a natural person involved in business operations in another form than a separate legal entity shall be approved at a level corresponding to the Bank's overall exposure to the client as a natural person or in relation to his/her business operations.

4. Structure of credit exposure portfolio

Credit exposure portfolio*	**exposure in PLN million**			
	end of 2013		**end of 2012**	
	on-balance	*off-balance*	*on-balance*	*off-balance*
Credit exposure to corporate clients , of which:	**31 476.7**	**16 482.7**	**29 877.7**	**14 563.4**
- **IBNR** *(Incurred But Not Reported)*	29 663.1	16 450.4	28 490.4	14 427.4
- **Impaired**, of which:	1 813.6	32.3	1 387.3	136.0
*- **ISFA** (Individually Significant Financial Asset)*	*1 616.3*	*28.6*	*1 251.6*	*130.4*
*- **INSFA** (Individually Non-Significant Financial Asset)*	*197.3*	*3.7*	*135.7*	*5.6*
Credit exposure to retail clients , of which:	**18 505.5**	**2 278.0**	**16 632.0**	**2 138.6**
- **IBNR** *(Incurred But Not Reported)*	18 004.5	2 275.8	16 092.1	2 133.9
- **Impaired**, of which:	501.0	2.2	539.9	4.7
*- **INSFA** (Individually Non-Significant Financial Asset)*	*501.0*	*2.2*	*539.9*	*4.7*
Total credit exposure	**49 982.2**	**18 760.7**	**46 509.7**	**16 702.0**

*) The on-balance exposures taken for analysis include the outstanding principal, the interest accrued and adjustments under the effective interest rate.

4.1. Credit exposure to corporate clients

Credit exposure to corporate clients by risk grades

risk rating	exposure in PLN million			
	end of 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
3	0.0	0.3	0.0	0.3
4	0.0	0.0	0.4	0.0
5	0.0	0.2	72.8	45.4
6	183.4	584.6	37.0	50.3
7	4 562.2	1 630.6	5 207.3	1 102.4
8	1 279.0	492.4	984.8	461.4
9	1 587.4	2 044.5	1 258.9	1 647.6
10	2 409.9	2 600.1	3 063.9	3 060.3
11	4 916.1	3 114.8	3 597.6	2 439.7
12	3 738.8	1 613.8	3 379.6	1 380.8
13	5 374.4	2 386.8	5 546.9	2 362.0
14	1 753.2	664.3	2 007.9	601.3
15	2 444.4	824.1	1 892.7	675.7
16	702.8	313.1	693.1	201.6
17	242.6	67.7	233.1	290.1
18	285.3	36.2	312.9	66.5
19	183.6	76.9	201.5	42.0
20	1 158.8	29.7	866.8	120.7
21	1.1	0.0	0.0	0.0
22	653.7	2.6	520.5	15.3
Total	**31 476.7**	**16 482.7**	**29 877.7**	**14 563.4**

Credit exposures to corporate clients by overdue days

number of days overdue	exposure in PLN million			
	end of 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	29 708.2	16 450.3	28 093.2	14 550.6
1-30	758.5	31.3	716.0	12.6
31-60	82.3	0.0	66.8	0.2
61-90	8.8	0.0	68.6	0.0
91-180	24.1	0.0	157.2	0.0
181-365	72.9	1.1	270.3	0.0
>365	821.9	0.0	505.6	0.0
Total	**31 476.7**	**16 482.7**	**29 877.7**	**14 563.4**

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 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
3	0.0	0.3	0.0	0.3
4	0.0	0.0	0.4	0.0
5	0.0	0.2	72.8	45.4
6	183.4	584.6	37.0	50.3
7	4 562.2	1 630.6	5 207.3	1 102.4
8	1 279.0	492.4	984.8	461.4
9	1 587.4	2 044.5	1 258.9	1 647.6
10	2 409.9	2 600.1	3 063.9	3 060.3
11	4 916.1	3 114.8	3 597.6	2 439.7
12	3 738.8	1 613.8	3 379.6	1 380.8
13	5 374.4	2 386.8	5 546.9	2 362.0
14	1 753.2	664.3	2 007.9	601.3
15	2 444.4	824.1	1 892.7	675.7
16	702.8	313.1	693.1	201.6
17	242.6	67.7	233.1	290.1
18	285.3	36.2	312.9	66.5
19	183.6	76.9	201.5	42.0
Total	**29 663.1**	**16 450.4**	**28 490.4**	**14 427.4**

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 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	28 851.3	16 418.6	27 724.5	14 422.2
1-30	719.2	31.3	695.6	5.0
31-60	77.3	0.0	46.6	0.2
61-90	3.5	0.0	10.0	0.0
91-180	0.4	0.0	12.5	0.0
181-365	0.3	0.5	0.5	0.0
>365	11.1	0.0	0.7	0.0
Total	**29 663.1**	**16 450.4**	**28 490.4**	**14 427.4**

Quality of corporate cliens' credit portfolio that is neither past due nor impaired

risk rating	exposure in PLN million			
	end of 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
3	0.0	0.3	0.0	0.3
4	0.0	0.0	0.4	0.0
5	0.0	0.2	72.8	45.4
6	183.6	584.6	36.7	50.3
7	4 561.2	1 630.6	5 194.9	1 101.8
8	1 276.8	492.4	978.3	461.4
9	1 564.9	2 043.7	1 240.0	1 647.1
10	2 389.3	2 599.2	2 983.2	3 058.4
11	4 807.1	3 106.2	3 515.0	2 438.8
12	3 501.6	1 613.4	3 289.6	1 380.7
13	5 251.1	2 374.1	5 264.5	2 361.8
14	1 685.7	663.5	1 938.8	600.7
15	2 380.3	818.1	1 834.6	675.3
16	677.5	311.5	674.4	201.6
17	238.4	67.7	228.9	290.1
18	172.4	36.2	297.7	66.5
19	161.4	76.9	174.7	42.0
Total	**28 851.3**	**16 418.6**	**27 724.5**	**14 422.2**

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

number of days overdue	exposure in PLN million			
	end of 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
1-30	719.1	31.3	695.6	5.0
31-60	77.3	0.0	46.6	0.2
61-90	3.5	0.0	10.0	0.0
91-180	0.4	0.0	12.5	0.0
181-365	0.4	0.5	0.5	0.0
>365	11.1	0.0	0.7	0.0
Total	**811.8**	**31.8**	**765.9**	**5.2**

4.1.2. ISFA portfolio

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

risk rating	exposure in PLN million			
	end of 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
20	1 115.9	27.2	831.4	117.5
21	0.3	0.0	0.0	0.0
22	500.1	1.4	420.2	12.9
Total	**1 616.3**	**28.6**	**1 251.6**	**130.4**

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 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	829.3	28.0	352.7	122.8
1-30	30.5	0.0	15.1	7.6
31-60	0.5	0.0	12.9	0.0
61-90	0.0	0.0	54.6	0.0
91-180	13.7	0.0	130.7	0.0
181-365	35.7	0.6	245.7	0.0
>365	706.6	0.0	439.9	0.0
Total	**1 616.3**	**28.6**	**1 251.6**	**130.4**

4.1.3. INSFA portfolio

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

risk rating	exposure in PLN million			
	end of 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
20	42.9	2.5	35.4	3.2
21	0.8	0.0	0.0	0.0
22	153.6	1.2	100.3	2.4
Total	**197.3**	**3.7**	**135.7**	**5.6**

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 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	27.6	3.7	16.0	5.6
1-30	8.8	0.0	5.3	0.0
31-60	4.5	0.0	7.3	0.0
61-90	5.3	0.0	4.0	0.0
91-180	10.0	0.0	14.0	0.0
181-365	36.9	0.0	24.1	0.0
>365	104.2	0.0	65.0	0.0
Total	**197.3**	**3.7**	**135.7**	**5.6**

4.2. Credit exposure to retail clients

Credit exposure to retail clients by risk grades

risk rating	exposure in PLN million			
	end of 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
2	961.0	37.2	825.7	44.6
4	3 402.9	288.4	3 046.2	280.7
5.1	1 576.8	55.3	1 437.5	64.8
5.2	4 337.7	141.1	3 906.5	140.1
6	68.5	172.4	66.4	161.7
7	285.4	6.3	229.9	5.2
8	2 321.6	210.3	2 083.0	199.4
9	214.6	192.9	181.3	190.9
10	203.3	118.6	187.6	115.8
11	1 052.7	129.0	972.3	126.9
12	476.7	73.6	432.9	63.6
13	1 334.9	158.6	1 040.5	70.2
14	1 164.3	650.8	1 107.2	591.9
15	281.8	19.0	254.2	62.9
16	118.1	8.8	110.8	9.5
17	73.2	10.2	77.0	1.8
18	55.7	3.2	57.3	3.6
19	68.4	0.1	70.8	0.3
19.1	4.7	0.0	3.6	0.0
19.2	2.2	0.0	1.4	0.0
20	294.8	2.1	280.4	4.6
22	206.2	0.1	259.5	0.1
Total	**18 505.5**	**2 278.0**	**16 632.0**	**2 138.6**

