2014

Annual Financial Statements of the ING Bank Śląski S.A. for the year 2014

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

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INCOME STATEMENT	*Note*	**the period from 01 Jan 2014 to 31 Dec 2014**	**the period from 01 Jan 2013 to 31 Dec 2013**
- Interest income	2	3 578.7	3 467.9
- Interest expenses	2	1 367.5	1 543.1
Net interest income	2	**2 211.2**	**1 924.8**
- Commission income	3	1 097.4	1 039.1
- Commission expenses	3	94.5	74.8
Net commission income	3	**1 002.9**	**964.3**
Net income on financial instruments measured at fair value through profit or loss and FX result	4	89.8	94.2
Net income on investments	5	67.9	146.0
Net income on hedge accounting	6	8.7	-1.5
Net income on other basic activities	7	13.0	4.1
Result on basic activities		**3 393.5**	**3 131.9**
General and administrative expenses	8	1 814.2	1 755.2
Impairment losses and provisions for off-balance sheet liabilities	9	243.4	236.6
Profit (loss) before tax		**1 335.9**	**1 140.1**
Income tax	10	268.0	220.0
Net result for the current period		**1 067.9**	**920.1**

Net profit (loss)		**1 067.9**	**920.1**
Weighted average number of ordinary shares		**130 100 000**	**130 100 000**
Earnings per ordinary share (PLN)	11	**8.21**	**7.07**

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

Mirosław Boda
Vice President responsible for bookkeeping
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Katowice, 24 Feb 2015

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

STATEMENT OF COMPREHENSIVE INCOME	*Note*	**the period from 01 Jan 2014 to 31 Dec 2014**	**the period from 01 Jan 2013 to 31 Dec 2013**
Net result for the period		**1 067.9**	**920.1**
Other comprehensive income, of which:			
Gains/losses on remeasurement of available-for-sale financial assets charged to equity	35	291.8	-229.3
including deferred tax		*-68.5*	*53.8*
Reclassification to the financial result as a result of sale of available-for-sale financial assets	35	-4.3	-87.8
including deferred tax		*1.0*	*20.6*
Effective part of cash flow hedging instruments revaluation	35	1 072.8	-161.5
including deferred tax		*-251.7*	*37.9*
Remeasurement of property, plant and equipment	35, 36	-4.1	0.7
including deferred tax		*-0.1*	*0.0*
Disposal of property, plant and equipment	35, 36	1.5	0.2
including deferred tax		*-0.3*	*0.0*
Actuarial gains/losses	35	1.3	1.8
including deferred tax		*-0.3*	*-0.4*
Total other comprehensive income, of which:		**1 359.0**	**-475.9**
- items which can be reclassified to income statement		1 360.3	-478.6
- items which will not be reclassified to income statement		-1.3	2.7
Total comprehensive income for the period		**2 426.9**	**444.2**

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Katowice, 24 Feb 2015

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

STATEMENT OF FINANCIAL POSITION	Note	as of 31 Dec 2014	as of 31 Dec 2013	as of 31 Dec 2012
A S S E T S				
- Cash in hand and balances with the Central Bank	13	5 330.7	6 970.1	4 071.6
- Loans and receivables to other banks	14	1 821.3	1 388.9	1 365.3
- Financial assets measured at fair value through profit and loss	15, 40	1 856.8	1 951.4	1 554.6
- Valuation of derivatives	16, 40	2 411.7	1 471.7	1 822.7
- Investments	17, 40	22 828.6	19 492.9	17 880.5
- Derivative hedge instruments	19, 40	2 983.8	1 051.9	1 112.6
- Loans and receivables to customers	20	57 952.1	49 119.6	45 764.0
- Receivables from customers due to repo transactions	21	106.6	638.8	0.0
- Investments in controlled entities	22	269.2	461.4	454.4
- Non-financial assets	23	1 002.5	918.2	943.1
- Assets held for sale	24	68.4	28.3	22.1
- Tax assets	25	0.0	62.1	0.0
- Other assets	26	110.7	115.2	168.3
T o t a l a s s e t s		**96 742.4**	**83 670.5**	**75 159.2**
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	3 644.2	2 021.7	1 829.1
- Financial liabilities measured at fair value through profit and loss	28	917.4	1 234.2	3 003.4
- Valuation of derivatives	16, 40	2 521.3	1 493.4	1 778.3
- Derivative hedge instruments	19, 40	2 032.8	1 114.4	1 364.0
- Liabilities due to customers	29	75 326.0	67 468.1	57 823.5
- Liabilities due to customers under repo transactions	30	29.7	433.5	0.0
- Liabilities under issue of debt securities	31	866.5	566.4	567.1
- Provisions	32	70.3	63.7	68.9
- Tax liabilities	25	248.5	108.9	97.3
- Other liabilities	33	837.9	838.3	748.8
T o t a l l i a b i l i t i e s		**86 494.6**	**75 342.6**	**67 280.4**
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	1 869.0	513.4	990.7
- Revaluation of share-based payment		48.0	46.1	41.3
- Retained earnings	36	7 244.4	6 682.0	5 760.4
T o t a l e q u i t y		**10 247.8**	**8 327.9**	**7 878.8**
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		**96 742.4**	**83 670.5**	**75 159.2**
Solvency ratio		**15.52%**	**17.10%**	**14.00%**
Net book value		**10 247.8**	**8 327.9**	**7 878.8**
Number of shares		**130 100 000**	**130 100 000**	**130 100 000**
Net book value per share (PLN)		**78.77**	**64.01**	**60.56**

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Katowice, 24 Feb 2015

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

STATEMENT OF CHANGES IN EQUITY

the period from 01 Jan 2014 to 31 Dec 2014

	Share capital	Supplementary capital - issuance of shares over nominal value	Revaluation reserve	Revaluation of share-based payment	Retained earnings	Total equity
Opening balance of equity	**130.1**	**956.3**	**513.4**	**46.1**	**6 682.0**	**8 327.9**
Net result for the current period	-	-	-	-	1 067.9	**1 067.9**
Other comprehensive income, of which:	**0.0**	**0.0**	**1 355.6**	**0.0**	**3.4**	**1 359.0**
- gains/losses on remeasurement of available-for-sale financial assets charged to equity	-	-	*291.8*	-	-	*291.8*
- reclassification to the financial result as a result of sale of available-for-sale financial assets	-	-	*-4.3*	-	-	*-4.3*
- effective part of cash flow hedging instruments revaluation	-	-	*1 072.8*	-	-	*1 072.8*
- remeasurement of property, plant and equipment	-	-	*0.2*	-	*-4.3*	*-4.1*
- disposal of property, plant and equipment	-	-	*-6.2*	-	*7.7*	*1.5*
- actuarial gains/losses	-	-	*1.3*	-	-	*1.3*
Transactions with owners, of which:	**0.0**	**0.0**	**0.0**	**1.9**	**-508.9**	**-507.0**
- revaluation of share-based payment	-	-	-	*1.9*	-	*1.9*
- settlement of subsidiary acquisition	-	-	-	-	*63.5*	*63.5*
- dividends paid	-	-	-	-	*-572.4*	*-572.4*
Closing balance of equity	**130.1**	**956.3**	**1 869.0**	**48.0**	**7 244.4**	**10 247.8**

Note: 34, 35, 36

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	Total equity
Opening balance of equity	**130.1**	**956.3**	**990.7**	**41.3**	**5 760.5**	**7 878.9**
Net result for the current period	-	-	-	-	920.1	**920.1**
Other comprehensive income, of which:	**0.0**	**0.0**	**-477.3**	**0.0**	**1.4**	**-475.9**
- 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	-	-	*-87.8*	-	-	*-87.8*
- effective part of cash flow hedging instruments revaluation	-	-	*-161.5*	-	-	*-161.5*
- remeasurement of property, plant and equipment	-	-	*0.1*	-	*0.6*	*0.7*
- disposal of property, plant and equipment	-	-	*-0.6*	-	*0.8*	*0.2*
- actuarial gains/losses	-	-	*1.8*	-	-	*1.8*
Transactions with owners, of which:	**0.0**	**0.0**	**0.0**	**4.8**	**0.0**	**4.8**
- revaluation of share-based payment	-	-	-	*4.8*	-	*4.8*
Closing balance of equity	**130.1**	**956.3**	**513.4**	**46.1**	**6 682.0**	**8 327.9**

Note: 34, 35, 36

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Katowice, 24 Feb 2015

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

CASH FLOW STATEMENT	Note	the period from 01 Jan 2014 to 31 Dec 2014	the period from 01 Jan 2013 to 31 Dec 2013
OPERATING ACTIVITIES			
Net profit (loss)		**1 067.9**	**920.1**
Adjustments		**-2 206.0**	**1 981.6**
- Depreciation and amortisation	8, 23	171.5	160.4
- Interest accrued (from the profit and loss account)	2	-2 211.2	-1 924.8
- Interest paid		-1 409.8	-1 472.3
- Interest received		3 443.7	3 346.6
- Dividends received	5	-67.5	-40.6
- Gains (losses) on investment activities		-6.7	-0.8
- Income tax (from the profit and loss account)	10	268.0	220.0
- Income tax paid		-67.8	-270.5
- Change in provisions	32	6.6	-5.2
- Change in loans and other receivables to other banks	14, 44	-337.2	-132.4
- Change in financial assets at fair value through profit or loss	15, 44	95.5	-395.0
- Change in available-for-sale financial assets	17, 44	-2 959.1	-1 963.8
- Change in valuation of derivatives	16	87.9	66.1
- Change in derivative hedge instruments	19	59.3	-350.4
- Change in other receivables to customers	20, 44	-8 256.1	-3 840.0
- Change in other assets		177.6	57.4
- Change in liabilities due to other banks	27, 44	1 622.7	193.1
- Change in liabilities at fair value through profit or loss	28	-316.8	-1 769.2
- Change in liabilities due to customers	29, 44	7 496.2	10 006.8
- Change in other liabilities		-2.8	96.2
Net cash flow from operating activities		**-1 138.1**	**2 901.7**
INVESTMENT ACTIVITIES			
- Purchase of property plant and equipment	23	-123.4	-73.5
- Disposal of property, plant and equipment		0.2	0.1
- Purchase of intangible assets	23	-76.2	-72.7
- Purchase of investments in controlled entities	22	-10.0	-7.0
- Disposal of fixed assets held for sale	24	7.3	1.8
- Dividends received	5	67.5	40.6
Net cash flow from investment activities		**-134.6**	**-110.7**
FINANCIAL ACTIVITIES			
- Issue of debt securities	31	300.0	0.0
- Interest on debt securities issued		0.1	-0.7
- Dividends paid		-572.4	0.0
Net cash flow from financial activities		**-272.3**	**-0.7**
Effect of exchange rate changes on cash and cash equivalents		***198.9***	***37.4***
Net increase/decrease in cash and cash equivalents		**-1 545.0**	**2 790.3**
Opening balance of cash and cash equivalents		**7 839.1**	**5 048.8**
Closing balance of cash and cash equivalents	44	**6 294.1**	**7 839.1**

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Katowice, 24 Feb 2015

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

Accounting policy and additional explanatory notes

I. Information on the Bank

1. Key Bank data

ING Bank Śląski S.A. ("Bank", "Company") with the headquarters in Katowice, Sokolska Str. 34, was entered into the entrepreneurs National Court Register managed by the Commercial Department of the Regional Court in Katowice under the reference number KRS 5459.The Bank statistical number is REGON 271514909, and the taxation identification number is NIP 634-013-54-75.

2. Scope and duration of operations

ING Bank Śląski S.A. offers a broad range of banking services rendered for individual and institutional clients in line with the scope of services outlined in the Bank's charter. The Bank runs operations both in the home currency and in foreign currencies. The Bank is also active on the domestic and foreign financial markets. The duration of the Bank was determined as indefinite in the Bank's charter.

3. Share capital

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

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

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 December 2014 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 2014, 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	7,370,000	5.66

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. Approval of 2013 financial statements

The annual financial statements of the ING Bank Śląski S.A. for the period from 1 January 2013 to 31 December 2013 were approved by the General Meeting on 10 April 2014.

II. Significant events in 2014

1. Resignation of Supervisory Board Members from standing for election for the next Supervisory Board's term of office

On 31 March 2014, the Bank received letters of resignation from standing for election to the Supervisory Board for the next term of office from:

1) Ms Anna Fornalczyk in the capacity of the Chair of the ING Bank Śląski S.A. Supervisory Board,

2) Mr Wojciech Popiołek in the capacity of the Secretary to the ING Bank Śląski S.A. Supervisory Board, and

3) Mr Mirosław Kośmider in the capacity of the ING Bank Śląski S.A. Supervisory Board Member.

The decision to resign from standing for election for the next term of office was dictated by the inability to satisfy the independence criteria by the above-referred Supervisory Board Members due to their long-standing Bank Supervisory Board membership.

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

On 10 April 2014, the General Meeting of ING Bank Śląski S.A. was held, during which the following resolutions were passed:

- on approval of the 2013 annual financial statements (consolidated and separate financial statements),
- on approval of the Management Board report on operations in 2013 (consolidated and separate reports),
- on acknowledgement of the fulfilment of duties of the Management Board and Supervisory Board Members for 2013,
- on distribution of profit for the year 2013,
- on dividend payout for the year 2013 (description in Chapter VI. *Notes to the Financial Statements,* item 12. *Dividends paid/proposed*),
- on division of Centrum Banku Śląskiego Sp. z o.o.,
- on amendment to the Charter of ING Bank Śląski S.A.,
- on determining the number of the Supervisory Board Members, appointing the Supervisory Board Members for a new term of office and changing the remuneration of the Supervisory Board Members (the composition of the Supervisory Board of the new term of office was described in this Chapter, under item 3. *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 28 April 2014.

3. Changes to the Supervisory Board composition

In consequence of expiry of the term of office of the Supervisory Board, on 10 April 2014 the ING Bank Śląski S.A. General Meeting appointed the new Bank Supervisory Board in the following composition:

1) Mr Brunon Bartkiewicz,
2) Mr Roland Boekhout,
3) Mr Aleksander Galos,
4) Mr Nicolaas Cornelis Jue,
5) Mr Adrianus Johannes Antonius Kas (Ad Kas),
6) Mr Aleksander Kutela, and
7) Mr Antoni Reczek.

On 10 April 2014, the first meeting of the Bank Supervisory Board for the new term of office was held. The Supervisory Board elected Mr Antoni Reczek as the Chairman, Mr Brunon Bartkiewicz as the Deputy Chairman and Mr Aleksander Galos as the Secretary to the Supervisory Board.

4. 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 10 April 2014, the following entities were authorised to exercise 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 at GM
1.	ING Bank NV	97,575,000	88.42	75.00
2.	AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	7,370,000	6.68	5.66

5. Update on concluding the Letter of Intent with ING Continental Europe Holdings B.V.

On 6 May 2014 the Bank and ING Continental Europe Holdings B.V. (NN CEH) entered into a non-binding agreement (Letter of Intent) regarding the sale of 20% of the shares in ING Powszechne Towarzystwo Emerytalne S.A. (ING PTE) held by the Bank to NN CEH which currently holds 80% of the shares of ING PTE. ING PTE manages Otwarty Fundusz Emerytalny ING (ING OFE) and Dobrowolny Fundusz Emerytalny (ING DFE).

The Parties expect to enter into a binding agreement of share sale, on arm's length basis, in Q4 2014. Should such a transaction take place, it will require the approval of the Polish Financial Supervision Authority.

The initial sale price provided for in the Letter of Intent was set to be approx. PLN 242 million and it equals the independent valuation of that block of shares. This price will be adjusted for dividends paid by ING PTE for 2013 and 2014, the actual number of fund's participants, who will declare to continue transferring some part of their pension contribution to ING OFE

(customer retention rate) as at the end of 2014 and the financial result for 2014. The so-determined price will be additionally supported by an independent fairness opinion.

Under the Letter of Intent, the sale price may be further adjusted should there be a decision by the Polish Constitutional Court relating to the pension fund reform or amendments to the legislation as regards open-ended pension funds, which may ensue due to the above-mentioned decision or an appeal to such a Court, or any amounts received by ING PTE following the decision or ruling of a relevant authority or a settlement following the said Court's decision or amendment to the legislation. In that case, the Parties envisage preparing a new fairness opinion.

On 10 February 2015, the Share Purchase Agreement concerning shares of the ING Powszechne Towarzystwo Emerytalne S.A. company (ING PTE) held by the Bank for the benefit of ING Continental Europe Holdings B.V. was signed. The transaction was described in Chapter VI. *Notes to the Financial Statements,* item 48. *Significant events after the balance sheet date.*

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

- *fourth coupon period*

On 6 June 2014, due to commencing new, fourth 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 the 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 3.63% per annum. The next coupon date falls on 6 December 2014. The other rights under the said bonds remain unchanged.

- *fifth coupon period*

On 6 December 2014, due to commencing new, fifth 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 2.95% per annum. The next coupon date falls on 6 June 2015. The other rights under the said bonds remain unchanged.

7. Conclusion of significant agreements

- *Agreement with London Clearing House (LCH. Clearnet Ltd.)*

On 22 July 2014, ING Bank Śląski S.A. concluded with London Clearing House (LCH. Clearnet Ltd.) a Charge Securing Own Obligations Agreement regarding maintenance of the liquidity buffer by the Bank to the maximum amount of EUR 230 million and GBP 13 million, including depositing securities up to the maximum amount of EUR 180 million. The deposited securities and cash secure clearing of interest rate derivative transactions as part of the Clearing House's SwapClear service.

By concluding this agreement and depositing the required securities, ING Bank Śląski S.A. became a direct participant of the Clearing House and settles the interest rate derivative transactions in line with the Regulation of the European Parliament and of the Council (EU) on OTC derivatives, central counterparties (CCPs) and trade repositories (TRs) (EMIR). The

criterion for regarding the agreement as significant is the total exposure value exceeding 10% of the Bank's equity.

- *Agreement with the entity from the fuel and energy sector*

On 8 August 2014, ING Bank Śląski S.A. signed together with a consortium of other banks an annex to the agreement of 10 June 2010, as amended, with the entity from the fuel and energy sector providing for, inter alia, a change of the term of that entity's bond issue programme until 31 July 2020 while keeping the hitherto maximum amount of PLN 7,000.00 million.

Pursuant to the annex, ING Bank Śląski S.A., has the right to assume the rights and obligations of one of the undewriting banks, and consequently take up bonds up to the amount of PLN 774.0 million but will no longer be the issue agent.

The criterion for regarding the agreement as significant is the total exposure of the Bank towards the entity being a party to the above referred annex and its subsidiaries under the agreements made during the last 12 months that considering the potential exposure reported herein exceeds 10% of the Bank's equity. The aggregate agreements referred to hereinabove total approximately PLN 896.0 million while the potential exposure of the Bank under the annex signed has the biggest value.

8. Annexes to the credit agreement

- *ING Commercial Finance Polska S.A.*

On 5 August 2014, there was concluded an annex to the credit agreement of 2 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 2,725.0 million. The total exposure of the Bank towards the ING Commercial Finance Polska S.A. company is PLN 2,725.5 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 19 September 2014, there was concluded an annex to the credit agreement of 19 January 2012, as amended, with ING Lease Polska Sp. z o.o. whereby the amount of the loan granted to the company was increased by PLN 820.0 million to PLN 3,500.00 million. The total exposure of the Bank towards ING Lease Polska Sp. z o.o. is PLN 3,501.92 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.

9. Results of the Asset Quality Review (AQR) and of the Stress Tests for ING Bank Śląski S.A.

On 26 October 2014 the results of asset quality review and stress tests for ING Bank Śląski S.A. were published. The review was conducted by the Polish Financial Supervision Authority for 15 Polish banks and was consistent in terms of methodology with the review of the most important Eurozone banks conducted by the European Banking Authority (EBA).

Test results were publicly disclosed by the PFSA on 17 October 2014. The Bank also made a relevant current report pursuant to the Act on Public Offering and the

Terms and Conditions of Introducing Financial Instruments into Organised Trading System and Public Companies.

10. Second Issue of Bonds under the Own Debt Securities Issuance Programme of ING Bank Śląski S.A.

On 19 December 2014, the Bank issued the second bonds under the *Own Debt Securities Issuance Programme of ING Bank Śląski S.A.* The bonds were issued as bearer bonds of 5Y maturity. The bonds are denominated in PLN and were offered under a private issue. The total nominal value of bonds is PLN 300.0 million and the nominal value of one bond is PLN 100.0 thousand. The issue price equals the bonds' nominal value. Bonds will be redeemed through payment of the amount of cash equal to the bonds' nominal value. The redemption date for bonds is 19 December 2019.

Bonds bear floating interest, paid every 6 months. Interest is determined using 6M WIBOR plus margin of 0.75% AER. The first interest will be paid out on 19 June 2015.

III. Statement of compliance with International Financial Reporting Standards

These annual financial statements for the period from 1 January 2014 to 31 December 2014 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 Bank, 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 Bank. IFRS include standards and interpretations accepted by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC").

Income statement, statement of comprehensive income, statement of changes in equity, and cash flow statement for the period from 1 January 2014 to 31 December 2014, and statement of financial position as at 31 December 2014 together with comparable data were prepared according to the same principles of accounting for each period.

1. Going-concern

These annual financial statements were prepared on a going-concern basis as regards the foreseeable future, namely as regards the period of minimum 12 months from the balance sheet date. As of the date of approving these statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the ING Bank Śląski S.A. is endangered.

2. Discontinued operations

No operations were discontinued during 2014 and 2013.

3. Financial statements scope and currency

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

These annual financial statements have been developed in Polish zloties ("PLN"). Unless provided for otherwise, all values were given rounded up to PLN million. Therefore, some

totals and individual notes can be inconsistent in mathematical terms.

4. Term of the statements and comparable data

These annual financial statements of the ING Bank Śląski S.A. cover the period from 1 January 2014 to 31 December 2014 and include the comparative data:

- items from the statement of financial position as at 31 December 2013,
- items in the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the period from 1 January 2013 to 31 December 2013.

5. Changes to accounting standards

In these annual financial statements the Bank took account of the following binding standards and interpretations approved by the European Union for annual periods starting on or after 1 January 2014:

Change (effective date provided for in the parentheses)	**Influence on the Bank statements**
IAS 27 *Standalone Financial Statements* (the accounting year starting on 1 January 2014 or later)	Implementation of the change had no material impact on the financial statements of the Bank .
IAS 28 *Investments in Associates and Joint Ventures* (the accounting year starting on 1 January 2014 or later)	Implementation of the change had no impact on the financial statements of the Bank .
IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* (the accounting year starting on 1 January 2014 or later)	Implementation of the change had no material impact on the financial statements of the Bank.
IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* (the accounting year starting on 1 January 2014 or later)	Implementation of the change had no material impact on the financial statements of the Bank. 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 10 *Consolidated Financial Statements* (the accounting year starting on 1 January 2014 or later)	The new standard had no 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* (the accounting year starting on 1 January 2014 or later)	Standard implementation had no impact the financial statements of the Bank because the Bank is not a party to any mutual arrangements.
IFRS 12 *Disclosure of Interest in Other Entities* (the accounting year starting on 1 January 2014 or later)	Implementation of the change had no material impact on the financial statements of the Bank (the number of required disclosures will go up).

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

Change (effective date provided for in the parentheses)	**Influence on the Bank statements**
IAS 1 *Disclosure Initiative* (the accounting year starting on 1 January 2016 or later)	The implementation of the amendment will not have material impact on the financial statements of the Bank.
IAS 16 *Clarification of Acceptable Methods of Depreciation and Amortisation* *Bearer Plants* (the accounting year starting on 1 January 2016 or later)	The published amendments to the standard will not have impact on the financial statements of the Bank – the Bank does not apply the revenue-based methods of depreciation and amortisation while the amendment concerning recognition of bearer plants does not apply to the Bank.
IAS 19 *Defined Benefit Plans: Employee Contributions* (accounting year starting on 1 July 2014 or later)	The standard implementation will not have a material impact on the financial statements of the Bank.
IAS 27 *Equity Method in Separate Financial Statements* (the accounting year starting on 1 January 2016 or later)	The analyses show that the application of amendment to the standard will not have material impact on the financial statements of the Bank.
IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *Investment Entities: Applying the Consolidation Exception* (the accounting year starting on 1 January 2016 or later)	The Bank is currently analysing the impact of the said changes on the financial statements, but still no material impact is expected.
IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* (the accounting year starting on 1 January 2016 or later)	Standard application will have no impact on the financial statements of the Bank.
IAS 41 *Agriculture- Bearer Plants* (the accounting year starting on 1 January 2016 or later)	Not applicable.
IFRS 9 *Financial Instruments* (the accounting year starting on 1 January 2018 or later)	The new standard is expected to have a material impact on the financial statements upon its initial application due to the requirement of its retrospective application. The Bank is currently analysing the impact of changes on the financial statements. The Bank has not set the initial application date for this standard yet.
IFRS 10 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *Investment Entities: Applying the Consolidation Exception* (the accounting year starting on 1 January 2016 or later)	The Bank is currently analysing the impact of the said changes on the financial statements, but still no material impact is expected.
IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* (the accounting year starting on 1 January 2016 or later)	The analyses show that the standard's application will not have material impact on the financial statements of the Bank.
IFRS 12 *Investment Entities: Applying the Consolidation Exception* (the accounting year starting on 1 January 2016 or later)	The analyses show that the application of amendment to the standard will not have material impact on the financial statements of the Bank.
IFRS 14 *Regulatory Deferral Accounts* (the accounting year starting on 1 January 2016 or later)	Not applicable (the new standard applies only to entities that are IFRS first-time adopters).

IFRS 15 *Revenue from Contracts with Customers* (the accounting year starting on 1 January 2017 or later)	The analyses show that the standard's application will not have material impact on the financial statements of the Bank.
IFRIC 21 *Levies Imposed by Governments* (the accounting year starting on 1 January 2015 or later)	The impact of initial application of the interpretation will depend on specific public fees, effective as at the date of initial application. The analyses conducted by the Bank indicate that the interpretation will impact the annual financial statements of the Bank and it will have a material impact on the interim financial statements.
Changes arising from IFRS reviews executed during the 2010-2012 cycle (published in December 2013) Apply to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38. The deadlines for mandatory changes implementation were indicated in relevant standards.	Implementation does not have a material impact on the financial statements of the Bank.
Changes arising from IFRS reviews executed during the 2011-2013 cycle (published in December 2013). apply to IFRS 1, IFRS 3, IFRS 13, IAS 40. The deadlines for mandatory changes implementation were indicated in relevant standards.	Implementation does not have a material impact on the financial statements of the Bank.
Changes arising from IFRS reviews made during the 2012-2014 cycle (published in September 2014). Apply to IFRS 5, IFRS 7, IAS 19 and IAS 34. (the accounting year starting on 1 January 2016 or later)	The implementation will not have a material impact on the financial statements of the Bank.

IV. Significant accounting principles

1. Basis for preparation of financial statements

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

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

2. Accounting estimates

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

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

The estimations and assumptions are reviewed on an on-going basis. Adjustments to estimates are recognized in the period when the estimation was changed provided that the

adjustment applies to this period alone or in the period when the estimation was changed and in the following periods, should the adjustment impact both the current and future periods.

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

2.1. Impairment

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

2.1.1. Impairment of financial assets

Objective evidence of impairment of financial assets stems from occurrence of one or more events which have a direct impact on valuation of future asset-related cash flows.
The estimates can take into account observable data indicating occurrence of unfavourable payment situation on the part of borrowers from a certain group or unfavourable economic situation of a given country or its part, which translates into the problems sustained by this group of assets. For significant assets classified to the ISFA portfolio (Individually Significant Financial Assets), impairment is calculated as a difference between the present value of a credit exposure and expected discounted future cash flows for a given exposure.

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 $= (1-(1-PD)^{(LIP/12)}) \times (EAD + EI) \times LGD$

Where:

- PD – probability of an impairment trigger occurrence over a 12 month horizon in line with the Point-in-Time approach (i.e. taking account of the current risk profile of a given portfolio),
- 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. 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,
- LIP – a loss identification period expressed in months, which depending on business segment is:
  - 8 months for small enterprises and consumer credits,
  - 9 months for strategic clients, mid-sized and mid corporates,
  - 12 months for retail mortgage loans.

The PD parameter is 100% for impaired exposures (INSFA).

The LGD parameter for calculating the impairment loss under collective method for impaired exposures (with default) depends on the time for which the exposure is impaired.

Moreover, for separated portfolios that comprise exposures defaulted for at least 2 or 3 years (depending on the segment) the LGD parameter is also 100%.

Detailed disclosures as to credit risk estimation models used by the Bank are presented further in this report, see Chapter: *Risk Management at the ING Bank Śląski S.A.*, item I 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.

Some examples of impairment triggers for financial assets and the recording rules applied therefor were described in item *Impairment* (item 5.10).

