2015

Annual Financial Statements of the ING Bank Śląski S.A. for the year 2015

ING

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Income statement

for the year ended 31 December

	Note	**2015**	**2014**
Going concern*			
Interest income	*2*	3 483.6	3 578.7
Interest expenses	*2*	1 140.1	1 367.5
Net interest income	*2*	**2 343.5**	**2 211.2**
Commission income	*3*	1 055.9	1 097.4
Commission expenses	*3*	104.6	94.5
Net commission income	*3*	**951.3**	**1 002.9**
Net income on financial instruments at fair value through profit or loss and FX result	*4*	81.9	89.4
Net income on investments	*5*	245.5	68.1
Net income on hedge accounting	*6*	22.9	8.9
Net income on other basic activities	*7*	-1.4	13.0
Net income on basic activities		**3 643.7**	**3 393.5**
General and administrative expenses	*8*	2 035.0	1 814.2
Impairment losses and provisions for off-balance sheet liabilities	*9*	212.8	243.4
Gross profit (loss)		**1 395.9**	**1 335.9**
Income tax	*10*	255.9	268.0
Net profit (loss)		**1 140.0**	**1 067.9**
Net profit (loss) attributable to shareholders of ING Bank Śląski S.A.		1 140.0	1 067.9
Weighted average number of ordinary shares		130 100 000	130 100 000
Earnings per ordinary share (PLN)	*11*	8.76	8.21

*) As far as comparable data are concerned. there were no discontinued operations at the Group in the year ended 31 December 2015.

The diluted earnings per share are the same as the profit per one ordinary share.

Income Statement shall be analyzed together with the notes to the financial statements being the integral part thereof.

Statement of comprehensive income

for the year ended 31 December

	Note	2015	2014
Net profit for the period		**1 140.0**	**1 067.9**
Total other comprehensive income, including:		**-383.4**	**1 359.0**
Items which can be reclassified to income statement, including:		**-379.9**	**1 360.3**
Gains/losses on revaluation of available-for-sale financial assets carried through equity	35	13.4	291.8
including deferred tax		*-3.2*	*-68.5*
Reclassification to the financial result due to sale of available-for-sale financial assets	35	-47.2	-4.3
including deferred tax		*11.1*	*1.0*
Amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the held-to-maturity portfolio	35	-28.4	0.0
including deferred tax		*6.7*	*0.0*
Effective part of cash flow hedging relationship	35	-317.7	1 072.8
including deferred tax		*74.5*	*-251.7*
Items which will not be reclassified to income statement, including:		**-3.5**	**-1.3**
Revaluation of non-current assets	35. 36	-3.7	-4.1
including deferred tax		*0.8*	*-0.1*
Disposal of non-current assets	35. 36	0.7	1.5
including deferred tax		*-0.1*	*-0.3*
Actuarial gains/losses	35	-0.5	1.3
including deferred tax		*0.1*	*-0.3*
Net comprehensive income for the reporting period		**756.6**	**2 426.9**

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

Statement of financial position

as at 31 December

	Note	2015	2014
Assets			
Cash in hand and balances with the Central Bank	13	3 589.7	5 330.7
Loans and other receivables to other banks	14	1 013.1	1 821.3
Financial assets at fair value through profit or loss	15	1 127.1	1 856.8
Valuation of derivatives	16	1 990.9	2 411.7
Investments	17	23 478.7	22 828.6
Derivative hedge instruments	19	2 454.8	2 983.8
Loans and other receivables to customers	20	69 633.4	57 952.1
Receivables from customers under repo transactions	21	1 354.4	106.6
Investments in controlled entities	22	269.3	269.2
Non-financial assets	23	1 036.1	1 002.5
Assets held for sale	24	38.4	68.4
Other assets	26	120.0	110.7
Total assets		**106 105.9**	**96 742.4**
Liabilities			
Liabilities to other banks	27	1 855.4	3 644.2
Financial liabilities at fair value through profit or loss	28	629.4	917.4
Valuation of derivatives	16	2 002.8	2 521.3
Derivative hedge instruments	19	1 830.9	2 032.8
Liabilities to customers	29	87 383.7	75 326.0
Liabilities to customers under repo transactions	30	47.5	29.7
Liabilities under issue of debt securities	31	866.3	866.5
Provisions	32	63.8	70.3
Tax liabilities	25	153.7	248.5
Other liabilities	33	787.2	837.9
Total liabilities		**95 620.7**	**86 494.6**
Equity			
Share capital	34	130.1	130.1
Supplementary capital - issuance of shares over nominal value		956.3	956.3
Revaluation reserve	35	1 474.1	1 869.0
Revaluation of share-based payments		49.2	48.0
Retained earnings	36	7 875.5	7 244.4
Total equity		**10 485.2**	**10 247.8**
Total equity and liabilities		**106 105.9**	**96 742.4**

		2015	2014
Carrying amount		10 485.2	10 247.8
Number of shares		130 100 000	130 100 000
Carrying amount per share (PLN)		80.59	78.77

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

Statement of changes in equity

the period from 01 Jan 2015 to 31 Dec 2015

Notes: 34. 35. 36

	Share capital	Supplementary capital - issuance of shares over nominal value	Revaluation reserve	Revaluation of share-based payments	Retained earnings	**Total equity**
Opening balance of equity	**130.1**	**956.3**	**1 869.0**	**48.0**	**7 244.4**	**10 247.8**
Net result for the current period	-	-	-	-	1 140.0	**1 140.0**
Other net comprehensive income, including:	**0.0**	**0.0**	**-394.9**	**0.0**	**11.5**	**-383.4**
gains/losses on revaluation of available-for-sale financial assets carried through equity	-	-	13.4	-	-	13.4
reclassification to the financial result due to sale of available-for-sale financial assets	-	-	-47.2	-	-	-47.2
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the held-to-maturity portfolio	-	-	-28.4	-	-	-28.4
effective part of cash flow hedging relationship	-	-	-317.7	-	-	-317.7
revaluation of non-current assets	-	-	-3.7	-	-	-3.7
disposal of non-current assets	-	-	-10.8	-	11.5	0.7
actuarial gains/losses	-	-	-0.5	-	-	-0.5
Transactions with shareholders, including:	**0.0**	**0.0**	**0.0**	**1.2**	**-520.4**	**-519.2**
valuation of share-based payments	-	-	-	1.2	-	1.2
dividends paid	-	-	-	-	-520.4	-520.4
Closing balance of equity	**130.1**	**956.3**	**1 474.1**	**49.2**	**7 875.5**	**10 485.2**

the period from 01 Jan 2014 to 31 Dec 2014

Notes: 34. 35. 36

	Share capital	Supplementary capital - issuance of shares over nominal value	Revaluation reserve	Revaluation of share-based payments	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 net comprehensive income, including:	**0.0**	**0.0**	**1 355.6**	**0.0**	**3.4**	**1 359.0**
gains/losses on revaluation of available-for-sale financial assets carried through equity	-	-	291.8	-	-	291.8
reclassification to the financial result due to sale of available-for-sale financial assets	-	-	-4.3	-	-	-4.3
effective part of cash flow hedging relationship	-	-	1 072.8	-	-	1 072.8
revaluation of non-current assets	-	-	0.2	-	-4.3	-4.1
disposal of non-current assets	-	-	-6.2	-	7.7	1.5
actuarial gains/losses	-	-	1.3	-	-	1.3
Transactions with shareholders, including:	**0.0**	**0.0**	**0.0**	**1.9**	**-508.9**	**-507.0**
valuation of share-based payments	-	-	-	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**

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

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Cash flow statement

for the year ended 31 December

	Note	2015	2014
Net profit (loss)		**1 140.0**	**1 067.9**
Adjustments		**-1 395.4**	**-2 185.5**
Depreciation and amortisation	8. 23	185.2	171.5
Interest accrued (from the income statement)	2	-2 343.5	-2 211.2
Interest paid		-1 148.3	-1 389.3
Interest received		3 461.3	3 443.7
Dividends received	5	-99.2	-67.5
Gains (losses) on investing activities		-87.6	-6.7
Income tax (from the income statement)	10	255.9	268.0
Income tax paid		-350.7	-67.8
Change in provisions	32	-6.5	6.6
Change in loans and other receivables to other banks	14. 44	664.1	-337.2
Change in financial assets at fair value through profit or loss	15. 44	729.6	95.5
Change in available-for-sale financial assets	17. 44	286.0	-2 959.1
Change in valuation of derivatives	16	-97.7	87.9
Change in hedge derivatives	19	9.4	59.3
Change in loans and other receivables to customers	20. 44	-12 903.8	-8 256.1
Change in other assets		69.8	177.6
Change in liabilities to other banks	27. 44	-1 788.5	1 622.7
Change in liabilities at fair value through profit or loss	28	-288.0	-316.8
Change in liabilities to customers	29. 44	12 107.1	7 496.2
Change in other liabilities		-50.0	-2.8
Net cash flow from operating activities		**-255.4**	**-1 117.6**
Purchase of property plant and equipment	23	-137.2	-123.4
Disposal of property. plant and equipment		5.1	0.2
Purchase of intangible assets	23	-129.1	-76.2
Purchase of shares in controlled entities	22	-0.1	-10.0
Disposal of assets held for sale		129.1	7.3
Purchase of held-to-maturity financial assets	17	-1 138.6	0.0
Interest received from held-to-maturity financial assets		87.6	0.0
Dividends received	5	99.2	67.5
Net cash flow from investing activities		**-1 084.0**	**-134.6**
Issue of debt securities	31	0.0	300.0
Interest on debt securities issued		-23.9	-20.4
Dividends paid	12	-520.4	-572.4
Net cash flow from financing activities		**-544.3**	**-292.8**
Effect of exchange rate changes on cash and cash equivalents		-40.5	198.9
Net increase/decrease in cash and cash equivalents		**-1 883.7**	**-1 545.0**
Opening balance of cash and cash equivalents		**6 294.1**	**7 839.1**
Closing balance of cash and cash equivalents	44	**4 410.4**	**6 294.1**

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

Accounting policy and additional notes

I. Bank details

1. Key Bank data

ING Bank Śląski S.A. (”Bank”, “Company”) with the registered office in Katowice, at ul. Sokolska 34, was entered into the Entrepreneurs Register with the National Court Register maintained by the Commercial Division of the District Court in Katowice under the number KRS 5459. The Bank statistical number is REGON 271514909, and the tax 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 to 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 in the domestic and foreign financial markets. The duration of the Bank business 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 of a par value of PLN 1.00 each. Bank's shares 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 2015 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 Meeting. ING Bank NV belongs to the Group, herein referred to as ING Group.

As at 31 December 2015, the shareholders owning 5% and more votes at the General 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	7,601,000	5.84

5. Entity authorised to audit the financial statements

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

6. Approval of financial statements

These annual financial statements of the ING Bank Śląski S.A. for the period from 01 January 2015 to 31 December 2015 have been approved by the Bank Management Board on 22 February 2016.

The annual consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 01 January 2015 to 31 December 2015 shall be published and approved on the same day as the standalone financial statements.

The annual financial statements of the ING Bank Śląski S.A. for the period from 01 January 2014 to 31 December 2014 were approved by the General Meeting on 31 March 2015.

II. Significant events in 2015

1. Bank Guarantee Fund's resolution on mandatory contribution from the guaranteed deposits fund

On 26 November 2015, the Bank received from the Bank Guarantee Fund ("BGF") BGF Management Board Resolution No. 87/DGD/2015 concerning payout of guaranteed funds to the depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin and a notice to make a contribution of PLN 157.4 million by 30 November 2015 to BGF for the payout of guaranteed funds under the deposits accumulated in Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin. The payment amount augmented the Bank's general and administrative expenses for 2015.