Credit exposure to retail clients by overdue days

number of days overdue	exposure in PLN million			
	end of 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	17 534.3	2 259.8	15 626.1	2 120.7
1-30	421.9	15.4	396.6	15.3
31-60	96.2	1.6	107.1	1.9
61-90	39.3	0.4	45.9	0.3
91-120	17.3	0.1	17.2	0.0
121-150	14.7	0.1	11.8	0.1
151-180	11.5	0.0	12.8	0.0
>180	370.3	0.6	414.5	0.3
Total	**18 505.5**	**2 278.0**	**16 632.0**	**2 138.6**

4.2.1. IBNR portfolio

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

risk rating	exposure in PLN million			
	end of 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
2	961.0	37.2	825.7	44.6
4	3 402.9	288.4	3 046.2	280.7
5.1	1 576.8	55.3	1 437.5	64.8
5.2	4 337.7	141.1	3 906.5	140.1
6	68.5	172.4	66.4	161.7
7	285.4	6.3	229.9	5.2
8	2 321.6	210.3	2 083.0	199.4
9	214.6	192.9	181.3	190.9
10	203.3	118.6	187.6	115.8
11	1 052.7	129.0	972.3	126.9
12	476.7	73.6	432.9	63.6
13	1 334.9	158.6	1 040.5	70.2
14	1 164.3	650.8	1 107.2	591.9
15	281.8	19.0	254.2	62.9
16	118.1	8.8	110.8	9.5
17	73.2	10.2	77.0	1.8
18	55.7	3.2	57.3	3.6
19	68.4	0.1	70.8	0.3
19.1	4.7	0.0	3.6	0.0
19.2	2.2	0.0	1.4	0.0
Total	**18 004.5**	**2 275.8**	**16 092.1**	**2 133.9**

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

number of days overdue	exposure in PLN million			
	end of 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	17 491.3	2 258.3	15 587.7	2 116.8
1-30	404.1	15.3	380.4	15.1
31-60	81.4	1.6	89.0	1.8
61-90	24.2	0.4	35.0	0.2
91-120	1.1	0.1	0.0	0.0
121-150	0.5	0.1	0.0	0.0
151-180	0.4	0.0	0.0	0.0
>180	1.5	0.0	0.0	0.0
Total	**18 004.5**	**2 275.8**	**16 092.1**	**2 133.9**

Quality of retail cliens' credit portfolio that is neither past due nor impaired

risk rating	exposure in PLN million			
	end of 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
2	960.9	37.2	825.7	44.6
4	3 402.9	288.3	3 046.2	280.7
5.1	1 576.8	55.3	1 437.5	64.8
5.2	4 337.7	141.1	3 906.5	140.1
6	68.4	171.9	66.4	161.6
7	285.4	6.3	229.9	5.2
8	2 321.2	210.0	2 082.8	199.2
9	214.2	192.4	181.1	190.5
10	202.4	118.0	187.3	115.4
11	1 015.2	127.7	941.2	126.0
12	470.1	72.7	428.4	62.3
13	1 209.3	156.6	917.7	68.0
14	1 139.2	647.9	1 082.7	589.4
15	209.5	16.5	187.8	59.8
16	53.4	7.2	47.6	7.7
17	10.1	8.1	5.7	0.1
18	11.5	1.1	11.7	1.4
19	3.0	0.0	1.4	0.0
19.1	0.1	0.0	0.1	0.0
Total	**17 491.3**	**2 258.3**	**15 587.7**	**2 116.8**

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

number of days overdue	exposure in PLN million			
	end of 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
1-30	404.1	15.3	380.4	15.1
31-60	81.4	1.6	89.0	1.8
61-90	24.2	0.4	35.0	0.2
91-120	1.1	0.1	0.0	0.0
121-150	0.5	0.1	0.0	0.0
151-180	0.4	0.0	0.0	0.0
>180	1.5	0.0	0.0	0.0
Total	**513.2**	**17.5**	**504.4**	**17.1**

4.2.2. INSFA portfolio

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

risk rating	exposure in PLN million			
	end of 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
20	294.8	2.1	280.4	4.6
22	206.2	0.1	259.5	0.1
Total	**501.0**	**2.2**	**539.9**	**4.7**

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 2013		end of 2012	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	43.0	1.5	38.4	3.9
1-30	17.8	0.1	16.2	0.2
31-60	14.8	0.0	18.1	0.1
61-90	15.1	0.0	10.9	0.1
91-120	16.2	0.0	17.2	0.0
121-150	14.2	0.0	11.8	0.1
151-180	11.1	0.0	12.8	0.0
>180	368.8	0.6	414.5	0.3
Total	**501.0**	**2.2**	**539.9**	**4.7**

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 Rating owner makes the rating proposal using the rating model dedicated for a given group of clients.

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,
- quality assessment for the financial data that were outside the audit scope,
- 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 client's activities,
  - change in legislation that will seriously impact the client's 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 2013 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,
- 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 and Risk Division. 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 2013 and 2012, 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 2013		end of 2012	
	exposure in PLN million	*share in total exposure (%)*	*exposure in PLN million*	*share in total exposure (%)*
wholesale trade	7 452.3	15.5%	7 406.6	16.7%
public administration and national defense	3 889.9	8.1%	4 101.9	9.2%
real estate service	3 693.3	7.7%	3 027.9	6.8%
power industry	3 415.1	7.1%	2 252.8	5.1%
foodstuff and beverage production	3 074.4	6.4%	2 165.4	4.9%
retail trade	2 574.0	5.4%	2 592.8	5.8%
constructions industry	2 536.7	5.3%	2 845.2	6.4%
equipment rent	1 514.7	3.1%	1 313.7	2.9%
ready-made metal goods productions	1 428.8	3.0%	1 197.9	2.7%
rubber industry	1 364.1	2.8%	1 102.6	2.5%
land and pipeline transportation	1 324.2	2.8%	1 154.1	2.6%
financial intermediation	1 191.9	2.5%	1 591.6	3.6%
remaining services connected with running business	1 105.5	2.3%	1 398.9	3.1%
metals productions	1 039.2	2.2%	1 159.7	2.6%
fuel industry	996.1	2.1%	1 096.0	2.5%
chemicals and chemical goods production	995.7	2.1%	822.0	1.8%
mechanical vehicles sale, repair and service	987.8	2.1%	837.7	1.9%
engineering industry	954.7	2.0%	1 028.5	2.3%
agriculture, foresty, fishery	816.2	1.7%	559.9	1.3%
other	7 604.8	15.8%	6 785.9	15.3%
Total	**47 959.4**	**100.0%**	**44 441.1**	**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.

Group's greatest exposures

The table below presents the breakdown of 15 largest Group 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. Exposures were reduced by the amounts of exclusions admissible under Polish Financial Supervision Authority Resolution No. 208/2011 of 22 August 2011.

client	exposure in PLN million	
	end of 2013	end of 2012
Group 1	1 049.1	751.7
Group 2	811.6	682.0
Group 3	631.1	484.9
Group 4 (banking)	564.8	884.4
Group 5	543.2	687.7
Group 6	456.2	425.2
Group 7	453.1	537.7
Group 8	446.1	773.8
Group 9	402.6	2.6
Group 10	391.8	539.0
Group 11	383.2	394.5
Group 12	367.3	656.1
Group 13 (banking)	360.9	407.3
Group 14 (banking)	355.0	568.2
Group 15	349.9	368.3

Considering the potential risk level, the Bank introduced limits for mortgage loans in accordance with Recommendation S of the Polish Financial Supervision Authority 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 principal amount.