2.1.2. Impairment of other non-current assets

For property, plant and equipment, valuation is based on estimating the recoverable amount of non-current assets being the higher of their value in use and net realisable value at the review date. The value in use of an item of property, plant and equipment (or a cash-generating unit when the recoverable amount of an asset item forming joint assets cannot be determined) is estimated, among others, through adoption of estimation assumptions for amounts, times of future cash flows which the Bank may generate from a given asset item (or a cash-generating unit) and other factors. To determine the value in use, the estimated future cash flows are discounted to their present value at pre-tax discount rate, which reflects the current market expectations as regards value of money and the specific risk of a given asset item.

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

The relevant recording rules were delineated in item 7*.4. Impairment of other non- financial assets.*

2.2. Credit risk connected with derivative instruments

The approach employed by the Bank to estimate credit risk for derivatives with future settlement date (active deals unsettled as at the balance sheet date) is consistent with its approach to assessing credit risk for credit receivables. Valuation adjustments are estimated per counterparty considering the expected presettlement exposures and the same risk incurred by the Bank. 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 Bank and the risk of realisation of a scenario of concurrent client and Bank insolvency are calculated by analogy.

In addition for matured or terminated and unsettled transactions as at the balance sheet date, the Bank 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 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 Bank are verified prior to their usage. Where possible, in models the Bank uses observable data from active markets. However, in certain circumstances, to choose the right valuation parameter, the Bank 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 Bank establishes the provisions for retirement and pension benefit in accordance with IAS 19. The provision for retirement and pension benefit pay awarded as part of the benefits under the Labour Code regulations is calculated using the actuarial method by an independent actuary as the current value of the future long-term Bank obligations towards its employees according to the headcount and payroll 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 Bank undertakes to pay under the General Conditions of Remuneration.

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,
- 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 Bank 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 Bank'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.

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 Bank presents in the books the estimated present value of benefits to be rendered under the variable remuneration programme. Benefits will be granted to employees covered with the programme, based on their performance appraisal for a given year. The programme was launched in 2012.

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 asset

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. Valuation cost basis 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 Bank 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 Bank applies the “first-in first-out” (FIFO) method as the cost basis of investment for debt securities.

3. Investments in subsidiaries and associated companies

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

3.1. Legal consolidation of subsidiaries

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

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

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

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

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

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

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

4. Foreign currency

4.1. The functional currency and the presentation currency

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

4.2. Transactions and balances in foreign currency

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

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

5. Financial assets and liabilities

5.1. Classification

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

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

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

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

- the designated financial asset or financial liability is a hybrid instrument containing one or many embedded derivatives, which qualify for separate recognition and embedded derivatives cannot change significantly the cash flows resulting from the host contract or separation of embedded derivative is forbidden;
- usage of such classification of financial asset or liability eliminates or decreases significantly the inconsistency of measurement or recognition (so called accounting difference due to various methods of assets and liabilities valuation or various recognition of gains and losses attributable to them);
- the group of financial assets and liabilities or both categories is managed properly, and its results are measured using fair value, in accordance with documented risk management principles or the Bank's investment strategy.

5.1.2. Investment held to maturity

Those are the financial assets other than derivatives with payments specified or possible to specify and with the maturity date specified, other than those defined as loans or receivables, which the Bank intends to and is able to hold by the maturity date. In case of sale or reclassification of more than an insignificant amount of held-to-maturity investments in relation to the total held-to-maturity investments before maturity all the assets of this category are reclassified to the available for sale category. In such a case, the Bank must not classify any financial assets as investments held to maturity for 2 years.

The above mentioned sanction is not applied:

- if sale was so close to maturity (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the asset's fair value,
- if the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments, or
- for an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

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 guarantees

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

5.2. Recognition

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

5.3. Derecognition

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

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

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

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

The Bank 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 Bank 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 Bank intend and be able to maintain this financial asset in the foreseeable future or until its maturity. Fair value of the financial asset on the reclassification date is deemed as its new cost or new 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.

5.6. Gains and losses resulting from subsequent measurement

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

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

The interest calculated using the effective interest rate method is recognised in the income statement.

As of impairment of items of financial assets or a group of financial assets, the Bank carries the amount of contractual interest not paid at the impairment date through profit and loss. Since then, the Bank accrues interest on the items of financial assets or a group of financial assets less the impairment charge. Interest is accrued at the interest rate used to calculate the impairment charge for the financial assets affected. Later, the value is adjusted with the contractual interest paid in a given period.

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

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

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

The fair value of financial assets and liabilities quoted in an active market (including securities) is determined on the basis of the bid price for long position and offer price for short position. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, discounted cash flow analysis and option pricing models and other techniques used by market members. The fair value of financial assets and liabilities is determined with the use of the prudent valuation approach and is based on the guidelines given in the technical standards of the European Banking Authority (EBA – Article 105(14) of the Regulation EU 575/2013 published in March 2014). This approach aims at determining the fair value with a high, 90%, confidence level, considering uncertain market pricing and closing cost.
Market activity is assessed on the basis of frequency and the volume of effected transactions as well as access to information about quoted prices which by and large should be delivered on a continuous basis.

The main market and the most beneficial one at the same time is the market the Bank can

access and on which in normal conditions it would enter into sale/purchase transactions for the item of assets or transfer of a liability.

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 Bank 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 Bank takes a decision whether its identification entails any changes to the approach for fair value measurement or not.

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

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

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

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

a) Fair value hedge

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

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

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

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

b) Cash flow hedge

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

- is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction,
- could affect income statement.

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

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

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

Further, the Bank applies the hedging strategy to hedge against the FX risk and base risk being the consequence of funding the CHF- or EUR-indexed mortgage portfolio with PLN liabilities using FX interest rate swaps; i.e. Currency Interest Rate Swap (CIRS).
With one economic link between the concluded CIRS transactions and the extended CHF or EUR loans as well as PLN deposits used to fund them, the Bank sets two hedge links for cash flow hedge accounting purposes. The foregoing is made by separating the real CIRS transaction part hedging the portfolio of CHF or EUR-indexed loans against FX risk and interest rate risk and the real CIRS transaction part hedging PLN liabilities against interest rate risk.

5.7.2. Derivative instruments not qualifying as hedging instruments

Changes in fair value of derivatives that do not fulfil the criteria of hedge accounting are disclosed in the income statement for the current period. Changes in fair value of IR-derivatives arising from ongoing accrual of interest coupon are disclosed under *Interest result on derivatives,* whereas the remaining part of changes in the fair value of IR-derivatives are presented under *Net income on 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 Bank 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 Bank concludes special master agreements with contracting parties, with which the Bank 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 Bank 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 Bank 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.

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 Bank 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 Bank first assesses whether conditions of impairment exist for financial assets items.

Considering the special nature of individual credit exposures portfolios, the Bank 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 Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013);
- 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 (e.g. client filed for or is in bankruptcy/liquidation, or discontinued business operations);
- a (non-financial institution) debtor discontinued to repay the principal, interest or commissions with a default of +45 DPD;
- a (financial institution) debtor discontinued to repay the principal, interest or commissions with a default of +1 business day for banks and +5 business days for other financial institutions, in keeping with a 14-day investigation period in order to determine whether the default was triggered by non-operational reasons relating to deterioration of the debtor's credit quality;
- 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 asset disappeared because of financial difficulties of the debtor, adversely influencing future cash flows from a given financial asset;
- credit receivables are restructured for non-profit reasons; i.e.: due to the client's financial problems;
- major conflict between shareholders, loss of the sole/main counterparty, loss/death of a key person in the entity when there is no succession, random incident leading to destruction of key debtor's assets;
- 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) *Conditions of credit exposure impairment assessment*

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 LGD parameter for calculating the impairment loss under collective method for impaired exposures (with default) depends on the time for which the exposure is impaired.

The Bank regularly verifies the methodology and assumptions adopted to estimate future cash flows in order to mitigate the differences between estimated and actual losses.

For the purposes of 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 currently available data (in line with the Point-in-Time philosophy). Interest and penalty payments are recognised using the cash-basis accounting method and they do not form the basis for creation of impairment losses.

The Bank 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. For the medium-sized and mid-corp clients, after 2 years of client being in default and when it is not possible to reclassify the client to the non-impaired portfolio, exposure is fully (100%) covered with impairment loss or written off. For the segment of retail clients in the same situation, the exposure is in 100% covered with the impairment loss after the lapse of:

- 3 years for mortgage loans,
- 2 years for other credit exposures.

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.

With regard to strategic clients and corporate clients of the sales network the Bank determined the events whereunder it is possible to reverse credit exposure impairment (all of the below mentioned conditions have to be met jointly):

- no impairment triggers identified for the last 6 calendar months. If there was a significant external event favourably impacting client's standing (accession of a new shareholder positively assessed by the Bank, acquisition by the client of material funds, acquisition of new funding, capital injection), impairment can be reversed immediately upon credence has been lent thereto,
- no delays in repayment,
- the Bank assesses that the client will repay all their liabilities towards the Bank, and the impairment test carried out taking account of the expected future cash flows does not show impairment, and for the client having a forbearance exposure it is additionally required that it is classified to the portfolio of non-performing exposures for at least 12 months following forbearance identification.

5.10.2. Financial assets available for sale

The Bank 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 Bank 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 Bank 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.

5.11. Forbearance and non-performing exposures

In 2014, based on the draft EBA Technical Standards on supervisory reporting on forbearance and non-performing exposures, new principles of identification and reporting of transactions with forbearance and non-performing exposures were set.

Forbearance is defined as a situation where the client suffering from financial difficulties was provided non-commercial forbearance facilities and where the client accepted new terms and conditions of the agreement.

As non-performing exposures the Bank recognises those exposures that meet at least one of the below criteria:

- significant exposure is overdue over 90 days,
- the Bank is of the opinion that there is little probability that the client will meet all their credit liabilities without the Bank having to take actions such as satisfaction from collateral (regardless of the overdue amount and the number of days past due).

Exposures are further classified as non-performing exposures when arrears of +30 calendar DPDs occur for the forbearance exposure or when another forbearance is granted for such exposure.

The forbearance can:

- not significantly change the material conditions or expected future cash flows of an existing financial asset, or
- change significantly the material conditions or expected future cash flows versus the conditions or expected future cash flows of the existing financial asset.

Then, accordingly:

- the expected future cash flows for the changed financial asset subject to forbearance will be recognised in the valuation of the existing financial asset on the basis of the expected exercise period and the amounts discounted with the initial effective interest rate for the existing financial asset, or
- the existing financial asset is derecognised and the new financial asset is carried through the balance sheet at fair value as at the initial recognition date, while the difference between the existing and the new assets is carried through profit and loss. Such recognition is independent of the change or lack of change of the transaction legal form and is based on its economic content.

6. Investment property

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

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

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

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

7. Non-financial assets

7.1. Tangible fixed assets

7.1.1. Own tangible fixed assets

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

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

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

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

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

7.1.2. Subsequent costs

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

7.2. Intangible fixed assets

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

- they can be separated from an economic entity and sold, transferred, licensed or granted for use for a fee to third parties, both separately, and together with their accompanying contracts, assets or liabilities,
- arise from contractual titles or other legal titles, irrespective of whether those are transferable or separable from the business entity or 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 Bank was recognized pursuant to the requirements binding on the day of first application of IFRS i.e. at acquisition price being a surplus of the cost of combining the business entities over the interest of the acquirer's in the fair value of all identifiable assets, liabilities and contingent liabilities. After the initial recognition, the goodwill is recognized at acquisition price less any accumulated impairment losses.

7.2.2. Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software.

Expenses attached to the development or maintenance of computer software are expensed when incurred.

7.2.3. Other intangible assets

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

7.2.4. Subsequent costs

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

7.3. Depreciation and amortization charges

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

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

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

- lands and buildings — 50 years
- leaseholds improvements — rent and lease term of maximum 10 year
- vehicles and others — 3 - 7 years
- equipment — 5 years
- costs of development of software — 3 years
- software licenses — 3 years

7.4. Impairment of other non- financial assets

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

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

7.4.1. Recognition of impairment loss

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

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

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

7.4.2. Reversing impairment loss

Goodwill impairment loss is not subject to reversal. An impairment loss of an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount.

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

8. Leasing contracts and factoring services

8.1. The Bank as lessor

The Bank is a party to lease contracts, on the basis of which it grants and is paid for the use on the benefits on the current assets. Leasing agreements are classified by the Bank based on the extent whereto the risk and benefits due to holding of leased asset are attributable to lessor and lessee.

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

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

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

The leasing agreement shall be concluded for the term ranging from five to ten years, including transfer of the legal title to the beneficiary (lessee) after leasing agreement expiry. The ownership of leased asset is the collateral for the liabilities arising from leasing agreements.

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

In case of lease contracts, which result in transferring substantially all the risks and rewards following the ownership of that asset under lease the subject of such lease agreement is

derecognized from the balance sheet. A receivable amount is recognized, in an amount equal to the present value of minimum lease payments. Lease payments are divided into financial income and reduction of the balance of receivables in such a way as to achieve reaching a fixed rate of return from the outstanding receivables.

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

8.2. The Bank as a lessee

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

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

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

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

8.3. Factoring services

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

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

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

The base income on factoring operations comprises commissions and interest on the advance payments made for the receivables purchased. Commission income is carried

through profit or loss at the time of execution of activity under the factoring agreement concluded.

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

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

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

9. Other balance sheet items

9.1. Other trading receivables and other receivables

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

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

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

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

9.2. Liabilities

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

9.3. Non current assets held for sale and discontinued operation

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

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

Where the criteria for classification as non-current assets for sale are no longer met, the Bank will no longer classify that asset as an asset for sale (or a group of assets for sale) but reclassify it as appropriate. In such a case, the Bank measures the asset that

is no longer classified as an asset for sale (or that is no longer part of a group for sale) at the lower of the following amounts:

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

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

9.4. Cash and cash equivalents

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

10.1.1. Own shares

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

10.1.2. Dividends

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

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

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

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

11. Prepayments and deferred income

11.1. Prepayments

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

11.2. Deferred income

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

12. Employee benefits

12.1. Benefits under the Act on employee pension programmes

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

12.2. Short-term employee benefits

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

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

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

12.3. Long-term employee benefits

12.3.1. Benefits under the Labour Code regulations

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

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

The assumptions of the method used to compute and present actuarial gains and losses are given in the item concerning estimates on pension and disability provisions.

12.3.2. ING Group long-term incentive system benefits

By 2012, the Bank 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 set by ING Group and the initial price guaranteed in the option strike price.

Performance shares / Performance units are awarded on a contingent basis. The number of instruments received depends on the ING Group's results as at the end of the period adopted.

The number of instruments to be exercised is driven by the RoE ratio (annual ratio). Depending on the ratio value, from 0% to 150% of instruments can be exercised.

As at the balance sheet date, the Bank recognizes in its books the measurement of instruments held by Bank's 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 Bank implemented the variable remuneration programme, addressed to:

- persons holding managerial positions having material impact on the Bank risk profile (to satisfy the requirements of PFSA Resolution No. 258/2011) and
- employees displaying special potential and skills (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 Bank'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 Bank participated in the Human Capital training programme taking advantage of EU funds. The funds received are recognised at the time when there are reasonable grounds to conclude that the terms of funds granting were met and the funds will be paid out. The funds obtained are recognised in the Bank's financial statements in the manner ensuring commensurability with the corresponding costs for which the plan is to set them off with the EU funds obtained.

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

14. Provisions

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

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

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

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

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

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

15. Profit and loss

15.1. Net interest income

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

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an estimate of cash flows 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 Bank and comprises fees for extending a loan, the Bank's pledge to extend a loan, cards issue, cash management services, brokerage services, insurance products-related services and asset management services. Commission income comprises also margins on FX derivatives transactions concluded with corporate clients.

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

The Bank recognizes the following effective interest rate-adjusting commissions:

- commissions for application review and credit commitment letter issue;
- commissions for limit/overdraft granted;
- commissions for loan or limit/overdraft extension;
- commissions for receivables/bills of exchange purchased, for bill of exchange discount;
- commission for restructured loan processing;
- commission for amending the credit agreement as to the amount, currency or schedule of repayments;
- costs of credit and cash loan agency commissions.

Other commissions that are interwoven with occurrence of assets without defined schedules are cleared on a straight line basis throughout the contract.

The Bank recognizes the following commissions as the ones cleared on a straight line basis:

- the commissions described as the commissions adjusting the effective interest rate for the loans for whose commissions no cash flows can be estimated (first of all, current account overdrafts, working capital loans and revolving loans);
- commissions for issuing, confirming or prolonging the time and increasing the amount of the guarantee or letter of credit;
- commissions for multi-facility agreements;
- commissions for the loan or limit/ overdraft granted to start another lending year.

Fees on pledge to extend a loan, which is likely to be taken, are deferred and as at the date of financial assets rise are settled as the component of effective interest rate or using straight-line method based on above mentioned criterion.

Other fees and commissions relating to the financial services offered by the Bank – like cash management services, brokerage services and asset management services – are recognised in the income statement at the time of service provision.

Commission income that was accrued and is due but was not paid on time are derecognised from the Bank's financial result upon the lapse of 90 days.

15.2.1. Net commission income from bancassurance services

Fees and commission related to insurance products are recognised in the income statement according to their economic content and classified as:

- commissions being part and parcel of a fee under a financial instrument wherewith the insurance product is linked,
- fee for agency service, and
- fee for additional services after the insurance product sale.

Prior to implementation of the insurance product, in order to recognise it properly in the income statement, the Bank analyses features of the insurance product and also the link between the insurance product and banking product. In this analysis, the Bank takes account of the prevalence of the economic content over the legal form. The factors analysed by the Bank include:

- 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 Bank,

- 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 Bank,
- number of resignations and the value of refunded insurance premiums,
- settlement cycle with a client, and
- scope of activities performed by the Bank for the insurer and their duration.

Insurance products offered with loans are treated by the Bank as linked to lending products, mainly because of lack of the possibility to purchase at the Bank an insurance product without a loan or a cash loan.

For the absolute majority of insurance products linked with lending products functioning at the Bank, 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 Bank treats such insurances as renewed each month and settled for each month separately. Therefore, the income on insurance products settled monthly is recognised in the income statement also on a monthly basis. The Bank recognises the income on such insurances in the commission income on insurance products.

The Bank analogically presents the costs directly related to these insurance products.

Such an approach ensures compliance with the matching principle. At the same time, the Bank monitors the level of costs under insurance products linked to the lending products in terms of legitimacy of division into interest income and commission income. At present such a division would not materially impact the Bank's income statement. The Bank applies an analogical approach to real property insurance with mortgage loans. Taking account of the materiality principle, the Bank presents full income on this insurance in the net commission income.

Most insurance products linked with the Bank'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 Bank recognises the income on such insurances in the commission income on insurance products.

Commissions under insurance products not linked to banking products are recognised in the income statement:

- on a straight-line basis during the insurance policy term – if the Bank, apart from other sales operations, also provides additional services during the insurance term,
- on a one-off basis – if the Bank does not provide any additional services during the insurance policy term.

Should there be a risk of refund of the fee under the insurance product, the Bank decreases its income by the amounts of estimated provisions. The provisions for refunds are established based on the historical data on actual refunds made in the past and based on projections as to the amount of refunds in the future.

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

16. Taxes

16.1. Income tax

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

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

16.2. Deferred income tax

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

in liabilities as *Deferred tax 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 Bank in the balance sheet after offsetting. The Bank 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.

V. Comparability of financial data

Amendments to the income statement

In the annual financial statements for the period from 1 January 2014 to 31 December 2014 the Bank made disclosure-related amendments regarding some items in the income statement, compared to the annual financial statements for the period from 1 January 2013 to 31 December 2013:

1) The manner of presenting the costs due to the fee for the benefit of BGF was changed. At present, the said costs are presented in the *General and administrative expenses* item whereas they used to be recognised in the *Commission expenses* item in the previous periods. As a result of that change, the *General and administrative expenses* item increased, and the *Commission expenses* item decreased by PLN 45.3 million.
2) The Bank analysed the commission income and commission expenses, and identified certain titles, as regards commission on payment cards and credit cards as well as commission related to keeping accounts, in the case of which the Bank was of the view that it would be more appropriate to deduct them from the commission income rather than recognise them as part of commission expenses. As a result of that change, both the commission income and the commission expenses decreased by PLN 4.3 million.

The changes described above required a restatement of the comparable data; they did not, however, impact on the level of the financial result as presented in the financial statements.

The table below highlights the individual items of the income statement as they were presented in the financial statements for 2013 and in the current statements.

INCOME STATEMENT	financial statements for 2013	changes		financial statements for 2014
		1)	2)	
	2013			**2013**
	the period from 01 Jan 2013 to 31 Dec 2013			the period from 01 Jan 2013 to 31 Dec 2013
- Interest income	3 467.9			3 467.9
- Interest expenses	1 543.1			1 543.1
Net interest income	**1 924.8**			**1 924.8**
- Commission income	1 043.4		-4.3	1 039.1
- Commission expenses	124.4	-45.3	-4.3	74.8
Net commission income	**919.0**	**45.3**	**0.0**	**964.3**
Net income on financial instruments measured at fair value through profit or loss and FX result	94.2			94.2
Net income on investments	146.0			146.0
Net income on hedge accounting	-1.5			-1.5
Net income on other basic activities	4.1			4.1
Result on basic activities	**3 086.6**	**45.3**	**0.0**	**3 131.9**
General and administrative expenses	1 709.9	45.3		1 755.2
Impairment losses and provisions for off-balance sheet liabilities	236.6			236.3
Profit (loss) before tax	**1 140.1**	**0.0**	**0.0**	**1 140.1**
Income tax	220.0			220.0
Net profit (loss)	**920.1**	**0.0**	**0.0**	**920.1**

Amendments to the statement of financial position

In the annual financial statements for the period from 1 January 2014 to 31 December 2014 the Bank made a few disclosure-related amendments to the statement of financial position, compared to financial statements for previous periods:

- separating the item *Assets held for sale* from the *Assets*. Previously, assets held for sale were an item of Non-financial assets due to the fact that they related to assets moved from Property, plant and equipment. In 2014, the Bank reclassified the shares in an affiliated entity to the assets held for sale, and a continued presentation of the assets held for sale as part of Non-financial assets might mislead the recipients of the statement as to the nature of that category,
- moving of liabilities towards co-operative savings and credit unions (SKOKs) from the item: *Liabilities to other banks* to the item: *Liabilities to customers*. The same change will be made in the note presenting interest costs on liabilities. The change is made to harmonize the data presented in the financial statements with those used in the management reporting.

The Bank is of the opinion that as a result of the amendment the statement of financial position became more transparent. The amendment did not impact on the balance sheet totals of the reporting periods.

The below table show individual items of the statement of financial position as per amounts disclosed in the in the annual financial statements for 2013 and in the current statements.

	as at 31.12.2013 financial statements for 2013	**as at 31.12.2013** as comparable data financial statements for 2014
A S S E T S		
- Non-financial assets	946.5	918.2
- Assets held for sale	-	28.3
L I A B I L I T I E S		
- Liabilities due to other banks	2,239.2	2,021.7
- Liabilities due to customers	67,250.6	67,468.1

VI. Notes to the financial statements

1. Segment reporting

Segments of operation

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

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

- retail banking segment,
- corporate banking segment.

The segments are separated based on the financial (especially turnover, level of collected assets) and subject-related criteria. The specific rules of putting clients to respective

segments are governed by the clients segmentation criteria specified in the Bank's internal regulations.

Retail banking segment

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

This activity is analysed by the leading products, including i.e.: credit products (overdraft on the savings and settlement account - ROR, loans related to cards, hire purchase loans, housing loans, mortgage loans, contract loans granted by the Building Society), deposit products (current accounts, term deposits, savings accounts), structured product, ING fund units, brokerage services and bank cards.

Corporate banking segment

Corporate banking area encompasses as follows:

- providing services to institutional clients,
- Financial Markets products,
- Bank Treasury operations.

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

Financial Markets products encompass operations performed in money and capital markets, conducted both on the proprietary basis as well as for the customers' benefit. Within the framework of this activity, currency, money and derivative instrument market products and securities operations (treasury securities, shares and notes) are specified.

The main scope of responsibilities of the Bank Treasury is management of both short-term and long-term liquidity risk, in line with the effective regulations and with risk appetite internally set at the Bank, interest rate risk management and investing surpluses obtained from business lines while maintaining the liquidity buffer in the form of liquid assets.

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, both internal and external interest income and costs for individual segments are determined with the use of the transfer price system within the Risk Transfer System (RTS).

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 2014, the Bank updated the allocation key for ALCO income and introduced changes referred to in item V. *Comparability of financial data.* Data for the 2013 presented herein were made comparable.

Geographical segments

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

year 2014

	Retail banking segment	Corporate banking segment	TOTAL
Revenue total	**1 836.5**	**1 557.0**	**3 393.5**
net interest income	1 300.0	911.2	2 211.2
net commission income	423.5	579.4	1 002.9
other income/expenses	113.0	66.4	179.4
Operational expenses	**1 139.4**	**674.8**	**1 814.2**
Result before risk	**697.1**	**882.2**	**1 579.3**
Impairment losses	78.7	164.7	243.4
Result after impairment losses (profit before tax)	**618.4**	**717.5**	**1 335.9**
Income tax	-	-	268.0
Result after tax	**-**	**-**	**1 067.9**

year 2013

	Retail banking segment	Corporate banking segment	TOTAL
Revenue total	**1 588.3**	**1 543.6**	**3 131.9**
net interest income	1 028.4	896.4	1 924.8
net commission income	424.5	539.8	964.3
other income/expenses	135.4	107.4	242.8
Operational expenses	**1 117.9**	**637.3**	**1 755.2**
Result before risk	**470.4**	**906.3**	**1 376.7**
Impairment losses	128.4	108.2	236.6
Result after impairment losses (profit before tax)	**342.0**	**798.1**	**1 140.1**
Income tax	-	-	220.0
Result after tax	**-**	**-**	**920.1**

end of year 2014

	Retail banking segment	Corporate banking segment	TOTAL
Assets of the segment	21 437.2	74 078.2	95 515.4
Segment investments in controlled entities	31.5	237.7	269.2
Other assets (not allocated to segments)	0.0	0.0	957.8
Total assets	**21 468.7**	**74 315.9**	**96 742.4**
Segment liabilities	50 292.1	35 045.8	85 337.9
Other liabilities (not allocated to segment)	0.0	0.0	1 156.7
Equity	0.0	0.0	10 247.8
Total equity and liabilities	**50 292.1**	**35 045.8**	**96 742.4**

2014

	Retail banking segment	Corporate banking segment	TOTAL
Capital expenditure	261.5	154.8	416.3
Net cash flow from operating activities	4 001.8	-4 902.9	-901.1
Net cash flow from operating activities (not allocated to segment)	0.0	0.0	-237.0
Net cash flow from operating activities total	4 001.8	-4 902.9	-1 138.1
Net cash flow from investment activities	-80.3	-54.3	-134.6
Net cash flow from financial activities	0.0	-272.3	-272.3

end of year 2013

	Retail banking segment	Corporate banking segment	TOTAL
Assets of the segment	18 097.2	64 211.9	82 309.1
Segment investments in controlled entities	158.4	303.0	461.4
Other assets (not allocated to segments)	0.0	0.0	900.0
Total assets	**18 255.6**	**64 514.9**	**83 670.5**
Segment liabilities	44 609.1	29 722.6	74 331.7
Other liabilities (not allocated to segment)	0.0	0.0	1 010.9
Equity	0.0	0.0	8 327.9
Total equity and liabilities	**44 609.1**	**29 722.6**	**83 670.5**

2013

	Retail banking segment	Corporate banking segment	TOTAL
Capital expenditure	175.8	100.2	276.0
Net cash flow from operating activities	4 637.6	-1 521.9	3 115.7
Net cash flow from operating activities (not allocated to segment)	0.0	0.0	-214.0
Net cash flow from operating activities total	4 637.6	-1 521.9	2 901.7
Net cash flow from investment activities	-74.3	-36.4	-110.7
Net cash flow from financial activities (not allocated to segment)	0.0	-0.7	-0.7

2. Net interest income

Interest income

	2014	2013
Interest on loans and receivables to other banks	93.5	105.2
Interest on loans and receivables to customers, of which:	2 660.2	2 546.7
- interest on entities from the financial sector other than banks	_168.1_	_163.8_
- interest on entities from the non-financial sector*	_2 338.3_	_2 199.6_
- interest on entities from the government and self-government institutions' sector	_153.8_	_183.3_
Interest on repo transactions concluded with customers	15.1	11.6
Interest on financial assets held for trading	23.2	26.8
Interest on available-for-sale financial assets	748.7	736.2
Interest result on derivatives**	38.0	41.4
Total interest income	**3 578.7**	**3 467.9**

Interest expenses

	2014	2013
Interest on deposits from other banks	58.0	42.0
Interest on deposits from customers, of which:	1 283.7	1 463.6
- interest on entities from the financial sector other than banks	_63.2_	_96.9_
- interest on entities from the non-financial sector*	_1 180.0_	_1 327.5_
- interest on entities from the government and self-government institutions' sector	_40.5_	_39.2_
Interest on repo transactions concluded with customers	3.2	10.0
Interest on issue of debt securities	20.5	24.4
Interest on financial liabilities held for trading	2.1	3.1
Total interest expense	**1 367.5**	**1 543.1**

Net interest income	**2 211.2**	**1 924.8**

*) 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 mortgage loans denominated in currency or indexed to CHF or EUR, 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 322.7 million in 2014 (PLN 428.1 million in interest income, PLN 105.4 million in interest expense) versus PLN 220.5 million in 2013 (PLN 293.7 million in interest income, PLN 73.2 million in interest expense).The hedge accounting strategy of the Bank has been detailed in the latter part hereof: explanatory note 39 _Hedge Accounting._

**) 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 2014 the amount of PLN 39.1 million represents revenue from financial assets for which impairment loss was recognised. In the year 2013, the amount reached PLN 54.5 million.