2. Impact of the Visa Europe takeover by Visa Inc. transaction

The Management Board of ING Bank Śląski S.A. received the information regarding the proposed allocation of settlement of the Visa Europe Limited (Visa Europe) takeover by Visa Inc. transaction. The transaction is contingent on obtaining relevant regulatory consents and its closing is forecast for Q2 2016. The transaction value (Visa Europe value) was determined at EUR 16.5 billion, payable upfront, out of which EUR 11.5 billion is to be paid out in cash and EUR 5 billion in preference shares of Visa Inc. Furthermore, the transaction provides for the earn-out - a deferred payment up to the amount of EUR 4.7 billion payable in cash after 16 quarters from the transaction settlement.

As a Visa Europe member, ING Bank Śląski S.A. will be one of the transaction beneficiaries. Pursuant to the information received, the potential transaction settlement impact on ING Bank Śląski S.A. is EUR 31.1 million in cash and EUR 10.7 million in shares.

The above amounts can be adjusted with the transaction costs and following potential justified requests for adjustment of the awarded amounts submitted by Visa Europe members. Visa Europe members hold the right to appeal. The process of reviewing appeals will last until 01 March 2016. On 01 March 2016, the allocation decisions will become final and binding.

The impact of the deferred payment (earn-out) on the Bank's result is unknown. The condition for taking advantage of the earn-out option is being qualified to up-front allocation and membership in Visa for 4 subsequent years from the transaction closing date.

The Bank recognises the shares of Visa Europe Limited in the category of financial assets available for sale. As at 31 December 2015, the fair value of the aforementioned shares was set on the basis of the forecasted value of the transaction settlement allocation and recognised in the revaluation reserve.

3. Borrower Financial Assistance Fund

In 2015, ING Bank Śląski S.A. formed a provision to cover the costs of the Borrower Financial Assistance Fund contribution of PLN 6.4 million (under the Act on Support for Borrowers in a Difficult Financial Situation of 09 October 2015 concerning the borrowers who drew housing loans). On 12 January 2016, the Bank received a letter from the Borrower Financial Assistance Fund Council

reading that the amount of contribution to be paid by ING Bank Śląski S.A. was PLN 6.6 million. The payment was made on 17 February 2016.

4. ING Bank Śląski S.A. Supervisory Board's consent to ING Bank Śląski S.A. taking a subordinated cash loan

On 27 November 2015, the Bank Supervisory Board granted consent to ING Bank Śląski S.A. taking a subordinated cash loan up to the total amount of EUR 300 million. The Supervisory Board empowered the Management Board of ING Bank Śląski S.A. to determine under the above referred limit detailed conditions of the said cash loan.

5. Credit Agreement with ING Lease (Polska) Sp. z o.o. – amendment

On 12 November 2015, the Bank signed with ING Lease (Polska) Sp. z o.o. and annex to the credit agreement of 19 January 2012 along with subsequent amendments, whereby the amount of the facility granted to that company was increased by PLN 1.0 billion up to PLN 4.5 billion. The total exposure of the Bank towards ING Lease (Polska) Sp. z o.o. and its subsidiaries is PLN 4,801,920,000.00. The criterion for regarding the agreement as significant is the total exposure value exceeding 10% of the Bank's equity. The Borrower is an affiliated entity of ING Bank Śląski S.A.

6. PFSA's stance on the banks dividend policy

On 15 December 2015, the Polish Financial Supervision Authority (PFSA) published its stance on the banks dividend policy in 2016 (dividend for 2015). In order to ensure further stable operations of banks in Poland, PFSA recommends the dividend policy to banks which will further consolidate their capital base and adjust it to the levels held by other European Union member states. The PFSA recommends in particular that the dividend be paid out solely by banks meeting the below criteria:

- banks which do not pursue the corrective programme,
- their BION final score is not worse than 2.5, and
- their financial leverage is above 5%,
- Tier 1 ratio plus the security buffer:
  - banks with over 5% share in the non-financial sector deposits – from 13.25% plus 75% of potential capital add-on for FX loans risk,
  - other commercial banks – higher than 11.25% plus 75% of potential capital add-on for FX loans risk.

PFSA recommends the following:

- up to 50% of the generated profit be released by the banks meeting regulatory expectations concerning the total capital ratio i.e. the ones with total capital ratio over 13.25% plus 100% of potential capital add-on for FX loans levied by PFSA on banks individually on 23 October 2015,
- up to 100% of the generated profit be released by the banks meeting regulatory expectations concerning the total capital ratio elevated by the safety buffer:
  - the bank having more than 5% share in the non-financial sector deposits - having the total capital ratio over 16.25% plus 100% of potential capital add-on for FX loans levied by PFSA on banks individually on 23 October 2015,

- other commercial banks – having the total capital ratio over 14.25% plus 100% of potential capital add-on for FX loans levied by PFSA on banks individually on 23 October 2015.

Based on financial results as at 31 December 2015, the banks will receive individual recommendations on dividend policy in a letter from the Chairman of the Polish Financial Supervision Authority.

7. Determination of minimum T1 and TCR capital ratios in effect since 1 January 2016

In their letter of 22 October 2015 addressed to all banks, the Polish Financial Supervision Authority requested them to increase the mandatory T1 and TCR ratios as of 1 January 2016 by 1.25 p.p. following the institution of the capital conservation buffer. This means that the minimum Common Equity Tier 1 ratio (T1) and the Total Capital Ratio (TCR) will increase to 10.25% and 13.25% respectively (from 9% and 12% in effect as at 31 December 2015).

8. Judgement of the Appeals Court as regards the fine imposed by the Office of Competition and Consumer Protection in 2006

On 06 October 2015, the Appeals Court in Warsaw issued their judgement on the interchange fees, overruling the judgement of the Regional Court in Warsaw which was appealed against. In consequence of the ruling of the Appeals Court, the decision made in 2006 by the President of the Office of Competition and Consumer Protection (the Office) became final and binding. Under the decision, the President of the Office recognised that banks – decision addressees – were employing competition-limiting practices in the acquiring services market in respect of payment of liabilities towards merchants by consumers with the use of payment cards by mutually fixing the interchange fees. Under the said decision, a fine of approximately PLN 164.7 million was imposed on the banks as well. ING Bank Śląski S.A. was bound to pay PLN 14,088,270. In the previous years, the bank formed a provision to cover the projected costs of the said fine in 100%.

9. Dividend from ING Powszechne Towarzystwo Emerytalne S.A. Company

On 22 June 2015, the Ordinary General Meeting of ING Powszechne Towarzystwo Emerytalne S.A. (ING PTE) passed a resolution on 2014 dividend payout. As per the share purchase agreement concerning sale of 20% of ING PTE shares to ING Continental Europe Holdings B.V. (the share purchase agreement is described in item 10. Sale of shares of the ING Powszechne Towarzystwo Emerytalne S.A. Company), the dividend for 2015 for the bundle of shares covered by the said agreement was included in the agreed share selling price (the total price of PLN 210 million).
The dividend was paid on 23 June 2015. As per the ING PTE General Meeting Resolution, the amount of the dividend due to the Bank was PLN 82.1 million.

10. Sale of shares of the ING Powszechne Towarzystwo Emerytalne S.A. Company

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 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.

On 07 July 2015, the Polish Financial Supervision Authority (PFSA) approved the purchase by NN Continental Europe Holdings B.V. (former ING Continental Europe Holdings B.V.) of 20% of shares of the ING Powszechne Towarzystwo Emerytalne S.A. Company[1].

On 20 July 2015, the Bank transferred the ownership of 20% of shares of ING Powszechne Towarzystwo Emerytalne S.A. onto the buyer. The shares offer price was PLN 210 million (including PLN 82.1 million under dividend). The net result on the sale of ING PTE's shares was PLN 71.2 million.

11. Sale of non-performing receivables portfolios

- On 23 July 2015, the Bank concluded an agreement on the sale of a portion of corporate receivables from the impaired portfolio. The positive impact of the transaction on the Bank's risk costs was PLN 9 million,
- On 08 July 2015, ING Bank Śląski S.A. concluded with Prokura Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Prokura Non-Standard Close-End Securitization Fund) with its registered office in Wrocław the agreement on the sale of the portfolio, mainly of retail receivables recognised as impaired loans or written off the balance sheet in full. The total amount of the receivables sold under the agreement equalled PLN 253.4 million (principal, interest and other expenses as at the agreement conclusion date); the receivables were fully covered with impairment losses or were written off the Bank balance sheet in full. The final sale price of the portfolio was established at PLN 30.4 million. The positive impact of the transaction on the Bank's risk costs was PLN 21 million. As a consequence of the said agreement, the Bank decreased its non-performing loans portfolio by PLN 139.4 million,
- On 14 May 2015, ING Bank Śląski S.A. concluded with Pragma 1 Fundusz Inwestycyjny Zamknięty Niestandaryzowany Fundusz Sekurytyzacyjny (Non-Standard Closed-End Securitization Investment Fund) managed and represented by Towarzystwo Funduszy Inwestycyjnych BDM S.A., with its registered office in Bielsko-Biała, an agreement on the sale of the portfolio of corporate receivables recognized as impaired loans or loans written off the balance sheet in full. The total amount of receivables sold under the agreement equalled PLN 265.6 million (principal and interest as at the agreement conclusion date); the receivables were fully covered with impairment losses, or written off the Bank balance sheet in full. The contractual sale price of the portfolio was established at PLN 9.2 million. The positive transaction impact on the Bank's risk costs was PLN 7.0 million.As a consequence of the agreement described, the Bank decreased its non-performing loans portfolio by PLN 191.7 million.

12. Conclusion of a significant agreements

The criterion for regarding the agreement as significant is the total value of exposure towards the entities of that Group which exceeds 10% of the Bank's equity. None of the Counterparties is related to ING Bank Śląski S.A.

- *Credit agreement with the Group of entities from the telecom and media services sector*

On 21 September 2015, the Bank, together with a syndicate of other banks, entered into credit agreements for the period of 5 years and totalling PLN 12.5 billion with members of the Group of entities operating in the telecom and media services sector; the Bank's total credit exposure is PLN 1.0 billion. The loan granted by the Bank will be partly allocated for the refinancing

[1] Under the Communique from 265th session of the Polish Financial Supervision Authority published on PFSA's website.

of the client's existing obligations thereto. The credit agreement in the amount of PLN 11.0 billion, with the Bank's exposure of PLN 871.2 million, is the largest in terms of value.

- _Credit agreement with a financial sector entity_

On 31 July 2015, the Bank entered into a credit agreement with an entity from the financial sector, up to the amount of EUR 30 million or the equivalent of PLN 124.5 million, for the period of up to 4 years. Total credit exposure of the Bank towards the Group of which that company is a member, amounts to PLN 1,054.5 million. The credit agreement concluded by the Bank with another entity of the same Group on 23 July 2015 in the amount of PLN 780.0 million is the largest in terms of value.

- _Credit agreement with a retail trading company_

On 27 March 2015, the Bank signed a credit agreement with a retail trading company for the total amount of PLN 450,000,000. The Bank's total exposure towards the Group of which that company is a member, upon provision of the aforementioned loan, amounts to PLN 1,041,000,000. The value of the agreement is the highest of all agreements concluded with the members of that Group over the last 12 months.

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

- _bonds series INGBS191219_

On 19 June 2015, due to commencing new coupon period and setting a new WIBOR rate for six-month deposits per the coupon period, the interest was changed for bonds series INGBS191219 of the total nominal value of PLN 300,000,000.00, issued by the Bank on 19 December 2014, under the _Own Debt Securities Issuance Programme of ING Bank Śląski S.A._ The bonds interest for the subsequent coupon period was 2.53% per annum. The next coupon date fell on 19 December 2015. The remaining rights under the said bonds did not change.
On 19 December 2015, due to the opening of a new, third coupon period and setting of a new WIBOR rate for six-month deposits per that coupon period, the interest on the aforementioned bonds changed again. The bonds interest in the subsequent coupon period is 2.52% per annum. The next coupon date falls on 19 June 2016. The remaining rights under the said bonds did not change.