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

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

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

The 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 and to the requirements of the 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 Polish Financial Supervision Authority 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 Group parent company adopted the following list of impairment events for corporate credit receivables:

- *Bankruptcy / Danger of bankruptcy* [The Borrower's bankruptcy has been declared or will be declared soon, either by the Bank or by a third party or on the Borrower's own initiative, which will result in the lack or delay of repayment], or *the Borrower's liquidation bankruptcy has been initiated* or *the Borrower's business operations have been stopped*;
- *The Borrower has ceased (re)payments (repayments of principal or interest/commission payments) and has been in arrears with the (re)payments for*:
  - As regards corporate and individual clients (except for financial institutions) – longer than 90 days;
  - As regards financial institutions and governments – longer than one day; however, in this case a fourteen-day explanatory period is used to establish whether the lack of repayment has been caused by the factors linked to deterioration in the financial institution's credit standing or rather by operational reasons; the delay in repayment due to operational reasons is not an impairment trigger;
- *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;
- *Significant breach of the contractual conditions by the Borrower*, namely if without the Bank's acceptance the events which can impact negatively on the future cash flow under a given credit receivable have occurred;
- *Disappearance of the active market for a given component of financial assets being in the Bank's possession* (for instance, suspension of quotation on the stock exchange) because of the client's financial difficulties, which can have a negative influence on the future cash flow under a given component of financial assets;
- *Restructuring of credit receivables due to uncommercial reasons*: if the Bank has made some concessions to the Borrower in view of the Borrower's financial problems (stemming from economic or legal factors) as a result of which the value of the expected future cash flow under the credit receivable in question diminishes below the exposure balance-sheet value;
- *Contesting the balance-sheet credit exposure by the client* in court proceedings;

- *Unknown whereabouts/location and undisclosed assets* of the client.

The entire portfolio of strategic and corporate clients is inspected in terms of identification of exposure impairment. The occurrence of an impairment trigger results in carrying out an impairment test on the basis of the analysis of the expected future cash flow for a given credit exposure. Based on the results of the impairment test an impairment or no impairment of a financial asset is pronounced.

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 situation of financial asset impairment.

Borrowers from this risk group are rated only by risk units managing a given client exposure.

5.5.3. Corporate Credit Risk Management Tools

In 2013 Bank initiated number of activities within credit risk management area aiming at implementation of Polish Financial Supervision Authority 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, implemented, monitored and validated 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 statisitcal) 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. Provisions for exposure impairment and provisions for off-balance sheet credit exposures

The basis for creating provisions for exposure impairment and provisions for off-balance sheet credit exposures is based on the following values:

- EAD (including the conversion ratios according to the relevant EAD models) and the contractual interest accrued but not charged less the adjustment for the effective interest rate as at the last day of the quarter,
- risk parameters (PD, LGD, CCF) appropriately adjusted in order to take into account the current changes in the market (the so-called Point-in-Time approach).

Provisions are calculated according to the following formula:

– For IBNR and INSFA – as a product of PD * LGD* EAD, where:
  - PD is the probability of the occurrence of an event of default on the client's obligations causing an impairment over a particular time horizon (three or six months); the probability is adjusted to include the current changes in the market.
  - LGD is the loss incurred on credit exposure as a result of incomplete recovery of the receivables after the occurrence of an event of default on the client's obligations; the loss is adjusted to include the current changes in the market.
  - EAD is the exposure at the moment of default – in simple terms, it is the amount of the current balance sheet exposure (current outstanding under the credit limit) increased by the projected outstanding under the remaining part of the limit as at the moment of impairment identification and by the contractual interest accrued but not charged less the adjustment for the effective interest rate.

For the segments of mid-sized and big corporate clients: after two years of being in a default situation and inability to reclassify the client to the non-impaired portfolio, the exposure is fully provisioned or written-off.

For ISFA – as a difference between the current value of the credit exposure and the expected discounted future cash flow connected with a given exposure.

5.7. 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 Bank in particular. This can be accomplished through many means available to the creditors, the most common of which are:

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

The decision to enter into such a restructuring is done only after careful internal assessment and approval by the appropriate (internal) delegated authorities. Once a restructuring is completed, the obligor is again subject to normal credit risk monitoring procedures.

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 impairment calculation is based on the idea of incurred loss, which means that only those assets are provided, for which the objective evidences of impairment occurred (without recognition of losses expected as a result of future events).

If there exist objective evidences that the impairment loss on loan was incurred, the impairment provision equals the difference between the book value of given financial asset and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

Bank groups credit exposures into, so called, groups of exposures, according to similar characteristics of credit risk, which reflect ability of borrower to repay credit obligations according to credit agreement conditions. Bank distinguishes three basic groups of exposures (product segments):

- Consumer credits and loans – credits , loans, credit lines granted to individuals not aimed at conducting economic activity excluding mortgage credits and loans.
- Mortgage credits and loans – credits for housing purpose or secured by mortgage on housing real estate granted to individual person, payable in instalments, except of mortgage loan and mortgage line (payable in instalments since fixed moment, previously payment of interests).
- Credits and loans in Entrepreneurs segment – credits and loans granted to individual persons, legal persons or organizations, whom the legal act awards legal ability regarding conducting economic activity on their behalf with the aim connected with conducted economic activity. The Entrepreneurs group includes firms with annual net sales income not exceeding equivalent in polish currency of 1.2 mio EUR according to average exchange rate of National Polish Bank (according to Accounting Act) and total credit exposures on all credit products in ING Bank nor exceeding 1.2 mio PLN.

6.1. Loan impairment triggers

Loan impairment triggers in retail portfolio:

- a debtor has a delinquency more than 90 days past due on a material exposure (under Resolution No. 76/2010 of the Polish Financial Supervision Authority);
- there have been enforcement proceedings instituted against the debtor;
- there is a high probability of bankruptcy or a debtor is in bankruptcy;
- debtor's credit agreement has been terminated;
- the debtor's/ entrepreneur's financial standing is poor which is reflected by a relevant risk rating assigned thereto as provided for by the model used by the Bank;
- the credit receivables wherefore the present value of debt was significantly reduced is in restructuring;
- some credit receivables wherefore impairment was recognized is redeemed/ written off;
- there is a reasonable suspicion of credit fraud;
- other debtor's accounts found under the same product segment show impairment;

- that the credit facility will be regularly repaid was not lent credence to under the circumstances where the term of regular credit repayment is shorter or equals 90 days (3 months).

The Bank monitors the impairment triggers at the level of a single exposure, on a daily basis. Cessation of all evidence of impairment causes the reclassification of exposure to the IBNR.

6.2 The basis of impairment provision calculation

The basis of impairment provisions is the sum of following amounts:

- EAD – principal of the loan and the part of the off-balance exposure, which at default will convert to the balance exposure (the balance-sheet equivalent).
- EI – outstanding (due) accrued contractual interests plus adjustment of not yet recognized fees and commissions according to the effective interest rate.

The penalty interests and penalty fees are recognized on a cash basis and therefore they are not included into the basis of impairment provision calculation.

The value of EAD is calculated according to the formulas currently binding in the ING Group, which are based on the ratio of exposure value and the credit limit available for the customer at the observation moment.

6.3 The formula of impairment provision calculation

The impairment provision is calculated according to the formula below:

$$\text{Impairment provision} = (1-(1-PD)^{(M/12)}) \times (EAD + EI) \times LGD$$

where:

- PD – Probability of impairment evidence occurrence within 12-month horizon according to the Point-in-time approach .
- EAD (exposure at default) – the amount of current outstanding balance (principal) increased by the balance-sheet equivalent of not utilized credit lines and off-balance sheet items.
- EI (effective interests) – outstanding (due) accrued contractual interests plus adjustment of not yet recognized fees and commissions according to the effective interest rate.
- LGD – expected loss indicator, corresponding to the value of 1 minus the ratio of amount recoverable and the basis of impairment provision calculation, which takes into consideration all direct costs incurred since occurrence of impairment evidence to the closure of the loan collection process.
- M – loss Identification period expressed in months.

The formula above is applicable also for calculation of impairment provisions for portfolios IBNR, INSFA and B. In case of provisions for impaired portfolio, the PD parameter equals 100% and in case of portfolio B, the PD and LGD parameters equal 100%. The value of PD parameter is determined on a client level within each product segment (consumer lending, mortgage segment, entrepreneurs).

The loss identification period (LIP) for all retail exposures equals to 9 months. The risk parameters PD/LGD are calculated with consideration of the current risk profile of a given portfolio (Point-in-time approach).