3. Net commission income

	2014	2013
Commission income		
- transaction margin on currency exchange transactions*	282.2	260.3
- commission related to keeping accounts	246.8	255.1
- commission related to loans	211.2	194.7
- commission related to payment and credit cards	150.3	188.9
- commission related to distribution of participation units	84.3	74.0
- commission related to insurance product offering	44.8	0.9
- fiduciary and custodian fees**	29.3	30.9
- foreign commercial business	17.9	16.1
- agency in financial instruments transactions	7.3	3.2
- commission related to brokerage activity	5.4	5.0
- other	17.9	10.0
Total comission income	**1 097.4**	**1 039.1**
Commission expenses		
- commission paid on intermediation in selling deposit products	18.1	15.7
- commission paid on disclosing credit information	11.3	7.4
- commission paid on cash handling services	10.5	10.2
- commission paid on trading in securities	8.9	7.7
- agency in financial instruments transactions	8.5	2.9
- costs of the National Clearing House (KIR)	7.5	6.5
- commission paid on electronic banking services	7.3	6.2
- commission related to brokerage activity	6.3	6.2
- cther	16.1	12.0
Total commision expenses	**94.5**	**74.8**
Net commission income	**1 002.9**	**964.3**

*) 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.

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

	2014	2013
Net income on financial assets and liabilities held for trading, of which:	**76.7**	**110.0**
- Net income on debt instruments	5.5	27.1
- Net income on derivatives, of which:	71.2	82.9
- Currency derivatives	*41.2*	*53.1*
- Interest rate derivatives	*28.7*	*27.0*
- Securities derivatives	*1.3*	*2.8*
FX result	**13.1**	**-15.8**
Net income on financial instruments measured at fair value through profit and loss and FX result	**89.8**	**94.2**

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.

5. Net income on investments

	2014	2013
Dividend income	67.5	40.6
Net income on equity instruments available-for-sale	6.5	0.5
Net income on debt instruments available-for-sale	5.0	104.9
Impairment losses	-11.1	0.0
Net income on investments	**67.9**	**146.0**

6. Net income on hedge accounting

	2014	2013
Fair value hedge accounting for securities	**8.4**	**-1.1**
- valuation of the hedged transaction	234.7	-204.3
- valuation of the hedging transaction	-226.3	203.2
Cash flow hedge accounting	**0.3**	**-0.4**
- ineffectiveness that arises from cash flow hedges	0.3	-0.4
Net income on hedge accounting	**8.7**	**-1.5**

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

ING

7. Net income on the other basic activities

	2014	2013
Net income on the investment properties, of which:	11.9	0.0
- income from rental of the investment property	*13.1*	*0.0*
- maintenance expenses relating to the investment property	*-4.0*	*0.0*
- valuation of investment property to fair value	*2.8*	*0.0*
Banking activity-related compensations and losses	-1.0	-1.2
Result on disposal of fixed assets and intangible assets	-0.4	-0.3
Impairment on other non-financial assets	-0.2	-0.2
Other	2.7	5.8
Total	**13.0**	**4.1**

8. General and administrative expenses

	2014	2013
Personnel expenses, of which:	**871.9**	**859.6**
- wages and salaries, including:	729.8	718.6
- variable remuneration programme	*25.9*	*17.1*
- ING Group's incentive programme	*1.8*	*4.8*
- retirement benefits	*2.0*	*2.1*
- employee benefits	142.1	141.0
General and administrative expenses, of which:	**770.8**	**735.2**
- maintenance, refurbishment and rental of buildings	255.0	232.4
- cost of marketing and promotion	108.6	96.9
- IT costs	95.9	122.5
- consulting	68.0	72.6
- material and leasing costs	62.5	52.0
- obligatory fee for the Bank Guarantee Fund	54.1	49.3
- cash handling services	37.3	39.0
- other	89.4	70.5
Depreciation and amortisation, of which:	**171.5**	**160.4**
- on property, plant and equipment	100.1	87.8
- on intangible assets	71.4	72.6
Total	**1 814.2**	**1 755.2**

8.1. Employee benefits

8.1.1. Variable Remuneration Programme

In 2014, the Variable Remuneration Programme initiated in 2012, was continued. The Programme is addressed to:

- persons holding managerial positions having material impact on the Bank risk profile (to satisfy the requirements of PFSA Resolution No. 258/2011) and
- employees displaying special potential and skills (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. The Programme description and characteristics are included in Chapter IV. *Significant accounting principles* 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 Bank risk profile.

Program 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 2014 to 20 Nov 2014
35 172	5.0	-	35 172	*11 710*	*11 723*	*11 739*	142.00

Program 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 2014 to 20 Nov 2014
77 816	11.0	46 756	31 060	*10 337*	*10 354*	*10 369*	142.00

Program 2014

Number of shares	Value of shares (in mio PLN)	Number of non-deferred shares - held 1 year (assigned in 2015 – payable in 2016)	Number of deferred shares total	*Phantom stock - 1 year of deferral (assigned in 2016 – payable in 2017)*	*Phantom stock - 2 years of deferral (assigned in 2017 – payable in 2018)*	*Phantom stock - 3 years of deferral (assigned in 2018 – payable in 2019)*	Stock price median for period from 10 Oct 2014 to 20 Nov 2014
74 184	10.5	44 546	29 638	*9 865*	*9 879*	*9 894*	142.00

8.1.2. Incentive programme's ING Group

To the end of 2012 the Bank 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 Chapter IV. *Significant accounting principles* in the item 12.3.2. *ING Group long-term incentive system benefits.*

As at the balance sheet date, the Bank recognises in its books the measurement of instruments held by Bank employees. The fair value of options granted is recognised as personnel expenses (on the other side of the balance sheet – in capitals) and is allocated throughout the vesting period.

The table below presents the parameters taken into account in the valuation model in the years 2014 and 2013:

	2014		**2013**	
	min	***max***	***min***	***max***
risk free interest rate	2.02%	4.62%	2.02%	4.62%
expected term of realisation	5 lat	9 lat	5 lat	9 lat
current share price	2.9 EUR	26.05 EUR	2.9 EUR	26.05 EUR
expected volatility of the certificates of shares	25%	84%	25%	84%
expected dividends	0.94%	8.99%	0.94%	8.99%

Changes in option rights outstanding

	Options outstanding (in numbers)		Weighted average exercise price (in euros)	
	2014	**2013**	**2014**	**2013**
Opening balance	**653 065**	**732 183**	**14.08**	**13.26**
- transferred	-104 638	37 312	7.10	12.41
- made	57 052	63 266	6.23	6.15
- forfeited	6 761	12 195	12.68	13.59
- expired	34 161	40 969	15.16	10.27
Closing balance	**450 453**	**653 065**	**16.64**	**14.08**

As per 31 Dec 2014 total options outstanding consists of 75.066 options relating to equity-settled share-based payment arrangements and 375,387 options relating to cash-settled share-based payment arrangements (as per 31 Dec 2013 109,166 and 543,899 respectively).

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

2014

Range of exercise price in euros	**Options outstanding as at 31 Dec 2014**	Weighted average remaining contractual life	Weighted average exercise price (in EUR)	**Options excercisable as at 31 Dec 2014**	Weighted average remaining contractual life	Weighted average exercise price (in EUR)
0,00 - 5,00	42 667	4.22	2.90	42 667	4.22	2.90
5,00 - 10,00	78 348	5.21	7.35	78 348	5.21	7.35
10,00 - 15,00	4 145	3.72	14.36	4 145	3.72	14.36
15,00 - 20,00	174 010	2.16	17.09	174 010	2.16	17.09
20,00 - 25,00	88 781	2.21	24.68	88 781	2.21	24.68
25,00 - 30,00	62 502	1.23	25.16	62 502	1.23	25.16
	450 453			**450 453**		

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**		

The aggregate intrinsic value of options outstanding and exercisable as at 31 Dec 2014 was EUR 611,000 in comparision with EUR 1,121,911 as at 31 Dec 2013.

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

	2014	2013
Impairment losses on loans and other receivables	569.6	621.4
Reversed impairment losses on loans and other receivables	-330.2	-376.1
Net impairment losses on loans and other receivables, of which:	**239.4**	**245.3**
- losses on loans and other receivables with evidence of impairment	*234.5*	*231.4*
- losses on loans and other receivables with no evidence of impairment (IBNR)	*4.9*	*13.9*
Increase of provisions for off-balance liabilities	15.8	10.0
Reversed provision for off-balance sheet liabilities	-11.8	-18.7
Net provisions for off-balance sheet liabilities recognized, of which:	**4.0**	**-8.7**
- on the portfolio with evidence of impairment	*1.8*	*-6.5*
- on the portfolio with no evidence of impairment (IBNR)	*2.2*	*-2.2*
Total increase of provisions	**585.4**	**631.4**
Total reversed impairment losses	**-342.0**	**-394.8**
Net impairment losses and provisions for off-balance sheet liabilities	**243.4**	**236.6**

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 2014 totalled PLN 5.4 million compared with PLN 13.3 million in 2013.

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

	2014	2013
Impairment losses on loans and other receivables, of which	**569.6**	**621.4**
- banks	*0.3*	*0.8*
- entities from the financial sector other than banks	*0.4*	*0.4*
- entities from the non-financial sector	*568.5*	*619.6*
- entities from the government and self-government institutions' sector	*0.4*	*0.6*
Reversed impairment losses on loans and other receivables, of which:	**-330.2**	**-376.1**
- banks	*-0.3*	*-0.5*
- entities from the financial sector other than banks	*-0.3*	*-0.4*
- entities from the non-financial sector	*-329.3*	*-374.8*
- entities from the government and self-government institutions' sector	*-0.3*	*-0.4*
Net impairment losses on loans and other receivables, of which:	**239.4**	**245.3**
- banks	*0.0*	*0.3*
- entities from the financial sector other than banks	*0.1*	*0.0*
- entities from the non-financial sector	*239.2*	*244.8*
- entities from the government and self-government institutions' sector	*0.1*	*0.2*

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

	2014	2013
Impairment losses on loans and other receivables, of which:	**569.6**	**621.4**
- corporate banking	*335.6*	*244.0*
- retail banking	*234.0*	*377.4*
Reversed impairment losses on loans and other receivables, of which:	**-330.2**	**-376.1**
- corporate banking	*-182.0*	*-73.5*
- retail banking	*-148.2*	*-302.6*
Net impairment losses on loans and other receivables, of which:	**239.4**	**245.3**
- corporate banking	*153.6*	*170.5*
- retail banking	*85.8*	*74.8*

10. Income tax

Income tax recognised in the profit and loss account

	2014	2013
Current portion, of which:	**304.0**	**197.3**
Current year	311.4	211.0
Adjustment of last-year tax settlement	-7.4	-13.7
Deferred tax, of which:	**-36.0**	**22.7**
Recognised and reversed temporary differences	-36.0	22.7
Total income tax recognised in the profit and loss account	**268.0**	**220.0**

Effective tax rate calculation

		2014	2013
A.	**Profit before tax**	**1 335.9**	**1 140.1**
B.	**19% of profit before tax**	**253.8**	**216.6**
C.	**Increases – non-deductible expenses, of which:**	**27.1**	**12.7**
	- expenses due to loan and non-loan receivables written off	5.0	1.9
	- setting up a provision against disputable debt claims and other assets	3.5	1.8
	- PFRON	1.4	1.2
	- impairment on receivables in a part not covered with the deferred tax	1.6	1.1
	- representation expenses	0.7	1.0
	- thin capitalisation	0.7	0.7
	- tax loss on the sale of debt	9.1	0.0
	- other	5.1	5.0
D.	**Decreases – tax exempt income, of which:**	**12.9**	**9.3**
	- dividends received	12.1	7.0
	- release of provisions against disputable debt claims	0.7	2.0
	- income exempt due to the entity	0.1	0.2
	- other	0.0	0.1
E.	**Income tax from profit and loss account (B+C-D)**	**268.0**	**220.0**
Effective tax rate (E : A)		**20.06%**	**19.30%**

The following developments impacted effective tax rate increase in 2014:

- Conclusion in the H1 2014 of the letter of intent concerning sale of shares held by ING Bank Śląski S.A. in the ING Powszechne Towarzystwo Emerytalne S.A. (ING PTE) affiliated entity and due to a change of intent concerning the shares held, establishment of provision for deferred tax in the amount of PLN 13.2 million.
- Non-tax loss incurred on sale of debt claims to one of the commercial banking clients (income tax increase of PLN 9.1 million).

11. Earnings per ordinary share

Basic earnings per share

The calculation of basic earnings per one share of the parent company as for the year 2014 was based on net profit amounting to PLN 1,067.9 million (in the year 2013, it was PLN 920.1 million) and weighted average number of ordinary shares at the end 2014 i 2013 equalling 130 100 000.

	2014	2013
Net profit (loss) assigned to shareholders of the ING Bank Śląski S.A.	1 067.9	920.1
Weighted average number of ordinary shares	130 100 000	130 100 000
Earnings per ordinary share (in PLN)	**8.21**	**7.07**

Diluted earnings per share

In 2014 as well as in 2013, 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.

12. 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 520.4 million from the 2014 profit for dividend payout. Pursuant to the recommendation of the Board the dividend paid per share will be PLN 4.00 gross.

On 10 April 2014, the General Meeting passed a resolution regarding dividend payout for 2013, pursuant to which the Bank paid out the dividend for 2013 totalling PLN 572.44 million, (PLN 4.40 gross per share). On 14 May 2014 the shareholders of record became entitled to the dividend payout which took place on 3 June 2014.

13. Cash in hand and balances with the Central Bank

	end of 2014	end of 2013
Cash in hand	1 097.3	823.3
Balances with the Central Bank	4 233.4	6 146.8
Total	**5 330.7**	**6 970.1**

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

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

- PLN 2,597.8 million for the period from 31 Dec 2014 to 1 Feb 2015,
- PLN 2,339.5 million for the period from 31 Dec 2013 to 30 Jan 2014.

The Bank may utilise the credit limit with the National Bank of Poland representing 85% of the face value of Treasury securities subject to pledge, which as at 31 Dec 2014 represented PLN 13,180.6 million compared with PLN 11,530.1 million as at 31 Dec 2013.

14. Loans and receivables to other banks

	end of 2014	end of 2013
Current accounts	963.4	869.0
Interbank deposits	125.8	235.7
Loans and advances	67.2	150.6
Reverse repo transactions	664.9	133.7
Total (gross)	**1 821.3**	**1 389.0**
Impairment losses, of which:	0.0	-0.1
- concerning loans and advances	0.0	-0.1
Total (net)	**1 821.3**	**1 388.9**

Loans and receivables to other banks by maturity

	end of 2014	end of 2013
up to 1 month	1 638.7	1 074.2
over 1 month and up to 3 months	136.4	221.7
over 3 months and up to 1 year	31.8	53.1
over 1 year and up to 5 years	14.4	40.0
Total	**1 821.3**	**1 389.0**

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

Financial assets held for trading

	end of 2014	end of 2013
Debt instruments, of which:	**1 409.8**	**1 276.3**
- Treasury bonds	*1 409.8*	*476.5*
- NBP bills	*0.0*	*799.8*
Total financial assets held for trading, of which:	1 409.8	1 276.3
- listed instruments	*1 409.8*	*476.5*
- unlisted instruments	*0.0*	*799.8*
Transactions with the buy-back commitment	**447.0**	**675.1**
Total financial assets held for trading	**1 856.8**	**1 951.4**

Financial assets at fair value through profit and loss by maturity

	end of 2014	end of 2013
up to 1 month	453.2	1 485.1
over 3 months and up to 1 year	38.4	1.1
over 1 year and up to 5 years	1 223.9	247.8
over 5 years	141.3	217.4
Total	**1 856.8**	**1 951.4**

Movements in financial assets at fair value through profit and loss

	2014	2013
Opening balance	**1 951.4**	**1 554.6**
Increases, of which:	**159 269.5**	**290 478.6**
- purchase of debt securities	*159 251.2*	*290 422.8*
- increase in the value of securities	*18.3*	*55.8*
Decreases, of which:	**159 364.1**	**290 081.8**
- sales of debt securities	*152 270.3*	*261 704.4*
- redemption of debt securities	*7 060.5*	*28 300.5*
- drop in the value of securities	*33.3*	*76.9*
Closing balance	**1 856.8**	**1 951.4**

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.*

16. Valuation of derivatives

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

end of 2014

	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:	**2 154.7**	**2 164.1**	**32 182.3**	**62 910.7**	**80 855.9**	**175 948.9**
- Forward rate agreements (FRA)	43.5	45.7	22 628.0	38 400.0	5 675.0	**66 703.0**
- Interest rate swaps (IRS)	2 107.6	2 114.8	9 263.8	24 041.3	71 918.6	**105 223.7**
- CAP options	3.6	3.6	290.5	469.4	3 262.3	**4 022.2**
FX derivatives, of which:	**253.3**	**353.6**	**25 080.3**	**8 558.7**	**2 667.6**	**36 306.6**
- FX contracts (swap, forward)	207.5	207.3	24 444.2	7 979.7	1 455.4	**33 879.3**
- CIRS	24.1	107.9	0.0	0.0	839.7	**839.7**
- Currency options (purchased)	21.7	0.0	329.1	135.9	132.9	**597.9**
- Currency options (sold)	0.0	38.4	307.0	443.1	239.6	**989.7**
Current off-balance sheet transactions, of which:	**1.6**	**1.6**	**4 895.0**	**0.0**	**0.0**	**4 895.0**
- FX operations	1.3	1.6	1 954.8	-	-	**1 954.8**
- Securities operations	0.3	0.0	2 940.2	-	-	**2 940.2**
Stock market derivatives, of which:	**0.0**	**0.0**	**11.4**	**12.8**	**0.0**	**24.2**
- Options for stock market (buy)	0.0	0.0	5.7	6.4	0.0	**12.1**
- Options for stock market (sold)	0.0	0.0	5.7	6.4	0.0	**12.1**
Fair value measurement of other financial instruments	**2.1**	**2.0**	-	-	-	-
Total	**2 411.7**	**2 521.3**	**62 169.0**	**71 482.2**	**83 523.5**	**217 174.7**

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 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:	**1 229.7**	**1 198.3**	**28 702.1**	**44 983.9**	**60 081.8**	**133 767.8**
- Forward rate agreements (FRA)	9.8	8.8	18 450.1	25 111.5	1 550.0	**45 111.6**
- Interest rate swaps (IRS)	1 214.3	1 182.7	9 962.7	19 609.0	55 920.5	**85 492.2**
- CAP options	5.6	6.8	289.3	263.4	2 611.3	**3 164.0**
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	**1 471.7**	**1 493.4**	**51 557.3**	**54 179.2**	**60 544.7**	**166 281.2**

Embedded derivatives

At the end of 2014 and 2013 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 2014 was PLN +0.5 million against PLN -2.8 million as per 31 Dec 2013.

17. Investments

	end of 2014	end of 2013
Available-for-sale financial assets, including:	22 828.6	19 492.9
- fair value hedge - hedged items	*4 095.9*	*1 971.6*
Total	**22 828.6**	**19 492.9**

Available-for-sale financial assets

	end of 2014	end of 2013
Debt securities, of which:	**22 815.3**	**19 466.3**
- Fixed rate debt instruments, of which:	12 345.9	10 018.6
- Treasury bonds	*10 149.1*	*7 016.2*
- NBP bills	*499.9*	*1 099.8*
- BGK bonds	*1 696.9*	*1 902.6*
- Floating rate debt instruments, of which:	10 469.4	9 447.7
- Treasury bonds	*10 469.4*	*9 447.7*
Total debt instruments, of which:	22 815.3	19 466.3
- listed instruments	*22 315.4*	*18 366.5*
- unlisted instruments	*499.9*	*1 099.8*
Equity instruments	**13.3**	**26.6**
- Equity instruments at cost	19.4	40.3
- Market value evaluation	0.0	0.0
- Impairment	-6.1	-13.7
Equity instruments – carrying value, of which:	13.3	26.6
- listed instruments	*8.4*	*24.0*
- unlisted instruments	*4.9*	*2.6*
Total available-for-sale financial assets	**22 828.6**	**19 492.9**

The item *Equity Instruments* include stocks and shares of number of entities not quoted on stock exchange which are not presented as fair value. It is difficult or impossible to determine the fair value due to absence of active market for those instruments. The Bank is of the opinion that the purchase price is the best indicator of their value. Owning these shares is related to Bank's activities (KIR, SWIFT, BIK, PSP).

Moreover, the Bank 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 Bank for disposal (by sale or liquidation).

Investments by maturity

	end of 2014	end of 2013
up to 1 month	544.6	1 099.8
over 3 months and up to 1 year	3 199.7	509.4
over 1 year and up to 5 years	11 174.9	11 275.9
over 5 years	7 909.4	6 607.8
Total	**22 828.6**	**19 492.9**

Movements in investments

	2014	2013
Opening balance	**19 492.9**	**17 880.5**
Increases, of which:	**85 149.5**	**141 703.5**
- purchase of debt securities	*83 867.3*	*140 828.7*
- increase in the value of securities	*1 279.9*	*873.3*
- purchase of shares in other parties	*2.3*	*0.0*
-release of provisions for shares	*0.0*	*1.5*
Decreases, of which:	**81 813.8**	**140 091.1**
- sales of debt securities	*8 299.2*	*9 661.3*
- redemption of debt securities	*72 723.5*	*129 191.3*
- drop in the value of securities	*777.4*	*1 235.0*
- sale of shares in other parties	*13.7*	*3.5*
Closing balance	**22 828.6**	**19 492.9**

In 2014, the Bank sold part of shares of 1 company from its investment portfolio. The net income on sale of those shares amounted to PLN +6.5 million. To compare, in 2013, the Bank sold shares of 4 companies from its investment portfolio. The net income on sale of those shares amounted to PLN +0.5 million.

Fair value hedge - hedged items

	end of 2014	end of 2013
Fixed rate debt instruments, of which:	4 095.9	1 971.6
- Treasury bonds	*3 726.0*	*1 745.9*
- BGK bonds	*369.9*	*225.7*
Total	**4 095.9**	**1 971.6**

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

17.1. Reclassification of debt securities

In 2008 the Bank reclassified certain securities. The Bank reclassified 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 of or inactiveness of the market, which in the opinion of the Bank causes the above securities to match the definition of loans and receivables according to IAS, namely they "are financial assets other than derivatives, with

the determined or possible to determine payments, and which are not quoted on active market", and the Bank's intention pertaining thereto, i.e. Bank's intention and possibility to hold them in a foreseeable future, did not change.

The reclassification resulted in a change in the basis of the debt securities measurement, that is from measurement at fair value to measurement 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**	**end of 2014**			**end of 2013**		
		fair value as of the date of reclassification	**carrying amount**	**fair value**	**fair value as of the date of reclassification**	**carrying amount**	**fair value**
T-eurobonds	01.10.2008	1 242.9	1 855.0	2 101.7	1 242.9	1 783.5	1 991.0
Corporate bonds	19.12.2008	8.9	8.5	8.1	11.0	10.7	9.9
Municipal bonds	19.12.2008	20.1	20.5	20.4	25.2	25.5	24.7
Total		**1 271.9**	**1 884.0**	**2 130.2**	**1 279.1**	**1 819.7**	**2 025.6**

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

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

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

Name of security	**Fair value recognised in equity**	
	end of 2014	**end of 2013**
T-eurobonds	246.7	207.5
Corporate bonds	-0.5	-0.8
Municipal bonds	-0.1	-0.7
Total	**246.1**	**206.0**

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

Costs and revenues included in the profit and loss account

2014

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	77.5	-2.8	1.9	20.7
Corporate bonds	0.3	0.0	0.0	0.0
Municipal bonds	0.7	0.1	-0.1	0.0
Total	**78.5**	**-2.7**	**1.8**	**20.7**

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**

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

18. Assets securing liabilities

Market value of assets securing liabilities

	end of 2014	end of 2013
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)	56.3	606.0
From the portfolio of available-for-sale financial assets:		
- treasury bonds constituting a collateral to Bank Guarantee Fund	428.3	429.2
- treasury bonds collateralising the loan received by the subsidiary of the European Investment Bank	290.0	228.0
- French government bonds to hedge settlements with the LCH	258.4	0.0
- treasury bonds collateralising the Bank debt to subsidiary	41.4	42.4
- treasury bonds collateralising the liabilities due to securities sold with a promise of repurchase (sell-buy-back transactions)	29.3	0.0
- treasury bonds collateralising the liabilities due to securities sold with a promise of repurchase (repo transactions)	0.0	428.3
From the portfolio of loans and receivables:		
- treasury bonds collateralising the liabilities due to securities sold with a promise of repurchase (repo transactions)	0.0	28.1

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.

The carrying amount of liabilities from repurchase transactions (sell-buy-back and repo) are presented in the following notes:

- note 27 *Liabilities due to other banks*
- note *28 Financial liabilities measured at fair value through profit and loss*
- note 30 *Repurchase transactions concluded with customers*

Besides the instruments indicated herein, assets limited as to use also include the mandatory provision which the Bank has to maintain in the current account with NBP. For mandatory provision details, see note no. 13 *Cash in hand and balances with the Central Bank*.

The majority of buy-sell-back/reverse repo transactions are effected assuming the option of legal transfer of securities' ownership being object of such transactions. The above indicates that the counterparty who purchased ownership of securities can still sell back them or pledge them accordance with the generally adopted market practice.

Securities not recognised as the Bank assets accepted as collateral for liabilities under repo transactions

The market value of securities under buy-sell-back / reverse repo transactions totalled PLN 1,204.9 million as at 31 Dec 2014, as compared to PLN 1,429.0 million as at 31 Dec 2013.

The majority of buy-sell-back/reverse repo transactions are effected assuming the option of legal transfer of securities' ownership being object of such transactions. The above indicates that the securities can be still sold back or that a pledge can be established thereone in accordance with the generally adopted market practice.