- _bonds series INGBS061217_

On 6 June 2015, due to commencing new, sixth 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 was 2.66% per annum. The next coupon date fell on 6 December 2015. The remaining rights under the said bonds did not change.
On 6 December 2015, due to the opening of a new, seventh coupon period and setting of a new WIBOR rate for six-month deposits per that coupon period, the interest on the aforementioned bonds changed again. The bonds interest in the subsequent coupon period is 2.69% per annum. The next coupon date falls on 6 June 2016. The remaining rights under the said bonds did not change.

14. Rating changes

- _Fitch Ratings Ltd. rating agency_

On 19 May 2015, Fitch Ratings Ltd. downgraded the Long-Term Issuer Default Rating (Long-Term IDR) for ING Bank Śląski S.A. from A to A-, and revised the outlook for that rating from "negative"

to "stable". The downgrade is the result of the same rating action taken towards ING Bank N.V. which is the Bank's main shareholder.

In line with its previous announcements, Fitch agency revised the ratings for banks in view of the advanced implementation status of the new European regulations regarding banks' functioning, including in particular Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive, or BRRD) and the Single Resolution Mechanism (SRM). The agency believes the new regulations substantially reduce the likelihood of sovereign support for the banks; as a result, the current ratings do not account for the potential support from the sovereign.

The other ratings assigned by the agency are unaffected by the revision of the Long-Term IDR and its outlook. The agency affirmed the Bank's Short-Term IDR at F1 and the support rating at 1. The individual Viability Rating at bbb+ was unaffected by the rating revision.

The Agency carried out the annual review of ratings at the turn of October and November. As a result, all the ratings of the Bank were affirmed (Fitch agency press release of 23 November 2015).

- *Moody's Investors Service rating agency*

On 21 May 2015, Moody's Investors Service upgraded the long-term deposit rating for ING Bank Śląski S.A. to A3 from Baa1 and assigned it a stable outlook (revised from "review for possible upgrade", previously "negative"). The rating change was announced by Moody's on 17 March 2015 in the press release where Moody's communicated that it had started to review the ratings of banks, ING Bank Śląski S.A. included, following the new bank rating methodology announced a day earlier. The ING Bank Śląski S.A. rating takes into account Poland's supportive macroeconomic environment, good financial standing reflected by capital ratios, portfolio quality, profitability and liquidity metrics, as well as the Bank's large volume of deposits which minimises loss given failure. Further, Moody's assigned ING Bank Śląski S.A. the Counterparty Risk Assessment (or CR Assessment) of A2 – long-term and of P-1 – short-term. Other ratings did not change.

The agency affirmed the ratings assigned to the Bank in May by publishing its Credit Opinion on 26 November 2015.

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

On 31 March 2015, the General Meeting of ING Bank Śląski S.A. was held, during which the following resolutions were passed:

- on approval of the 2014 annual financial statements (consolidated and separate financial statements),
- on approval of the Management Board report on operations in 2014 (consolidated and separate reports),
- on acknowledgement of the fulfilment of duties of the Management Board and Supervisory Board Members for 2014,
- on distribution of profit for the year 2014,
- on dividend payout for the year 2014,
- on amendment to the Charter of ING Bank Śląski S.A.,
- changes to the Supervisory Board composition (changes were described in item 16. *Changes to the Supervisory Board Composition*) and changes to the remuneration of the Supervisory Board Members.

On 14 April 2015, the District Court in Katowice, Commercial Division of the National Court Register, entered the amendments to the Bank Charter enacted at the General Meeting into the National Court Register.

16. Changes to the Supervisory Board Composition

On 25 March 2015, Mr. Nicolaas Cornelis Jue tendered his resignation to the Chair of the Supervisory Board of ING Bank Śląski S.A. as the Member of the Supervisory Board of ING Bank Śląski S.A., effective as of 31 March 2015. Mr. Nicolaas Cornelis Jue resigned because he was entrusted with other duties at ING Bank N.V.

On 31 March 2015, with the Resolution of the Ordinary General Meeting of ING Bank Śląski S.A. Mr Diederik van Wassenaer was appointed the Member of the Supervisory Board of ING Bank Śląski S.A.

17. Appointment of the Bank Management Board for the new term of office

On 31 March 2015, the Bank Supervisory Board appointed for the new term of office the Management Board of ING Bank Śląski S.A. in the current composition:

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

18. Changes to Bank Management Board Composition

On 18 June 2015, Mr. Oscar Edward Swan tendered his resignation to the Chair of the Supervisory Board of ING Bank Śląski S.A. as the Vice-President of the Management Board of ING Bank Śląski S.A. as of 30 June 2015. As of 01 July 2015, Mr. Oscar Edward Swan assumed the position of the Vice-President of the Management Board in ING Lease (Polska) Sp. z o.o. belonging to the ING Bank Śląski S.A. Group.

On 18 June 2015, the Supervisory Board appointed Mr. Patrick Roesink Vice-President of the Bank Management Board in charge of the Credit and Market Risk Management Division as of 01 July 2015 (the Polish Financial Supervision Authority at its meeting held on 26 May 2015 consented to appointment of Mr. Patrick Roesink to the position of the Member of the ING Bank Śląski S.A. Management Board).

19. 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 December 2015 was CHF 333 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.

20. Selection of entity authorised to audit financial statements

On 27 November 2015, the Bank Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw as the entity authorised to audit the financial statements of ING Bank Śląski S.A. and the ING Bank Śląski S.A. Group for the period of 2016-2017.

III. Statement of compliance with International Financial Reporting Standards

These annual financial statements for the period from 01 January 2015 to 31 December 2015 were prepared in compliance with the International Financial Reporting Standards ("IFRS") approved by the European Union. The financial statements take into account the requirements of the standards and interpretations approved by the EU except for the standards and interpretations mentioned in item 1 below, which either await approval by the EU or have been already approved by the EU but shall take effect after the balance sheet date.

1. 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 01 January 2015:

Change **(EU effective date provided for in the parentheses)**	**Influence on the Bank statements**
IAS 19 *"Defined Benefits Plans: Employee Contributions"* (the accounting year starting on 01 February 2015 or later)	Implementation of the standard did not have a material impact on the financial statements of the Bank.
IFRIC 21 *"Levies"* (the accounting year starting on 17 June 2014 or later)	Implementation did not have a material impact on the annual financial statements of the Bank.
Changes arising from the IFRS review made during the 2010-2012 cycle. Concerning: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, and IAS 38. (the accounting year starting on 01 February 2015 or later)	Implementation does not have a material impact on the financial statements of the Bank.
Changes arising from the IFRS review made during the 2011-2013 cycle. Concerning: IFRS 1, IFRS 3, IFRS 13, and IAS 40. (the accounting year starting on 01 2015 January or later)	Implementation does not have a material impact on the financial statements of the Bank.

The published standards and interpretations which were already issued and approved by the European Union as at 31 December 2015 but were not previously applied by the Bank:

Change (EU effective date provided for in the parentheses)	**Influence on the Bank statements**
IAS 1 *„Disclosure Initiative"* (the accounting year starting on 01 January 2016 or later)	Implementation of the change will have no material impact on the financial statements of the Bank.
IAS 16 and IAS 38 *„Clarification of Acceptable Methods of Depreciation and Amortisation"* (the accounting year starting on 01 January 2016 or later)	The published amendments to the standards will not have impact on the financial statements of the Bank – the Bank does not apply the revenue-based methods of depreciation and amortization.
IAS 27 *„Equity Method in Separate Financial Statements"* (the accounting year starting on 01 January 2016 or later)	The analyses show that the application of the standard change will have no material impact on the financial statements of the Bank.
IAS 16 and IAS 41 *„Agriculture – Bearer Plants"* (the accounting year starting on 01 January 2016 or later)	Not applicable.
IFRS 11 *„Accounting for Acquisitions of Interests in Joint Operations"* (the accounting year starting on 01 January 2016 or later)	The analyses show that revised standard application will have no 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)	Implementation will not have a material impact on the financial statements of the Bank.

The published standards and interpretations which were already issued but were not approved by the European Union as at 31 December 2015 and were not previously applied by the Bank:

Change (expected IASB effective date provided for in the parentheses)	**Influence on the Bank statements**
IFRS 10, IFRS 12 and IAS 28 *„Investment Entities: Applying the Consolidation Exception"* (the accounting year starting on 01 January 2016 or later)	Revised standard application will have no impact on the financial statements of the Bank.
IFRS 9 *„Financial Instruments"* (the accounting year starting on 01 January 2018 or later)	The new standard is expected to have a material impact on the financial statements upon its first-time adoption due to the requirement of its retrospective application. The Bank is working on implementation of the requirements of the new standard as part of the dedicated project. Given the project works performed, the Bank did not decide to apply the standard earlier.
IFRS 10 and IAS 28 *„Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"* (the accounting year starting on 01 January 2016 or later) EU approval was postponed for an indefinite period.	The analyses show that the application of the standard change will have no material impact on the financial statements of the Bank.
IFRS 14 *„Regulatory Deferral Accounts"* (the accounting year starting on 01 January 2016 or later) EU resolved to wait for the final standard version.	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 01 January 2018 or later)	The analyses show that standard application will have no material impact on the financial statements of the Bank.

2. 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 at the approval date hereof, the Bank Management Board have not identified any events that could pose threat to ING Bank Śląski S.A. continuing their operations.

3. Discontinued operations

No operations were discontinued during 2015 and 2014.

4. Financial statements scope and currency

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

These annual financial statements have been developed in Polish Zloty ("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.

5. Reporting period and comparable data

These annual financial statements of the ING Bank Śląski S.A. cover the period from 01 January 2015 to 31 December 2015 and include the comparative data:

- items from the statement of financial position as at 31 December 2014,
- items in the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the period from 01 January 2014 to 31 December 2014.

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 or at purchase price less impairment. Non-current assets held for sale are recognised at the lower of their carrying amount and the fair value less sales costs.

2. Professional judgement

In the process of accounting principles application to the matters discussed hereinbelow, besides the booking estimates professional judgment of the management staff was of key significance.

2.1. Deferred tax assets

The Bank recognises deferred tax assets, provided that it is probable that tax profit will be earned in future periods allowing their utilisation. The assumption would prove unjustified should tax results deteriorate in the future.

For details of deferred tax assets, see the note.

2.2. Classification of leases

Leases are classified by the Bank as operating or financial leases based on the extent whereto the risk and benefits due to holding of leased asset are attributable to lessor and lessee. The substance of each transaction is used to make the said assessment.

For details of leases, see the notes.

2.3. Classification of financial assets as financial assets held to maturity

The Bank classifies debt securities as assets held to maturity when they can be held until maturity.

For details of the debt securities classified as financial assets held to maturity, see the notes.

2.4. Classification of real properties as investment properties

The Bank classifies real properties as investment properties on the assumption that the part used to provide services and perform administrative tasks is immaterial.

For details, see the note.

3. Accounting estimates

The development 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 amounts of assets, liabilities, income and costs are made on the basis of historical data available and other factors considered to be relevant in given circumstances. The assumptions applied for the future and available data sources are the base for making estimations regarding the carrying amount 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.

3.1. Impairment

The Bank assesses whether there is objective evidence of impairment of financial assets (individual items or groups) and non-current assets as at balance sheet date.

3.1.1. 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 assets from IBNR (Incurred But Not Reported) and INSFA (Individually Non-Significant Financial Assets) portfolios, current exposure is computed with the use of PD, EAD and LIP parameters.

Detailed informations as to credit risk estimation models used by the Bank are presented further in this report, see Chapter: *Risk Management at ING Bank Śląski S.A.*, item 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, methodology of impairment computation and the recording rules applied thereto were described in item *Impairment* (item *6.11* of this chapter).

The table below shows the estimated impact of the change to the present value of expected future cash flows in the ISFA portfolio on the change to loan loss provisions and provisions for off-balance sheet liabilities.