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. Credit Risk Management in Group Companies

The ING Bank Śląski S.A. Group comprises the following entities:

- Subsidiaries:
  - ING Securities S.A. – (100% of shares),
  - Centrum Banku Śląskiego Sp. z o.o. (100% of shares),
  - Solver sp. z o.o. (82.3% of shares),
  - ING ABL Polska S.A. (100% shares):
    - ING Commercial Finance Polska S.A. (100% shares),
    - ING Lease Polska Sp. z o.o. (100% shares).
- Affiliated entities:
  - ING Powszechne Towarzystwo Emerytalne S.A. (20% of shares).

In view of the character of operations, the credit risk management is applicable mainly to ING Commercial Finance Polska S.A. (ING CF) and ING Lease Polska Sp. z o.o. (ING LP) risk management is realised in line with the ING Group standards in terms of structure and processes (tools) to ensure realization of business targets from risk point of view. Moreover, general credit risk management rules for ING CF and ING LP are described in the document "*General principles of supervision and granting delegated authorities in related entities of ING Bank Śląski SA*".

Risk management in ING Commercial Finance Polska S.A. and ING Lease Polska Sp. z o.o. is performed by separate risk units that have the experience in and knowledge of the offered products and management of credit risk related thereto.

Risk management in ING CF and ING LP takes account of some elements of co-operation with ING Bank Śląski S.A. such as:

- development of a document determining the general assumptions as regards risk appetite of a given unit and its approval by the Supervisory Board of ING CF and ING LP consisting of ING Bank Śląski S.A. representatives;
- co-operation of relevant units of ING CF and ING LP with their functional equivalents at ING Bank Śląski S.A. as regards development of the management information;
- participation of ING CF and ING LP representatives in the meetings of the ING Bank Śląski S.A. Committees responsible for credit risk management. For instance, ING CF and ING LP representatives present credit risk reports covering lending portfolio of their own units during the meetings of the ING Bank Śląski S.A. Credit Policy Committee.

8.1. Credit risk management in ING Commercial Finance Polska S.A.

ING Commercial Finance S.A.'s organizational structure covers the following organizational units, as regards Credit Risk Management:

- Credit Risk Management Department

- Collection Department

Those units' mission consists in ensuring the right balance between the Company's commercial goals and its acceptable level of "risk appetite" taking into consideration the current economical realities.

This goal is reached through the following actions:

- elaboration of credit policy principles, processes and procedures for approval of acceptable credit risk level purposes towards companies and clients' portfolio, support of the development of instruments serving the risk identification and evaluation, execution of credit decisions, provisioning for credit risk and initialization of required changes as regards credit process management;
- carrying out credit analysis and credit decision taking;
- increasing among Company's employees the awareness of credit risk in order to restrict it;
- management of Clients' exposure with increased risk aiming at minimize the Company's risk and loss.

Commercial functions are separated from the transaction's risk evaluation and the Client's risk (the "four-eyes" principles).

Beneath a detailed scope of tasks for the respective organizational units as regards the credit risk management process at ING CF is presented.

8.1.1. Supervisory Board

The Supervisory Board performs periodic evaluation of the Board's realization of credit risk management's goals and strategy in the Company.

8.1.2. Board of Management

The Board of Management of ING Commercial Finance Polska S.A.:

- approves the Credit Risk Policy that defines the strategic approach to credit risk decision taking as well as its acceptable level;
- periodically, but not less then once in a year, it informs the Supervisory Board about the level and profile of risk as well as of the changes in the Credit Risk Policy;
- performs an overview of all processes and monitoring methods as regards the quality of credit exposure.

8.1.3. Committees

Credit decision taking takes place in two-person mode by authorized people (according to SAP).

8.1.4. Credit Risk Management in the Company

The Credit Risk Management Department's mission consists in maintaining the right credit risk level in the Company. The Department is managed by the Risk Director, the flatter under the authority and reporting to the Chairman of ING Commercial Finance Board.

The credit risk management in the company is conducted by:

- Credit Risk Management Department
- Collection Department

The Credit Risk Management Department Director reports directly to the President of the Management Board.

The Credit Risk Management Department Director oversees the Debt Collections Department.

The tasks of the respective Units, that are taking part in the credit risk management process, are presented below.

8.1.5. Credit Risk Management Department

- elaboration of effective credit risk management systems through constant maintenance and development of credit policy rules and process as well as procedure description in order to ensure the right balance between the actual commercial goals of ING CF and an adequate awareness / risk appetite level considering the market realities in Poland;
- ensuring the functioning of the risk management unit that is effective and adequately responding to the present conditions and processes through management, project participation, processes review, reaction to front office and operations requests, realization of Board's and ING Group's Head Office's motions;
- credit risk management, related to Clients' financing, by ensuring a risk counseling in the credit decision taking process, enforcement of credit decision realization, recommendation of necessary changes in credit process management;
- ensuring substantial data for credit policy rules and processes as well as procedures in order to approve the allowed level of Clients' risk;
- increasing the credit risk awareness among Company's employees in order to limit this kind of risks;
- recommendation of the provisions' level and necessary changes in credit process management, product definition and credit policy in order to limit risk;
- support of credit risk process management through the development of risk identification and measurement tools, as well as the monitoring as regards the credit portfolio's quality;
- collaboration with audit and other organizational units from ING Group as regards credit risk management as well as provisioning of credit receivables.

8.1.6. Collection Department

- management and supervision over receivables' execution as regards those clients who default the factoring contract's conditions;
- offering extensive collection services of recipients (contractors);
- supporting the Credit Risk Management Department in the process of provisioning irregular clients.

8.2. Credit risk management in ING Lease Polska Sp. z o.o.

ING Lease Polska Sp. z o.o.'s organizational structure covers the following organizational units, as regards Credit Risk Management:

8.2.1. Risk Management Division

Risk Management Division is managed by Management Board Member, Risk Management Director. Risk Management Division consists of 3 departments:

- Portfolio Risk Management and Restructuring Department

- Credit Risk Assesment Department
- Payment Monitoring, Remarketing and Collection Department

Those units' mission consists in ensuring the right balance between the Company's commercial goals and its acceptable level of "risk appetite" taking into consideration the current economical realities.

8.2.2. Portfolio Risk Management and Restructuring

This department consists of 2 teams:

- Credit Policies and Portfolio Management Team
- Problem Loan and Restructuring Team

The main responsibilities of the Department:

- development of guidelines and credit policies, preparation of recommendations for the product cards, credit policies, as well as new and modified credit products;
- ensuring compliance of ING LP credit policies and procedures with the principles and practice of ING Group;
- management of requirements regarding credit portfolio as well as preparation of analysis and recommendations referring to ING LP portfolio;
- participation in the development and implementation of credit risk models;
- check of securities and covenants implemented into a lease/credit documentation;
- management of difficult doubtful exposures to minimize ING LP risk and losses by: restructuring of problem loans, assessing and recommending the amount of write offs, setting ratings for irregular customers;
- making decisions on the restructured exposures/clients within the scope of granted approval authorities;
- participation in the reviews of the "Watch List" portfolio and preparation of analysis and reporting of corporate irregular portfolio;
- development of principles for difficult exposures management in order to reduce the risk and losses;
- cooperation with the auditors, law firms and related business units of ING Group in the management of difficult exposures and provisioning for receivables;
- comprehensive real estate management regarding clients in restructuring and with terminated contracts.

8.2.3. Credit Risk Assesment Department

This department consists of 2 teams:

- Credit Risk Assesment Team – Standard Transactions
- Credit Risk Assesment Team – Non-standard Transactions

The main responsibilities of the Department:

- providing advice regarding risk in the credit decision-making process for both corporate and retail clients, recommending necessary changes in the credit process;
- preparing credit recommendations for transactions for both corporate and retail clients;
- making credit decisions within the scope of granted approval authorities;

- responsibility for the credit assessment process by controlling time assessment of the transactions, the analysis of bottlenecks in the process and proposing innovative changes to improve the efficiency of the process;
- presenting the recommended transaction on the relevant credit committees.

8.2.4. Payment Monitoring, Remarketing and Collection Department

The main responsibilities of the Department:

- managing difficult loans in order to minimize the credit risk and losses of INGLP for all corporate and retail segments through the conducting of collection against customers with delays;
- control and negotiations of terms of debt repayment;
- termination of lease contracts;
- collecting, storage and remarketing of the repossessed assets;
- cooperation with law enforcement agencies (police, prosecution, courts);
- control activities and cooperation with judicial Supervisors, official receivers, external debt collection companies, remarketing partners;
- initiating legal action and control of the actions (internal and external) resulting from terminated contracts;
- estimating and recommending the value of leased assets and possibility of selling them in case of a default;
- participation in committees related to the management of bad debts (Bad Debt Steering Committee).