19. Derivative hedge instruments

Positive valuation

	end of 2014	end of 2013
Balance sheet valuation of instruments hedging the cash flows, of which:	2 983.4	1 043.7
- Interest Rate Swap	*2 981.0*	*995.0*
- Cross Currency Swap	*2.4*	*48.7*
Balance sheet valuation of instruments hedging the fair value of securities, of which:	0.4	8.2
- Interest Rate Swap	*0.4*	*8.2*
Total	**2 983.8**	**1 051.9**

Negative valuation

	end of 2014	end of 2013
Balance sheet valuation of instruments hedging the cash flows, of which:	1 038.4	389.6
- Interest Rate Swap	*1 001.4*	*388.4*
- Cross Currency Swap	*37.0*	*1.2*
Balance sheet valuation of instruments hedging the fair value of securities, of which:	994.4	724.8
- Interest Rate Swap	*994.4*	*724.8*
Total	**2 032.8**	**1 114.4**

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

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

20. Loans and receivables to customers

20.1. Customer loan portfolio

	end of 2014	end of 2013
Customer loan portfolio, of which:	**55 587.2**	**46 790.2**
- Loans and advances	52 815.5	44 614.5
- Corporate and municipal bonds	2 771.7	2 175.7
Other receivables, of which:	**3 984.5**	**3 778.4**
- T-eurobonds	3 923.9	3 685.8
- Other	60.6	92.6
Total loans and receivables to customers (gross)	**59 571.7**	**50 568.6**
Impairment losses, of which:	**-1 619.6**	**-1 449.0**
- **concerning customer loan portfolio, of which:**	**-1 614.4**	**-1 443.8**
- concerning loans and advances	-1 608.8	-1 443.8
- concerning corporate and municipal bonds	-5.6	0.0
- **concerning other receivables**	**-5.2**	**-5.2**
Total loans and receivables to customers (net), of which:	**57 952.1**	**49 119.6**
- to entities from the financial sector other than banks	*6 098.2*	*4 973.7*
- to entities from the non-financial sector	*44 130.4*	*36 887.0*
- to entities from the government and self-government institutions' sector	*7 723.5*	*7 258.9*

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

	end of 2014	end of 2013
Loans and advances, of which:	6 049.1	4 895.6
- in the current account	*1 805.0*	*1 369.3*
- term ones	*4 244.1*	*3 526.3*
Pozostałe należności	50.2	78.8
Total (gross)	**6 099.3**	**4 974.4**
Impairment losses, of which	-1.1	-0.7
- concerning loans and advances	-1.1	-0.7
Total (net)	**6 098.2**	**4 973.7**

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

	end of 2014	end of 2013
Business entities, of which:	**23 266.3**	**19 459.2**
Loans and advances, of which:	21 592.4	18 201.2
- in the current account	*5 724.2*	*5 223.0*
- term ones	*15 868.2*	*12 978.2*
Corporate bonds	1 664.1	1 244.8
Other receivables	9.8	13.2
Households, of which:	**22 481.4**	**18 875.1**
Loans and advances, of which:	22 480.9	18 874.6
- in the current account	*1 542.6*	*1 434.9*
- term ones	*20 938.3*	*17 439.7*
Other receivables	0.5	0.5
Total (gross)	**45 747.7**	**38 334.3**
Impairment losses, of which:	**-1 617.3**	**-1 447.3**
- Business entities, of which:	-1 020.5	-952.0
- concerning loans and advances	-1 010.2	-947.3
- concerning corporate bonds	-5.6	0.0
- concerning other receivables	-4.7	-4.7
- Households, of which:	-596.8	-495.3
- concerning loans and advances	-596.3	-494.8
- concerning other receivables	-0.5	-0.5
Total (net)	**44 130.4**	**36 887.0**

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

	end of 2014	end of 2013
Loans and advances, of which:	2 693.1	2 643.1
- in the current account	*6.7*	*32.6*
- term ones	*2 686.4*	*2 610.5*
Municipal bonds	1 107.6	930.9
T-eurobonds	3 923.9	3 685.8
Other receivables	0.1	0.1
Total (gross)	**7 724.7**	**7 259.9**
Impairment losses, of which:	**-1.2**	**-1.0**
- concerning loans and advances	-1.2	-1.0
Total (net)	**7 723.5**	**7 258.9**

In 2008, the Bank reclassified a part of the debt securities portfolio from available-for-sale financial assets to 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 note no. 17.1.

Customer loans portfolio by client segment

	end of 2014	end of 2013
Gross value, of which:	**55 587.2**	**46 790.2**
Corporate banking segment, of which:	33 844.6	28 425.5
- loans and advances	*31 072.9*	*26 249.8*
- corporate and municipal bonds	*2 771.7*	*2 175.7*
Retail banking segment, of which:	21 742.6	18 364.7
- mortgages	*16 680.8*	*14 018.2*
- other loans and advances	*5 061.8*	*4 346.5*
Impairment losses, of which:	**-1 614.4**	**-1 443.8**
Corporate banking segment, of which:	-1 048.1	-957.1
- loans and advances	*-1 042.5*	*-957.1*
- corporate and municipal bonds	*-5.6*	*0.0*
Retail banking segment, of which:	-566.3	-486.7
- mortgages	*-173.3*	*-137.1*
- other loans and advances	*-393.0*	*-349.6*
Net value, of which:	**53 972.8**	**45 346.4**
Corporate banking segment, of which:	32 796.5	27 468.4
- loans and advances	*30 030.4*	*25 292.7*
- corporate and municipal bonds	*2 766.1*	*2 175.7*
Retail banking segment, of which:	21 176.3	17 878.0
- mortgages	*16 507.5*	*13 881.1*
- other loans and advances	*4 668.8*	*3 996.9*

Loans and receivables to customers by maturity (gross)

	end of 2014	end of 2013
up to 1 month	11 229.2	9 878.8
over 1 month and up to 3 months	1 604.9	1 602.0
over 3 months and up to 1 year	5 724.5	5 825.4
over 1 year and up to 5 years	20 324.6	15 671.6
over 5 years	19 470.9	16 488.0
overdue	1 217.6	1 102.8
Total	**59 571.7**	**50 568.6**

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 2014	end of 2013
Fixed rate debt instruments, of which:	3 923.9	3 685.8
- Treasury bonds	*3 923.9*	*3 685.8*
Total	**3 923.9**	**3 685.8**

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

Sale of debt

In 2014 the Bank sold a portfolio of corporate receivables. The total amount of receivables sold under the agreement equalled USD 29.3 million (principal and interest), which are fully covered with impairment losses. As a consequence of the agreement described herein, the Bank decreased its non-performing loans portfolio by USD 29.1 million.

In 2013 the Bank sold a portfolio of retail receivables. 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. As a consequence of the agreement described herein, the Bank decreased its non-performing loans portfolio by PLN 155.1 million.

Repayment security

In line with the credit policy, the Bank accepts collateral to secure repayment of the loans extended in the form of blocked borrower's account funds and the borrower's assets. More information about collaterals is presented in the part "*Risk Management in ING Bank Śląski S.A.*", in chapter I *Credit Risk Management*, in the point no 7.4. *Repayment Security and Other Forms of Credit Risk Mitigation*.

20.2. Quality of customer loan portfolio

Customer loan portfolio division by impairment condition and impairment loss estimation method

	end of 2014	end of 2013
Corporate banking segment		
Gross value, of which:	**33 844.6**	**28 425.5**
- unimpaired (IBNR*))	32 524.1	27 093.1
- impaired, of which:	1 320.5	1 332.4
- measured individually (ISFA))*	1 080.8	1 145.2
- measured as the portfolio (INSFA))*	239.7	187.2
Impairment losses, of which:	**-1 048.1**	**-957.1**
- unimpaired (IBNR*))	-73.1	-43.2
- impaired, of which:	-975.0	-913.9
- measured individually (ISFA))*	-795.0	-811.4
- measured as the portfolio (INSFA))*	-180.0	-102.5
Net value, of which:	**32 796.5**	**27 468.4**
- unimpaired (IBNR*))	32 451.0	27 049.9
- impaired, of which:	345.5	418.5
- measured individually (ISFA))*	285.8	333.8
- measured as the portfolio (INSFA))*	59.7	84.7
Retail banking segment		
Gross value, of which:	**21 742.6**	**18 364.7**
- unimpaired (IBNR*))	21 164.6	17 864.4
- impaired	578.0	500.3
Impairment losses, of which:	**-566.3**	**-486.7**
- unimpaired (IBNR*))	-87.6	-103.3
- impaired	-478.7	-383.4
Net value, of which:	**21 176.3**	**17 878.0**
- unimpaired (IBNR*))	21 077.0	17 761.1
- impaired	99.3	116.9
Total gross value, of which:	**55 587.2**	**46 790.2**
- unimpaired (IBNR) portfolio	53 688.7	44 957.5
- impaired portfolio	1 898.5	1 832.7
Total impairment losses, of which:	**-1 614.4**	**-1 443.8**
- unimpaired (IBNR) portfolio	-160.7	-146.5
- impaired portfolio	-1 453.7	-1 297.3
Total net value, of which:	**53 972.8**	**45 346.4**
- unimpaired (IBNR) portfolio	53 528.0	44 811.0
- impaired portfolio	444.8	535.4

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

20.3. Movements in impairment losses concerning customer loan portfolio

	2014	2013
Opening balance	**1 443.8**	**1 333.8**
Movements in impairment losses, of which:	**170.6**	**110.0**
- Recognised during the period	*569.5*	*621.7*
- Reversed during the period	*-330.2*	*-376.1*
- Receivable written off as allowances	*-74.8*	*-191.7*
- Amounts recovered from loans previously written off	*5.5*	*13.3*
- Unwinding interest	*8.8*	*-2.7*
- Amount of previous FV adjustment for restructuring unmatured FM assets)*	*-0.8*	*9.0*
- Other	*-7.4*	*36.5*
Closing balance	**1 614.4**	**1 443.8**

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

Movements in impairment losses concerning customer loan portfolio by client segments

2014	**Corporate banking segment**			**Retail banking segment**			**TOTAL**
	loans and advances	bonds	**TOTAL**	mortgages	other loans and advances	**TOTAL**	
Opening balance	**956.3**	**0.8**	**957.1**	**137.1**	**349.6**	**486.7**	**1 443.8**
Movements in impairment losses, of which:	**86.2**	**4.8**	**91.0**	**36.2**	**43.4**	**79.6**	**170.6**
- Recognised and reversed during the period	*155.9*	*4.8*	***160.7***	*36.6*	*42.0*	***78.6***	***239.3***
- Receivable written off as allowances	*-68.8*	*0.0*	***-68.8***	*-0.9*	*-5.1*	***-6.0***	***-74.8***
- Amounts recovered from loans previously written off	*0.8*	*0.0*	***0.8***	*0.2*	*4.5*	***4.7***	***5.5***
- Unwinding interest	*-0.2*	*0.0*	***-0.2***	*0.1*	*8.9*	***9.0***	***8.8***
- Amount of previous FV adjustment for restructuring unmatured FM assets	*-0.8*	*0.0*	***-0.8***	*0.0*	*0.0*	***0.0***	***-0.8***
- Other	*-0.7*	*0.0*	***-0.7***	*0.2*	*-6.9*	***-6.7***	***-7.4***
Closing balance	**1 042.5**	**5.6**	**1 048.1**	**173.3**	**393.0**	**566.3**	**1 614.4**

2013	**Corporate banking segment**			**Retail banking segment**			**TOTAL**
	loans and advances	bonds	**TOTAL**	mortgages	other loans and advances	**TOTAL**	
Opening balance	**805.8**	**57.8**	**863.6**	**87.8**	**382.4**	**470.2**	**1 333.8**
Movements in impairment losses, of which:	**150.5**	**-57.0**	**93.5**	**49.3**	**-32.8**	**16.5**	**110.0**
- Recognised and reversed during the period	*104.7*	*12.5*	***117.2***	*49.5*	*78.9*	***128.4***	***245.6***
- Receivable written off as allowances	*-42.0*	*0.0*	***-42.0***	*-2.0*	*-147.7*	***-149.7***	***-191.7***
- Amounts recovered from loans previously written off	*0.7*	*0.0*	***0.7***	*0.4*	*12.2*	***12.6***	***13.3***
- Unwinding interest	*-6.0*	*-0.5*	***-6.5***	*-0.8*	*4.6*	***3.8***	***-2.7***
- 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	*84.1*	*-69.0*	***15.1***	*2.2*	*19.2*	***21.4***	***36.5***
Closing balance	**956.3**	**0.8**	**957.1**	**137.1**	**349.6**	**486.7**	**1 443.8**

21. Receivables from customers due to repo transactions

Starting from 2013 the Bank 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 2014	end of 2013
Receivables from customers due to repo transactions	106.6	638.8
Total	**106.6**	**638.8**

22. Investments in controlled entities

The Bank has shares in the subsidiared and associated entities:

Name of entity	Type of capital relation	Bank's percentage share in the business's equity	Carrying value of shares (at cost)	
			end of 2014	end of 2013
ING Securities S.A.	subsidiary	100.00%	30.2	30.2
Centrum Banku Śląskiego Sp. z o.o.	subsidiary	100.00%	0.0	160.2
ING ABL Polska S.A.	subsidiary	100.00%	206.1	206.1
ING Usługi dla Biznesu S.A.	subsidiary	100.00%	15.9	17.0
Solver Sp. z o.o.	subsidiary	88.93%	17.0	7.9
ING Powszechne Towarzystwo Emerytalne S.A.	associated company	20.00%	0.0	40.0
Total			**269.2**	**461.4**

All the Bank's subsidiaries operate in the Polish territory.

23. Non-financial assets

	end of 2014	end of 2013
Investment properties	60.0	0.0
Property, plant and equipment	581.7	562.3
Intangible assets	360.8	355.9
Total	**1 002.5**	**918.2**

23.1. Investment properties

	2014	2013
Value at the beginning of period	0.0	0.0
Additions, due to:	59.6	0.0
- merger with a subsidiary	*59.6*	*0.0*
Disposals, due to:	-2.4	0.0
- reclassification to own real properties	*-2.4*	*0.0*
Revaluation at the fair value	2.8	0.0
Value at the end of period	**60.0**	**0.0**

There are no legal constraints on the investment property nor contractual obligations relating to the purchase of the aforementioned real property.

On account of the investment property ownership, the Bank posted rental income and incurred maintenance costs, which were recognised in the statement of profit and loss in the item *Net income on the other basic activities.*

23.2. Property, plant and equipment

	end of 2014	end of 2013
Real estate and leasehold improvements	328	331.7
Computer hardware	51.8	43.7
Other fixtures and fittings	164.6	154.3
Constructions in progress	37.3	32.6
Total	**581.7**	**562.3**

2014

	Real estate and leasehold improvements	Computer hardware	Other fixtures and fittings	Constructions in progress	TOTAL
Gross value at the beginning of period	659.8	201.4	422.3	32.6	**1 316.1**
Additions, due to:	117.5	31.6	58.2	123.3	**330.6**
- purchases	*0.0*	*0.0*	*0.0*	*123.3*	***123.3***
- investment take-overs	*30.0*	*31.5*	*57.1*	*0.0*	***118.6***
- reclassification from assets held for sale	*3.4*	*0.0*	*0.0*	*0.0*	***3.4***
- merger with the subsidiary	*62.0*	*0.1*	*0.0*	*0.0*	***62.1***
- other	*22.1*	*0.0*	*1.1*	*0.0*	***23.2***
Disposals, due to:	-58.2	-5.0	-19.3	-118.6	**-201.1**
- sale and liquidation	*-2.6*	*-4.8*	*-8.5*	*0.0*	***-15.9***
- investment take-overs	*0.0*	*0.0*	*0.0*	*-118.6*	***-118.6***
- reclassification to assets held for sale	*-26.6*	*0.0*	*-4.1*	*0.0*	***-30.7***
- other	*-29.0*	*-0.2*	*-6.7*	*0.0*	***-35.9***
Revaluation at the fair value	-32.5	0.0	0.0	0.0	**-32.5**
Gross value at the end of period	**686.6**	**228.0**	**461.2**	**37.3**	**1 413.1**

Accumulated depreciation at the begining of the period	-328.1	-157.7	-268.0	0.0	**-753.8**
Changes in the period (due to):	-30.5	-18.5	-28.6	0.0	**-77.6**
- amortisation charges	*-38.8*	*-23.0*	*-38.3*	*0.0*	***-100.1***
- sale and liquidation	*2.6*	*4.6*	*7.8*	*0.0*	***15.0***
- reclassification to assets held for sale	*6.7*	*0.0*	*3.0*	*0.0*	***9.7***
- merger with the subsidiary	*0.0*	*-0.1*	*0.0*	*0.0*	***-0.1***
- other	*-1.0*	*0.0*	*-1.1*	*0.0*	***-2.1***
Accumulated depreciation at the end of the period	**-358.6**	**-176.2**	**-296.6**	**0.0**	**-831.4**
Net value at the end of period	**328.0**	**51.8**	**164.6**	**37.3**	**581.7**

2013

	Real estate and leasehold improvements	Computer hardware	Other fixtures and fittings	Constructions in progress	**TOTAL**
Gross value at the beginning of period	692.0	202.7	413.7	34.6	**1 343.0**
Additions, due to:	36.5	15.4	34.8	73.5	**160.2**
- purchases	*0.0*	*0.0*	*0.0*	*73.5*	***73.5***
- 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:	-69.1	-16.6	-26.3	-75.5	**-187.5**
- sale and liquidation	*-49.4*	*-16.6*	*-20.2*	*0.0*	***-86.2***
- 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	0.4	-0.1	0.1	0.0	**0.4**
Gross value at the end of period	**659.8**	**201.4**	**422.3**	**32.6**	**1 316.1**
Accumulated depreciation at the begining of the period	-354.7	-148.6	-252.5	0.0	**-755.8**
Changes in the period (due to):	26.6	-9.1	-15.5	0.0	**2.0**
- amortisation charges	*-24.5*	*-25.4*	*-37.9*	*0.0*	***-87.8***
- sale and liquidation	*49.3*	*16.4*	*19.8*	*0.0*	***85.5***
- reclassification to assets held for sale	*1.0*	*0.0*	*2.6*	*0.0*	***3.6***
- other	*0.8*	*-0.1*	*0.0*	*0.0*	***0.7***
Accumulated depreciation at the end of the period	**-328.1**	**-157.7**	**-268.0**	**0.0**	**-753.8**
Net value at the end of period	**331.7**	**43.7**	**154.3**	**32.6**	**562.3**

The item *Real estate and leasehold improvements* comprises, among others, land whose value considering the fair value measurement as at 31 Dec 2014 was PLN 5.0 million (PLN 5.1 million as at 31 Dec 2013).

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

Contractual obligations to purchase property, plant and equipment

In 2014, the Bank concluded agreements with counterparties that in the future will effect increase in the value of property, plant and equipment to the amount of PLN 1.1 million. 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 2013, the Bank concluded framework agreements refer to real properties (buildings and structures), lease hold improvements, non-current assets under construction and other non-current assets.

23.3. Intangible assets

	end of 2014	end of 2013
Goodwill	223.3	223.3
Software	116.7	90.6
Outlays for intangible assets	19.1	41.1
Other	1.7	0.9
Total	**360.8**	**355.9**

2014	Goodwill	Software	Outlays for intangible assets	Other intangible assets	**TOTAL**
Gross value at the beginning of period	223.3	574.2	41.1	6.8	**845.4**
Additions, due to:	0.0	96.8	76.2	1.7	**174.7**
- purchases	*0.0*	*0.0*	*76.2*	*0.0*	***76.2***
- investment take-overs	*0.0*	*96.5*	*0.0*	*1.7*	***98.2***
- merger with the subsidiary	*0.0*	*0.3*	*0.0*	*0.0*	***0.3***
Disposals, due to:	0.0	-0.1	-98.2	0.0	**-98.3**
- investment take-overs	*0.0*	*0.0*	*-98.2*	*0.0*	***-98.2***
- sale and liquidation	*0.0*	*-0.1*	*0.0*	*0.0*	***-0.1***
Gross value at the end of period	**223.3**	**670.9**	**19.1**	**8.5**	**921.8**
Accumulated depreciation at the begining of the period	0.0	-483.6	0.0	-5.9	-489.5
Changes in the period (due to):	0.0	-70.6	0.0	-0.9	-71.5
- amortisation charges	*0.0*	*-70.5*	*0.0*	*-0.9*	*-71.4*
- merger with the subsidiary	*0.0*	*-0.2*	*0.0*	*0.0*	*-0.2*
- other	*0.0*	*0.1*	*0.0*	*0.0*	*0.1*
Accumulated depreciation at the end of the period	**0.0**	**-554.2**	**0.0**	**-6.8**	**-561.0**
Net value at the end of period	**223.3**	**116.7**	**19.1**	**1.7**	**360.8**

2013

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	TOTAL
Gross value at the beginning of period	223.3	521.0	22.7	8.4	**775.4**
Additions, due to:	0.0	53.6	72.7	0.7	**127.0**
- purchases	*0.0*	*0.0*	*72.7*	*0.0*	***72.7***
- investment take-overs	*0.0*	*53.6*	*0.0*	*0.7*	***54.3***
Disposals, due to:	0.0	-0.4	-54.3	-2.3	**-57.0**
- investment take-overs	*0.0*	*0.0*	*-54.3*	*0.0*	***-54.3***
- sale and liquidation	*0.0*	*-0.4*	*0.0*	*-2.3*	***-2.7***
Gross value at the end of period	**223.3**	**574.2**	**41.1**	**6.8**	**845.4**
Accumulated depreciation at the begining of the period	0.0	-411.7	0.0	-7.8	-419.5
Changes in the period (due to):	0.0	-71.9	0.0	1.9	-70.0
- amortisation charges	*0.0*	*-72.2*	*0.0*	*-0.4*	*-72.6*
- sale and liquidation	*0.0*	*0.3*	*0.0*	*2.3*	*2.6*
Accumulated depreciation at the end of the period	**0.0**	**-483.6**	**0.0**	**-5.9**	**-489.5**
Net value at the end of period	**223.3**	**90.6**	**41.1**	**0.9**	**355.9**

Contractual obligations to purchase intangible assets

In 2014, the Bank concluded with counterparties the agreements resulting in the future in an increase of intangible assets of PLN 7.9 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 2013 the Bank concluded the agreements for licence purchase and computer software implementation at the amount of PLN 2.3 million. These agreements were part framework.

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 Bank, 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 Bank. The remaining assumptions include: 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 Bank parent company and the strategy covering the maximum period of the next three years. The data regarding the subsequent two years are the result of extrapolation. Extrapolation assumes that the cashflow generating centre will maintain the gross profit to risk weighted assets ratio at the level from the last year of the Bank's forecast and its profits will increase by previously determined growth rate. Legitimacy of the assumptions made is verified periodically, and any divergence between the cashflows estimated based on the future cashflows and the actual ones is analysed as appropriate.
Net present value of cash flows as at 31 Dec 2014 amounted to PLN 4,949.1 million.The test carried out showed the surplus of present value over the net book value of the cash-generating unit, totalling PLN 2,767.1 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 3,290.2 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 2,351.0 million.

24. Assets held for sale

	end of 2014	end of 2013
Property, plant and equipment held for sale	28.4	28.3
Shares in the associated entities held for sale	40.0	0.0
Total	**68.4**	**28.3**

	2014	2013
Value at the beginning of period	28.3	22.1
Additions, due to:	60.0	8.5
- reclassification from investments in subsidiaries and associated entities	*40.0*	*0.0*
- reclassification from property, plant and equipment	*20.0*	*8.5*
Disposals, due to:	-18.8	-1.3
- sale	*-18.5*	*-1.3*
- other	*-0.3*	*0.0*
Revaluation at the fair value	-1.1	-1.0
Value at the end of period	**68.4**	**28.3**

As at 31 Dec 2014, the amount of *Property, plant and equipment held for sale* included:

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

The Bank held 20% shares in ING Powszechne Towarzystwo Emerytalne S.A. (ING PTE). In Q2 2014, the Bank and ING Continental Europe Holdings B.V. entered into a non-binding agreement (Letter of Intent) regarding the sale of these shares.

In accordance with the Bank's assessment, the criteria for classification to assets held for sale listed in IFRS 5.6-8 have been met. As a result, in its financial statements as at 31 December 2014, the Bank reclassified the assets from *investments in controlled entities* to *assets held for sale*.
On 10 February 2015, the Share Purchase Agreement concerning shares of ING PTE held by the Bank for the benefit of ING Continental Europe Holdings B.V. was signed. The transaction was described in Chapter VI. *Notes to the Financial Statements*, item 48. *Significant events after the balance sheet date.*

25. Deferred tax

Movements in temporary differences during the year

2014

	Balance as of 01 Jan 2014	Changes charged to the financial result	Changes charged to equity	Merger with the subsidiary	**Balance as of 31 Dec 2014**
Deferred tax assets					
Interest accrued	-35.0	3.7	0.0	0.0	**-31.3**
Revaluation	-37.7	0.0	-80.9	0.0	**-118.6**
Impairment losses on credit receivables	-137.4	4.4	0.0	0.0	**-133.0**
Other provisions	-48.4	2.6	0.0	0.0	**-45.8**
Employee benefits	-31.3	-3.6	0.0	0.0	**-34.9**
Correction due to effective interest rate	-12.3	0.0	0.0	0.0	**-12.3**
Other	-13.2	0.0	0.0	-2.7	**-15.9**
Total	**-315.3**	**7.1**	**-80.9**	**-2.7**	**-391.8**
Deferred tax provision					
Interest accrued	73.2	-37.8	0.0	0.0	**35.4**
Settlement of the difference between tax and balance sheet depreciation	10.9	-8.6	0.0	0.0	**2.3**
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief enjoyed	6.4	-0.6	0.0	0.0	**5.8**
Revaluation	157.9	0.0	399.0	0.0	**556.9**
Other	4.8	3.9	0.0	0.7	**9.4**
Total	**253.2**	**-43.1**	**399.0**	**0.7**	**609.8**
Deferred tax disclosed in the balance sheet	**-62.1**	**-36.0**	**318.1**	**-2.0**	**218.0**

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	-44.4	9.4	-	**-35.0**
Revaluation	-54.2	-	16.5	**-37.7**
Impairment losses on credit receivables	-123.2	-14.2	-	**-137.4**
Other provisions	-35.4	-13.0	-	**-48.4**
Employee benefits	-24.2	-7.1	-	**-31.3**
Correction due to effective interest rate	-12.3	-	-	**-12.3**
Other	-13.2	-	-	**-13.2**
Total	**-306.9**	**-24.9**	**16.5**	**-315.3**

Deferred tax provision				
Interest accrued	32.5	40.7	-	**73.2**
Settlement of the difference between tax and balance sheet depreciation	10.3	0.6	-	**10.9**
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief enjoyed	7.8	-1.4	-	**6.4**
Revaluation	286.5	-	-128.6	**157.9**
Other	-2.9	7.7	-	**4.8**
Total	**334.2**	**47.6**	**-128.6**	**253.2**
Deferred tax disclosed in the balance sheet	**27.3**	**22.7**	**-112.1**	**-62.1**

Unrecognised deferred tax assets

Unrecognised assets due to deferred tax are related to provisions whose recovery will not become probable. The amount of unrecognized temporary differences thereunder amounted as at the end of 2014 was PLN 1.8 million (expiry date of temporary differences: 2016) compared to PLN 1.8 million as at the end of 2013 (expiry date of temporary differences: 2015).

Deferred tax recognised directly in equity

	end of 2014	end of 2013
Revaluation of available-for-sale financial assets	131.6	64.1
Revaluation of property, plant and equipment	6.3	7.7
Revaluation of cash flow hedging instruments	299.8	48.1
Actuarial gains/losses	0.7	0.4
Total	**438.4**	**120.3**

26. Other assets

	end of 2014	end of 2013
Prepayments, of which:	74.0	86.6
- accrued income	*33.1*	*49.4*
- commission-related settlements	*16.2*	*16.4*
- prepaid bank operating expenses	*23.0*	*18.5*
- expenses to be settled	*1.6*	*1.6*
- other	*0.1*	*0.7*
Other assets, of which:	81.2	86.9
- settlements of material purchases	*3.6*	*3.2*
- interbank settlements	*8.2*	*8.9*
- settlements with customers	*4.8*	*3.2*
- public and legal settlements	*0.2*	*0.4*
- receivables from non-settled FX transactions)*	*41.1*	*41.6*
- settlement of securities trades	*0.0*	*0.0*
- other	*23.3*	*29.6*
Total other assets (gross)	**155.2**	**173.5**
Impairment losses	-44.5	-58.3
Total other assets (net)	**110.7**	**115.2**

*) Receivables from Lehman Brothers Inc. and its related entities are presented in item *Receivables from the non-settled FX transactions.* A write-down was established in the full amount. The write-down amount was recognised in this note in item *Impairment losses.*

27. Liabilities due to other banks

	end of 2014	end of 2013
Current accounts	1 823.2	744.8
Interbank deposits	1 818.7	1 230.4
Repo transactions	0.0	28.7
Other liabilities	2.3	17.8
Total	**3 644.2**	**2 021.7**

Liabilities due to other banks by maturity

	end of 2014	end of 2013
up to 1 month	3 644.2	2 016.6
over 1 month and up to 3 months	0.0	5.1
Total	**3 644.2**	**2 021.7**

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 2014	end of 2013
Financial liabilities held for trading, of which:	56.9	613.1
- repo transactions	*56.9*	*613.1*
Book short position in trading securities	860.5	621.1
Total	**917.4**	**1 234.2**

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 Bank as the borrower. In the Bank'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 2014	end of 2013
up to 1 month	56.9	613.1
over 1 month and up to 3 months	133.5	45.3
over 1 year and up to 5 years	595.4	339.8
over 5 years	131.6	236.0
Total	**917.4**	**1 234.2**

29. Liabilities due to customers

	end of 2014	end of 2013
Deposits	74 652.3	66 832.0
Liabilities from cash collateral	256.8	306.3
Other liabilities	416.9	329.8
Total liabilities due to customers, of which:	**75 326.0**	**67 468.1**
- due to entities from the financial sector other than banks	*2 568.8*	*3 563.9*
- due to entities from the non-financial sector	*70 881.4*	*61 803.8*
- due to entities from the government and self-government institutions' sector	*1 875.8*	*2 100.4*

Liabilities due to entities from the financial sector other than banks

	end of 2014	end of 2013
Deposits, of which:	2 468.1	3 490.9
- current accounts	*1 717.6*	*2 219.9*
- term deposit	*750.5*	*1 271.0*
Liabilities from cash collateral	0.4	15.3
Other liabilities	100.3	57.7
Total	**2 568.8**	**3 563.9**

Liabilities due to entities from the non-financial sector

	end of 2014	end of 2013
Business entities, of which:	**20 746.2**	**18 352.6**
- Deposits, of which:	20 238.5	17 863.1
- current accounts	*10 648.1*	*10 759.0*
- saving accounts	*6 139.6*	*4 428.8*
- term deposit	*3 450.8*	*2 675.3*
- Liabilities from cash collateral	202.4	230.7
- Other liabilities	305.3	258.8
Households, of which:	**50 135.2**	**43 451.2**
- Deposits, of which:	50 077.2	43 387.2
- current accounts	*7 575.4*	*6 279.7*
- saving accounts	*36 622.6*	*32 105.0*
- term deposit	*5 879.2*	*5 002.5*
- Liabilities from cash collateral	49.3	55.9
- Other liabilities	8.7	8.1
Total	**70 881.4**	**61 803.8**

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

	end of 2014	end of 2013
Deposits, of which:	1 868.5	2 090.8
- current accounts	*1 809.4*	*2 029.0*
- term deposit	*59.1*	*61.8*
Liabilities from cash collateral	4.7	4.4
Other liabilities	2.6	5.2
Total	**1 875.8**	**2 100.4**

Liabilities due to customers by maturity

	end of 2014	end of 2013
up to 1 month	70 124.2	62 153.5
over 1 month and up to 3 months	1 762.5	1 977.8
over 3 months and up to 1 year	3 029.1	2 537.7
over 1 year and up to 5 years	406.9	791.7
over 5 years	3.3	7.4
Total	**75 326.0**	**67 468.1**

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

30. Repurchase transactions concluded with customers

Starting from 2013 the Bank 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 short-term cash surpluses.