2015

	Scenario (FCF change)	
	-10%	**+10%**
Estimated LLP change [PLN]	(52.31)	50.50
Estimated LLP change [%]	(6.94%)	7.76%

3.1.2. Impairment of other non-current assets

For non-current assets, 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 non-current assets (or a cash-generating unit when the recoverable amount of an assets 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 assets 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 assets 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 *8.4. Impairment of other non-financial assets.*

The table below shows discount rate sensitivity of the impairment test for the cash-generating units.

(PLN million)	**31.12.2015**	**Discount rate change**	
		- 1 p.p.	+ 1 p.p.
Surplus of cash flows net value over the net book value.	3 051.8	4 089.5	2 351.2

3.2. Credit risk of 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.

For details of fair value measurement of derivative instruments considering credit risk, see item *6.8. Derivative instruments and hedge accounting.*

3.3. 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 in 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 under this approach. Change of assumptions concerning these factors may impact on valuation of some financial instruments.

Specifically in 2015, the Bank measured at fair value the Bank's share in Visa Europe Limited (Visa Europe) that is not quoted in the active market. The share was measured using the proposed allocation of settlement of the Visa Europe takeover by Visa Inc. transaction. The Bank was advised thereof in the course of confirmation of terms and conditions of the takeover transaction as one of transaction beneficiaries. For details, see *Chapter II. Significant events in 2015.*

3.4. 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 present value of the future long-term Bank's obligations towards their employees considering the headcount and payroll status as at the update date.

The provisions are calculated based on a range of assumptions, relating to both discount rates and projected salary raises as well as to staff rotation, death risk and others. The assumptions are verified at the end of the accounting year.

The table below shows model sensitivity to the values adopted for individual assumptions.

(PLN million)	**Base variant change**
Base variant	0
Discount rate +1.00%	2.479
Discount rate -1.00%	-3.040
Salary raise +0.25%	-0.714
Salary raise -0.25%	0.682
Death ratio +1 year	0.210
Death ratio -1 year	-0.201

3.5. Valuation of incentive schemes

3.5.1. 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 with the use of 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.

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

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

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

3.6. Residual value of leased assets

The expected residual value is usually the agreed future price of non-current asset purchase by the client after the end of the leasing term. The value is calculated as at the leasing commencement, based on the non-current asset initial value. The residual values are usually established based on certain contractual amount and recognized 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 contract and completion thereof.

4. Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are measured at purchase price less impairment.

4.1. Legal consolidation of subsidiaries

When settling the transactions of consolidating the Bank with their 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 separate financial statements of the Bank in the amounts 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.

4.2. Assumption of control over an entity subject to joint control under IFRS 3

The Bank applies the method discussed in item *4.1.* hereinabove also to recognise the fact of control assumption over the entity subject to joint 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 joint control under IFRS 3.

4.3. 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.

5. Foreign currency

5.1. Functional currency and presentation currency

The items given 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 are presented in Polish Zloty, which is the functional currency and the presentation currency of the Bank.

5.2. Transactions in foreign currency

Transactions expressed in foreign currencies are translated at FX rate prevailing at 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 under the specific item *FX result*, which is an element of *Net income on instruments at fair value through profit or loss and FX result.*

Foreign exchange differences under changes to the fair value of financial instruments classified as available-for-sale financial assets are recognized in the revaluation reserve for the financial assets assigned to this financial category.

6. Financial assets and liabilities

6.1. Classification

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

6.1.1. Financial assets and liabilities at fair value through profit or loss

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

- are classified as held for trading. A financial assets item 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 is 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 they are classified by the Bank as carried at fair value through profit or loss. Such classification can be made only if:
  - the classified financial assets item 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 (the so called booking mismatch 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.

6.1.2. 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.

6.1.3. 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 carries at fair value through profit or loss;
- those that the entity upon initial recognition classifies as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit service deterioration, which are classified as available for sale.

Loans and receivables include credit facilities and cash loans granted 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 in the active market, that satisfy the definition of loans and receivables.

6.1.4. 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 or loss.

6.1.5. Other financial liabilities

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

6.1.6. 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.

6.2. Recognition

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

6.3. Derecognition

The Bank derecognizes 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 the financial asset, the Bank assesses their 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 derecognizes the financial asset,
- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognize 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 recognize the financial asset, and if the Bank has not retained control, it derecognizes 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, if the rights pertaining to the loan agreement expire, the Bank waives such rights, sells the loan or when as a result of modification of the terms and conditions of the loan or cash loan agreement the current value of future cash flows of the primary exposure and the post-modification exposure differs by more than 10%.

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 reduce the impairment loss in the income statement.

6.4. Measurement

When a financial asset or financial liability is recognized 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 or 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 or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument which fair value cannot be reliably measured and which is 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 recognized 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, considering the probability of materialisation thereof;
- the amount recognized at the initial entry, adjusted with the settled amount of received guarantee commission.

6.5. Reclassification

A particular financial asset classified as available for sale may be reclassified should it satisfy 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. The fair value of the financial asset at 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 recognized as equity until the date of reclassification are amortised and carried through profit or loss 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 made using the effective interest rate method.

6.6. 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 recognized, as follows:

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

The interest calculated using the effective interest rate method is recognized 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 or loss. Since then, the Bank accrues interest on the items of financial assets or a group of financial assets less impairment. Interest is accrued at the interest rate used to calculate impairment for the financial assets affected. Later, the value is adjusted for 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 assets item 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 an available-for-sale financial assets item is impaired, the Bank recognises impairment as described in item *6.11.2* concerning determination of impairment of available-for-sale financial assets.

The fair value of financial assets and liabilities quoted in an active market (including securities) is determined using 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 fair value methods, financial assets/liabilities are classified as:

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

- Level III: financial assets/liabilities measured using the 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 in 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 modify the fair value methodologies and their effective date construed as the circumstances change date. Then, they assess 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.

6.7. 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.

6.8. Derivative instruments and hedge accounting

Derivative instruments are measured at fair value without transactional costs, 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 credit risk component is included in the fair value measurement for derivative instruments through additional valuation adjustments. Valuation adjustments are estimated per counterparty considering the expected presettlement exposures and the same risk incurred by the Bank. This approach provides for 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 materialisation 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 applied to 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 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 under the item *Net income on instruments 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 made before the transaction has matured.

The Bank separates and recognizes in the statement of financial position derivative instruments that are 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 considering 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 carried at fair value through profit or loss. An embedded derivative is measured at fair value, and its changes are recognized in the income statement.

The Bank uses derivative instruments to hedge against FX and interest rate risk, inherent in their operations. Those derivatives which were not designated as hedge instruments under the hedge accounting principles are classified as trading instruments and carried at fair value.

6.8.1. 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 in terms of nominal value, maturity date and volatility to interest rate and foreign exchange changes,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss,
- the effectiveness of the hedge may be assessed credibly, so the fair value of the hedged item or the cash flows of the said item as well as fair value of a hedge instrument may be valued credibly,
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Fair value hedge

Fair value hedge: a hedge of the exposure against 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 re-measuring the hedging instrument at fair value (i.e. for a derivative hedging instrument) is recognized in the income statement; the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in the 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 recognized in the income statement, and the profit or loss resulting from non-hedged risk is recognized in equity.

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

Cash flow hedge

Cash flow hedge: exposure hedge against volatility in cash flows that:

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

6.8.2. 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 at fair value through profit or loss and FX result._

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

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

6.9. 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 counterparties, 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.

6.10. Repo/reverse repo transactions

The Bank presents sold financial assets with the repurchase clauses (repo, sell-buy-back transactions) in their statement of financial position, simultaneously recognizing 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.

6.11. Impairment

6.11.1. Assets valued at amortized cost

At each balance sheet date, the Bank assesses whether there is any 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 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.

The evidence of impairment is:

- identification of an objective impairment evidence (for corporate and retail credit exposures) or

- the analysis (test) result showing impairment (in the case of corporate credit exposure).

Objective impairment evidence of the corporate or retail credit exposure covers the occurrence of at least one of the following situations:

- the client has discontinued to repay the principal, pay interest or commissions, with the delay of +90 DPD, provided that the amount of arrears is higher than the materiality threshold defined for a given client segment or product,
- another forbearance has occurred or there is a delay of +30 DPD for corporate and credit exposure with the forbearance status,
- a petition for bankruptcy with liquidation or conciliation bankruptcy has been filed or rehabilitation proceedings have been started by the Bank, a client or by another bank. For retail credit exposures, it applies only where it is the Bank that files the petition for the client bankruptcy,
- bankruptcy with liquidation is declared, conciliation bankruptcy or rehabilitation proceedings towards the client are approved – if they assume lack of full repayment towards the Bank,
- the credit exposure becomes due and payable as a consequence of the Bank's having terminated the loan agreement,
- the Bank cancels or writes off a significant amount of the client receivables, which leads to reduction in cash flows from a given financial assets item,
- the Bank initiates the debt enforcement proceedings,
- the client questions the balance sheet credit exposure in court,
- the client's whereabouts are unknown so the client is not represented in contacts with the Bank and the client assets are not disclosed,
- serious financial problems of the client, including but not limited to:
  - for corporate credit exposure, the Bank has assessed with high probability (above 50%) that the client situation will preclude full repayment of the debt within the impairment analysis (test),
  - for retail credit exposure:
    - poor financial standing reflected in the worst risk rating of the client (applies to clients from the Entrepreneurs segment),
    - restructuring of the retail credit exposure,
    - impairment on other accounts – within the product segment the client has other credit exposures where impairment evidence has been identified,
- for retail credit exposures – justified suspicion of fraudulent obtainment of a loan.

For retail credit exposures, the objective impairment evidence applies if the materiality threshold of PLN 500 is exceeded. As regards corporate credit exposures without risk rating, the materiality threshold for overdraft facilities with +90 DPD amounts to PLN 1,000. For the remaining corporate credit exposures, the Bank does not use the materiality threshold.

For corporate credit exposures, the impairment analysis (test) result determines whether or not impairment is identified. The test is run upon identifying an impairment trigger. Impairment triggers for corporate credit exposures include:

- danger of bankruptcy or another financial reorganisation has been reported, both of which may lead to a failure to repay the financial asset or to delayed repayment,
- the client has discontinued to repay the principal, pay interest or commissions, with the delay of +45 DPD,

- the Bank assesses that the client will face difficulties in repaying the debt, that is the client is undergoing material financial problems which may lead to a failure to repay the financial asset or to delayed repayment,
- significant breach of contractual conditions by the client which may adversely impact on future cash flows from a given financial assets item,
- disappearance of an active market for a given financial assets item held by the Bank due to the financial problems of the issuer/client, which may have a negative influence on future cash flows from a given financial assets item,
- credit debt restructuring for non-commercial reasons, that is due to client's material financial hurdles. This refers to the situation when the client for the aforementioned reasons has requested forbearance from the Bank or the Bank has already applied forbearance towards the client; these can be in particular such situations as: lending tenor extension, reduction of credit instalments, suspension of principal repayment or interest payment,
- major conflict among shareholders, loss of the sole/main counterparty, loss/death of a key person in the entity when there is no suitable succession, random incident leading to destruction of debtor's key assets.

During the impairment identification process, the Bank first assesses whether there exist impairment triggers for financial assets items.

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 automatically on a daily basis for retail clients and at the monitoring dates in place for the regular and irregular portfolios for strategic and corporate network clients.
Identification of the objective impairment evidence requires downgrading the client to the worst risk rating without the necessity to carry out the impairment analysis (test).

If after the assessment we find that for a given financial assets item there are no 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 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 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 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.

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 as per 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, and
  - 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%.

The Group also verifies the conversion rate (the so-called CCF or K-factor) of utilisation of the free part of the credit limit in the period from the reporting date to the default date to assure compliance with IAS 37 concerning provisions for contingent off-balance sheet liabilities.