9. Identification of Credit Risk Connected with Derivatives

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

ACR system (Adaptiv Credit Risk) is used to monitor the risk connected with transactions concluded by the Bank's counterparties. ACR is a global system, used by the entire ING Group in which all the FM ("Financial Markets") limits and transactions concluded by dealers are registered.

The transactions that generate risk on the counterparty's side (settlement and pre-settlement risk), and that are input to the Bank systems, require registration in ACR.

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).

9.1. 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%.

9.2. 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.

9.3. 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).

9.4. 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.

9.5. 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:

Pre-settlement risk = Market Value + Face Value x Risk Weight,

where risk weight is based on the period of time remaining till the transaction settlement.

Risk weights are "used" by ACR system to monitor the level of the counterparty limits utilisation.

The portfolio of transactions concluded with the Bank's counterparties, covered by ACR (unsettled transactions), is as follows (all data in EUR million):

	end of 2013	end of 2012
Money Market	58,6	6,1
MtM gross	598,2	716,7
MtM net	-17,1	-46,2
Present Value + FM Value	476,3	848,5

**) MtM - Gross amount - transactions where the Bank is „at-the-money".*

***) MtM - Net amount - all transactions where the Bank is „at-the-money" and "out-of-the-money".*

9.6. Credit risk connected with derivative instruments

In view of an existing credit risk in derivatives transactions (mainly FX options) made by the Group with clients, the Group regularly reviews the portfolio of those instruments. The approach adopted by the Group to estimation of the credit risk generated by derivative instruments is described in the chapter IV. *Significant accounting policies* in the point 2.2. *Credit risk connected with derivative instruments*.

Valuation adjustment of unmatured derivatives with Group's customers for 2013 was amounted to PLN +4.5 million (against PLN +23.3 million in 2012) and was presented in the consolidated financial statements in the item *Net income on financial instruments measured at fair value through profit and loss and FX result*.

In addition, for transactions matured or terminated and unsettled as at the balance sheet date, the Group made charges using the methodology for assessing the risk of impaired loans. In 2013, the balance of provisions therefor amounted to PLN -3.0 million compared to PLN -10.6 million in 2012 and was included in the consolidated financial statements as *Impairment losses and provisions for off-balance sheet liabilities*.

The item *Loans and receivables to customers* in the consolidated statement of financial position presents receivables resulting from restructuring of derivative transactions made by the Group with customers. The due amounts equaled to PLN 211.8 million as at 31 Dec 2013 against PLN 244.3 million as at 31 Dec 2012. The carrying value of impairment losses connected with transactions on derivatives amounted to PLN 188.3 million as at 31 Dec 2013 against PLN 209.4 million as at 31 Dec 2012.

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 and Bank Treasury 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 and Bank Treasury 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, the Financial Markets, Bank Treasury and Finance.

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
  |___ Bank Treasury 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 Bank Treasury Banking books via internal contracts, which ensures that these books do not contain material levels of economic market risk. However, as described later in more detail, the short-term financial results of these books _are_ sensitive to changes in market rates. The commercial activities of the subsidiaries belong to the commercial banking books.

Bank Treasury Banking Books

These are Liquidity Management & Funding and ALM books. Their primary responsibility is the liquidity and interest rate management of the positions of Commercial Banking Books. Open positions are allowed within approved VaR limits. Like in Commercial Banking Books, there is usually a difference between the sensitivity of economic and financial results to changes in market rates.

3. Approach to market risk management in subsidiaries

It is the policy of ING Bank Śląski S.A. for its subsidiaries to maintain market risk at low levels. The main categories of market risk which can arise as a result of subsidiaries' activities are Foreign Exchange risk and Interest Rate risk. This policy is ensured by periodic measurements and monitoring of the market risks of the bank's subsidiaries. The Management Board, ALCO Committee, Market Risk Management Department and Accounting Department and subsidiaries are involved in the management risk process. One of the major element of the management risk process on the capital group of ING Bank Śląski level is the determination of the limits constrain the risk of each subsidiaries and on the capital group level. The market risk is measured by the same techniques and methods as in the ING Bank Śląski. According to bank's policy the monitoring of the level of market risks and the comparison of these risks to low limits are done on monthly basis.

4. Value at Risk ("VaR") Concept

The Value at Risk (VaR) is the main methodology used to calculate market risk in both "Trading" and "Banking" books. 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 portfolios, FX and FX options portfolios. The following assumptions for VaR calculation are taken: one-day period of holding position, 99% confidence interval and 260 daily market observations are used for volatility and correlation calculation. For banking books Bank uses the variance-covariance method, for trading books 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 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 "Stressed VaR) calculations are performed. The Stressed VaR is a measure replicating calculations applied in the historical simulation calculations assuming that the current portfolio and continuous, historical 12-month market data, characterized by a significant deviation of the market parameters relevant for a given portfolio, are used.

Moreover, on quarterly basis Bank-wide stress test is performed covering market risk, liquidity 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 2013 (in PLN thousand)

Area	Limit	as at 31 Dec 2013	Average	Min	Max
Interest Rate	3 732.5	800.0	865.0	135.1	2 962.6
FX**	3 939.8	319.4	648.1	319.4	1 019.1
FX Options	2 073.6	340.4	219.0	76.2	601.0

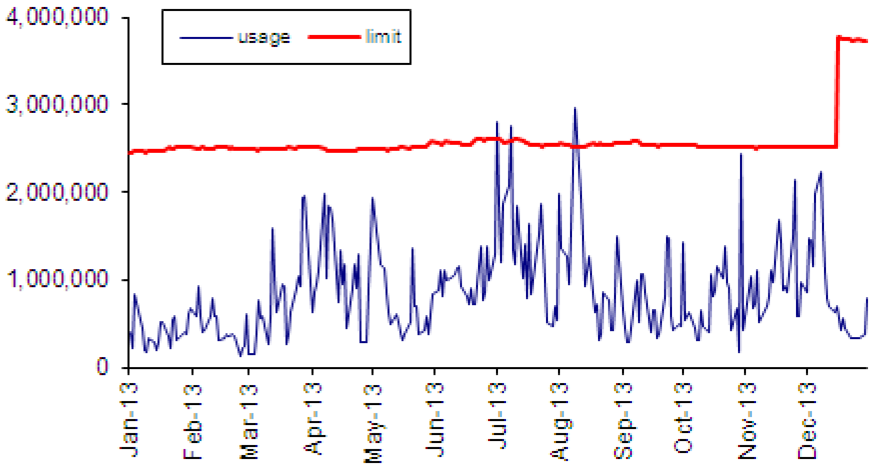
VaR numbers in 2012 (in PLN thousand)

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**	3 884.0	93.9	827.9	93.9	1 695.5
FX Options	2 044.1	106.4	336.9	81.4	821.1

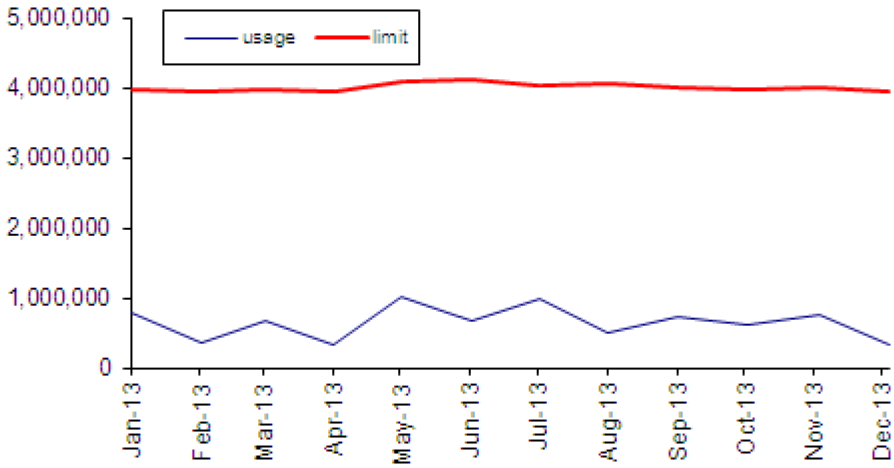
** All VaR limits and their usage in ING Bank Śląski are denominated in EUR. Limit levels and their usage in tables and graphs for the purpose of this document were converted into PLN using daily NBP fixing rate, in column "Limit" numbers are presented using end of year fixing*