At the end of 2014 and 2013 the following assets were sold under repo transactions concluded with customers:

end of 2014

	Repurchase date	Market value	Carrying amount
Debt securities	2015-01-02	28.5	28.9
Debt securities	2015-01-05	0.8	0.8
Total		**29.3**	**29.7**

end of 2013

	Repurchase date	Market value	Carrying amount
Debt securities	2014-01-02	424.8	429.9
Debt securities	2014-01-03	0.7	0.8
Debt securities	2014-01-07	2.8	2.8
Total		**428.3**	**433.5**

31. Liabilities under issue of debt securities

	end of 2014	end of 2013
Liabilities under issue of debt securities, of which:	866.5	566.4
- Bonds issued by ING Bank Śląski S.A.	*866.5*	*566.4*
Total	**866.5**	**566.4**

On 19 December 2014, the Bank issued the second series of bonds. For details, refer to the Chapter II. *Significant events in 2014 to item 10. Second Issue of Bonds under the Own Debt Securities Issuance Programme of ING Bank Śląski S.A.*

Liabilities under issue of debt securities by maturity

	end of 2014	end of 2013
over 1 to 5 years	866.5	566.4
Total	**866.5**	**566.4**

32. Provisions

	end of 2014	end of 2013
Provision for issues in dispute	20.4	20.6
Provision for off-balance sheet liabilities	18.3	13.5
Provision for retirement benefits	19.1	18.9
Provision for unused holidays	12.5	10.6
Provision for employment restructuring	0.0	0.1
Total	**70.3**	**63.7**

2014

	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	13.5	18.9	10.6	0.1	**63.7**
- provisions recognised	*7.1*	*15.8*	*1.7*	*1.9*	*0.0*	***26.5***
- provisions reversed	*-1.3*	*-11.8*	*0.0*	*0.0*	*0.0*	***-13.1***
- provisions used	*-6.0*	*0.0*	*0.0*	*0.0*	*-0.1*	***-6.1***
- exchange rate changes	*0.0*	*0.8*	*0.0*	*0.0*	*0.0*	***0.8***
- actuarial gains / loosses	*0.0*	*0.0*	*-1.5*	*0.0*	*0.0*	***-1.5***
Closing balance	**20.4**	**18.3**	**19.1**	**12.5**	**0.0**	**70.3**
Expected provision settlement period:						
- up to 1 year	*0.2*	*0.0*	*1.6*	*12.5*	*0.0*	***14.3***
- over to 1 year	*20.2*	*18.3*	*17.5*	*0.0*	*0.0*	***56.0***

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	19.5	22.3	19.3	7.7	0.1	**68.9**
- provisions recognised	*1.5*	*10.0*	*2.1*	*2.9*	*0.0*	***16.5***
- provisions reversed	*-0.1*	*-18.7*	*0.0*	*0.0*	*0.0*	***-18.8***
- provisions used	*-0.3*	*0.0*	*-0.2*	*0.0*	*0.0*	***-0.5***
- exchange rate changes	*0.0*	*-0.1*	*0.0*	*0.0*	*0.0*	***-0.1***
- actuarial gains / loosses	*0.0*	*0.0*	*-2.3*	*0.0*	*0.0*	***-2.3***
Closing balance	**20.6**	**13.5**	**18.9**	**10.6**	**0.1**	**63.7**
Expected provision settlement period:						
- up to 1 year	*0.1*	*0.0*	*1.1*	*10.6*	*0.1*	***11.9***
- over to 1 year	*20.5*	*13.5*	*17.8*	*0.0*	*0.0*	***51.8***

Provision for issues in dispute

The recognised amount of provisions as at 31 Dec 2014 comprises:

- disputable cases connected with negligent performance of agreements: PLN 18.6 million (PLN 18.8 million as of 31 Dec 2013),
- criminal cases: PLN 1.6 million (PLN 1.6 million as of 31 Dec 2013),
- cases relating to claims filed by former employees: PLN 0.2 million (PLN 0.2 million as of 31 Dec 2013).

The value of proceedings conducted in 2014 concerning liabilities and debt claims did not exceed 10% of the Bank equity.

In view of the Bank, none of the proceedings conducted in 2014 before court, competent authority for arbitrage proceedings or public administration authority, individually and in total, pose a risk to the Bank financial liquidity.

Provision for retirement benefits

Provisions for retirement severance pay are estimated on the basis of actuarial valuation with discount rate, which at the end of 2014 totalled 2.7% (4.0% at the end of 2013). Provision being the result of actuarial valuation is recognised and reviewed per annum.

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

	2014	**2013**
Opening balance	18.9	19.3
Costs included in the profit and loss account, out of which:	2.0	2.1
- regular employment costs	*1.3*	*1.4*
- costs of interest	*0.7*	*0.7*
Actuarial gains / losses	-1.5	-2.3
Paid benefits	-0.3	-0.2
Closing balance	**19.1**	**18.9**

33. Other liabilities

	end of 2014	**end of 2013**
Accruals, of which:	337.5	312.2
- due to employee benefits	*207.1*	*174.1*
- variable remuneration programme	*44.2*	*28.2*
- due to commission	*103.5*	*112.1*
- other	*26.9*	*26.0*
Other liabilities, of which:	500.4	526.1
- interbank settlements	*269.2*	*236.6*
- settlements with suppliers	*174.2*	*213.7*
- public and legal settlements	*36.1*	*35.8*
- other	*20.9*	*40.0*
Total	**837.9**	**838.3**

34. Share capital

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

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

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

35. Revaluation reserve

	end of 2014	end of 2013
Revaluation reserve from measurement of available-for-sale financial assets	560.7	273.2
- including deferred tax	*-131.6*	*-64.1*
Revaluation reserve from measurement of property, plant and equipment	26.9	32.9
- including deferred tax	*-6.3*	*-7.7*
Revaluation reserve from measurement of cash flow hedging instruments	1 278.3	205.5
- including deferred tax	*-299.8*	*-48.1*
Actuarial gains / losses	3.1	1.8
- including deferred tax	*-0.7*	*-0.4*
Total	**1 869.0**	**513.4**

2014

	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	**273.2**	***-64.1***	**32.9**	***-7.7***	**205.5**	***-48.1***	**1.8**	***-0.4***	**513.4**
- gains/losses on remeasurement of available- for-sale financial assets charged to equity	291.8	*-68.5*	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	**291.8**
- reclassified to the financial result as a result of sale of available-for-sale financial assets	-4.3	*1.0*	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	**-4.3**
- effective part of cash flow hedging instruments revaluation	0.0	*0.0*	0.0	*0.0*	1 072.8	*-251.7*	0.0	*0.0*	**1 072.8**
- remeasurement of property, plant and equipment	0.0	*0.0*	0.2	*-0.1*	0.0	*0.0*	0.0	*0.0*	**0.2**
- disposal of fixed assets	0.0	*0.0*	-6.2	*1.5*	0.0	*0.0*	0.0	*0.0*	**-6.2**
- actuarial gains / losses	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	1.3	*-0.3*	**1.3**
- settlement of subsidiary acquisition	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	**0.0**
Closing balance	**560.7**	***-131.6***	**26.9**	***-6.3***	**1 278.3**	***-299.8***	**3.1**	***-0.7***	**1 869.0**

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	**590.3**	***-138.5***	**33.4**	***-7.9***	**367.0**	***-86.0***	**0.0**	***0.0***	**990.7**
- 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	-87.8	*20.6*	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	**-87.8**
- effective part of cash flow hedging instrumentsrevaluation	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*	0.1	*0.0*	0.0	*0.0*	0.0	*0.0*	**0.1**
- 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*	1.8	*-0.4*	**1.8**
Closing balance	**273.2**	***-64.1***	**32.9**	***-7.7***	**205.5**	***-48.1***	**1.8**	***-0.4***	**513.4**

36. Retained earnings

	end of 2014	**end of 2013**
Other supplementary capital	65.4	65.4
Reserve capital	4 969.1	4 671.5
General risk fund	1 060.2	1 010.2
Retained earnings	81.8	14.8
Result for the current year	1 067.9	920.1
Total	**7 244.4**	**6 682.0**

2014

	other supplemen-tary capital	reserve capital	general risk fund	retained earnings	result for the current year	**TOTAL**
Opening balance	**65.4**	**4 671.5**	**1 010.2**	**934.9**	**0.0**	**6 682.0**
- net result for the current period	0.0	0.0	0.0	0.0	1 067.9	**1 067.9**
- profit allocation, including:	0.0	297.6	50.0	-920.0	0.0	**-572.4**
- profit written off to reserve capital	*0.0*	*297.6*	*0.0*	*-297.6*	*0.0*	***0.0***
- profit written off to general risk fund	*0.0*	*0.0*	*50.0*	*-50.0*	*0.0*	***0.0***
- dividend	*0.0*	*0.0*	*0.0*	*-572.4*	*0.0*	***-572.4***
- remeasurement of property, plant and equipment	0.0	0.0	0.0	-4.3	0.0	**-4.3**
- disposal of fixed assets	0.0	0.0	0.0	7.7	0.0	**7.7**
- settlement of subsidiary acquisition	0.0	0.0	0.0	63.5	0.0	**63.5**
Closing balance	**65.4**	**4 969.1**	**1 060.2**	**81.8**	**1 067.9**	**7 244.4**

2013

	other supplemen-tary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Opening balance	**65.4**	**3 963.7**	**960.2**	**771.2**	**0.0**	**5 760.5**
- net result for the current period	0.0	0.0	0.0	0.0	920.1	**920.1**
- profit allocation, including:	0.0	707.8	50.0	-757.8	0.0	**0.0**
- profit written off to reserve capital	*0.0*	*707.8*	*0.0*	*-707.8*	*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	0.6	0.0	**0.6**
- disposal of fixed assets	0.0	0.0	0.0	0.8	0.0	**0.8**
Closing balance	**65.4**	**4 671.5**	**1 010.2**	**14.8**	**920.1**	**6 682.0**

Supplementary capital

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

Reserve capital

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

The General Risk Fund

The General Risk Fund is established in accordance with the Banking Law Act from the post-tax profits 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

On 02 December 2014, the Polish Financial Supervision Authority (PFSA) published its stance on the rules of 2014-dividend payout by banks in 2015. As regards the banks with a significant share in the non-financial sector deposit market (above 5% of the total deposits in the banking sector), the PFSA recommends that the dividend of 100% be paid out only by those banks which satisfy all of the below criteria:

- the bank is not covered by rehabilitation proceedings;
- Core Tier 1 ratio (CET1) is over 12% (9% + 3% systemic risk buffer);
- Total Capital Ratio (TCR) is over 15.5% (12.5% + 3% systemic risk buffer);
- Tier 1 ratio forecast for the end of 2013 in stress tests' scenarios (baseline, adverse 1 and adverse 2) is above 9%;
- BION (Supervisory Review and Assessment) score is 1 (good) or 2 (satisfactory); and
- BION score for the capital risk level is not lower than 2 (satisfactory);

Banks with a significant share in the non-financial sector deposit market, with a Total Capital Ratio (TCR) ranging from 12.5% to 15.5% can pay out up to 50% of the profit generated in 2014, provided that they meet the remaining criteria.

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

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

	31 Dec 2014	31 Dec 2013
EUR	4.2623	4.1472
USD	3.5072	3.0120
CHF	3.5447	3.3816

end of 2014

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*		
A S S E T S									
- Cash in hand and balances with the Central Bank	4 951.7	289.5	*67.9*	67.8	*19.3*	7.6	*2.1*	14.1	**5 330.7**
- Loans and receivables to other banks	888.5	874.0	*205.1*	37.8	*10.8*	3.6	*1.0*	17.4	**1 821.3**
- Financial assets measured at fair value through profit and loss	1 856.8	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**1 856.8**
- Valuation of derivatives	1 845.9	351.6	*82.5*	198.2	*56.5*	7.9	*2.2*	8.1	**2 411.7**
- Investments	21 795.9	1 032.7	*242.3*	0.0	*0.0*	0.0	*0.0*	0.0	**22 828.6**
- Derivative hedge instruments	2 784.9	198.9	*46.7*	0.0	*0.0*	0.0	*0.0*	0.0	**2 983.8**
- Loans and receivables to customers	46 567.2	9 204.2	*2 159.4*	708.2	*201.9*	1 356.1	*382.6*	116.4	**57 952.1**
- Receivables from customers due to repo transactions	106.6	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**106.6**
- Investments in controlled entities	269.2	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**269.2**
- Non-financial assets	1 002.5	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**1 002.5**
- Assets held for sale	68.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**68.4**
- Tax assets	0.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**0.0**
- Other assets	108.4	2.2	*0.5*	0.1	*0.0*	0.0	*0.0*	0.0	**110.7**
T o t a l a s s e t s	**82 246.0**	**11 953.1**	***2 804.4***	**1 012.1**	***288.5***	**1 375.2**	***387.9***	**156.0**	**96 742.4**

end of 2014

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	1 198.6	2 437.0	*571.8*	2.9	*0.8*	0.1	*0.0*	5.6	**3 644.2**
- Financial liabilities measured at fair value through profit and loss	917.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**917.4**
- Valuation of derivatives	2 057.3	265.1	*62.2*	197.9	*56.4*	0.1	*0.0*	0.9	**2 521.3**
- Derivative hedge instruments	1 033.7	999.1	*234.4*	0.0	*0.0*	0.0	*0.0*	0.0	**2 032.8**
- Liabilities due to customers	67 941.4	5 655.6	*1 326.9*	1 490.8	*425.1*	10.5	*3.0*	227.7	**75 326.0**
- Liabilities due to customers under repo transactions	29.7	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**29.7**
- Liabilities under issue of debt securities	866.5	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**866.5**
- Provisions	61.2	4.1	*1.0*	5.0	*1.4*	0.0	*0.0*	0.0	**70.3**
- Tax liabilities	248.5	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**248.5**
- Other liabilities	820.7	16.6	*3.9*	0.6	*0.2*	0.0	*0.0*	0.0	**837.9**
Total liabilities	**75 175.0**	**9 377.5**	***2 200.2***	**1 697.2**	***483.9***	**10.7**	***3.0***	**234.2**	**86 494.6**
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	1 869.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**1 869.0**
- Revaluation of share-based payment	48.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**48.0**
- Retained earnings	7 244.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**7 244.4**
Total equity	**10 247.8**	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**	**10 247.8**
Total equity and liabilities	**85 422.8**	**9 377.5**	***2 200.2***	**1 697.2**	***483.9***	**10.7**	***3.0***	**234.2**	**96 742.4**

Contingent liabilities	19 989.6	1 783.0	*418.3*	1 600.0	*456.2*	0.0	*0.0*	22.0	**23 394.6**
Guarantees received and commitments on financial support	34 575.0	6 292.2	*1 476.2*	501.6	*143.0*	51.9	*14.6*	33.9	**41 454.6**
Off-balance financial instruments	248 863.4	33 955.1	*7 966.4*	13 433.2	*3 830.2*	518.3	*146.2*	767.4	**297 537.4**

end of 2013

STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		other currencies (after translation into PLN)	TOTAL
		after translation into PLN	*in currency*	after translation into PLN	*in currency*	after translation into PLN	*in currency*		
ASSETS									
- Cash in hand and balances with the Central Bank	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	499.2	742.4	*179.0*	84.5	*28.1*	0.5	*0.1*	62.3	**1 388.9**
- 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	1 075.0	241.1	*58.1*	149.1	*49.5*	0.0	*0.0*	6.5	**1 471.7**
- Investments	19 492.1	0.8	*0.2*	0.0	*0.0*	0.0	*0.0*	0.0	**19 492.9**
- 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	40 269.0	6 958.8	*1 678.0*	434.1	*144.1*	1 394.0	*412.2*	63.7	**49 119.6**
- 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	461.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**461.4**
- Non-financial assets	918.2	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**918.2**
- Assets held for sale	28.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**28.3**
- Tax assets	62.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**62.1**
- Other assets	111.5	3.6	*0.9*	0.1	*0.0*	0.0	*0.0*	0.0	**115.2**
Total assets	**73 237.0**	**8 195.0**	***1 976.0***	**696.3**	***231.2***	**1 399.3**	***413.7***	**142.9**	**83 670.5**

end of 2013

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	1 258.5	727.7	*175.5*	15.6	*5.2*	0.1	*0.0*	19.8	**2 021.7**
- 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	165.5	*39.9*	150.7	*50.0*	38.2	*11.3*	1.2	**1 493.4**
- 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	60 523.5	5 225.2	*1 259.9*	1 491.0	*495.0*	9.8	*2.9*	218.6	**67 468.1**
- 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	59.4	2.6	*0.6*	1.0	*0.3*	0.0	*0.0*	0.7	**63.7**
- Tax liabilities	108.9	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**108.9**
- Other liabilities	827.5	9.9	*2.4*	0.9	*0.3*	0.0	*0.0*	0.0	**838.3**
Total liabilities	**66 551.1**	**6 843.9**	***1 650.2***	**1 659.2**	***550.8***	**48.1**	***14.2***	**240.3**	**75 342.6**
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	511.5	1.9	*0.5*	0.0	*0.0*	0.0	*0.0*	0.0	**513.4**
- 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	6 682.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**6 682.0**
Total equity	**8 326.0**	**1.9**	***0.5***	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**	**8 327.9**
Total equity and liabilities	**74 877.1**	**6 845.8**	***1 650.7***	**1 659.2**	***550.8***	**48.1**	***14.2***	**240.3**	**83 670.5**

Contingent liabilities	16 444.0	1 693.1	*408.3*	578.0	*191.9*	0.0	*0.0*	24.7	**18 739.8**
Guarantees received and commitments on financial support	30 076.2	4 923.3	*1 187.1*	139.5	*46.3*	57.7	*17.1*	4.3	**35 201.0**
Off-balance financial instruments	181 774.8	22 083.3	*5 324.9*	10 573.9	*3 510.6*	543.8	*160.8*	590.6	**215 566.4**

38. Contingent liabilities

38.1. Contingent liabilities

	end of 2014	end of 2013
Undrawn credit facilities	18 120.4	14 092.7
Guarantees	2 892.4	2 341.1
Undrawn overdrafts in current account	1 214.7	1 159.5
Credit card limits	845.2	764.8
Letters of credit	321.9	381.7
Total	**23 394.6**	**18 739.8**

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

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

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

Financial guarantee contracts by maturity

	end of 2014	end of 2013
up to 1 month	127.6	215.2
over 1 month and up to 3 months	342.4	468.3
over 3 months and up to 1 year	1 156.7	768.5
over 1 year and up to 5 years	1 139.4	758.7
over 5 years	126.3	130.4
Total	**2 892.4**	**2 341.1**

Information on guarantees granted to other issuers

At the end of 2014, the Bank 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 636.8 million. At the end of 2013 the Bank held obligations to purchase bonds issued by four issuers for the total amount of PLN 545.5 million.

38.2. Guarantees received and commitments on financial support

	end of 2014	end of 2013
Guarantees received	41 378.8	35 088.6
Financing	75.8	112.4
Total	**41 454.6**	**35 201.0**

39. Hedge accounting

39.1. Fair value hedge accounting

In the financial statements for the year 2014 (similar to year 2013), the Bank used fair value hedge accounting for securities.

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

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 net interest income on derivative hedge instruments is presented in the item *Interest on available-for-sale financial assets* wherein the interest income on the hedged instrument is presented under the described strategy.

The valuation of hedging and hedged transactions is presented in the Bank'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 fair value hedge accounting for securities

	end of 2014		end of 2013	
	Nominal value	Fair value	Nominal value	Fair value
Hedged items, of which:	**7 051.2**	**8 019.8**	**5 139.9**	**5 657.4**
- Debt securities from available-for-sale portfolio, of which:	3 752.2	4 095.9	1 930.0	1 971.6
- Treasury bonds	*3 461.2*	*3 726.0*	*1 730.0*	*1 745.9*
- BGK bonds	*291.0*	*369.9*	*200.0*	*225.7*
- Debt securities from loans and other receivables portfolio, of which:	3 299.0	3 923.9	3 209.9	3 685.8
- Treasury bonds	*3 299.0*	*3 923.9*	*3 209.9*	*3 685.8*
Hedging instruments, of which:	**7 036.3**	**-994.0**	**5 125.4**	**-716.7**
- Interest Rate Swap – positive valuation	550.0	0.4	200.0	8.2
- Interest Rate Swap – negative valuation	6 486.3	-994.4	4 925.4	-724.9

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

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39.2. Cash flow hedge accounting

In the financial statements for the year 2014 (similar to year 2013), the Bank applied the rules of accounting of cash flow hedges with regard to a specific portfolio of assets/ liabilities/highly probable planned financial transactions of the Bank (e.g. extrapolation of cash flows arising from revolving deposits/overdrafts). Hedging strategies are used to hedge the Bank's exposure against changes in the size of future cash flows arising from interest rate risk. In 2012 Bank implemented the new strategy for hedging the mortgage loans indexed to EUR or CHF against changes arising from interest rate risk and foreign currency risk at the same time.

The hedged item is the specified portfolio of assets and/or financial liabilities or the portfolio of planned transactions, which includes financial instruments with variable interest rate (financial products based on the WIBOR / EURIBOR / 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 Bank 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.

Considering the fact that the hedging instrument being the object of individual strategies has an impact on the income statement on a continuous basis (i.e. by measurement at the amortized cost), the net interest income on derivative instruments to hedge the portfolio of:

- financial assets is presented in the item *Interest on loans and other receivables to customers*, further split into *Interest on loans and advances*.
- financial assets is presented in the item *Interest on deposits from customers*, further split into *Interest on deposits*.

In 2014 and 2013, 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. Therefore, the income posted on hedge derivative instruments was recognised in the income statement at the moment of specific generic costs execution and recognition under payments hedged by adjustment of its generic cost.

As at 31 Dec 2014, the revaluation reserve included PLN 1,278.3 million (including deferred tax) related to the effective part of hedging relationship in the cash flow hedge accounting

(PLN 205.5 million as at 31 Dec 2013). In 2014, 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 PLN 0.3 million compared with PLN -0.4 million in 2013.

Fair value of hedging instruments under cash flow hedge accounting

	end of 2014		end of 2013	
	Nominal value	**Fair value**	**Nominal value**	**Fair value**
Hedging instruments, of which:	**73 326.4**	**1 945.0**	**44 159.8**	**654.2**
- Interest Rate Swap – positive valuation	54 218.5	2 981.0	32 603.9	995.0
- Interest Rate Swap – negative valuation	19 107.9	-1 001.4	11 555.9	-388.3
- Cross Currency Swap - positive valuation	0.0	2.4	0.0	48.7
- Cross Currency Swap - negative valuation	0.0	-37.0	0.0	-1.2

The periods in which the Bank expects that the cash flows hedged within hedge accounting will appear and have an impact on the P&L are presented below.

Future cash flows (PLN million)

end of 2014

	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)	525.2	676.9	1 191.3	198.0
Cash outflows (liabilities)	-84.2	-137.1	-242.5	-36.2
Net cash flows	**441.0**	**539.8**	**948.8**	**161.8**

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**

Future cash flows (EUR million)

end of 2014

	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)	0.1	0.4	6.0	2.2
Cash outflows (liabilities)	0.0	-0.1	-2.6	-1.7
Net cash flows	**0.1**	**0.3**	**3.4**	**0.5**

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**

Future cash flows (CHF million)

end of 2014

	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)	-0.3	-0.5	2.1	0.5
Cash outflows (liabilities)	0.0	0.0	0.0	0.0
Net cash flows	**-0.3**	**-0.5**	**2.1**	**0.5**

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**

40. Fair values

Fair value, which is best reflected by a market price, if available 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.

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.

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

end of 2014

	Level 1	Level 2	Level 3	Total
Financial assets, of which:	**23 733.5**	**6 342.5**	**4.9**	**30 080.9**
- Financial assets held for trading, of which:	1 409.8	447.0	0.0	1 856.8
- repo transactions	*0.0*	*447.0*	*0.0*	*447.0*
- treasury bonds	*1 409.8*	*0.0*	*0.0*	*1 409.8*
- Valuation of derivatives	0.0	2 411.7	0.0	2 411.7
- Financial assets available-for sale, of which:	22 323.7	500.0	4.9	22 828.6
- treasury bonds	*20 618.4*	*0.0*	*0.0*	*20 618.4*
- NBP bills	*0.0*	*500.0*	*0.0*	*500.0*
- BGK bonds	*1 696.9*	*0.0*	*0.0*	*1 696.9*
- equity instruments	*8.4*	*0.0*	*4.9*	*13.3*
- Derivative hedge instruments	0.0	2 983.8	0.0	2 983.8

Financial liabilities, of which:	**860.5**	**4 611.0**	**0.0**	**5 471.5**
- Financial liabilities held for trading, of which:	0.0	56.9	0.0	56.9
- repo transactions	*0.0*	*56.9*	*0.0*	*56.9*
- Book short position in trading securities	860.5	0.0	0.0	860.5
- Valuation of derivatives	0.0	2 521.3	0.0	2 521.3
- Derivative hedge instruments	0.0	2 032.8	0.0	2 032.8

end of 2013

	Level 1	Level 2	Level 3	Total
Financial assets, of which:	**18 867.0**	**5 098.3**	**2.6**	**23 967.9**
- 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	1 471.7	0.0	1 471.7
- Financial assets available-for sale, of which:	18 390.5	1 099.8	2.6	19 492.9
- 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	*24.0*	*0.0*	*2.6*	*26.6*
- Derivative hedge instruments	0.0	1 051.9	0.0	1 051.9
Financial liabilities, of which:	**621.1**	**3 220.9**	**0.0**	**3 842.0**
- 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	1 493.4	0.0	1 493.4
- Derivative hedge instruments	0.0	1 114.4	0.0	1 114.4

Movements between valuation levels

In 2014 there were no movements between valuation levels.

Valuation of financial instruments classified to the 2nd level

The Bank 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.

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.

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.

Measurement adjustment

The Bank adopted prudent valuation for financial assets and liabilities measured at fair value and based the said measurement on the guidelines provided for in the Technical Standards of the European Banking Authority (i.e.: EBA – Article 105(14) of the Regulation EU 575/2013 published in March 2014). This approach aims at determining the fair value with a high, 90%, confidence level, considering uncertain market pricing and closing cost. As at the end of 2014, the prudent valuation adjustment totalled PLN 29.4 million, out of which PLN 25.1 million reduced the revaluation reserve of instruments hedging cash flows, whereas PLN 4.3 million encumbered the financial result (including: PLN -3.4 million was recognised under *net income on hedge accounting* while PLN -0.9 million under *net income on financial instruments measured through profit and loss and FX result*).

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 Bank is of the opinion that the purchase price less the impairment charge (if any) is the best indicator of their value.

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

	2014	2013
Opening balance	2.6	16.0
Increases, of which:	2.3	0.0
- purchase	*2.3*	*0.0*
Decreases, of which:	0.0	-13.4
- movement to Level 1	*0.0*	*-13.4*
Closing balance	**4.9**	**2.6**

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 financial statements of the Bank.