This approach allows specifically for identification of:

- the losses that have already occurred, and

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

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

- the client's stay in the impaired portfolio (INSFA or ISFA) is shorter than 12 months and no impairment triggers were identified for the last 6 calendar months. However, in the absence of impairment triggers, the exposure loss can be reversed immediately after an external significant event which in the Bank's opinion positively impacts client's situation has become probable or the Bank's exposure on the client has been considerably reduced, or the Bank has obtained new exposure collateral,
- 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.

6.11.2. 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, or
- 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, and
- 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, or
- 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, or
- 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.

6.11.3. Financial assets carried at cost

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

6.12. Forbearance and non-performing exposures

In 2014, new principles of identification of and reporting on transactions with forbearance and non-performing exposures were set on the basis of the draft European Banking Authority (EBA) Technical Standards No. EBA/ITS/2013/03/rev1 of 24 July 2014.

In 2015 the Bank made a post-implementation review of the approach used in that regard so as to confirm compliance with the Commission Implementing Regulation (EU) 2015/1278 of 9 July 2015 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions as regards instructions, templates and definitions. The Bank, having taken account of the results of that review, redefined adequately its internal regulations.

Forbearance is defined:

- the client suffering from permanent financial difficulties, which result or could result in a client defaulting on the debt service as per the terms and conditions of the agreement,
- was provided non-commercial forbearance facilities under conditions diverging from market standards, so as to enable the client to meet the obligations in accordance with the agreement or to save the client from repayment difficulties (credit agreement modification or refinancing) and at the same time
- the client accepted the new terms and conditions of the agreement, i.e. a relevant agreement was concluded or the terms and conditions of the original agreement were changed.

The Bank identifies forbearance (in the regular and non-regular portfolios, including the non-performing one) also as of the effective date of the forbearance-related covenant put in the original loan agreement, under which the terms and conditions of the loan agreement can later be changed in the situation of the client financial hurdles as long as all of the following conditions are met: the client is facing problems and has applied for that covenant taking effect and the Bank has approved that application plus if that covenant did not come into force the client would or could be classified into the non-performing portfolio.

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

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 also classified as non-performing exposures when arrears of +30 DPD occur for the forbearance exposure or when another forbearance is granted for such exposure, while that refers exclusively to the cases when the client with the forbearance status was after obtaining that status in the non-performing portfolio and subsequently was upgraded to the performing portfolio.

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.

7. 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, and
- 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 recognition, investment property value is not depreciated. It is measured with the use of the fair value model. A gain or loss arising from a change in the value of investment property is recognised in the income statement for the period in which it arises and is shown in *Net income on other basic activities*, in the item: *Fair value measurement of investment properties*. The fair value of investment property reflects market conditions at the balance sheet date.

8. Non-financial assets

8.1. Property, plant and equipment

8.1.1. Own property, plant and equipment

Property, plant and equipment are non-current assets and costs to construct such assets. Non-current assets include property, plant and equipment 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.

Property, plant and equipment, with the exception of land and buildings, are recorded at historical costs less depreciation and impairment. The historical costs are made up of the purchase price/ manufacturing cost and the costs directly related to the purchase of assets.

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

Land 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 allowance in case of the value increase, or carried through the income statement in case of the carrying amount decrease. However, the increase in 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 is carried through retained earnings at the time of withdrawing from use or selling the asset item.

8.1.2. 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.

8.2. Intangible assets

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

- they can be separated from an economic entity and sold, transferred, licensed or granted for use for a fee to third parties, both separately, and together with their accompanying contracts, assets or liabilities, and
- they 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.

8.2.1. 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 entities combination made gradually 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 shown 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.

8.2.2. 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.

Costs of computer software development or maintenance of are shown when incurred.

8.2.3. 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.

8.2.4. Subsequent costs

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

8.3. Depreciation and amortization charges

The depreciation/amortization charge of property, plant and equipment and intangible assets is applied using the straight line method, using defined depreciation/amortization rates throughout the period of their useful lives.

The depreciable/amortizable amount is the cost of an assets item, or other amount substituted for cost, less its residual value. The useful life, amortization/depreciation rates and residual values of property, plant and equipment and intangible assets are reviewed annually. Conclusions of the review may lead to a change of depreciation/amortization periods recognized prospectively from the date of application (the effect of this change is carried through profit or loss in accordance with IAS 8).

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 amount adjusted to the revalued value.

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

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

8.4. 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 assets item. 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.

8.4.1. 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).

8.4.2. 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 no impairment loss had been recognized.

9. Leasing contracts and factoring services

9.1. 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 or the benefits on the non-current assets and intangible 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, or
- profits or losses from/of 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 object 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 reach a fixed rate of return from the outstanding receivables.

Interest on financial lease is presented in *Interest income*, in the item: *Interest on loans and other receivables to customers*, further split into *Interest on leases*.

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

9.2. 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 reach the fixed rate of interest on the outstanding liability. Financial costs are recognized directly in the income statement.

Non-current assets which are the basis of the finance lease contract are depreciated/amortized 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 qualify as financial lease are recognized as costs in the income statement using the straight-line method throughout the period of lease and are shown in the *General and administrative expenses*, in the item: *Overheads*, further split into *Material and leasing costs*.

9.3. 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*.

10. Other balance sheet items

10.1. Other trade 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 include settlements with off-takers in particular.

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.

10.2. 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.

10.3. Non-current assets held for sale and discontinued operation

The Bank classifies a non-current assets item (or disposal group) as held for sale if its carrying amount is 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: their carrying amount or fair value less cost to sell. Assets classified in this category are not depreciated/amortized.

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 the 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 recognized had the asset (or disposal group) not been classified as held for sale, and
- 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.

10.4. 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.

11. Equity

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

11.1. Share capital

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

11.1.1. 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.

11.1.2. Dividends

Dividends for the financial year which have been approved by the General Meeting, but not paid as at the balance sheet day are disclosed as dividend liabilities shown in the item *Other Liabilities.*

11.2. Share premium

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

11.3. Revaluation allowance

Revaluation allowance is formed 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, and
- revaluation of non-current assets carried at fair value.

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

11.4. Retained earnings

Retained earnings are formed from profit charges and are allocated for the purposes specified in the company's charter) or other regulations. Retained earnings comprise:

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

Other supplementary capital, other reserve capital and general banking risk fund are formed from profit charges and are allocated for the purposes specified in the company's charter or other regulations.

General banking risk fund is formed in accordance with the Banking Act of 29 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.

12. Prepayments and deferred income

12.1. Prepayments

Prepayments comprise particular expenses which will be carried through profit or 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 under *Other assets* item.

12.2. Deferred income

Deferred income comprises mainly fees amortized on a straight-line basis and other types of income collected in advance which will be carried through profit or loss in future reporting periods. Deferred income is presented under *Other liabilities* balance sheet item.

13. Employee benefits

13.1. Benefits under the Act on employee pension schemes

Expenses incurred under the defined contributions scheme are recognised as costs in the income statement.

13.2. Short-term employee benefits

Short-term employee benefits of the Bank (other than termination benefits) comprise 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.

13.3. Long-term employee benefits

13.3.1. 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 income statement. 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.

13.3.2. 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 (awarded by 2005) - employee may become a holder of ING shares or obtain cash performance; two instruments are offered under the Standard system:
  - share options, and
  - performance shares,
- Phantom (awarded in the years 2006-2010) – employee may obtain cash performance; two instruments are offered under the system:
  - phantom options, and
  - performance units.

In the years 2011 – 2012, the LSPP programme functioned in a modified form, i.e. share options/ phantom options were no longer granted and only performance shares were allocated. 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 conditionally. 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 their books the measurement of instruments held by Bank employees.

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

13.3.3. Variable remuneration programme benefits

The Bank implemented the variable remuneration programme that is addressed to:

- persons holding managerial positions having a material impact on the Bank risk profile (to satisfy the guidelines arising from Polish Financial Supervision Authority Resolution

No. 258/2011, Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, Commission Delegated Regulation (EU) No. 604/2014 of 04 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile), and

- employees displaying special potential and skills (whereto a part of the programme related to the financial instrument granted is addressed).

The objective of the programme is to support the Bank's and its clients' long-term interests and to correlate the performance of key employees with the Bank's results through tying the amount of some of the granted variable remuneration to the price of ING Bank Śląski's shares. Variable remuneration is defined based on appraisal of performance of the programme participants.

The programme benefits are granted in two options:

- the first option for people holding managerial positions having material impact on the risk profile of the Bank consists of two parts:
  - one paid in cash (no more than 50%), and
  - one granted as phantom stock (at least 50%, after rounding up to full instrument), 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 in the relevant period),
- in the second option to the employees displaying special potential or skills the entire benefit is granted in form of 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.

As regards the benefits granted in the form of phantom stock a one-year retention period applies; it refers to both the part granted after the assessment year (non-deferred part) and to the deferred part of the benefit under the same principles as for the cash part (annual, two-year or three-year periods). 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.

14. Provisions

Provisions, including provisions for off-balance sheet liabilities, are reported 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 liabilities 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.

15. Income statement

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 income statement at amortized cost using the effective interest rate.

The effective interest method is a method of calculating the amortized cost of a financial assets item 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 assets item 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 carried at fair value through profit or loss are recognized under 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. Commission income and costs

Commission income arises from providing financial services by the Bank and comprises fees for extending loans, the Bank's pledge to extend loans, 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 the 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; and
- 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; and
- commissions for the loan or limit/ overdraft granted to start another lending year.

If during the life of the contract the terms and conditions of credit exposure are changed, the whole outstanding part of commission is recognised in the income statement on the day when the terms and conditions are updated, provided that the outstanding amount of commission is insignificant.

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. Commission income and costs of bancassurance services

Fees and commissions for insurance products are recognised in the income statement as per their economic content and are 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, and
- 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 at fair value through profit or loss and FX result

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

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

Result from accrued interest and settlement of discount or premium on debt securities held for trading or at fair value through profit or 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 income statement 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 under 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 comprises expenses 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), income on sale of other services, income 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 income statement. Deferred income tax is recognized in the income statement 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 forms a provision for deferred tax for all taxable temporary differences and deferred tax assets 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 made 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 provision arises from:

- initial recognition of goodwill;
- goodwill, which amortization has no taxable expense; or
- initial recognition of an assets item 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 for all negative timing differences as at the balance sheet date between the tax value of assets and liabilities and their carrying amount disclosed in the financial statements 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 assets item 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 amount of a deferred tax assets item 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 assets item 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 for the items directly presented in equity is presented in equity.

Deferred tax assets and provisions are recognized by the Bank in the statement of financial position after offsetting at the level of each consolidated entity. 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

Income, 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 in the statement of financial position as an item of receivables or liabilities.

V. Comparability of financial data

Amendments to the Income Statement

The Bank amended the manner of recognizing the net income on sale of debt securities covered by the fair value hedge accounting in the annual financial statements for the period from 1 January 2015 to 31 December 2015 as compared to the annual financial statements for the period from 1 January 2014 to 31 December 2014. As a result of the amendment:

- net income on sale of securities is now recognised under the item *Net income on investments* but only in the portion corresponding to the valuation under unsecured risks,
- the result of the hedging strategy i.e. result on valuation of securities under secured risk and valuation of hedging instruments is recognised under the item *Net income on hedge accounting,*
- valuation of derivatives as of hedging strategy revocation is recognised in the item *Net income on financial instruments at fair value through profit or loss and FX result.*

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 annual financial statements for the 2014 and in the current statements.

INCOME STATEMENT	**2014 financial statements** the period from 01 Jan 2014 to 31 Dec 2014 (approved data)	**change**	**2015 financial statements** the period from 01 Jan 2014 to 31 Dec 2014 (comparable data)
Net income on financial instruments at fair value through profit or loss and FX result	89.8	-0.4	89.4
Net income on investments	67.9	0.2	68.1
Net income on hedge accounting	8.7	0.2	8.9

VI. Notes to the financial statements

1. Segment reporting

Segments of operation

ING Bank Śląski is managed 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, and
- corporate banking segment.