*** including subsidiaries, based on monthly measurement*

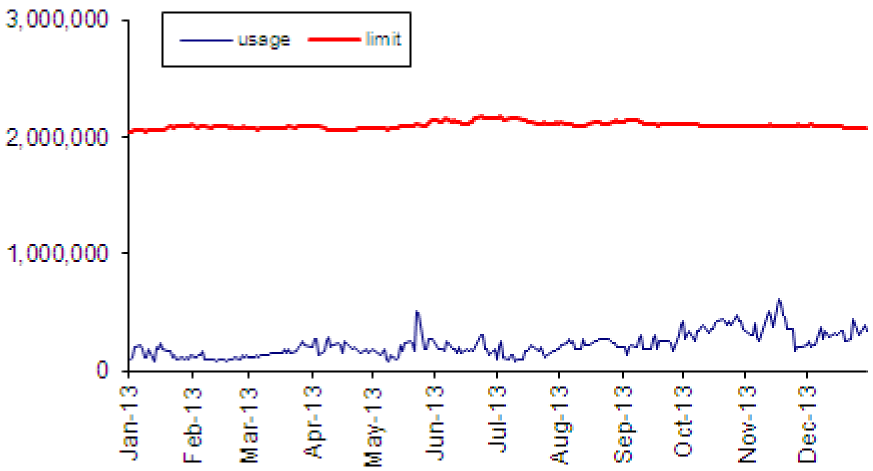
Interest Rate VaR (PLN)



FX VaR (PLN)



FX Options VaR (PLN)



Financial Markets kept their trading exposures at reasonable levels comparing to approved limits. The average usage of limits in 2013 was respectively: 34% for Interest rate trading, 17% for FX Spot and 10% for FX options. There were 3 limit breaches reported for interest rate trading book. Each time limit excess was liquidated immediately. Management Board decided to increase VaR limit for interest rate trading book from EUR 600 thous to EUR 900 thous.

Bank Treasury Banking Books Market Risk (VaR statistics)*

VaR numbers in 2013 (in PLN thousand)

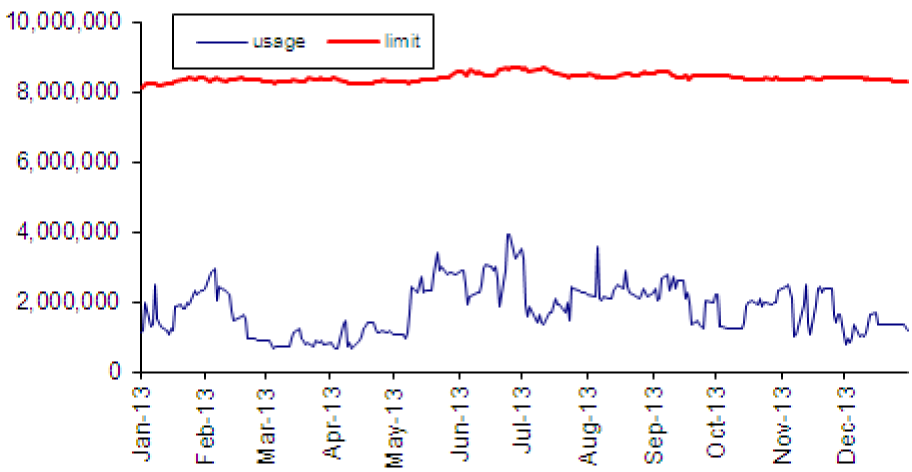
Area	Limit	as at 31 Dec 2013	Average	Min	Max
LMF&ALM	8 294.4	1 159.5	1 800.8	641.9	3 912.1

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

* 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-Bank Treasury Banking Books VaR statistics*

VaR numbers in 2013 (in PLN thousand)

Area	Limit	as at 31 Dec 2013	Average	Min	Max
Interest Rate	829.4	33.5	137.8	33.5	310.3

VaR numbers in 2012 (in PLN thousand)

Area	Limit	as at 31 Dec 2012	Average	Min	Max
Interest rate	817.6	69.5	158.3	69.5	224.0

** including subsidiary positions*

Commercial Banking Books Market Risk

As these books are materially hedged against changes in economic results, the main indication of the interest rate exposure of Commercial Banking books are Earnings at Risk "EaR" measurements (results of these measurements are presented later in the interest rate sensitivity analysis tables). The positions in Commercial Banking books are also subject to measurements of non-linear interest rate risk. Specifically, the Bank measures optionality risk (the potential losses on these positions given early-withdrawal of deposits and/or early re-payment of loans) and basis risk (the potential losses on these positions arising from non-standard rate-setting mechanisms). The Bank is of the opinion that both of these risks are not material (potential losses typically represent a very small share of historical or projected results). FX position generated from banking books is transferred in whole to trading book and managed there.

5. Earnings at Risk (EAR) Concept

EaR measurements are used for the banking book positions which are accrual-accounted and for the positions which are market valuated as a complement to the sensitivity to interest rate risk. Two approaches are used, as detailed below; both approaches cover a 1-year time horizon and provide the possible changes in accrual results given shock changes of +/-1% and +/- 2%. The two approaches taken are as follows:

- A "basic" approach is used for positions comprised of term transactions and/or small volumes of demand positions. This approach assumes that any future funding gaps or surpluses will be financed or invested with a tenor of one month.
- An "advanced" approach is used for material volumes of demand positions. At present it is the Bank's PLN demand deposit base and its internal investment into FM banking books. The measurements simulate the changes in the Bank's results coming from the combination of:
  - Current (internal) investment of these funds and replenishment of these investments as previous investments mature and/or new volumes are attracted. Future (re-) investments are predicted based on continued use of current investment rules.
  - An assessment of the relation between changes in market rates and the rates that the Bank must pay its clients in order to maintain volumes.

Overall Interest Rate Sensitivity

The following tables provide a good overview of the sensitivity of the consolidated Bank to changes in interest rates. The first table shows the sensitivity of the Bank's results to changes in interest rates; the following should be noted:

- Positions are divided into banking book vs. trading book. Positions include all material currencies; PLN positions represent the vast majority of the interest rate sensitivity of the Bank.
- A basis point value ("BPV") is shown for each (sub-) position; by BPV we mean the change in the economic value of a position for a 0.01% parallel yield curve shift.
- Positions are further split where relevant by accounting method: accrual or MTM. 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 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 Bank Treasury. It is important to note that the potential changes in capital base shown here are relevant only for the Bank's *regulatory* capital base. The Bank's calculations of its *economic* capital base do not include positive or negative revaluations of AFS-classified debt securities. This is because AFS-classified debt securities positions largely arise from the investment of portions of PLN demand deposit volumes in line with the Bank's economic modelling of these demand deposits.

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

end of 2013

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	-0.16	31.17	15.73	-15.73	-31.17	-64.79	-32.25	32.25	64,79
	Accrual	0.21	-41.65	-20.92	20.92	41.65	115.8	59.85	-64.76	-129,53
	Total	0.05	-10.47	-5.18	5.19	10.48	51.01	27.6	-32.51	-64,73
TRADING	MTM	0.05	-9.84	-4.92	4.92	9.84	-9.84	-4.92	4.92	9,84
BANK TOTAL	MTM	-0.11	21.33	10.81	-10.81	-21.33	-74.63	-37.17	37.17	74,63
	Accrual	0.21	-41.65	-20.92	20.92	41.65	115.8	59.85	-64.76	-129,53
TOTAL		**0,10**	**-20.32**	**-10.11**	**10.11**	**20.32**	**41.17**	**22.68**	**-27.59**	**-54.90**

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	0.61	-126.58	-61.57	59.82	116.46	15.57	9.91	-9.91	-19.82
	Total	0.68	-134.27	-65.54	66.23	128.77	7.87	5.94	-3.50	-7.51
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	0.61	-126.58	-61.57	59.82	116.46	15.57	9.91	-9.91	-19.82
TOTAL		**0.70**	**-138.52**	**-67.67**	**68.36**	**133.02**	**3.63**	**3.81**	**-1.37**	**-3.26**

** including subsidiaries*

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

end of 2013

Position	BPV	Approximate Change in Regulatory Capital Base for Yield Curve Move			
		-2%	-1%	+1%	+2%
FM AFS Portfolio	-2.74	547.75	273.88	-273.88	-547.75
IRS/CIRS classified to macro cash flow hedge portfolio	-6.59	1 317.07	658.54	-658.54	-1 317.07
TOTAL	**-9.32**	**1 864.83**	**932.41**	**-932.41**	**-1 864.83**

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**

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 *ING Bank Śląski Liquidity and Funding Risk Management 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.