40.2. Fair value of non-financial assets

end of 2014

	Level 1	Level 2	Level 3	Total
Investment property	-	-	60.0	**60.0**
Own real property	-	-	328.0	**328.0**
Property, plant and equipment held for sale	-	-	28.4	**28.4**

end of 2013

	Level 1	Level 2	Level 3	Total
Own real property	-	-	331.7	**331.7**
Property, plant and equipment held for sale	-	-	28.3	**28.3**

Fair value measurement

Investment properties

The Bank is the owner of one real property (partly of investment nature) located in Katowice. On that account, the Bank receives income on rental instalments from the investment part. In line with the accounting principles adopted by the Bank, the real property's value is carried at fair value. The fair value is determined on the basis of the independent appraiser's valuation. To this end, the method of discounted cash flow over 10 years is applied, with the use of generally adopted market parameters for similar investment projects, taking account of the utilised space of the building.

Own real properties

The Bank measures its real properties at fair value. The measurement is carried out by an independent appraiser in line with the applicable principles of 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 2014, the following real properties were appraised:

- ING Bank Śląski S.A. Head Office in Katowice – as at 31 December 2014, the building's value totalled PLN 105.6 million, the change in the value of this real property for the year 2014 decreased the financial result by PLN 6.1 million (PLN 4.9 million upon including deferred tax) and
- 20 other real properties located across Poland; change in the value of the real properties for the year 2014 increased the revaluation surplus by PLN 0.3 million (PLN 0.2 million upon including deferred tax) and decreased the 2014 financial result by PLN 27.9 million (PLN 22.6 million upon including deferred tax).

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
- 8 other real properties located across Poland; change in the value of the real properties for the year 2013 increased the revaluation surplus by PLN 0.1 million (PLN 0.1 million upon including deferred tax) and decreased the 2013 financial result by PLN 2.4 million (PLN 2.0 million upon including deferred tax).

The real properties results of appraisals were presented in the income statement in the item Result on the other operating income and expenses (in the note no. 8 in detailed item *maintenance and rental of buildings*).

As at 31 Dec 2014 PLN 26.9 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 2013 the same item amounted to PLN 32.9 million.

The value of the appraised real properties estimated at the historical cost upon including impairment loss and depreciation charges would amount to PLN 294.8 million as at 31 Dec 2014 against PLN 291.1 million as at 31 Dec 2013.

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

<u>*Investment property*</u>

	2014	2013
Value at the beginning of period	0.0	0.0
Additions, due to:	59.6	0.0
- merger with the subsidiary	*59.6*	*0.0*
Disposals, due to:	-2.4	0.0
- reclassification to own real property	*-2.4*	*0.0*
Change in fair value, of which:	2.8	0.0
*- including in other comprehensive income**	*2.8*	*0.0*
Value at the end of period	**60.0**	**0.0**

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

Own real property

	2014	2013
Value at the beginning of period	331.7	337.3
Additions, due to:	95.4	36.5
- investment take-overs	*30.0*	*25.3*
- merger with the subsidiary	*62.0*	*0.0*
- reclassification from assets held for sale	*3.4*	*11.2*
Disposals, due to:	-66.6	-42.5
- amortisation charges	*-38.8*	*-24.5*
- reclassification to assets held for sale	*-19.9*	*-17.9*
- other	*-7.9*	*-0.1*
Change in fair value, of which:	-32.5	0.4
*- including in other comprehensive income**	*0.3*	*0.1*
*- including in income statement***	*-32.8*	*0.3*
Value at the end of period	**328.0**	**331.7**

*) 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*

Property, plant and equipment held for sale

	2014	2013
Value at the beginning of period	28.3	22.1
Additions, due to:	20.0	8.5
- reclassification from property, plant and equipment	*20.0*	*8.5*
Disposals, due to:	-18.8	-1.3
- sale	*-18.5*	*-1.3*
- other	*-0.3*	*0.0*
Change in fair value, of which:	-1.1	-1.0
*- including in income statement**	*-1.1*	*-1.0*
Value at the end of period	**28.4**	**28.3**

*) 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 2014

	Carrying value	Fair value			TOTAL
		Level I	Level II	Level III	
Assets					
Cash in hand and balances with the Central Bank	5 330.7	-	5 330.7	-	**5 330.7**
Loans and receivables to other banks	1 821.3	-	1 821.3	-	**1 821.3**
Loans and receivables to customers	57 952.1	-	4 199.1	53 302.7	**57 501.8**
Receivables from customers due to repo transactions	106.6	-	106.6	-	**106.6**
Investments in controlled entities	269.2	-	-	269.2	**269.2**
Other assets	36.7	-	-	36.7	**36.7**
Liabilities					
Liabilities due to other banks	3 644.2	-	3 644.2	-	**3 644.2**
Liabilities due to customers	75 326.0	-	-	75 326.4	**75 326.4**
Liabilities due to customers under repo transactions	29.7	-	29.7	-	**29.7**
Liabilities under issue of debt securities	866.5	-	871.4	-	**871.4**

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	1 388.9	-	1 388.9	-	**1 388.9**
Loans and receivables to customers	49 119.6	-	3 912.5	43 949.1	**47 861.6**
Receivables from customers due to repo transactions	638.8	-	638.8	-	**638.8**
Investments in controlled entities	461.4	-	-	461.4	**461.4**
Other assets	28.6	-	-	28.6	**28.6**
Liabilities					
Liabilities due to other banks	2 021.7	-	2 021.7	-	**2 021.7**
Liabilities due to customers	67 468.1	-	-	67 467.6	**67 467.6**
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**

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

For calculation purposes the yield curve is applied with transfer prices calculated on the basis of:

- PLN: BID rates up to 9M (inclusive) being WIBID and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being WIBOR and over 1Y adequate IRS rates.
- EUR: BID rates up to 9M (inclusive) being EURIBOR and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being EURIBOR and over 1Y adequate IRS rates.
- USD and CHF: BID rates up to 9M (inclusive) being LIBOR and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being LIBOR and over 1Y adequate IRS rates.

BID rates are used to compute fair value of financial liabilities measured at amortized cost; in the case of financial assets measured at amortized cost OFFER rates are applied. All intermediate points on the curves are interpolated linearly.

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

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

Loans and receivables

The credit portfolio including debt securities classified to financial assets measured at amortised cost is divided into sub-portfolios according to the type of product, the client's segment and the currency.

For mortgage portfolio, the prepayment model is applied. Data on the maturity of PLN and CHF mortgage portfolios are used to determine the estimated prepayments according to the model maturity structure. On the basis thereof, the average interest rate weighted with unmatured principal is calculated separately for PLN and CHF portfolios. A model schedule of principal and interest payments is aggregated on the basis of the model maturity structure and future interest flows measured at average interest rate separately for PLN and CHF.

In case of those sub-portfolios the discounting factor is used for each cashflow.

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.

As a result, the fair value is the total of the net present value of cash flows of a single loan/ security (in the case of the mortgage portfolio the fair value is the total of the net present value of cash flows of the aggregated mortgage portfolio calculated separately for PLN and CHF).

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.

Liabilities due to other banks and to customers

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

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

For deposits the discounting factor represents the sum of:

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

For that purpose the following assumptions are adopted:

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

Liabilities under issue of securities

Fair value is calculated with the use of the discounting factor for each cash flow. Accordingly, the discounting factor is the total of:

- the market rate based on the yield curve from the balance sheet date, and
- the estimated margin applied should the securities be issued.

For that purpose, it is assumed that the spot at the yield curve on the basis of which the relevant market rate is set reflects the bond repricing date.

Investments in controlled entities

The Bank holds shares of and interest in subsidiaries and associates. It is difficult or impossible to determine their fair value due to the absence of active market for those instruments. The Bank is of the opinion that the purchase price less the impairment charge (if any) is the best indicator of their value.

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 is presented the comparison of the carrying value with the fair value concerning loans and advances portfolio and deposits by segment:

	end of 2014		end of 2013	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Loans and advances, of which:	**53 972.8**	**53 247.3**	**45 346.4**	**43 861.7**
Corporate banking segment, of which	32 796.5	32 633.1	27 468.4	27 214.1
- loans and advances	*30 030.4*	*29 960.7*	*25 292.7*	*25 179.6*
- corporate and municipal bonds	*2 766.1*	*2 672.4*	*2 175.7*	*2 034.5*
Retail banking segment, of which:	21 176.3	20 614.2	17 878.0	16 647.6
- mortgages	*16 507.5*	*15 869.0*	*13 881.1*	*12 521.5*
- other loans and advances	*4 668.8*	*4 745.2*	*3 996.9*	*4 126.1*
Deposits, of which:	**74 652.3**	**74 652.7**	**66 832.0**	**66 831.5**
- Deposits of customers from corporate banking segment	24 510.1	24 510.1	23 241.2	23 241.1
- Deposits of customers from retail banking segment	50 142.2	50 142.6	43 590.8	43 590.4

41. Offsetting financial instruments

The below disclosure concerns offsetting of financial assets and liabilities subject to enforceable master agreements. ISDA agreements (for derivative transactions) and GMRA (for securities repo and reverse repo transactions) are the main framework agreements concluded by the Bank.

Margins additionally hedge derivative exposures; the Bank deposits and receives them under the Credit Support Annex (CSA), an annex to the ISDA agreement.

Financial assets

end of 2014	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:	5 395.5	5 395.5	-3 091.3	-1 456.6	847.6
- valuation of derivatives	*2 411.7*	*2 411.7*	*-1 843.5*	*0.0*	*568.2*
- derivative hedge instruments	*2 983.8*	*2 983.8*	*-1 247.8*	*0.0*	*1 736.0*
- derivatives collateral	*0.0*	*0.0*	*0.0*	*-1 456.6*	*-1 456.6*
Reverse sale and repurchase agreements, of which:	1 218.5	1 218.5	0.0	-1 204.9	13.6
- transactioms classified to category of financial assets held for trading	*447.0*	*447.0*	*0.0*	*-442.3*	*4.7*
- transactioms classified to category of loans and receivables	*771.5*	*771.5*	*0.0*	*-762.6*	*8.9*
					861.2

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	-515.3	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 2014	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:	4 554.1	4 554.1	-3 091.3	-928.0	534.8
- valuation of derivatives	*2 521.3*	*2 521.3*	*-1 843.5*	*0.0*	*677.8*
- derivative hedge instruments	*2 032.8*	*2 032.8*	*-1 247.8*	*0.0*	*785.0*
- derivatives collateral	*0.0*	*0.0*	*0.0*	*-928.0*	*-928.0*
Sale and repurchase agreements, of which:	86.6	86.6	0.0	-85.6	1.0
- transactioms classified to category of financial liabilities held for trading	*56.9*	*56.9*	*0.0*	*-56.3*	*0.6*
- transactioms classified to category of liabilities due to other banks and customers	*29.7*	*29.7*	*0.0*	*-29.3*	*0.4*
					535.8

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	-726.0	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

42. Custody activities

As at 31 Dec 2014 the Bank maintained 3,748 (3,629 as at 31 Dec 2013) customer accounts used to hold customers securities. The accounts do not meet the definition of assets and are not recognised in the financial statements of the Bank.

As at the end of 2014 the Bank parent company was the depository bank for 151 investment funds and 1 open pension fund, 1 employee pension fund and 1 voluntary pension fund (as at 31 Dec 2013 respectively 141 and 1, 1, 1).

43. Operating leases

43.1. Bank as a lessee

The Bank cooperates with a lease company in respect of car leasing and fleet management. The Bank also incurs costs due to the lease of dwelling units, recognised as operating leases. 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 2014	end of 2013
up to 1 year	105.8	104.3
over 1 year and up to 5 years	230.1	225.7
over 5 years – annual payment amount	26.4	20.7

43.2. Bank as a lessor

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

Lease payments by maturity are disclosed in the table below:

	end of 2014	end of 2013
up to 1 year	15.3	1.7
over 1 year and up to 5 years	11.4	0.2
over 5 years – annual payment amount	0.1	0.0

44. Aditional information on cash flow statement

44.1. Cash and cash equivalents

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

	end of 2014	end of 2013
Cash in hand (presented in note 13)	1 097.3	823.3
Balances with the Central Bank (presented in note 13)	4 233.4	6 146.8
Current accounts in other banks (presented in note 14)	963.4	869.0
Total	**6 294.1**	**7 839.1**

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

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

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

Financial activity pertains to long-term financial transactions (over one year) with financial entities. Inflows from financial activity indicate sources of financing of the Bank, including for example long-term loans and cash loans from other banks, as well as financial entities other than banks 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 Bank 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*.
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).

end of 2014

	changes					
	in statement of financial position	in statement of financial position	***difference of which:***	*1)*	*2)*	*3)*
- Change in loans and other receivables to other banks	-432.4	-337.2	***95.2***	*0.8*	*94.4*	
- Change in financial assets at fair value through profit or loss	94.6	95.5	***0.9***	*0.9*		
- Change in available-for-sale financial assets	-3 335.7	-2 959.1	***376.6***	*89.1*		*287.5*
- Change in loans and other receivables to customers	-8 300.3	-8 256.1	***44.2***	*44.2*		
- Change in liabilities due to other banks	1 622.5	1 622.7	***0.2***	*0.2*		
- Change in liabilities due to customers	7 454.1	7 496.2	***42.1***	*42.1*		

end of 2013

	changes					
	in statement of financial position	in statement of financial position	***difference of which:***	*1)*	*2)*	*3)*
- Change in loans and other receivables to other banks	-23.6	-132.4	***-108.8***	*-0.6*	*-108.2*	
- 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	-1 612.4	-1 963.8	***-351.4***	*-34.3*		*-317.1*
- Change in loans and other receivables to customers	-3 994.4	-3 840.0	***154.4***	*154.4*		
- Change in liabilities due to other banks	192.6	193.1	***0.5***	*0.5*		
- Change in liabilities due to customers	10 078.1	10 006.8	***-71.3***	*-71.3*		

45. Related entities

ING Bank Śląski S.A. subsidiaries and affiliated entities:

- ING Securities S.A.,
- ING ABL Polska S.A. (holds 100% of shares of ING Commercial Finance S.A. and ING Lease Polska Sp. z o.o.),
- ING Usługi dla Biznesu S.A. (holds 100% of shares of Nowe Usługi S.A. company),
- Solver Sp. z o.o.,
- ING Powszechne Towarzystwo Emerytalne S.A.

As part of their business activity these entities hold current accounts at ING Bank Śląski, via which they perform standard clearing operations and also invest cash funds using term deposits. Similarly, ING Bank Śląski 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. Moreover, ING Lease Sp. z o.o. received long-term funding for leasing contracts in EUR ("matched funding") from ING Bank NV. 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 2014 to 31 December 2014 the following transactions were made in 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 2014 amounted to PLN 51.4 million versus PLN 49.8 million in the same period last year (net amounts).
- transactions with ING Services Polska – the company renders hardware lease services to ING Bank Śląski S.A. The costs amounted to PLN 32.1 million versus PLN 47.9 million in the analogous period of the previous year (gross amounts).

As at 31 December 2014, ING Bank Śląski S.A. had no financial exposure to the Supervisory Board Members or any entities connected with them in capital or organisational terms.

Transactions with related entities (in PLN million)

2014

	ING Bank NV	Other ING Group	Subsidiary undertakings*	Associated undertakings*
Receivables				
Nostro accounts	3.0	15.2	-	-
Loans	-	8.1	4 486.2	-
Positive valuation of derivatives	493.6	257.9	-	-
Other receivables	4.0	1.9	0.1	-
Liabilities				
Deposits received	1 523.8	687.8	386.7	161.0
Loro accounts	24.0	14.2	-	-
Negative valuation of derivatives	381.6	270.7	-	-
Repo	-	28.8	-	-
Other liabilities	3.9	0.1	-	-
Off-balance-sheet operations				
Contingent liabilities	270.2	114.0	2 049.2	-
FX transactions	3 268.1	49.8	-	-
Forward transactions	29.6	858.4	-	-
IRS	12 626.8	3 568.9	-	-
FRA	850.0	-	-	-
Options	1 272.4	726.2	48.0	-
Revenue and costs **				
Revenue	138.2	-3.6	121.6	-2.2
Costs***	49.6	23.8	-2.1	-

2013

	ING Bank NV	Other ING Group	Subsidiary undertakings*	Associated undertakings*
Receivables				
Nostro accounts	24.5	15.6	-	-
Deposits placed	55.3	-	-	-
Loans	-	11.5	3 629.1	-
Positive valuation of derivatives	324.8	207.1	0.3	-
Repo	133.7	-	-	-
Other receivables	4.1	0.9	0.5	-
Liabilities				
Deposits received	940.9	1 190.6	464.7	57.3
Loro accounts	46.7	8.5	-	-
Negative valuation of derivatives	261.1	229.4	0.4	-
Repo	28.8	424.3	-	-
Other liabilities	3.5	-	-	-
Off-balance-sheet operations				
Contingent liabilities	39.1	57.3	1 584.9	0.1
FX transactions	4 512.5	37.6	-	-
Forward transactions	10.2	-	-	-
IRS	10 295.0	3 552.9	9.5	-
FRA	829.4	-	-	-
Options	1 440.7	1 495.3	52.6	-
Revenue and costs **				
Revenue	11.3	-9.8	106.0	-2.2
Costs***	48.9	38.2	17.0	-

*/ 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. 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 31.12.2014 amounted to PLN 146.3 million excluding loans from the Internal Social Benefits Fund. As at 31.12.2013, their value amounted to PLN 137.2 million.

Granting of a loan, cash advance, bank guarantee and surety for the Bank's senior management group 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 2014 contain loans, cash advances, bank guarantees and sureties for the Bank's senior management group (within the meaning of Article 79 of the Banking Law) amounting to PLN 33.7 million. As at 31.12.2013, 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.. The balance of money advances granted from the Internal Social Benefit Funds as of 31.12.2014 amounts to PLN 8.2 million versus PLN 9.3 million as at 31.12.2013.

The balance of the Internal Social Benefits Fund as at 31.12.2014 was PLN 3.2 million versus PLN 3.1 million as at 31.12.2013.

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

As at the end of 2014, 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)

	2014	2013
Short-term employee benefits, in which:	10.6	10.3
- remuneration	8.6	8.1
- benefits	2.0	2.2
TOTAL	**10.6**	**10.3**

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 2014, they amounted to PLN 1.5 million compared with PLN 1.1 million in 2013.

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

	2014		2013	
	Short-term benefits	Long-term benefits	Short-term benefits	Long-term benefits
Cash payments	2.5	1.6	2.1	1.4
Phantom stock	2.5	1.7	2.1	1.4
TOTAL	**5.0**	**3.3**	**4.2**	**2.8**

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.

Emoluments of Members of the ING Bank Śląski S.A. Management Board for 2014 under the Variable Remuneration Programme have not yet been awarded.
Under the remuneration system in place at the Bank, the Bank Management Board Members may be entitled to the 2014 bonus, some part of it will be paid out in 2015, and some part will be deferred for the upcoming years (2016-2019). The maximum amount of the bonus for 2014 that may materialise, for which a reserve was established, arrives at PLN 8.3 million, including cash pay-out in 2015 of PLN 2.5 million, and for the deferred part of the bonus PLN 5.8 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 7.0 million. The bonus for 2013 approved in 2014 by the Bank Supervisory Board was PLN 7.6 million.

In the years ended 31 December 2014 and 31 December 2014, 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 2014, the Supervisory Board of ING Bank Śląski S.A. worked in the following composition:

- Mr Antoni Reczek - Chair,
- Mr Brunon Bartkiewicz - Deputy Chair,
- Mr Aleksander Galos - Secretary,
- Mr Roland Boekhout - Member,
- Mr Nicolaas Cornelis Jue - Member,
- Mr Adrianus Johannes Antonius Kas - Member,

- Mr Aleksander Kutela - Member.

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

	2014	2013
Short-term employee benefits, in which:	0.5	0.5
- remuneration	0.5	0.5
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 2014, neither Management Board nor Supervisory Board members held shares of ING Bank Śląski S.A., similarly as at the date of rendering the annual financial statements for 2013 into the public domain.

47. Headcount

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

Headcount	end of year 2014	end of year 2014
Individuals	7,687	7,799
FTEs	7,637.5	7,695.3

48. Significant events after the balance sheet date

Conclusion of a Share Purchase Agreement concerning the shares of ING Powszechne Towarzystwo Emerytalne S.A.

On 10 February 2015, the Bank signed a share purchase agreement of a block of 20% of shares of ING Powszechne Towarzystwo Emerytalne S.A. (ING PTE) for the benefit of ING Continental Europe Holdings B.V. (ING CEH). The disposal of shares will be effected on condition that ING CEH obtains the unconditional approval of the Polish Financial Supervision Authority (PFSA) to increasing the stake of ING CEH in ING PTE. If the PFSA's approval is not granted by the end of 2016, the agreement shall be terminated unless the Parties resolve otherwise.

The selling price of the shares has been set in the agreement at PLN 210 million. As per the Letter of Intent of 06 May 2014, the price was reduced by the dividend paid out for the year 2013 and other adjustment elements set out in the above Letter. Independent fairness opinion issued by PwC Polska Sp. z o.o. confirmed that the price was set on an arm's-length basis.

The price will be adjusted as at the shares ownership transfer date with the value of subsequent dividends paid out to the Bank by ING PTE after the agreement conclusion date.

Additionally, the Bank holds the right to request a price change by the end of December 2016, if the Constitutional Tribunal finds the regulations concerning the reform of open-end pension funds system that were introduced in 2014 unconstitutional. The price will be

changed if the value of the adjustment set out as per the agreement equals or is over 15% of the price set out in the agreement.

Decision of the Swiss National Bank to remove the CHF rate peg

In January 2015, the Swiss National Bank resolved to remove the CHF/EUR exchange peg. This decision translated into an unprecedented strengthening of Swiss franc versus other currencies, PLN included. Also, the Swiss National Bank decided to cut interest rates.
The Bank has a CHF mortgage portfolio which as at the end of 2014 was CHF 356 million, or represented approx. 2% of the total lending portfolio and approx. 1% of the CHF mortgage market. The systemic solutions for FX risk associated with CHF-denominated portfolios proposed by various state and supervisory bodies may cause the Bank to incur losses in future periods.

49. Approval of financial statements

These annual financial statements of the ING Bank Śląski S.A. for the period from 1 January 2014 to 31 December 2014 has been approved by the Bank Management Board on 24 February 2015.

The annual consolidated financial statements of the ING Bank Śląski S.A. Capital Group for the period from 1 January 2014 to 31 December 2014 shall be published and approved on the same day as the standalone financial statements.

Risk Management in ING Bank Śląski S.A.

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

I. Credit Risk Management

1. Definition of Credit Risk

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

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

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.

Credit risk management system in place in ING Bank Śląski S.A., including organizational structure, credit process organization, system of internal regulations, used tools and models – are subject to on-going verification and adjustment in order to ensure implementation of the Bank's strategy, including the risk appetite. The goal is to simultaneously maintain the adequacy of the risk bearing activity in the scope of identification, evaluation, measurement, control and managment of the credit activity and to maintain the consistency and compliance with the regulatory requirement.

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

Maximum exposure to credit risk

	end of 2014	end of 2013
Loans and receivables to other banks	1 821.3	1 388.9
Financial assets measured at fair value through profit and loss	1 856.8	1 951.4
Valuation of derivatives	2 411.7	1 471.7
Investments	22 828.6	19 492.9
Derivative hedge instruments	2 983.8	1 051.9
Loans and receivables to customers	57 952.1	49 119.6
Receivables from customers due to repo transactions	106.6	638.8
Receivables presented in other assets	36.7	28.6
Off-balance sheet liabilities granted, including:	23 394.6	18 739.8
- unused credit facilities	*18 120.4*	*14 092.7*
- guarantees	*2 892.4*	*2 341.1*
- unused overdraft facilities	*1 214.7*	*1 159.5*
- credit card limits	*845.2*	*764.8*
- letters of credit	*321.9*	*381.7*
Total	**113 392.2**	**93 883.6**

2. Organisational Structure of Risk Management

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

- Supervisory Board of the Bank,
- Management Board of the Bank together with the Credit Policy Committee that approve certain internal credit risk-related normative acts as part of their powers,
- Credit Risk Policy Department,
- Credit Risk Modelling Department,
- Credit Risk Reporting Department,
- Central Credit Risk Department,
- Regional Credit Risk 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).

Presented below in more detail are the roles and responsibilities of the individual organisational units involved in the credit risk management process at ING Bank Śląski S.A.

2.1. Supervisory Board

The Supervisory Board of ING Bank Śląski S.A.:

- sets the key credit risk limits (RAS),
- approves the annual planning documents, including the risk strategy,
- assess on a periodic basis the accomplishment by the Management Board of the Bank's credit risk management strategy,
- approves the documents related to the credit risk management, if the status of the given policy requires the approval on the Supervisory Board level.

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, including these credit risk limits (RAS), which are not reserved to the approval competencies of the Supervisory Board,
- 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,

taking the credit decisions within the powers defined in the internal regulations of the Bank.

In the strategic clients area decisions are taken by two individuals authorised by the KPK. The similar process of taking credit decisions by two Approval Signatories (SAP) is used to these transactions granted to the corporate network clients, for which the lower level of credit approval authorities is required than the powers reserved for the Bank Credit Committee.

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. In 2014, two areas were separated within this Division:

- corporate clients transactional risk area,
- non-transactional risk area involving credit risk policy, modelling and reporting.

Furthermore, the credit risk policy, modeling and reporting functions, previously performed by separate organizational units in relation to the retail and corporate credit portfolio, were merged under the relevant departments in order to strengthen the coherence and obtain the synergy effect in the field of credit risk management of both areas.

The mission of the Credit- and Market Risk Management Division is to maintain an adequate level of the credit- and market risk at the Bank. The division is headed by 2 Executive Directors of the Bank, respectively supervising transactional risk area and the non-transactional risk area. Both Executive Directors are subordinated and reporting to the Chief Risk Officer.

The Executive Director responsible for the transactional risk area oversees the following departments:

- Central Credit Risk Department,
- Regional Credit Risk Department,,
- Corporate Credit Restructuring Department.

The Executive Director responsible for the non-transactional risk area oversees the following departments:

- Credit Risk Policy Department,
- Credit Risk Modelling Department,
- Credit Risk Reporting Department.

The area of competence of all above mentioned departments includes system management of the credit risk in the Bank.

The tasks of the individual Departments involved in the credit risk management process are as follows:

2.5. Credit Risk Policy Department

- to develop effective systems for credit risk management by maintenance and expansion of the credit policy principles and description of processes and procedures in order to ensure a proper balance between the current commercial objectives of the

Bank and the adequate awareness level/ risk appetite level, while taking into 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, delivering opinions to the proposed modifications, modelling the organisation, review of processes, reacting to the needs of the units within the Corporate Sales Network, Strategic Clients Division, Retail Banking Division and Operations Division, implementation of the requests of the Bank Management Board and ING Group Head Office,
- raising the credit risk awareness among the employees of the Bank and opportunities and methods of limiting it.

2.6. Credit Risk Modeling Department

- creating, maintenance and development of models for measuring and controlling of credit risk, including in particular the regulatory models, in all business segments of the Bank,
- development and updating of client capacity calculation models,
- initiating of the preparation and updating of the statistical acceptance models,
- supporting the credit risk and counterparty risk management process by developing tools for risk identification and measurement, making the recommendations concerning provisions for credit risk,
- regular verification of the compliance of internal methodologies and procedures with supervisory requirements and ING Group standards related for the construction of models and estimation of the capital requirements,
- supporting of credit risk management and counterparty risk units in the interpretation of the regulation and supervision recommendations.

2.7. Credit Risk Reporting Department

- developing of the credit risk reporting principles,
- execution of tasks in the field of measurement and reporting of credit risk, including the method of calculation of collective impairment provisions and capital requirements for credit risk,
- development, maintenance and support of tools and support systems for credit risk management,
- implementation of credit risk models, including models for calculating of impairment provisions and models for estimating capital requirements for credit risk,
- planning and forecasting the level of provisions under the collective method and capital requirements for credit risk,
- to carry out assessments of the credit risk monitoring process on the basis of the reports.

2.8. Central Credit Risk Department / Regional Credit Risk Department

- approval of rating and approval of credit risk connected with transactions for corporate clients,
- 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 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 and providing opinions to the necessary changes in the management of credit processes and defining products and credit policy in order to mitigate the risk.

2.9. Monitoring and Collection Department

- managing of exposures to retail customers and small businesses customers in the way of monitoring of the timeliness of payments, verification of the collateral and conducting on demand action against the debtor in order to minimize the credit risk and losses of the Bank,
- restructuring and negotiating the terms of repayment and collection of credit debts,
- verification of collateral value, taking over and sales of collateral taken to the loans,
- cooperation with external debt collection companies and the legal councils leading the debtor's collection process.