The segments are separated based on the financial (especially turnover, level of accumulated 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.

ING Bank Śląski S.A. has separated in organisational terms the operations performed by the Bank Treasury. The mission of the Bank Treasury is to support the development of the Bank's business lines by assuming their market risks to protect them against negative effects of market changes.

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

The Bank Treasury's net income on operations is allocated to the business lines considering its support function for the Bank's business lines.

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 in the current account - ROR, loans under cards, hire purchase loans, housing loans, mortgage loans, contract loans granted by the Building Society), deposit products (current accounts, term deposits, savings accounts), structured products, 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.

As institutional clients strategic clients, large corporate entities and mid-sized companies are recognized. For corporate activity, the Bank provides reporting broken down by leading products covering i.e. loan products (opex loans and capex loans), deposit products (current accounts, term deposits and negotiated deposits, savings accounts), financial markets products, trust services, capital market operations conducted by the parent.

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

Measurement

The segment's assets and liabilities as well as the segment's income and costs are measured 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.

Income, 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 less the cost of interest.

In 2015, the Bank updated the allocation key for ALCO income; further, the Bank Treasury's net income on operations is allocated to business segments (it was recognised in the corporate banking segment earlier). The 2014 data presented herein were made comparable.

Geographical segments

The Bank pursues business within the territory of the Republic of Poland.

2015

	Retail banking segment	Corporate banking segment	TOTAL
Income total	**2 044.5**	**1 599.2**	**3 643.7**
net interest income	1 489.6	853.9	2 343.5
net commission income	347.6	603.7	951.3
other income/expenses	207.3	141.6	348.9
Expenses total	**1 296.0**	**739.0**	**2 035.0**
Segment result	**748.5**	**860.2**	**1 608.7**
Impairment losses	69.8	143.0	212.8
Result after impairment losses (profit before tax)	**678.7**	**717.2**	**1 395.9**
Income tax	-	-	255.9
Result after tax	**-**	**-**	**1 140.0**
Assets of the segment	41 027.1	63 848.8	104 875.9
Segment investments in controlled entities	36.0	233.2	269.2
Other assets (not allocated to segments)	0.0	0.0	960.8
Total assets	**41 063.1**	**64 082.0**	**106 105.9**
Segment liabilities	60 378.9	34 237.1	94 616.0
Other liabilities (not allocated to segment)	0.0	0.0	1 004.7
Equity	0.0	0.0	10 485.2
Total equity and liabilities	**60 378.9**	**34 237.1**	**106 105.9**
Capital expenditure	333.3	190.1	523.4
Net cash flow from operating activities	3 634.5	-3 284.0	350.5
Net cash flow from operating activities (not allocated to segment)	0.0	0.0	-478.0
Net cash flow from operating activities total	3 634.5	-3 284.0	-127.5
Net cash flow from investment activities	-83.5	-1 128.4	-1 211.9
Net cash flow from financial activities (not allocated to segment)	-11.3	-533.0	-544.3

2014

	Retail banking segment	Corporate banking segment	TOTAL
Income total	**1 940.8**	**1 452.7**	**3 393.5**
net interest income	1 358.0	853.2	2 211.2
net commission income	422.0	580.9	1 002.9
other income/expenses	160.8	18.6	179.4
Expenses total	**1 136.8**	**677.4**	**1 814.2**
Segment result	**804.0**	**775.3**	**1 579.3**
Impairment losses	78.7	164.7	243.4
Result after impairment losses (profit before tax)	**725.3**	**610.6**	**1 335.9**
Income tax	-	-	268.0
Result after tax	**-**	**-**	**1 067.9**
Assets of the segment	37 004.9	58 510.5	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	**37 036.4**	**58 748.2**	**96 742.4**
Segment liabilities	52 726.7	32 611.2	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	**52 726.7**	**32 611.2**	**96 742.4**
Capital expenditure	260.9	155.4	416.3
Net cash flow from operating activities	2 591.3	-3 591.5	-1 000.2
Net cash flow from operating activities (not allocated to segment)	0.0	0.0	-117.4
Net cash flow from operating activities total	2 591.3	-3 591.5	-1 117.6
Net cash flow from investment activities	-80.0	-54.6	-134.6
Net cash flow from financial activities (not allocated to segment)	132.5	-425.3	-292.8

2. Net interest income

	2015	2014
Interest income		
Interest on loans and receivables to other banks	62.7	93.5
Interest on loans and receivables to customers, including:	2 714.3	2 660.2
- interest on entities from the financial sector other than banks	146.5	168.1
- interest on entities from the non-financial sector*	2 447.2	2 338.3
- interest on entities from the government and self-government institutions' sector	120.6	153.8
Interest on repo transactions made with customers	8.0	15.1
Interest on financial assets held for trading	25.3	23.2
Interest on loans and receivables to other banks	562.7	748.7
Interest on financial assets held to maturity	78.3	0.0
Net interest income on derivatives**	32.3	38.0
Total interest income	**3 483.6**	**3 578.7**
Interest expenses		
Interest on deposits from other banks	40.9	58.0
Interest on deposits from customers, including:	1 073.8	1 283.7
- interest on entities from the financial sector other than banks	33.1	63.2
- interest on entities from the non-financial sector*	1 016.6	1 180.0
- interest on entities from the government and self-government institutions' sector	24.1	40.5
Interest on repo transactions made with customers	0.4	3.2
Interest on issue of debt securities	23.7	20.5
Interest on financial liabilities held for trading	1.3	2.1
Total interest expense	**1 140.1**	**1 367.5**
Net interest income	**2 343.5**	**2 211.2**

*) 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 a foreign 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 449.2 million in 2015 (PLN 563.9 million in interest income, PLN 114.7 million in interest expense) versus PLN 322.7 million in 2014 (PLN 428.1 million in interest income, PLN 105.4 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 income on financial assets is calculated on the basis of the net exposure amounts; i.e. the amounts including effective impairment losses.

In 2015, the amount of PLN 40.1 million represents income on financial assets for which impairment loss was recognised. In 2014, the amount reached PLN 39.1 million.

3. Net commission income

	2015	2014
Commission income		
transaction margin on currency exchange transactions*	284.2	282.2
account maintenance fees	247.1	246.8
lending commissions	224.2	211.2
participation units distribution fees	99.1	84.3
payment and credit cards fees	66.9	150.3
insurance product offering commissions	54.8	44.8
fiduciary and custodian fees**	26.0	29.3
foreign commercial business	20.1	17.9
agency in financial instruments transactions	11.7	7.3
brokerage activity fees	3.0	5.4
other	18.8	17.9
Total comission income	**1 055.9**	**1 097.4**
Commission expenses		
commission paid on intermediation in selling deposit products	30.5	18.1
commission paid on disclosing credit information	12.1	11.3
commission paid on cash handling services	11.3	10.5
commission paid on trading in securities	7.8	8.9
costs of the National Clearing House (KIR)	7.3	7.5
electronic banking services fees	7.2	7.3
brokerage activity fees	7.0	6.3
agency in financial instruments transactions	6.8	8.5
other	14.6	16.1
Total commision expenses	**104.6**	**94.5**
Net commission income	**951.3**	**1 002.9**

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

**) Fiduciary and custodian fees show the commissions earned on custody services, where the Bank keeps or invests assets for their clients.

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

	2015	2014
Net income on financial assets and liabilities held for trading, including:	**-6.9**	**76.3**
Net income on debt instruments	5.1	5.5
Net income on derivatives, including:	-12.0	70.8
- Currency derivatives	-46.1	41.2
- Interest rate derivatives	34.0	28.3
- Securities derivatives	0.1	1.3
FX result	**88.8**	**13.1**
Net income on financial instruments at fair value through profit or loss and FX result	**81.9**	**89.4**

Net income 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. Net interest income on debt securities is presented as part of the overall interest result.

Net income on derivatives includes net income on trading and fair value measurement of IR derivatives (FRA, IRS/CIRS, cap options), FX derivatives (swaps and options) as well as stock exchange index options.

5. Net income on investments

	2015	2014
Dividend income	99.3	67.5
Net income on equity instruments	91.9	6.5
Net income on debt instruments	54.3	5.2
Impairment losses	0.0	-11.1
Net income on investments	**245.5**	**68.1**

*) The dividend income amount encompasses PLN 82.1 million worth of the 2014 dividend received from ING Powszechne Towarzystwo Emerytalne S.A. For details of dividend received, see Chapter II. _Significant events in 2015_, item 9. _Dividend from ING Powszechne Towarzystwo Emerytalne S.A. Company._

**) The net income on equity instruments covers the result on sale of shares of ING Powszechne Towarzystwo Emerytalne S.A. Company of PLN 87.9 million. For details of the share purchase agreement, refer to Chapter II. _Significant events in 2015_, item 10. _Sale of shares of ING Powszechne Towarzystwo Emerytalne S.A. Company._

6. Net income on hedge accounting

	2015	2014
Fair value hedge accounting for securities	**21.8**	**8.6**
valuation of the hedged transaction	-113.2	234.5
valuation of the hedging transaction	135.0	-225.9
Cash flow hedge accounting	**1.1**	**0.3**
ineffectiveness under cash flow hedges	1.1	0.3
Net income on hedge accounting	**22.9**	**8.9**

For details of the hedge accounting applied by the Bank, refer to the subsequent part of the financial statements, note no. 39 _Hedge accounting._

7. Net income on other basic activities

	2015	2014
Net income on the investment properties, including:	6.9	11.9
- income from rental of the investment property	8.9	13.1
- maintenance expenses relating to the investment property	-2.6	-4.0
- valuation of investment property to fair value	0.6	2.8
Banking activity-related compensations and losses	-1.6	-1.0
Net income on disposal of property, plant and equipment and intangible assets	-2.1	-0.4
Impairment on other non-financial assets	-0.2	-0.2
Other	-4.4	2.7
Total	**-1.4**	**13.0**

8. General and administrative expenses

	2015	2014
Personnel expenses, including:	**893.0**	**871.9**
wages and salaries, including:	744.8	729.8
- variable remuneration programme	25.8	25.9
- ING Group's incentive programme	1.3	1.8
- retirement benefits	1.6	2.0
employee benefits	148.2	142.1
Overheads, including:	**956.8**	**770.8**
maintenance, refurbishment and rental of buildings	240.4	255.0
cost of marketing and promotion	116.3	108.6
IT costs	82.6	95.9
consulting	68.8	68.0
material and leasing costs	46.5	62.5
obligatory Bank Guarantee Fund payments*	261.3	54.1
cash handling services	28.2	33.2
other**	112.7	93.5
Depreciation and amortisation, including:	**185.2**	**171.5**
on property, plant and equipment	104.6	100.1
on intangible assets	80.6	71.4
Total	**2 035.0**	**1 814.2**

*) Besides the annual fee and the prudential fee, the amount of mandatory BGF contributions for 2015 also encompasses PLN 157.4 million worth of the mandatory contribution for payment of guaranteed funds to the depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin. For details of the payment discussed, refer to Chapter II. Significant events in 2015, item 1. Bank Guarantee Fund's resolution on the mandatory payment from the guaranteed deposits fund.

**) The other overheads for 2015 comprise PLN 6.4 million worth of the provision for the Borrower Financial Assistance Fund contributions.

8.1. Employee benefits

8.1.1. Variable Remuneration Programme

In 2015, the Variable Remuneration Programme initiated in 2012, was continued. The Programme is addressed to:

- persons holding managerial positions having a material impact on the risk profile of the Group (to satisfy the requirements under Polish Financial Supervision Authority Resolution No. 258/2011, Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, Commission Delegated Regulation (EU) No. 604/2014 of 04 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile), and
- employees displaying special potential and skills (part involving award of a financial instrument).