The last review of INGBS Liquidity and Funding Risk Management Policy was done in 2013. There are also subject to reviewed and constant updates the following additional documents, detailing elements of liquidity and funding risk management, in particular the principles of reporting and stress testing.

Due to the significance of the issue, Bank expanded documentation on the aspect of Contingency Funding Plan, in particular:

- *The Contingency Funding Plan Instruction* – document defines the different types of crisis and describes the expected actions taken by the Bank in order to reduce the negative effects of the crisis, it was presented assessment of potential selected sources of funding and the relationship between corrective actions;
- *The Intraday Contingency Funding Plan Instruction* – which focuses on the activities during the day, which could lead to activate the Contingency Funding Plan in case of the major crisis events.

Bank divided the liquidity risk into two groups: risks arising from external vs. bank-specific internal factors. The purpose of the Bank, is a conservative approach to liquidity risk management, which will safely survive the events specific to INGBS and the banking sector.

Liquidity (risk) management can be separated into several types depending on the term: operational liquidity risk and strategic liquidity management.

Taking into account the two aspects of the impact on the bank's liquidity: the term and the behaviour of the clients, Bank distinguishes three types of liquidity risk: structural liquidity and funding risk, customer behaviour liquidity and funding risk and stress liquidity and funding risk.

INGBS's risk and control structure is based on the three lines of defence model. The model is designed to provide stable and effective framework for risk management by defining and implementing three risk management "levels", with distinct roles, responsibilities and oversight responsibilities.

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 risk identification is prepared through the organization of annual workshops to identify risks. Each identified risk must be assessed in order to determine the importance of the risk for the INGBS. Risk might be controlled by operations which reduce probability of risk materializing or action aimed to reduce of effects in case of risk materializing. The final action

to reduce a risk is to stop action or service offering causing this risk (avoiding risk). One of the elements of risk control is set up of risk appetite.
The important element of risk managing is continuous checking whether implemented risk control is executed. Regular control is to prove whether actions in scope of risk control are effective. Adequate reporting delivers to management information needed to risk management.

The formal limits are placed by regulators or the Bank on the various reported metrics. The acceptable level of funding and liquidity risk is determined in a two level system: acceptable risk level that is approved by the bank's Supervisory Board and the limit system which is approved by the Bank's Management Board. The Supervisory Board receives information on compliance with these metrics at least quarterly.

The levels of limits are based on strategic Bank goals, identified liquidity risk and principles set by regulators. 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.
This set of limits is consistent with but more detailed than the limits in the high-level RAS, as described above approved by Supervisory Board.

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 risk concentration, examination of external funding stability and internal liquidity buffer.

Bank determines, at least once a year, the financing strategy and plan that provides effective diversification of funding sources and terms. ALCO actively manages the funding base and closely monitors sources of funding in order to verify compliance with the strategy and financing plan and identify potential risks associated with the financing.

In accordance with the requirements set by regulators Bank introduced a stress testing program, which ensures that the stress tests are planned, designed, conducted and analysed to identify sources of potentially limited liquidity and to determine how to prevent such situations that the current exposure remained within the established limits. The Bank pays the special attention to stress test process and on a quarterly basis prepares scenario analysis and sensitivity analysis for liquidity risk.

Bank stress tests performing includes: the correct methodology to carry out stress tests, reverse stress testing as a tool for risk management in order to complete a series of stress tests undertaken, the scenario analysis as part of the stress tests.

The testing across the Bank, including the various risks in order to obtain a complete and comprehensive picture of the risks existing in the Bank. 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. Scope of the CFP covers the entire business of the Bank. The ALCO Committee and the Management Board are responsible for the items found in the area supervised by them. The Liquidity Crisis Team plays the key role, in the situation of needing to execute(run) the CFP.

It should also be pointed introduction to the process of the stress tests the intraday liquidity measures and indicators. For the liquidity risks during the day introduced specific scenarios.

According to the Polish Financial Supervision Authority Resolution no. 386/2008 and *Recommendation S* Bank prepares in-depth long term liquidity analysis with particular emphasis on mortgage loans. This analysis is showing level of risk connected with financing the long term mortgage loans.

BT is responsible for implementation intraday liquidity management system. BT actively manage liquidity positions and risks of short-term (one-day and intraday) to meet payment and settlement obligations in a timely manner for regular operations and emergency / stress.

An important element of the Bank's liquidity management is to maintain adequate liquidity buffer. The liquidity buffer presents the available liquidity necessary to cover the gap between cumulative outflows and inflows in a relatively short time. The liquidity buffer is crucial in times of crisis, when bank has in a short time to gain liquidity while the standard funding sources are unavailable or insufficient.

Liquidity buffer is maintained as security prior to the implementation of various emergency scenarios, providing liquidity to meet additional needs that may arise at a certain time in exceptional circumstances, as well as under normal conditions.

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 2013 the bank kept all liquidity measures over their minimum amounts. As of 31 December 2013 liquidity measures of Bank amounted as follows:

Liquidity measurement		**Minimum**	**as at 31 Dec 2013**	**as at 31 Dec 2012**
M1	Short term liquidity gap (in PLN million)	0.00	18 419.35	10 007.64
M2	Short term liquidity ratio	1.00	1.90	1.45
M3	Own Funds to Non-Liquid Assets Ratio	1.00	7.06	6.28
M4	Own Funds and Core Deposits to Non-Liquid and Semi-Liquid Assets Ratio	1.00	1.49	1.35

One of the key elements of the calculation of regulatory liquidity ratios is to study the stability of the deposit base through the calculation of the stable part of external funds. The analysis is based on internal statistical model , it is worth noting that as of July 1, 2013 it was introduced a new statistical model. The new model takes into account the following aspects: funding received from the major depositors, taking into account the distribution of changes, estimating volatility and scaling time, it take into account trends in long- and short-term, the impact of exchange rate volatility on the stability of the deposit base. The model subject to annual review, which includes a detailed analysis of the functioning of the model, an analysis of the assumptions and verification of historical (backtesting).

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 2013

	1-6 months	7-12 months	1-5 years	6-10 years	11-15 years	over 15 years
Direct gap	18 081.7	-2 962.9	-12 038.7	-997.4	3 078.0	-5 160.8
Cumulative gap	18 081.7	15 118.9	3 080.2	2 082.8	5 160.8	0.0

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

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 2012 and 2013 with the split between direct and reciprocal funding.

Direct funding (in PLN million)

	31 Dec 2013		31 Dec 2012	
General customer type	**direct funding**	**percentage share**	**direct funding**	**percentage share**
Banks	1 234	2%	1 189	2%
Corporate clients	23 424	30%	20 163	30%
Retail clients	43 607	57%	37 648	57%
Own Isued Bonds	565	1%	565	1%
Equity	8 036	10%	6 877	10%

Reciprocal funding (in PLN million)

	31 Dec 2013		31 Dec 2012	
General customer type	**reciprocal funding**	**percentage share**	**reciprocal funding**	**percentage share**
Banks	11 234	87%	10 531	85%
Corporate clients	1 629	13%	1 910	15%
Retail clients	0	0%	0	0%

As regards the Capital Group of ING Bank Śląski S.A. the Bank's approach to the liquidity risk management, the liquidity characteristics of the specific balance sheet items with difficult liquidity-related standing, are calculated in line with the regulatory reporting requirements for the liquidity risk of the Dutch Central Bank. In order to measure the Group's liquidity risk there are set obligatory limits for the weekly and monthly liquidity gap for capital group and separately for the subsidiaries as well.

Below there are presented the weekly and monthly liquidity gaps at the consolidated level.