2.10. Corporate Credit Restructuring Department

- management of corporate problem loans oriented toward minimising the risk and Bank's losses resulting from the irregular portfolio, i.e.:
  - comprehensive restructuring and collection of problem loans,
  - risk rating setting and identification of credit exposure's impairment for irregular customers,
  - estimation of provisions calculated with discounted cash flow method for customers with the biggest impaired exposure,
  - identification of forbearance regarding credit process of irregular customers,
- participation in the Watch List portfolio reviews,
- defining regulations related to problem loans management in order to mitigate risks and reduce losses,
- analysis and reporting of 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 projects connected with credit risk management, especially referring to problem loans management and loan loss provisioning, including issuing opinions and recommendations for changes in said 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 the Group of 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 patterns / 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-making competencies in relation to the sale and acceptance of credit risk of individual transactions which are carried out by the business units and units of transactional credit risk are separated (including functional separation) from the activities in the area of credit policy creation and from the processes of development and validation of credit risk management supporting tools which are executed by the risk policy, modeling and reporting area. Risk is accepted by authorised persons.

The credit decisions are taken based on a comprehensive analysis of the risks of the transaction – in the adequate credit path, depending on the complexity and amount of the transaction. In case of the paths with a higher level of automation credit decision are taken based on clearly defined criteria, including behavioral criteria, and automatically calculated credit limit using the algorithm approved by the Credit Policy Committee. Acceptance of all transactions is done in accordance with clearly defined rules of credit approval authority. Personal responsibility of individual decisions makers for credit decisions taken is the rule.

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 the 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 (including entities of ING Bank Śląski S. A. Group) 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 and in relation to his/her business operations.

4. Structure of credit exposure portfolio

Credit exposure portfolio*	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
Gross credit exposure to corporate clients, of which:	**33 844.6**	**19 081.5**	**28 425.5**	**16 184.3**
- exposures with no impairment triggers	32 318.4	19 021.5	26 763.4	16 089.4
- exposures with impairment triggers but with no actual impairment declared	205.7	30.3	329.7	74.9
- exposures impaired, of which:	1 320.5	29.7	1 332.4	20.0
- exposures measured individually	*1 080.8*	*26.0*	*1 145.2*	*16.3*
- exposures measured as the portfolio	*239.7*	*3.7*	*187.2*	*3.7*
Gross credit exposure to retail clients, of which:	**21 742.6**	**2 736.4**	**18 364.7**	**2 269.4**
- exposures with no impairment triggers	21 164.6	2 734.4	17 864.4	2 267.2
- exposures impaired	578.0	2.0	500.3	2.2
Total credit exposure	**55 587.2**	**21 817.9**	**46 790.2**	**18 453.7**

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

4.1. Credit exposure to corporate clients

Credit exposure to corporate clients by risk grades

risk rating	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
3	0.0	0.0	0.0	0.3
5	71.1	10.2	0.0	0.2
6	231.6	902.5	181.9	584.6
7	5 829.0	1 994.2	4 562.2	1 629.6
8	784.6	1 700.7	3 146.0	1 398.8
9	6 306.0	4 431.0	2 682.0	2 642.2
10	1 461.8	1 243.9	1 903.3	2 402.1
11	6 135.7	3 109.2	3 865.2	2 695.1
12	3 086.4	2 210.5	2 612.9	1 416.2
13	4 217.1	1 770.3	4 082.7	1 785.6
14	1 577.5	626.4	1 287.5	571.2
15	1 677.1	622.3	1 830.5	642.7
16	461.1	147.0	442.0	224.6
17	393.8	163.1	162.1	60.2
18	109.3	28.7	166.7	34.5
19	182.0	91.8	168.1	76.4
20	592.7	25.2	740.1	17.4
21	10.1	0.0	1.1	0.0
22	717.7	4.5	591.2	2.6
Total	**33 844.6**	**19 081.5**	**28 425.5**	**16 184.3**

Credit exposures to corporate clients by overdue days

number of days overdue	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	32 747.6	19 076.9	27 302.3	16 162.9
1-30	99.2	0.4	205.8	20.3
31-60	28.2	0.0	42.0	0.0
61-90	10.7	0.0	6.2	0.0
91-180	31.9	0.0	23.7	0.0
181-365	102.7	3.4	72.0	1.1
>365	824.3	0.8	773.5	0.0
Total	**33 844.6**	**19 081.5**	**28 425.5**	**16 184.3**

4.1.1. Credit exposure with no impairment triggers

Credit exposure by risk grades

risk rating	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
3	0.0	0.0	0.0	0.3
5	71.1	10.2	0.0	0.2
6	231.6	902.5	181.9	584.6
7	5 829.0	1 994.2	4 562.2	1 629.6
8	784.6	1 700.7	3 146.0	1 398.8
9	6 306.0	4 431.0	2 682.0	2 642.2
10	1 461.8	1 243.9	1 903.3	2 402.1
11	6 135.7	3 109.2	3 865.2	2 695.1
12	3 086.4	2 210.5	2 612.9	1 416.2
13	4 217.1	1 770.3	4 082.7	1 785.6
14	1 577.5	626.4	1 287.5	571.2
15	1 677.1	622.3	1 830.5	642.7
16	461.1	147.0	442.0	224.6
17	393.8	163.1	162.1	60.2
18	53.9	26.7	0.3	0.2
19	31.7	63.5	4.8	35.8
Total	**32 318.4**	**19 021.5**	**26 763.4**	**16 089.4**

Credit exposure by overdue days

number of days overdue	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	32 218.1	19 017.2	26 558.0	16 068.6
1-30	90.8	0.4	177.7	20.3
31-60	7.7	0.0	25.3	0.0
61-90	0.1	0.0	0.6	0.0
91-180	0.4	0.0	0.2	0.0
181-365	0.4	3.4	0.3	0.5
>365	0.9	0.5	1.3	0.0
Total	**32 318.4**	**19 021.5**	**26 763.4**	**16 089.4**

4.1.2. Credit exposures with impairment triggers but with no actual impairment declared

Credit exposure by risk grades

risk rating	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
18	55.4	2.0	166.4	34.3
19	150.3	28.3	163.3	40.6
Total	**205.7**	**30.3**	**329.7**	**74.9**

Credit exposure by overdue days

number of days overdue	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	196.8	30.3	309.8	74.9
1-30	1.8	0.0	6.7	0.0
31-60	6.0	0.0	11.9	0.0
61-90	0.9	0.0	0.3	0.0
91-180	0.2	0.0	0.1	0.0
181-365	0.0	0.0	0.0	0.0
>365	0.0	0.0	0.9	0.0
Total	**205.7**	**30.3**	**329.7**	**74.9**

As at 31 December 2014, for each exposure with impairment indicator but where no actual impairment was determined the value of collateral (mortgage on real property, sureties, pledges or debt assignments) was considered in the expected discounted future cash flows. Exposures in default on either principal or interest payment constituted PLN 8.9 million versus PLN 19.9 million as at 31 December 2013.

4.1.3. Credit exposures impaired - measured individually

Credit exposure by risk grades

risk rating	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
20	544.9	23.9	704.0	14.9
21	5.1	0.0	0.3	0.0
22	530.8	2.1	440.9	1.4
Total	**1 080.8**	**26.0**	**1 145.2**	**16.3**

Credit exposure by overdue days

number of days overdue	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	300.7	26.0	409.7	15.7
1-30	1.5	0.0	12.8	0.0
31-60	8.3	0.0	0.5	0.0
61-90	6.3	0.0	0.0	0.0
91-180	10.8	0.0	13.4	0.0
181-365	69.8	0.0	35.7	0.6
>365	683.4	0.0	673.1	0.0
Total	**1 080.8**	**26.0**	**1 145.2**	**16.3**

4.1.4. Credit exposures impaired - measured as the portfolio

Credit exposure by risk grades

risk rating	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
20	47.8	1.3	36.1	2.5
21	5.0	0.0	0.8	0.0
22	186.9	2.4	150.3	1.2
Total	**239.7**	**3.7**	**187.2**	**3.7**

Credit exposure by overdue days

number of days overdue	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	32.0	3.4	24.8	3.7
1-30	5.1	0.0	8.6	0.0
31-60	6.2	0.0	4.3	0.0
61-90	3.4	0.0	5.3	0.0
91-180	20.5	0.0	10.0	0.0
181-365	32.5	0.0	36.0	0.0
>365	140.0	0.3	98.2	0.0
Total	**239.7**	**3.7**	**187.2**	**3.7**

4.2. Credit exposure to retail clients

Credit exposure to retail clients by risk grades

risk rating	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
2	1 095.3	63.3	961.0	37.2
4	4 340.3	546.1	3 402.9	288.4
5	1 921.3	109.3	5 914.5	196.4
6	5 307.0	610.2	68.5	172.4
7	0.0	0.0	285.4	6.3
8	26.8	82.7	2 321.6	210.3
9	2 776.1	206.8	214.5	192.9
10	169.8	98.6	200.7	118.5
11	1 279.7	130.5	1 041.6	128.9
12	363.1	37.0	435.9	66.1
13	558.7	82.8	1 287.9	157.8
14	2 384.7	740.1	1 137.1	650.7
15	509.3	19.8	271.4	19.0
16	167.5	3.5	117.9	8.8
17	102.3	2.8	73.0	10.2
18	44.2	0.6	55.7	3.2
19	118.5	0.3	74.8	0.1
20	313.6	1.9	294.1	2.1
22	264.4	0.1	206.2	0.1
Total	**21 742.6**	**2 736.4**	**18 364.7**	**2 269.4**

Credit exposure to retail clients by overdue days

number of days overdue	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	20 695.5	2 717.6	17 403.2	2 251.3
1-30	424.3	16.9	413.7	15.3
31-60	101.3	1.1	94.9	1.6
61-90	37.1	0.3	39.1	0.4
91-120	18.3	0.3	17.3	0.1
121-150	15.2	0.1	14.7	0.1
151-180	13.8	0.1	11.5	0.0
>180	437.1	0.0	370.3	0.6
Total	**21 742.6**	**2 736.4**	**18 364.7**	**2 269.4**

4.2.1. Credit exposure with no impairment triggers

Credit exposure by risk grades

risk rating	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
2	1 095.3	63.3	961.0	37.2
4	4 340.3	546.1	3 402.9	288.4
5	1 921.3	109.3	5 914.5	196.4
6	5 307.0	610.2	68.5	172.4
7	0.0	0.0	285.4	6.3
8	26.8	82.7	2 321.6	210.3
9	2 776.1	206.8	214.5	192.9
10	169.8	98.6	200.7	118.5
11	1 279.7	130.5	1 041.6	128.9
12	363.1	37.0	435.9	66.1
13	558.7	82.8	1 287.9	157.8
14	2 384.7	740.1	1 137.1	650.7
15	509.3	19.8	271.4	19.0
16	167.5	3.5	117.9	8.8
17	102.3	2.8	73.0	10.2
18	44.2	0.6	55.7	3.2
19	118.5	0.3	74.8	0.1
Total	**21 164.6**	**2 734.4**	**17 864.4**	**2 267.2**

Credit exposure by overdue days

number of days overdue	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	20 636.9	2 716.1	17 360.6	2 249.8
1-30	406.7	16.6	396.1	15.2
31-60	89.2	1.0	80.2	1.6
61-90	27.1	0.3	24.0	0.4
91-120	1.1	0.2	1.1	0.1
121-150	0.8	0.1	0.5	0.1
151-180	0.5	0.1	0.4	0.0
>180	2.3	0.0	1.5	0.0
Total	**21 164.6**	**2 734.4**	**17 864.4**	**2 267.2**

4.2.2. Credit exposures impaired

Credit exposure by risk grades

risk rating	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
20	313.6	1.9	294.1	2.1
22	264.4	0.1	206.2	0.1
Total	**578.0**	**2.0**	**500.3**	**2.2**

Credit exposure by overdue days

number of days overdue	exposure in PLN million			
	end of 2014		end of 2013	
	on-balance	*off-balance*	*on-balance*	*off-balance*
0	58.6	1.5	42.6	1.5
1-30	17.6	0.3	17.6	0.1
31-60	12.1	0.1	14.7	0.0
61-90	10.0	0.0	15.1	0.0
91-120	17.2	0.1	16.2	0.0
121-150	14.4	0.0	14.2	0.0
151-180	13.3	0.0	11.1	0.0
>180	434.8	0.0	368.8	0.6
Total	**578.0**	**2.0**	**500.3**	**2.2**

5. Forborne exposures and non-performing exposures

The Bank incorporated into its internal regulations the rules for identification and reporting forbearance and non-performing exposures under EBA Final Draft Implementing Technical Standards on Supervisory reporting on forbearance and non performing exposures under article 99(4) of Regulation No. 575/2013 No. EBA/ITS/2013/03/rev1 of 24 July 2014. The Bank will verify its regulations on account of compliance with EBA standards and will adapt them as needed after EBA has published their final version.

According to this definition, forbearance has occurred if the following conditions are simultaneously met:

- the client is in financial difficulties which results or may result in the inability to service the debt under the terms and conditions of the original credit contract,
- the Bank decided to made the concession to the borrower in order to enable the customer to meet contractual obligations or to prudent difficulties in repayment of the debt, i.e. the Bank decided on modification or refinancing of the credit exposure in full or in part, which modification or refinancing does not derive from commercial reasons and the modification are extended on terms and conditions which differ from market conditions,
- the client accepted this concession, i.e. the relevant agreement is concluded or original contract is modified, giving the following type of concession:
  - extension of the repayment period,
  - rescheduling the repayments (i.e. reduction or deferral of repayments, including the suspension of principal or interest),
  - reducing of the margin,
  - write-off of the debt,
  - other concession (which is not made not due to commercial reasons and not granted under market conditions).

In keeping with the cited EBA Final Draft Implementing Technical Standards of 24 July 2014, the Bank recognises as non-performing exposures those exposures that meet at least one of the below criteria:

- material exposure is more than 90 days past-due; or
- in the opinion of the Bank, the client is unlikely to pay its credit obligation in full without taking by the Bank the actions like realization of collateral (regardless of the value of the overdue amount and the number of days past due).

Exposures are also classified to the non-performing exposure portfolio if the performing forborne contract becomes more than 30 days past-due or if additional forbearance measures is extended to this forborne exposure.

For the retail segment – all exposures in restructuring are deemed forbearance exposures. Impairment is recognised for exposures in restructuring.

Loan portfolio division into performing and non-performing exposure with forborne exposures indication

	Performing exposure	of which forbearance				Non-performing exposure	of which forbearance				
			Modification of terms and conditions	Refinancing	Under probation*			Modification of terms and conditions	Refinancing	Defaulted	Impaired
Loan portfolio – gross value, of which:	**53 697.3**	**289.9**	**288.4**	**1.5**	**0.0**	**1 889.9**	**741.0**	**739.7**	**1.3**	**740.8**	**740.8**
Corporate banking segment, of which:	**32 537.3**	289.9	288.4	1.5	0.0	**1 307.3**	698.8	697.5	1.3	698.6	698.6
- loans and advances	***29 765.6***	*289.9*	*288.4*	*1.5*	*0.0*	***1 307.3***	*698.8*	*697.5*	*1.3*	*698.6*	*698.6*
- corporate and municipal bonds	***2 771.7***	*0.0*	*0.0*	*0.0*	*0.0*	***0.0***	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Retail banking segment, of which:	**21 160.0**	0.0	0.0	0.0	0.0	**582.6**	42.2	42.2	0.0	42.2	42.2
- mortgages	***16 488.8***	*0.0*	*0.0*	*0.0*	*0.0*	***192.0***	*19.0*	*19.0*	*0.0*	*19.0*	*19.0*
- other loans and advances	***4 671.2***	*0.0*	*0.0*	*0.0*	*0.0*	***390.6***	*23.2*	*23.2*	*0.0*	*23.2*	*23.2*
Impairment losses, of which:	**353.5**	**17.1**	**16.9**	**0.2**	**0.0**	**1 260.9**	**446.1**	**446.1**	**0.0**	**446.0**	**446.0**
Corporate banking segment, of which:	**266.3**	17.1	16.9	0.2	0.0	**781.8**	420.0	420.0	0.0	419.9	419.9
- loans and advances	***260.7***	*17.1*	*16.9*	*0.2*	*0.0*	***781.8***	*420.0*	*420.0*	*0.0*	*419.9*	*419.9*
- corporate and municipal bonds	***5.6***	*0.0*	*0.0*	*0.0*	*0.0*	***0.0***	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Retail banking segment, of which:	**87.2**	0.0	0.0	0.0	0.0	**479.1**	26.1	26.1	0.0	26.1	26.1
- mortgages	***30.2***	*0.0*	*0.0*	*0.0*	*0.0*	***143.1***	*11.8*	*11.8*	*0.0*	*11.8*	*11.8*
- other loans and advances	***57.0***	*0.0*	*0.0*	*0.0*	*0.0*	***336.0***	*14.3*	*14.3*	*0.0*	*14.3*	*14.3*
Loan portfolio – net value, of which:	**53 343.8**	**272.8**	**271.5**	**1.3**	**0.0**	**629.0**	**294.9**	**293.6**	**1.3**	**294.8**	**294.8**
Corporate banking segment, of which:	**32 271.0**	272.8	271.5	1.3	0.0	**525.5**	278.8	277.5	1.3	278.7	278.7
- loans and advances	***29 504.9***	*272.8*	*271.5*	*1.3*	*0.0*	***525.5***	*278.8*	*277.5*	*1.3*	*278.7*	*278.7*
- corporate and municipal bonds	***2 766.1***	*0.0*	*0.0*	*0.0*	*0.0*	***0.0***	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Retail banking segment, of which:	**21 072.8**	0.0	0.0	0.0	0.0	**103.5**	16.1	16.1	0.0	16.1	16.1
- mortgages	***16 458.6***	*0.0*	*0.0*	*0.0*	*0.0*	***48.9***	*7.2*	*7.2*	*0.0*	*7.2*	*7.2*
- other loans and advances	***4 614.2***	*0.0*	*0.0*	*0.0*	*0.0*	***54.6***	*8.9*	*8.9*	*0.0*	*8.9*	*8.9*

*) The Bank classifies to "Under probation" class, exposures for which forbearance measures were granted in the past, and which are currently in a curing period

Credit quality of forborne exposures

risk rating	gross exposure in PLN million			
	performing portfolio		non-performing portfolio	
	on-balance	*off-balance*	*on-balance*	*off-balance*
Corporate banking segment	**289.9**	**82.2**	**698.8**	**43.7**
14	9.5	0.0	0.0	0.0
15	30.6	48.5	0.0	0.0
16	2.7	0.0	0.0	0.0
17	40.4	1.6	0.0	0.0
18	71.8	8.2	0.0	0.0
19	134.9	23.9	0.2	0.0
20	0.0	0.0	369.4	40.6
21	0.0	0.0	7.9	0.0
22	0.0	0.0	321.3	3.1
Retail banking segment	**0.0**	**0.0**	**42.2**	**0.1**
20	0.0	0.0	41.9	0.1
22	0.0	0.0	0.3	0.0
Total	**289.9**	**82.2**	**741.0**	**43.8**

number of days overdue	gross exposure in PLN million			
	performing portfolio		non-performing portfolio	
	on-balance	*off-balance*	*on-balance*	*off-balance*
Corporate banking segment	**289.9**	**82.2**	**698.8**	**43.7**
0	281.4	82.2	284.9	43.7
1-30	1.6	0.0	4.0	0.0
31-60	6.0	0.0	9.3	0.0
61-90	0.9	0.0	4.9	0.0
91-180	0.0	0.0	20.1	0.0
181-365	0.0	0.0	58.1	0.0
>365	0.0	0.0	317.5	0.0
Retail banking segment	**0.0**	**0.0**	**42.2**	**0.1**
0	0.0	0.0	28.9	0.1
1-30	0.0	0.0	7.7	0.0
31-60	0.0	0.0	2.3	0.0
61-90	0.0	0.0	1.5	0.0
91-120	0.0	0.0	0.9	0.0
121-150	0.0	0.0	0.3	0.0
151-180	0.0	0.0	0.2	0.0
>180	0.0	0.0	0.4	0.0
Total	**289.9**	**82.2**	**741.0**	**43.8**

Interest on loans and receivables to customers in the 2014 income statement includes interest income on “forbearance exposures” of PLN 33.3 million, where PLN 14.5 million derives from the performing exposures portfolio and PLN 18.8.million from non-performing exposures.

6. Impairment identification for credit exposures

Impairment identification for credit exposures is an integral part of the credit risk management process for both corporate and retail clients.

The events being impairment triggers are the events which occurred on the part of an asset or a group of financial assets and which may reduce the amount of expected cash flows. The events considered impairment triggers by the Bank were discussed in Chapter IV. Material Principles of Accounting, item 5.10. Impairment.

Occurrence of an impairment trigger requires the Bank to analyse the expected cash flows for a given exposure. In the analysis, presence or absence of financial asset impairment is declared.

The impairment loss computation basis and approach for credit exposures and provisions for off-balance sheet liabilities were described in Chapter IV. Material Principles of Accounting, item 2.1.1. _Impairment of financial assets._

7. Rules and process of corporate credit risk management

7.1. Reviews and Credit Risk Rating

Commercial functions who grant credits are separated from the process of transaction- and client risk rating (the four-eye 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 (Front Office unit servicing the client) 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 or regular risk unit in case of lower credit exposures) 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 (who is also an employee of the Credit and Market Risk Management Division).

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,
- assessment of the financial data,
- finalizing the rating in case the appeal has not been requested.

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:

- 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.
- additional information is available supporting the setting of the rating for customer.

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.

7.2. 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).

7.3. Concentration Limits

To mitigate the concentration risk, the Bank in 2014 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.

Over the year 2014, 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 2014		end of 2013	
	exposure in PLN million	_share in total exposure (%)_	_exposure in PLN million_	_share in total exposure (%)_
financial intermediation	8 545.0	16.2%	6 337.5	14.2%
wholesale trade	6 150.2	11.6%	5 575.7	12.5%
public administration and national defense	4 122.8	7.8%	3 888.6	8.7%
real estate service	3 831.6	7.2%	2 715.2	6.1%
power industry	3 638.4	6.9%	3 413.1	7.7%
retail trade	2 790.4	5.3%	2 177.8	4.9%
foodstuff and beverage production	2 592.0	4.9%	2 545.6	5.7%
constructions industry	2 567.6	4.9%	2 229.0	5.0%
equipment rent	1 485.4	2.8%	1 318.1	3.0%
ready-made metal goods productions	1 333.3	2.5%	1 154.4	2.6%
land and pipeline transportation	1 234.4	2.3%	728.8	1.6%
rubber industry	1 155.6	2.2%	1 115.6	2.5%
computer industry and associated service	1 128.9	2.1%	561.6	1.2%
agriculture, foresty, fishery	914.8	1.7%	711.8	1.6%
fuel industry	863.9	1.6%	983.0	2.2%
mining of metal ores	806.7	1.5%	0.0	0.0%
remaining non-metal raw materials industries	774.8	1.5%	719.1	1.6%
engineering industry	763.0	1.5%	864.9	1.9%
mechanical vehicles sale, repair and service	708.1	1.3%	892.1	2.0%
other	7 519.2	14.2%	6 677.9	15.0%
Total	**52 926.1**	**100.0%**	**44 609.8**	**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.

<u>*Bank's greatest exposures*</u>

The table below presents the breakdown of 20 largest Bank exposures towards entities/ related entities (inclusive of groups of entities wherefor the bank is a parent entity). The amount of exposures takes account of the value of the balance sheet assets (extended loans, deposits made and debt securities), extended off-balance sheet exposures and the value of balance sheet equivalent of derivatives. 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 2014	end of 2013
Group 1	911.4	1 049.1
Group 2	825.6	16.4
Group 3	818.3	519.3
Group 4	796.9	808.1
Group 5	775.2	355.3
Group 6	742.2	811.6
Group 7 (banking)	658.5	570.6
Group 8	589.0	381.1
Group 9	563.7	453.1
Group 10	549.3	227.4
Group 11	523.9	575.2
Group 12 (banking)	468.9	360.9
Group 13	430.3	93.3
Group 14	428.0	402.6
Group 15 (banking)	425.4	318.6
Group 16	400.0	0.0
Group 17 (banking)	394.2	355.0
Group 18	391.0	304.4
Group 19	364.2	0.1
Group 20	363.7	349.9

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 secured financing – Network,
- mortgage secured financing – Strategic Clients,
- portfolio of mortgage secured retail credit exposures,
- portfolio of credit exposures in foreign currencies,
- value of the retail portfolio of credit exposures secured by a commercial property,
- share of consolidation loans,
- value of credit exposures, with maturity over 30 years at the time of opening account,
- share of the biggest single region,
- value of the portfolio of credit exposures provided by the external sales channels,
- share lof 30+ DPD loans in the IBNR portfolio of credit exposures granted though the external sales channels in the mortgage segment,

- share of the portfolio with current LTV above 80% for PLN portfolio,
- share of the portfolio with current LTV above 80% for NON-PLN portfolio.

Adherence to the statutory and internal concentration standards is the subject of a monthly risk report distributed among the Management Board and Credit Policy Committee. The report is also presented to the Supervisory Board of the Bank on a periodic basis.

7.4. Repayment Security and Other Forms of Credit Risk Mitigation

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

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

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

The Internal regulations of the Bank concerning collateral and cover , 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 internal regulations of the Bank concerning collateral and cover take into account in particular those aspects of the Regulation (EU) No 575/2013 of the European Parliament 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.

7.5. Exposure Classification Methodology

7.5.1. Customer Risk Class Determination in the case of the regular portfolio

Each entity with the Bank's credit exposure must have an internal rating assigned as is used in a standard manner at the Bank and ING Group. Determination of the customer risk class forms an integral part of the Bank's credit risk evaluation process for corporate clients, which is independent from the credit transaction approval process.

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:

- statistical 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, Bank takes account of the threats arising from economic and business conditions. This group includes borrowers with solid level of revenues and margins, strong balance sheet structure and long-term, stable perspective.

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.

Also clients with forborne exposure are classified in this group if performing forborne contract becomes more than 30 calendar days past-due or if additional forbearance measures are taken.

Borrowers from this risk group are rated first of all by Corporate Credit Restructuring Department and in limited scope by regular risk units.

7.5.2. Corporate Credit Risk Management Tools

Following the requirement of keeping the permanent compliance with the use of the advanced internal-ratings based approach (AIRB) for the purpose of regulatory capital calculation[1], Bank developed, implemented, monitored and validated models in accordance with requirements of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013, for the following basic risk parameters:

- PD (probability of default),
- LGD (loss given default),
- EAD (exposure at default)

for classes of assets in line with AIRB.

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

- for the strategic clients segment covering businesses with annual income from sales above EUR 100 million:
  - PD rating model (expert and statistical) developed at the ING Group level accounting for the local data and monitored regularly on the local data,
  - LGD and EAD models (hybrid, expert and statistical) also developed at ING Group level accounting for the local data and monitored regularly based on the local data,
- for the mid-sized, big-sized and small strategic companies segments (SME assets class) covering clients with annual income from sales in the range of EUR 0,8 to 100 million:
  - PD rating model (expert and statistical) fully developed on the Bank's internal data,
  - LGD and EAD models (hybrid, expert and statistical) developed on the Bank's internal data.

Besides the above, Bank uses specific models developed at ING Group level for exposures to banks and other financial institutions, to sovereigns and local governments as well as for specialised lending exposures.

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.

On the basis of the models the provisions are calculated under IFRS standards. The models are appropriately adjusted (PD, LGD) in accordance with requirements of IAS 39 OS 87, in particular, the influence of current (the most recent) data and Point-in Time approach has

[1] 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.

been included. Additionally, LGD risk parameters for impaired exposures are determined by the time the exposure has been in default.

The models are used also for the measurement of the efficiency of Bank's performance (RAROC, economic profit, goodwill management) and credit prices determination.

While employing the risk models, the Bank makes use of advanced IT systems supporting the client and transaction risk rating processes. An integrated ING Group's environment is the primary IT tool used to manage credit risk. This tool combines key applications used in the credit risk management process. 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.

7.6. Restructuring

In some cases, ING Bank Śląski S.A. will work with an obligor and its other creditors (if any) to restructure the obligor's business and its financial obligations in order to minimize any financial losses to the creditors as a whole, and ING Bank Śląski S.A. in particular. This can be accomplished through many means available to the creditors, the most common of which are:

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

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

8. Rules and the process of retail credit risk management

Credit risk management is realized by identification, assessment, acceptance, measurement and monitoring and credit risk control in scope of integrated system in whole credit cycle, consistent of all processes realized in Bank by reason of pursuing bank activity connected with giving credits, loans and other credit products. Rules of retail credit risk management are described in Retail Credit Risk Management Policy in ING Bank Śląski S.A.

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 Bank not exceeding 1.2 mio PLN.

9. 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.

10. Identification of Credit Risk Connected with Derivatives

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

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

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

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).