Benefits are awarded 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 13.3.3. 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's risk profile.

Programme 2012

Number of shares	**Value of shares (in PLN million)**	**Number of non-deferred shares - held 1 year (assigned in 2013 – payable in 2014)**	**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 2015 to 20 Nov 2015
23 462	2.9	-	23 462		11 723	11 739	125.30

Programme 2013

Number of shares	**Value of shares (in PLN million)**	**Number of non-deferred shares - held 1 year (assigned in 2014 – payable in 2015)**	**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 2015 to 20 Nov 2015
31 060	3.9	-	31 060	10 337	10 354	10 369	125.30

Programme 2014

Number of shares	**Value of shares (in PLN million)**	**Number of non-deferred shares - held 1 year (assigned in 2015 – payable in 2016)**	**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 2015 to 20 Nov 2015
71 348	8.9	42 839	28 509	9 485	9 506	9 518	125.30

Programme 2015

Number of shares	**Value of shares (in PLN million)**	**Number of non-deferred shares - held 1 year (assigned in 2016 – payable in 2017)**	**Deferred shares total**	*Phantom stock - 1 year of deferral (assigned in 2017 – payable in 2018)*	*Phantom stock - 2 years of deferral (assigned in 2018 – payable in 2019)*	*Phantom stock - 3 years of deferral (assigned in 2019 – payable in 2020)*	Stock price median for period from 10 Oct 2015 to 20 Nov 2015
102 488	12.8	61 690	40 798	13 575	13 598	13 625	125.30

8.1.2. ING Group's iIncentive programme

To the end of 2012, the Bank participated in the long-term incentive programme of ING Group (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 item 13.3.2. *ING Group's long-term incentive system benefits.*

As at the balance sheet date, the Bank recognises in their 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.

Parameters used in the valuation model

	2015		2014	
	min	*max*	*min*	*max*
risk-free interest rate	2.02%	4.62%	2.02%	4.62%
expected exercise term	5 years	9 years	5 years	9 years
current share price	2.9 EUR	26.05 EUR	2.9 EUR	26.05 EUR
expected volatility of share certificates	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)	
	2015	**2014**	**2015**	**2014**
Opening balance	**450 453**	**653 065**	**16.64**	**14.08**
transferred	-9 716	-104 638	17.11	7.10
exwercised	14 589	57 052	6.01	6.23
forfeited	733	6 761	21.33	12.68
expired	68 102	34 161	18.01	15.16
Closing balance	**357 313**	**450 453**	**16.79**	**16.64**

As at 31 December 2015, total options outstanding covered 14,699 options relating to equity-settled share-based payment arrangements and 342,614 options relating to cash-settled share-based payment arrangements (as at 31 December 2014: 75,066 and 375,387 respectively).

The range of exercise prices and weighted average remaining contractual life of options outstanding and exercisable are presented in the below table:

2015

Range of exercise prices (in EUR)	**Options outstanding as at 31 Dec 2015**	Weighted average remaining contractual life	Weighted average exercise price (in EUR)	**Options excercisable as at 31 Dec 2015**	Weighted average remaining contractual life	Weighted average exercise price (in EUR)
0.00 - 5.00	40 418	3.22	2.90	40 418	3.22	2.90
5.00 - 10.00	60 496	4.21	7.35	60 496	4.21	7.35
10.00 - 15.00	4 145	2.72	14.36	4 145	2.72	14.36
15.00 - 20.00	109 431	2.20	16.66	109 431	2.20	16.66
20.00 - 25.00	84 777	1.22	24.72	84 777	1.22	24.72
25.00 - 30.00	58 046	0.23	25.16	58 046	0.23	25.16
	357 313			**357 313**		

2014

Range of exercise prices (in EUR)	**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**		

The aggregate intrinsic value of options outstanding and exercisable as at 31 December 2015 was EUR 694,522 versus EUR 611,000 as at 31 December 2014.

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

	2015	**2014**
Loans and other receivables		
Impairment losses on loans and other receivables	843.6	569.6
Reversed impairment losses on loans and other receivables	-638.7	-330.2
Net impairment losses on loans and other receivables, including:	**204.9**	**239.4**
- losses on loans and other receivables with evidence of impairment	199.3	234.5
- losses on loans and other receivables with no evidence of impairment (IBNR)	5.6	4.9
Financial assets held to maturity		
Increase in financial assets held to maturity	0.6	0.0
Reversed financial assets held to maturity	0.0	0.0
Net financial assets held to maturity,including:	**0.6**	**0.0**
-on the portfolio with no evidence of impairment (IBNR)	0.6	0.0
Provisions for off-balance liabilities		
Increase in provisions for off-balance liabilities	20.8	15.8
Reversed provision for off-balance sheet liabilities	-13.5	-11.8
Net provisions for off-balance sheet liabilities, including:	**7.3**	**4.0**
- on the portfolio with evidence of impairment	5.4	1.8
- on the portfolio with no evidence of impairment (IBNR)	1.9	2.2
Total increase in impairment losses and provisions	**865.0**	**585.4**
Total reversed impairment losses and provisions	**-652.2**	**-342.0**
Net impairment losses and provisions for off-balance sheet liabilities	**212.8**	**243.4**

The figures recognised under the item *Reversed impairment losses on loans and other receivables* include, among other things, the previously derecognised of repayments of receivables which in 2015 totalled PLN 8.9 million compared with PLN 5.4 million in 2014.

Impairment losses on loans and other receivables by client sector

	2015	2014
Impairment losses on loans and other receivables, including:	**843.6**	**569.6**
banks	0.1	0.3
entities from the financial sector other than banks	0.4	0.4
entities from the non-financial sector	842.9	568.5
entities from the government and self-government institutions' sector	0.2	0.4
Reversed impairment losses on loans and other receivables, including:	**-638.7**	**-330.2**
banks	-0.6	-0.3
entities from the financial sector other than banks	-0.3	-0.3
entities from the non-financial sector	-637.2	-329.3
entities from the government and self-government institutions' sector	-0.6	-0.3
Net impairment losses on loans and other receivables, including:	**204.9**	**239.4**
banks	-0.5	0.0
entities from the financial sector other than banks	0.1	0.1
entities from the non-financial sector	205.7	239.2
entities from the government and self-government institutions' sector	-0.4	0.1

Impairment losses on loans and other receivables by client segment

	2015	2014
Impairment losses on loans and other receivables, including:	**843.6**	**569.6**
corporate banking	489.5	340.2
retail banking	354.1	229.4
Reversed impairment losses on loans and other receivables, including:	**-638.7**	**-330.2**
corporate banking	-354.4	-179.5
retail banking	-284.3	-150.7
Net impairment losses on loans and other receivables, including:	**204.9**	**239.4**
corporate banking	135.1	160.7
retail banking	69.8	78.7

10. Income tax

Income tax recognised in the income statement

	2015	2014
Current tax, including:	**248.2**	**304.0**
Current year	213.7	311.4
Adjustment of last-year tax settlement	34.5	-7.4
Deferred tax, including:	**7.7**	**-36.0**
Recognised and reversed temporary differences	7.7	-36.0
Total income tax recognised in the income statement	**255.9**	**268.0**

Effective tax rate calculation

	2015	2014
A. Profit before tax	**1 395.9**	**1 335.9**
B. 19% of profit before tax	**265.2**	**253.8**
C. Increases – non-deductible expenses, including:	**19.6**	**27.1**
expenses due to loan and non-loan receivables written off	5.7	5.0
provisions for disputable debt claims and other assets	2.2	3.5
State Fund for Rehabilitation of Disabled Persons (PFRON) payments	1.4	1.4
impairment on receivables in the part not covered with the deferred tax	2.9	1.6
representation expenses	0.9	0.7
thin capitalisation	0.4	0.7
tax loss on the sale of debt	1.0	9.1
other	5.1	5.1
D. Decreases – tax exempt income, including::	**28.9**	**12.9**
dividends received	17.8	12.1
release of provisions for disputable debt claims	2.7	0.7
income exempt due to the entity	0.0	0.1
adjustment of previous year tax settlement	8.4	0.0
other	0.0	0.0
E. Income tax from the income statement (B+C-D)	**255.9**	**268.0**
Effective tax rate (E : A)	**18.33%**	**20.06%**

The effective tax rate deviation in 2015 below 19% was substantially impacted by the dividend paid out to the Bank by ING Powszechne Towarzystwo Emerytalne S.A. (ING PTE) totalling PLN 82.1 million that is exempted from income tax pursuant to Article 22 section 4 of the Corporate Income Tax Act.

The following developments caused the effective tax rate to increase in 2014:

- Conclusion in H1 2014 of the letter of intent concerning sale of shares held by ING Bank Śląski S.A. in the affiliated entity, ING Powszechne Towarzystwo Emerytalne S.A. (ING PTE), and due to a change of intent concerning the shares held – provisioning 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

Basic earnings per one share of the parent company for 2015 were calculated based on net profit of PLN 1,140.0 million (in 2014, it was PLN 1,067.9 million) and weighted average number of ordinary shares at the end 2015 and 2014 being 130,100,000.

	2015	2014
Net profit attributable to ING Bank Śląski S.A. shareholders	1 140.0	1 067.9
Weighted average number of ordinary shares	130 100 000	130 100 000
Earnings per ordinary share (in PLN)	**8.76**	**8.21**

Diluted earnings per share

In 2015 as well as in 2014, there were no factors that would dilute the profit per one share. In the described periods, ING Bank Śląski S.A. issued neither bonds convertible to shares nor options for shares. The share capital comprises ordinary shares only (no preference shares). Therefore, the diluted earnings per share are the same as the underlying profit per share.

12. Dividends paid/proposed

By the approval date hereof, the Management Board of ING Bank Śląski S.A. did not take a decision on the 2015 profit distribution proposal to be recommended to the General Meeting.

On 31 March 2015, the General Meeting passed a resolution regarding dividend payout for 2014, whereby the Bank paid out the dividend for 2014 totalling PLN 520.4 million (PLN 4.0 gross per share). On 20 April 2014, the shareholders of record became entitled to dividend payout; the dividend was paid out on 03 June 2015.

13. Cash in hand and balances with the Central Bank

	2015	2014
Cash in hand	1 102.7	1 097.3
Balances with the Central Bank	2 487.0	4 233.4
Total	**3 589.7**	**5 330.7**

The Bank maintains a mandatory provision – 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 3,109.5 million for the period from 31 December 2015 to 1 February 2016, and
- PLN 2,597.8 million for the period from 31 December 2014 to 30 January 2015.

The Bank can avail itself of the credit line from the National Bank of Poland against the pledge on T-securities. As at 31 December 2015, the line was PLN 15,200.0 million versus PLN 13,180.6 million as at 31 December 2014.

14. Loans and receivables to other banks

	2015	2014
Current accounts	820.7	963.4
Interbank deposits	59.4	125.8
Loans and advances	133.1	67.2
Reverse repo transactions	0.0	664.9
Total (gross)	**1 013.2**	**1 821.3**
Impairment losses, including:	-0.1	0.0
- concerning loans and advances	-0.1	0.0
Total (net)	**1 013.1**	**1 821.3**

Loans and receivables to other banks by maturity

	2015	2014
up to 1 month	856.9	1 638.7
over 1 month and up to 3 months	45.9	136.4
over 3 months and up to 1 year	68.9	31.8
over 1 year and up to 5 years	41.1	14.4
over 5 years	0.4	0.0
Total (gross)	**1 013.2**	**1 821.3**

15. Financial assets at fair value through profit or loss

Financial assets held for trading

	2015	2014
Debt instruments, including:	964.3	1 409.8
- Treasury bonds	964.3	1 409.8
Transactions with the buy-back commitment	162.8	447.0
Total financial assets held for trading	**1 127.1**	**1 856.8**

Financial assets at fair value through profit or loss by maturity

	2015	2014
up to 1 month	268.0	453.2
over 1 month and up to 3 months	175.6	38.4
over 3 months and up to 1 year	400.4	1 223.9
over 1 year and up to 5 years	283.1	141.3
Total	**1 127.1**	**1 856.8**

Interest income on financial assets carried at fair value through profit or loss is recognised in the net interest income. Profits and losses due to movements in fair value of the said assets are recognised in item *Net income on financial instruments at fair value through profit or 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.