Liquidity risk (in PLN million)

end of 2013

Area	as at 31 Dec 2013	Average	Min	Max
1 week gap	14 040.5	15 527.6	13 839.4	16 711.4
1 month gap	9 852.0	10 658.8	9 463.6	11 531.8

end of 2012

Area	as at 31 Dec 2012	Average	Min	Max
1 week gap	13 685.9	10 500.2	8 722.0	13 685.9
1 month gap	9 194.7	6 386.8	5 048.1	9 194.7

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 Group was taken into consideration when making the maturity analysis.

end of 2013 *(in PLN million)*

	up to 1 month	*1- 3 months*	*3 – 12 months*	*1-5 years*	*over 5 years*
- Liabilities due to other banks	2 320.2	59.0	406.2	1 388.3	720.9
- Financial liabilities measured at fair value through profit and loss	613.4	0.0	45.3	339.8	236.0
- Liabilities due to customers	61 802.1	2 063.0	2 626.2	807.4	90.4
- Liabilities due to customers under repo transactions	433.5	0.0	0.0	0.0	0.0
- Liabilities due to issue of debt securities	0.0	0.0	20.3	625.9	0.0
- Contingent liabilities granted	19 046.8	0.0	0.0	0.0	0.0

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	1 906.4	98.4	482.9	1 308.5	927.0
- 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	50 484.8	2 188.2	4 596.9	741.1	3.4
- Liabilities due to issue of debt securities	0.0	0.0	30.0	685.0	0.0
- Contingent liabilities granted	16 559.9	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 Group 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 2013 and 31 December 2012 respectively was taken as the cash flow amount.

end of 2013 *(in PLN million)*

	up to 1 month	*1- 3 months*	*3 – 12 months*	*1-5 years*	*over 5 years*
- Interest Rate Swap, of which:	-112.0	-202.2	-495.2	-1 718.6	-454.4
- hedging transactions in the hedge accounting	*-43.3*	*-72.4*	*-171.5*	*-936.2*	*-284.9*
- other derivatives	-4.6	-11.7	-34.1	-16.8	-1.0

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

Derivatives settled in gross amounts

Derivatives settled gross by the Group 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 2013 and 31 December 2012 respectively.

end of 2013 *(in PLN million)*

	up to 1 month	*1- 3 months*	*3 – 12 months*	*1-5 years*	*over 5 years*
- outflows	-2 091.5	-1 501.6	-2 067.5	-1 249.1	-35.9
- inflows	2 075.4	1 457.5	1 968.3	1 144.1	33.8

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

IV. Regulatory and Economic Capital Management

Capital Group of 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.";
- "Stress testing Policy 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, rules of stress testing process and define actions required in case of solvency crisis.

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

Groups' organisational structure and the model of management are in line with the guidelines of the New Capital Accord (NUK/Basel II). Resolutions of NUK are implemented and Bank performs its activity in accordance with three pillars:

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

Currently Bank is working on implementation of requirements called Basel III/CRD IV.

Regulatory capital (Pillar I)

For the purpose of 2013 reporting, Group is calculating credit risk requirement using Mixed Approach. Bank and ING Lease Polska Sp. z o.o. got an agreement by the Polish Supervisory Authority and De Nederlandsche Bank on implementation of AIRB methodology for corporates and credit institutions. 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 Group uses BIA (Basic Indicator Approach) methodology. This area is managed and monitored by Operational Risk Management Department, Compliance Department and Anti-fraud Department.

In market risk area Group 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.

Annual consolidated financial statements for the period from 1st January 2013 to 31st December 2013 (PLN million)

Regulatory capital base and solvency ratio

Own funds	end of 2013	end of 2012
A. Own equity in the statement of financial position, of which:	**8 628.6**	**8 136.1**
A.I. Own equity included in tier 1 capital, of which:	**7 460.5**	**6 699.9**
- share capital	*130.1*	*130.1*
- supplementary capital - agio	*956.3*	*956.3*
- supplementary capital - other	*136.8*	*96.7*
- reserve capital	*4 715.1*	*4 004.4*
- general risk fund	*1 010.2*	*960.2*
- retained profit of past years and profit during the approval	*145.9*	*112.8*
- net profit of current period in audited part	*389.1*	*439.1*
- non-controlling interests	*2.3*	*2.3*
- revaluation reserve from measurement of available-for-sale financial assets (unrealised losses)	*-25.3*	*-2.0*
A.II. Own equity included in tier 2 capital, of which:	**295.3**	**585.4**
- revaluation reserve from measurement of available-for-sale financial assets (unrealised gains)	*295.3*	*585.4*
A.III. Own equity excluded from own funds calculation, of which:	***872.8***	***850.8***
- revaluation reserve from measurement of available-for-sale financial assets	*3.7*	*7.3*
- revaluation reserve from measurement of property, plant and equipment	*43.2*	*42.0*
- revaluation reserve from measurement of cash flow hedging instruments	*205.5*	*367.0*
- actuarial gains / losses	*1.9*	*0.0*
- revaluation of share-based payment	*46.1*	*41.3*
- net profit of current period in not audited part	*0.0*	*393.2*
- dividend proposed	*572.4*	*0.0*
B. Other elements of own funds (decreases and increases), of which:	**-469.8**	**-488.1**
B.I. Other elements of tier 1 capital:	**-435.2**	**-447.1**
- intangible assets	*-365.9*	*-361.6*
- capital commitments in financial institutions (50%)	*-20.0*	*-20.0*
- amount of expected losses (50%)	*-49.3*	*-65.5*
B.II. Other elements of tier 2 capital:	**-69.3**	**-85.4**
- capital commitments in financial institutions (50%)	*-20.0*	*-20.0*
- amount of expected losses (50%)	*-49.3*	*-65.4*
B.III. Short-term capital	**34.7**	**44.4**
Own funds taken into account in solvency ratio calculation (A.I. + A.II. + B.I. + B.II. + B.III.), of which:	**7 286.0**	**6 797.2**
- Tier 1 capital (A.I. + B.I.)	7 025.3	6 252.8
- Tier 2 capital (A.II. + B.II.)	226.0	500.0
- Short-term capital (B.III.)	34.7	44.4

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Capital requirements	**end of 2013**	**end of 2012**
- Capital requirements for credit risk, credit counterparty,dilution and delivery of instruments for future settlement	2 900.1	3 285.8
- Capital requirement for the risk of settlement - delivery	10.3	13.0
- Capital requirement for operational risk	437.6	405.9
- Capital requirement for general interest rate risk	24.5	31.4
Total capital requirement	**3 372.5**	**3 736.1**
Solvency ratio*	**17.28%**	**14.55%**

*) Starting from the report as at 30 June 2013, ING Bank Śląski S.A. reports capital requirement for credit risk on the basis of the AIRB approach. The Bank applies such presentation method pursuant to the letter of De Nederlandsche Bank (DNB) dated 4 July 2013, wherein DNB together with the Polish Financial Supervision Authority give the Bank permission to apply the full AIRB approach for the exposure classes under institutions and entrepreneurs.

In the prior periods, the Bank was allowed to calculate capital requirement for credit risk according to the AIRB approach, however, the Bank was obliged to include the so called supervisory floor in its calculations. Where the capital requirement for credit risk computed with the AIRB approach was lower than the capital requirement for credit risk computed under standard approach, it was necessary to supplement it up to the level of the capital requirement calculated according to the standard approach.

Irrespective of the above mentioned consent, pursuant to PFSA Resolution no. 76/2010, when determining the total capital requirement the Bank takes account of the so called regulatory floor which amounts to 80% of the total comparable capital requirement (it is the sum of capital requirements for individual risk types computed by means of the standard approach). Should the total capital requirement be lower than 80% of the total comparable capital requirement, the Bank will include the difference as “a supplement to the overall level of capital requirements”.

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 Group's activity. Amount of economic capital should cover assumed level of unexpected losses which Group 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 Group's rating (99.95%) are assumed.

Group identifies and measures economic capital consisting of:

- capital to cover credit risk (default and counterparty risk, concentration risk, residual risk, transfer risk; residual value risk),
- 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 (strategic risk, macroeconomic risk));
- capital to cover model risk;
- capital to cover settlement risk;
- capital to cover liquidity and funding risk

During 2013 Group has made a significant change in capital calculation process by creating new methods to calculate capital for macroeconomic risk, strategic risk, residual and concentration risk or model risk.

Total economic capital figure is the sum of the above-mentioned capitals. Until positive KNF decision, Group is not including diversification effect in capital calculation.

Currently Group maintains an adequate capital level which is illustrated by the solvency ratio (calculated based on economic capital) significantly above 12.5%. During the 2013 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.

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

2014-03-04	**Małgorzata Kołakowska**	President	(signed on the Polish original)
2014-03-04	**Mirosław Boda**	Vice-President	(signed on the Polish original)
2014-03-04	**Michał Bolesławski**	Vice-President	(signed on the Polish original)
2014-03-04	**Joanna Erdman**	Vice-President	(signed on the Polish original)
2014-03-04	**Justyna Kesler**	Vice-President	(signed on the Polish original)
2014-03-04	**Oscar Edward Swan**	Vice-President	(signed on the Polish original)
2014-03-04	**Ignacio Juliá Vilar**	Vice-President	(signed on the Polish original)

SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS

2014-03-04	**Tomasz Biłous**	Director of Bank, Chief Accountant	(signed on the Polish original)