10.1. Pre-settlement Risk

The pre-settlement risk derives from a breach of transaction terms by the Counterparty, before its settlement, which makes it 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, statistical models are used to define the level of trust. Pursuant to the policy of ING Group, this trust level is 97.5%.

10.2. 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.

10.3. 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).

10.4. 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.

10.5. 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 2014	end of 2013
Money Market	29.2	58.6
MtM gross*	1 273.3	598.2
MtM net**	198.8	-17.1
Present Value + FM Value	531.0	476.3

**) 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".*

10.6. Credit risk connected with derivative instruments

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

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

The valuation adjustment of unmatured derivatives with Bank's customers for 2014 amounted to PLN -1.2 million (against PLN +4.5 million in 2013) and was presented in the financial statements in *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 Bank made charges using the methodology for assessing the risk of impaired loans. In 2014, the net balance of provisions amounted to PLN 0,1 million compared to PLN -3.0 million in 2013 and was included in the financial statements as *Impairment losses and provisions for off-balance sheet liabilities*.

The item *Loans and receivables to customers* in the statement of financial position presents receivables resulting from restructuring of derivative transactions made by the Bank with customers. The due amounts equaled to PLN 194.5 million as at 31 Dec 2014 against PLN 211.8 million as at 31 Dec 2013. The carrying value of impairment losses connected with transactions on derivatives amounted to PLN 184.6 million as at 31 Dec 2014 against PLN 188.3 million as at 31 Dec 2013.

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, 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.

Bank Treasury Banking Books

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

3. Value at Risk ("VaR") Concept

The Value at Risk (VaR) is the main methodology used to calculate market risk in 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 position holding period, 99% confidence level and 260 day observation period is used.. For trading book portfolios Bank uses the historical simulation methodology. To strengthen the risk control, Bank implemented additionally within FX risk area, the intra-day risk measurement and monitoring against approved limits.

In the case of Bank Treasury Banking Books, Bank used till December 2014 the variance-covariance method. Since December 2014, after new methodology and appropriate VaR limit approval by Management Board, Bank formally started to measure the risk according to historical simulation method.

Market risk of commercial banking books is calculated in the framework of the banking portfolio using the methodology EaR and NPV at Risk described in further parts of the

document. However, the calculation of the economic capital for commercial books is based on VaR by variance-covariance methodology. Economic capital for commercial books on 31.12.2014 amounted to PLN 2 635 thousand, which accounted for only 3.8% of the total economic capital of the Bank.

VaR measurement in ING Bank Śląski is performed in accordance to market best practice. The VaR model accuracy for "Trading" books is checked in a 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 figure. 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 changes of market circumstances. Therefore "Stressed VaR" calculation is 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 a quarterly basis Bank-wide stress test is performed covering market risk, liquidity risk and credit risk under regulatory scenario and various other scenarios provided by Bank's economists and approved by ALCO.

Trading Books Market Risk (VaR statistics)*

VaR numbers in 2014 (in PLN thousand)

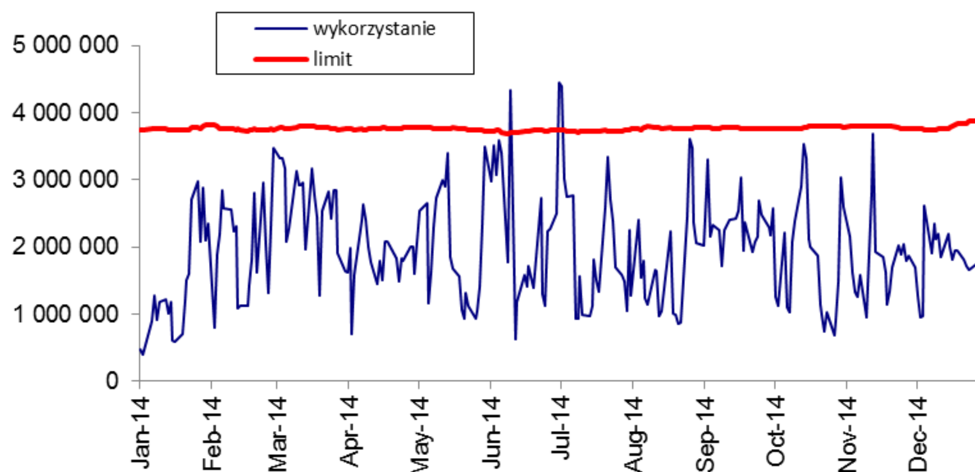
Area	Limit	as at 31 Dec 2014	Average	Min	Max
Interest Rate	3 836,1	1 770,9	1 983,2	394,5	4 448,4
FX	4 262,3	371,5	600,6	132,5	2 051,7
FX Options	2 131,2	423,8	456,3	168,6	829,0

VaR numbers in 2013 (in PLN thousand)

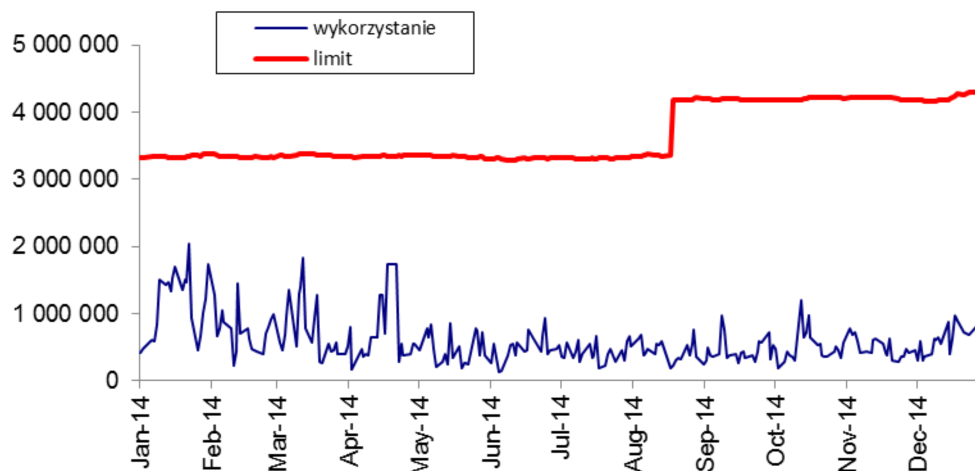
Area	Limit	as at 31 Dec 2013	Average	Min	Max
Interest Rate	3 732,5	800,0	865,0	135,1	2 962,6
FX	3 317,8	329,0	572,0	24,1	1 321,9
FX Options	2 073,6	340,4	219,0	76,2	601,0

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

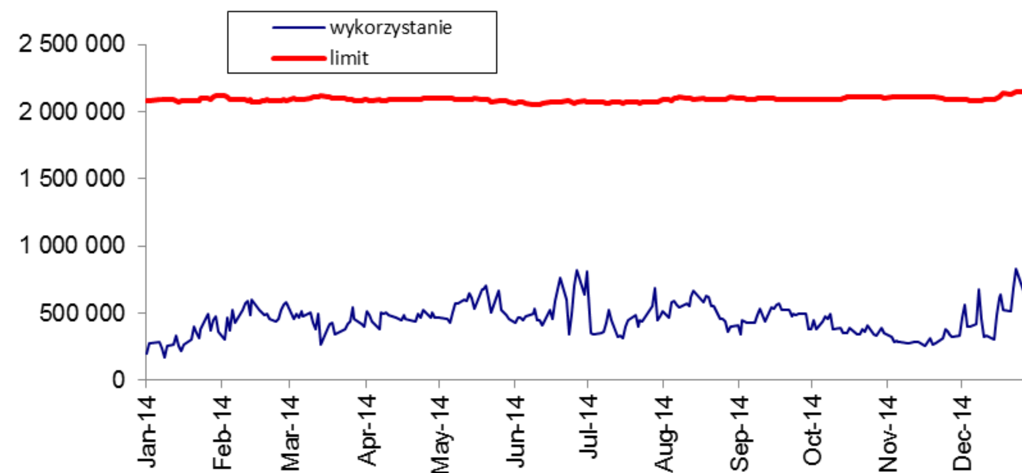
Interest Rate VaR (PLN)



FX VaR (PLN)



FX Options VaR (PLN)



Financial Markets kept their trading exposures at moderate levels comparing to approved limits. The average usage of limits in 2014 was respectively: 53 % for Interest rate trading, 17 % for FX Spot and 22 % for FX options. There were three cases of “hard” VaR limit breach reported for long-term interest rate trading book. The only one change of VaR limit took place in 2014. Management Board decided to increase VaR limit for FX trading book from EUR 800k to EUR 1 000k.

Bank Treasury Banking Books Market Risk (VaR statistics)*

VaR numbers in 2014 (in PLN thousand)

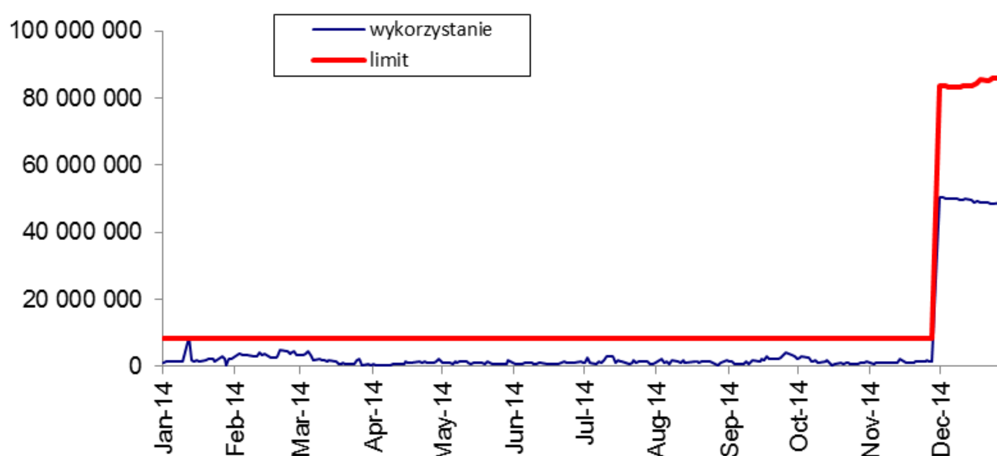
Area	Limit	as at 31 Dec 2014	Average	Min	Max
LMF&ALM	85 246,0	48 789,4	5 626,1	421,5	50 397,9

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

** In case of LMF (Liquidity Management & Funding) and ALM, the numbers for 2013 and eleven months of 2014 represent Delta VaR as this measure was formally limited. In December 2014 Management Board approved the historical simulation based method and a new higher appropriate to this method VaR limit (it increased from EUR 2,0 mio. to EUR 20 mio.). The change (for 1 month) has been reflected adequately in the above statistics. The delta measurement based on variance-covariance method did not cover the spread between government bond and swap curve . However the historical simulation method takes into account the spread which is its unquestionable advantage. Taking into consideration the fact that Bank Treasury security portfolio is substantial, also as a consequence the risk is much higher which is reflected in VaR numbers.*

LMF & ALM VaR (PLN)



Treasury Department kept their exposures in banking book at moderate levels comparing to approved limits. An increase of limit and its usage which is visible on the chart resulted from the change of risk measurement method. It was already described above in more detailed

way. The average usage of combined limit for Bank Treasury banking book amounted to 23 %. In 2014 there was one "hard" VaR limit excess for the banking book. The excess resulted from the necessity of closing large risk position transfers from commercial books (from replicating portfolios) which was not possible to be closed within one day. The exposure was reduced below the limit the following day.

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" and NPV at Risk 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 residual risk (the potential losses on these positions arising from non-standard rate-setting mechanisms which are not transferred to Bank Treasury responsible for interest rate risk management). The Bank is of the opinion that both of these risks are not material (potential losses typically represent a very small share of historical or projected results).

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

4. Earnings at Risk (EAR) Concept

EaR measurements are used for the all banking book positions. . 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 ramped changes of +/- 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 Bank Treasury 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.

5. NPV at Risk Concept

NPV-at-Risk is a measure of the sensitivity of the economic value of the interest rate position to shock changes in interest rates. The measurement is carried out for the curve changes by +/- 1% and +/- 2%. This measurement is used for all banking book positions and one is limited by regulatory limits of 20% of the equity.

Overall Interest Rate Sensitivity

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

- Positions are divided into banking book vs. trading book. Positions include all material currencies; PLN positions represent the vast majority of the interest rate sensitivity of the Bank.
- A basis point value ("BPV") is shown for each (sub-) position; by BPV we mean the change in the economic value of a position for a 0.01% parallel yield curve shift.
- Positions are further split where relevant by accounting method: accrual or MTM. Changes in the market value are fully and immediately reflected in reported results. The 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 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 results to Changes in Interest Rates (PLN million)

end of 2014

Book	Change in Economic Result for Yield Curve Move				Change in Reported Financial Result for Yield Curve Move			
	-2%	**-1%**	**1%**	**2%**	**-2%** ramped	**-1%** shocked	**1%** shocked	**2%** ramped
BANKING	-85.65	-41.42	41.42	85.65	18.81	-43.52	67.73	19.87
TRADING	-14.75	-7.37	7.37	14.75	-14.75	-7.37	7.37	14.75
TOTAL	**-100.40**	**-48.79**	**48.79**	**100.40**	**4.06**	**-50.89**	**75.10**	**34.62**

end of 2013

Book	Change in Economic Result for Yield Curve Move				Change in Reported Financial Result for Yield Curve Move			
	-2%	**-1%**	**1%**	**2%**	**-2%** ramped	**-1%** shocked	**1%** shocked	**2%** ramped
BANKING	-11.06	-5.48	5.48	11.06	40.09	11.79	-6.71	-46.11
TRADING	-9.84	-4.92	4.92	9.84	-9.84	-4.92	4.92	9.84
TOTAL	**-20.90**	**-10.40**	**10.40**	**20.90**	**30.25**	**6.87**	**-11.79**	**-36.27**

**) for the purpose of comparability with the methodology used in 2014, the calculation for 2013 was modified in relation to the values contained in the annual report for 2013.*

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

end of 2014

Position	BPV	Approximate Change in Regulatory Capital Base for Yield Curve Move			
		-2%	**-1%**	**+1%**	**+2%**
FM AFS Portfolio	-2.82	563.79	281.89	-281.89	-563.79
IRS/CIRS classified to macro cash flow hedge portfolio	-10.90	2 179.72	1 089.86	-1 089.86	-2 179.72
TOTAL	**-13.72**	**2 743.51**	**1 371.75**	**-1 371.75**	**-2 743.51**

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 classified to macro cash flow hedge portfolio	-6.59	1 317.07	658.54	-658.54	-1 317.07
TOTAL	**-9.33**	**1 864.82**	**932.42**	**-932.42**	**-1 864.82**

III. Liquidity Risk Management

ING Bank Śląski 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 Bank 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, Bank 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 Bank Liquidity and Funding Risk Management Policy was done in 2014. 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. Bank applied special attention to the review and update documentation relating to the contingency funding plan, due to the rapidly changing market condition, describing 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.

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 Bank and the banking sector.

Liquidity (risk) management can be separated into several types depending on the term: operational liquidity risk, is focused on the current funding of the Bank's positions and the management of the intraday positions and strategic liquidity management, is focused on ensuring that the structural (all tenors of payment) liquidity positions of the Bank are acceptable.

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, is understood by the Bank as a potentially negative impact on the Bank's income due to a mismatch between expected maturities of the assets and liabilities of the Bank, as well as the risk of a lack of possibilities of refinancing in the future; customer behaviour liquidity, is understood as a potentially negative impact on the Bank's income due to liquidity options embedded in products offered by the Bank and funding risk and stress liquidity and funding risk, is defined as the risk of the lack of the Bank's ability to meet its financial obligations, when they are required, due to the lack of an adequate level of available cash or the fact that they cannot be generated at any price an immediate insolvency of the Bank.

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 overall business strategy and resulting medium-term (3-year) financial plan together with the overall risk strategy, introduced by the Bank in 2014. An inherent element of the strategy is: funding plan which 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 appropriate 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. In the process of liquidity testing, an important element constitute specific scenarios for intraday liquidity and the intraday liquidity indicators and measures. 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.

According to 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.

The Bank runs an active policy of liquidity management within major currencies (PLN, EUR, USD, CHF and any other currencies which comprise at least 2.5% of total balance sheet of the Bank). For these currencies the measurement and limiting liquidity risk is carried out per currency; and the operational liquidity management is performed separately for each currency and to take account the currency in the risk transfer system.

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. In the Bank operates the risk transfer system, under which, the market risks, including the liquidity risk are transferred to the BT, where centrally manages risks using appropriate tools.

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 no. 386/2008 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 2014 the bank kept all liquidity measures over their minimum amounts.

As of 31 December 2014 liquidity measures of Bank amounted as follows:

Liquidity measurement		Minimum	as at 31 Dec 2014	as at 31 Dec 2013
M1	Short term liquidity gap (in PLN million)	0.00	14 434.85	18 419.35
M2	Short term liquidity ratio	1.00	1.59	1.90
M3	Own Funds to Non-Liquid Assets Ratio	1.00	9.05	7.06
M4	Own Funds and Core Deposits to Non-Liquid and Semi-Liquid Assets Ratio	1.00	1.33	1.49

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. The 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).

According with the obligations and principles set out in the Regulation of the European Parliament and of the Council (EU) No 575/2013, the Bank calculates regulatory liquidity measures: short-term liquidity measure (LCR - Covered Liquidity Ratio), the liquidity coverage ratio aimed at ensuring that the bank has the appropriate the level of liquid assets of high quality that will cover the liquidity needs within 30 calendar days of stress and long-term liquidity measures (NSFR - Net stable funding ratio), stable funding ratio designed to ensure a minimum level of funding available in the medium and long term. Bank reports the size of the liquidity measures to the regulator, respectively, monthly and quarterly. In accordance with the provisions of the Ordinance of the liquidity coverage requirement will be implemented in stages, starting from 2015 (60%). The target level of 100% will be introduced from 1 January 2018.

As of 31 December 2014 liquidity measures of Bank amounted as follows:

Liquidity measurement		Minimum	as at 31 Dec 2014	as at 31 Dec 2013
LCR	Liquidity coverage ratio	60%	176%	n/a
NSFR	Net Stable funding ratio	n/a*	111%	n/a

*) In keeping with the Regulation of the European Parliament and of the Council (EU) 575/2013, the target net stable funding ratio (NSFR) was not defined.

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. The 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, it 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 2014

	1-6 months	7-12 months	1-5 years	6-10 years	11-15 years	over 15 years
Direct gap	15 298.3	1 972.9	-3 559.1	-12 963.2	3 628.7	-4 377.6
Cumulative gap	15 298.3	17 271.2	13 712.,1	748.9	4 377.6	0.0

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

Funding structure

The main resource of funding in Bank are 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 2014 and 2013 with the split between direct and reciprocal funding.

Direct funding (in PLN million)

	31 Dec 2014		31 Dec 2013	
General customer type	**direct funding**	**percentage share**	**direct funding**	**percentage share**
Banks	1 851	2%	1 234	2%
Corporate clients	24 610	29%	23 424	30%
Retail clients	50 137	58%	43 607	57%
Own Issued Bonds	865	1%	565	1%
Equity	8 591	10%	8 036	10%

Reciprocal funding (in PLN million)

	31 Dec 2014		31 Dec 2013	
General customer type	**reciprocal funding**	**percentage share**	**reciprocal funding**	**percentage share**
Banks	13 714	98%	11 234	87%
Corporate clients	330	2%	1 629	13%
Retail clients	0	0%	0	0%

A maturity analysis for financial liabilities by remaining contractual maturities

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

end of 2014 *(in PLN million)*

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
- Liabilities due to other banks	3 644.8	0.0	0.0	0.0	0.0
- Financial liabilities measured at fair value through profit and loss	56.9	0.0	133.5	595.4	131.6
- Liabilities due to customers	70 127.3	1 768.1	3 056.2	414.1	3.3
- Liabilities due to customers under repo transactions	29.7	0.0	0.0	0.0	0.0
- Liabilities due to issue of debt securities	0.0	0.0	25.1	932.0	0.0
- Contingent liabilities granted	23 394.6	0.0	0.0	0.0	0.0

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	2 016.6	5.2	0.0	0.0	0.0
- Financial liabilities measured at fair value through profit and loss	613.4	0.0	45.3	339.8	236.0
- Liabilities due to customers	62 155.7	1 986.5	2 570.1	806.4	8.3
- 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	18 739.8	0.0	0.0	0.0	0.0

Maturity analysis of derivatives by contractual payment dates

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

Derivatives settled in net amounts

Derivatives settled net by the Bank include the IRS, FRA and FX Forward NDF 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 2014 and 31 December 2013 respectively was taken as the cash flow amount.

end of 2014 *(in PLN million)*

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
- Interest Rate Swap, of which:	-87.0	-282.0	-662.2	-2 233.7	-858.5
- hedging transactions in the hedge accounting	*-63.5*	*-106.0*	*-262.0*	*-1 114.2*	*-470.9*
- other derivatives	-11.6	-8.9	-56.1	-37.2	-0.2

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	-1.4

Derivatives settled in gross amounts

Derivatives settled gross by the Bank include 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 2014 and 31 December 2013 respectively.

end of 2014 *(in PLN million)*

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
- outflows	-2 240.9	-2 635.0	-2 454.8	-1 688.8	-339.3
- inflows	2 166.1	2 573.5	2 377.9	1 744.9	353.5

end of 2013 *(in PLN million)*

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
- outflows	-2 092.3	-1 503.6	-2 086.8	-1 308.4	-68.5
- inflows	2 077.4	1 458.2	1 988.4	1 357.8	64.1

IV. Regulatory and Economic Capital Management

ING Bank Śląski S.A. manages its capital on the basis of Banking Law, EU Regulations, PFSA 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 allocation and scope of responsibilities and regulations connected to capital requirements and the capital base calculation, allocation, planning, monitoring and reporting, rules of stress testing process and actions required in the case of a solvency crisis.

Bank's organisational structure and the model of management are in line with the guidelines of the European and local regulations. The resolutions of the European Parliament and Council Regulations (EU) No. 575/2013 from 26 June 2013 concerning the prudential requirements for credit and investment institutions (Regulation (EU) No. 575/2013) have been implemented. The Bank is currently implementing the specific resolutions of legal acts and guidelines as well. In order to improve this operation, the Bank has introduced a process of identification and monitoring of implementing the regulations published by the European Commission.

The Bank maintains sufficient capital to facilitate the efficient and effective realization of the development plan and the conduct of current operations.

Regulatory capital (Pillar I)

For the purpose of 2014 reporting, Bank calculated the credit risk capital requirement using Advanced Internal Ratings Based approach, as well as the Standardised Approach. The Bank received an approval from the Polish Financial Supervision Authority and De Nederlandsche Bank on implementation of AIRB methodology for corporates and credit institutions. Credit risk is managed by the Credit Risk Modelling Department, Credit Risk Reporting Department, Credit Risk Policy Department, Corporate Credit Restructuring Department, Central Credit Risk Department and Regional Credit Risk Department.

In the area of operational risk Bank uses the BIA (Basic Indicator Approach) method. This area is managed by each business unit with the support of the Non-financial Risk Area units including Operational Risk Management Department, Compliance Department and Anti-fraud Department.

In the market risk area the Bank uses standard methods following the Regulation (EU) No. 575/2013. The area is managed by Market Risk Management Department.

The Bank also sets the capital requirements of concentration risk, settlement and delivery risk and credit value adjustment risk (CVA). In all the cases the requirements are set in compliance with the Regulation (EU) No. 575/2013.

The level of own funds is adequate as the total capital ratio exceeds 12.5%.

The table below presents the detailed calculation of basic figures of regulatory capital and capital ratio for ING Bank Slaski SA.

Regulatory capital base and total capital ratio

Own funds	end of 2014	end of 2013
A. Own equity in the statement of financial position, of which:	**10 247.8**	**8 327.9**
A.I. Own equity included in tier 1 capital, of which::	**7 259.4**	**7 465.6**
- share capital	*130.1*	*130.1*
- supplementary capital - agio	*956.3*	*956.3*
- retained earnings	*6 176.5*	*6 109.6*
- supplementary capital - other	*65.4*	*65.4*
- reserve capital	*4 969.1*	*4 671.5*
- general risk fund	*1 060.2*	*1 010.2*
- retained profit of past years	*81.8*	*14.8*
- net profit of current period in audited part	*-*	*347.7*
- revaluation reserve from measurement of available-for-sale financial assets (unrealised losses)	*-3.5*	*-25.3*
- revaluation reserve from measurement of available-for-sale financial assets (unrealised gains)	*0.0*	*294.9*
A.II. Own equity excluded from own funds calculation, of which:	***2 988.4***	***862.3***
- revaluation reserve	*1 872.5*	*243.8*
- revaluation reserve from measurement of available-for-sale financial assets	*564.2*	*3.6*
- revaluation reserve from measurement of property, plant and equipment	*26.9*	*32.9*
- revaluation reserve from measurement of cash flow hedging instruments	*1 278.3*	*205.5*
- zyski / straty aktuarialne	*3.1*	*1.8*
- revaluation of share-based payment	*48.0*	*46.1*
- retained earnings	*1 067.9*	*572.4*
- net profit of current period in unaudited part	*1 067.9*	*0.0*
- dividend declared to shareholders	*-*	*572.4*
B. Other elements of own funds (decreases and increases), of which::	**-484.8**	**-736.0**
- goodwill and other intangible assets	*-360.8*	*-355.9*
- capital commitments in financial institutions	*-*	*-276.3*
- amount of expected losses	*-124.0*	*-103.8*
C. Short-term capital	**-**	**34.7**
Own funds taken into account in total capital ratio calculation (A.I. + B + C.)	**6 774.6**	**6 764.3**
Capital requirements		
- Capital requirements for credit risk, credit counterparty, dilution and delivery of instruments for future settlement	2 989.5	2 702.6
- Capital requirements for the risk of settlement - delivery	10.3	10.3
- Capital requirements for operational risk	443.3	426.3
- Capital requirements for general interest rate risk	33.8	24.5
- Supplement to the overall level of capital requirements	16.0	0.0
Total capital requirement	**3 492.9**	**3 163.7**
Total capital ratio (solvency ratio)*	**15.52%**	**17.10%**

*) As of 01 January 2014, new provisions of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR for short) are applicable to own funds and capital adequacy. The total capital ratio (solvency ratio previously) as at 31 December 2014 was calculated under the CRR guidelines. The ratios presented as at 31 December 2013 were calculated under the laws effective by the 2013 year end and provided in PFSA Resolution No. 76/2010 on the Scope and Detailed Principles of Capital Requirement Determination for Individual Risk Types of 10 March 2010. As at 31 December 2013, the estimated amount of the total capital ratio computed under the CRR principles would be 15.6%.

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 acts in this way 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: corporates and credit institutions.

Irrespective of the above mentioned consent, pursuant to Regulation (EU) No. 575/2013, 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 approaches). 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 Bank's activity. The amount of economic capital should cover assumed level of unexpected losses which bank is endangered to in the future. During calculation of capital required to cover unfavorable influence of risk a year time horizon and confidence level, corresponding to Bank's rating (99.95%) are assumed.

Bank identifies and measures economic capital consisting of:

- capital to cover credit risk (default and counterparty risk, concentration risk, residual risk, other non-credit obligation assets 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),
- capital to cover operational risk (risk of direct or indirect material loss or loss of reputation resulting from incompatibility and unreliability of internal processes, employees and systems or external events, including legal risk),
- capital to cover business risk (strategic risk, macroeconomic risk),
- capital to cover model risk,
- capital to cover liquidity and funding risk.

During a 2014 workshop on the significance of risks the Bank assessed the transfer risk and recognized the risk as non-material. As a consequence the Bank has discontinued the estimation of the capital in respect of transfer risk. Additionally, the definition of default and counterparty risk has been extended with settlement risk. A new risk has been identified as well: other non-credit assets risk.

During the year 2014 the level of own funds was above the level of internal capital.

Disclosure requirements (Pillar III)

Regulatory disclosures are made Corep and Finrep reporting as well as publication of additional qualitative and quantitative information, based on the European and local regulations. The Bank analyzed the regulations valid on the 31 December 2014 and published the required information on its Website.

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

2015-02-24	**Małgorzata Kołakowska** *President*	*Signed on the Polish original*
2015-02-24	**Mirosław Boda** *Vice-President responsible for bookkeeping*	*Signed on the Polish original*
2015-02-24	**Michał Bolesławski** *Vice-President*	*Signed on the Polish original*
2015-02-24	**Joanna Erdman** *Vice-President*	*Signed on the Polish original*
2015-02-24	**Justyna Kesler** *Vice-President*	*Signed on the Polish original*
2015-02-24	**Oscar Edward Swan** *Vice-President*	*Signed on the Polish original*
2015-02-24	**Ignacio Juliá Vilar** *Vice-President*	*Signed on the Polish original*