2015	Fair value measurement of derivatives		Face value of instruments with the remaining maturity			
	Assets	Liabilities	*up to 3 months*	*over 3 months and up to 1 year*	*over 1 year*	*TOTAL*
Interest rate derivatives, including:	**1 698.9**	**1 707.1**	**27 070.8**	**71 483.1**	**123 218.7**	**221 772.6**
Forward rate agreements (FRA)	13.1	16.8	21 425.0	48 150.8	1 350.0	**70 925.8**
Interest rate swaps (IRS)	1 678.2	1 682.7	5 645.8	22 489.1	117 794.0	**145 928.9**
CAP options	7.6	7.6	0.0	843.2	4 074.7	**4 917.9**
FX derivatives, including:	**289.7**	**294.0**	**31 749.6**	**10 276.2**	**6 150.3**	**48 176.1**
FX contracts (swap, forward)	167.3	140.2	30 668.4	9 401.1	2 093.0	**42 162.5**
CIRS	53.3	73.7	0.0	0.0	965.7	**965.7**
Currency options (purchased)	67.3	0.0	481.4	482.2	1 570.2	**2 533.8**
Currency options (sold)	1.8	80.1	599.8	392.9	1 521.4	**2 514.1**
Current off-balance sheet transactions, including:	**0.7**	**0.2**	**5 207.7**	**0.0**	**0.0**	**5 207.7**
FX operations	0.3	0.2	464.9	-	-	**464.9**
Securities operations	0.4	0.0	4 742.8	-	-	**4 742.8**
Fair value measurement of other financial instruments	**1.6**	**1.5**	-	-	-	-
Total	**1 990.9**	**2 002.8**	**64 028.1**	**81 759.3**	**129 369.0**	**275 156.4**

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

2014	Fair value measurement of derivatives		Face value of instruments with the remaining maturity			
	Assets	Liabilities	*up to 3 months*	*over 3 months and up to 1 year*	*over 1 year*	*TOTAL*
Interest rate derivatives, including:	**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, including:	**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, including:	**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, including:	**0.0**	**0.0**	**11.4**	**12.8**	**0.0**	**24.2**
Stock market options (purchased)	0.0	0.0	5.7	6.4	0.0	**12.1**
Stock market options (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**

Embedded derivatives

At the end of 2015 and 2014, the Bank had PLN deposits with embedded derivatives. Embedded instruments are FX options. As at 31 December 2015, embedded derivatives were worth PLN +0.8 mln million versus PLN +0.5 million as at 31 December 2014.

17. Investments

	2015	2014
Available-for-sale financial assets, including:	20 678.0	22 828.6
- fair value hedge-hedged items	3 515.5	4 095.9
Financial assets held to maturity	2 800.7	0.0
Total	**23 478.7**	**22 828.6**

Fair value hedge-hedged items

	2015	2014
Fixed rate debt instruments, including:	3 515.5	4 095.9
- Treasury bonds	3 515.5	3 726.0
- BGK bonds	0.0	369.9
Total	**3 515.5**	**4 095.9**

For details of the hedge accounting applied by the Bank, refer to note no. 39 *Hedge accounting*.

17.1. Available-for-sale financial assets

	2015	2014
Debt securities, including:	**20 494.9**	**22 815.3**
Fixed rate debt instruments, including:	8 050.9	12 345.9
- Treasury bonds	7 551.1	10 149.1
- NBP bills	499.8	499.9
- BGK bonds	0.0	1 696.9
Floating rate debt instruments, including:	12 444.0	10 469.4
- Treasury bonds	12 444.0	10 469.4
Total debt instruments, including:	20 494.9	22 815.3
- listed instruments	19 995.1	22 315.4
- unlisted instruments	499.8	499.9
Equity instruments, including	**183.1**	**13.3**
- Equity instruments at cost	5.2	19.4
- Marked to market	177.9	0.0
- Impairment	0.0	-6.1
Equity instruments – carrying amount, including:	183.1	13.3
- listed instruments	0.0	8.4
- unlisted instruments	183.1	4.9
Total available-for-sale financial assets	**20 678.0**	**22 828.6**

The item Equity Instruments include stocks and shares of number of entities not quoted on the stock exchange which are not presented at fair value. The carrying amount encompasses PLN 177.9 million worth of shares of Visa Europe Limited, priced on the basis of the foreseeable allocation of settlement of the Visa Europe Limited takeover by Visa Inc. For transaction details, refer to Chapter II. Significant events in 2015, item 2. Impact of Visa Europe takeover by Visa Inc. transaction. Stocks and shares of number of entities the Group do not present at fair value. It is difficult or impossible to determine the fair value due to absence of an active market for those instruments. The Group holdssome of shares on account of their business (KIR, SWIFT, BIK, PSP). In the Group opinion the best measure of their value is the purchase price.

Available-for-sale financial assets by maturity

	2015	2014
up to 1 month	499.8	544.6
over 3 months and up to 1 year	274.8	3 199.7
over 1 year and up to 5 years	13 969.1	11 174.9
over 5 years	5 934.3	7 909.4
Total	**20 678.0**	**22 828.6**

Changes in available-for-sale financial assets

	2015	2014
Opening balance	**22 828.6**	**19 492.9**
Increases, including:	**82 519.1**	**85 149.5**
purchase of debt securities	81 695.6	83 867.3
increase in the value of securities	823.2	1 279.9
purchase of shares in other parties	0.3	2.3
Decreases, including:	**84 669.7**	**81 813.8**
sales of debt securities	3 577.2	8 299.2
redemption of debt securities	78 559.0	72 723.5
decrease in the value of securities	811.7	777.4
reclassification of debt securities from the available-for-sale portfolio to the held-to-maturity portfolio	1 713.3	0.0
sale of shares in other parties	8.5	13.7
Closing balance	**20 678.0**	**22 828.6**

In 2015, the Bank sold a portion of shares of 1 company from their investment portfolio. The net income on sale of those shares was PLN +4.0 million. To compare, in 2014, the Bank sold shares of 1 companies from their investment portfolio. The net income on sale of those shares was PLN +6.5 million.

17.2. Financial assets held-to-maturity

	2015	2014
Fixed rate debt instruments, including:	2 643.8	0.0
- Treasury bonds	987.1	0.0
- BGK bonds	1 656.7	0.0
Floating rate debt instruments, including:	156.9	0.0
- Treasury bonds	156.9	0.0
Total debt instruments, including:	**2 800.7**	**0.0**
- listed instruments	2 800.7	0.0
Total financial assets held to maturity	**2 800.7**	**0.0**

In 2015 the Bank reclassified the part of debt securities from the available-for-sale portfolio to the held-to-maturity portfolio. Detailed disclosure about reclassification, refer to the note no. 17.3.

Financial assets held-to-maturity by maturity

	2015	2014
over 1 year and up to 5 years	1 995.4	0.0
over 5 years	805.3	0.0
Total	**2 800.7**	**0.0**

Changes in assets held-to-maturity

	2015	2014
Opening balance	**0.0**	**0.0**
Increases, including:	**2 934.1**	**0.0**
reclassification of debt securities from the available-for-sale portfolio to the held-to-maturity portfolio	1 713.3	0.0
purchase of debt securities	1 138.6	0.0
Interest accrued	82.2	0.0
Decreases, including:	**133.4**	**0.0**
Interest paid	87.6	0.0
depreciation valuation detained in the revaluation reserve	40.2	0.0
amortization of discount / premium	5.0	0.0
impairment losses	0.6	0.0
Closing balance	**2 800.7**	**0.0**

17.3. Reclassification of debt securities

The Group presents the disclosures in connection with two reclassification of securities made in 2008 and 2015.

17.3.1. Reclassification in 2015

In 2015, the Bank reclassified a portion of debt securities (T-bonds) from the available-for-sale financial assets to the financial assets held to maturity. Reclassification aimed at making the Bank's capital less sensitive to the change in the fair value of securities.

As a result, the rules of debt securities valuation were changed from fair-value measurement to measurement at amortised cost. The fair value of debt securities of PLN 1,713.3 million as at the reclassification date was their new amortized cost.

17.3.2. Reclassification in 2008

In 2008, the Bank reclassified a portion of debt securities from the available-for-sale financial assets to the loans and other receivables category.
The reason for reclassification was the absence 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", while 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

		2015			2014		
Name of security	Reclassification date	fair value as at the reclassification date	carrying amount	fair value	fair value as at the reclassification date	carrying amount	fair value
T-eurobonds	01.10.2008	1 242.9	1 796.6	1 747.3	1 242.9	1 855.0	2 101.7
Corporate bonds	19.12.2008	6.7	6.4	6.1	8.9	8.5	8.1
Municipal bonds	19.12.2008	12.8	12.8	12.4	20.1	20.5	20.4
Total		**1 262.4**	**1 815.8**	**1 765.8**	**1 271.9**	**1 884.0**	**2 130.2**

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 at 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. Upon reclassification, 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, from the reclassification date a new hedging strategy was started, i.e. the strategy which hedged the fair value against the interest rate risk of 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	
	2015	2014
T-eurobonds	-49.3	246.7
Corporate bonds	-0.4	-0.5
Municipal bonds	-0.3	-0.1
Total	**-50.0**	**246.1**

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 income statement

2015

Name of security	accrued interest (coupon)	amortised discount/ premium	depreciation of the revaluation reserve	carrying amount of hedged instruments in FVH strategy adjustment *)
T-eurobonds	77.4	-2.8	1.9	-57.6
Corporate bonds	0.2	0.0	0.0	0.0
Municipal bonds	0.4	0.0	0.0	0.0
Total	**78.0**	**-2.8**	**1.9**	**-57.6**

2014

Name of security	accrued interest (coupon)	amortised discount/ premium	depreciation of the revaluation reserve	carrying amount 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**

*) measurement due to the hedged interest rate risk

18. Assets securing liabilities

Market value of assets securing liabilities

	2015	2014
From the portfolio of financial assets at fair value through profit or loss:		
- treasury bonds collateralising the liabilities due to securities sold with buy-back commitment (sell-buy-back transactions)	60.1	56.3
From the portfolio of available-for-sale financial assets:		
- treasury bonds constituting collateral to the Bank Guarantee Fund	507.2	428.3
- treasury bonds collateralising the loan received by the subsidiary of the European Investment Bank	203.8	290.0
- French government bonds to hedge settlements with the LCH	507.5	258.4
- treasury bonds collateralising the Bank debt to subsidiary	0.0	41.4
- treasury bonds collateralising the liabilities due to securities sold with buy-back commitment (sell-buy-back transactions)	42.4	29.3

Securities are pledged on the terms provided for by:

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

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

- note 27 *Liabilities due to other banks*
- note *28 Financial liabilities at fair value through profit or loss and*
- note 30 *Repurchase transactions made 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 sell-buy-back/repo transactions are effected assuming the option of legal transfer of ownership of the securities transacted. The above indicates that the counterparty who purchased ownership of securities can still sell them back or pledge them in accordance with the generally adopted market practice.

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

The market value of securities under buy-sell-back / reverse repo transactions totalled PLN 1,507.1 million as at 31 December 2015, as compared with PLN 1,204.9 million as at 31 December 2014.

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

19. Derivative hedge instruments

Positive valuation

	2015	2014
Balance sheet valuation of instruments hedging cash flows, including:	2 454.6	2 983.4
- Interest Rate Swap	2 453.3	2 981.0
- Cross Currency Swap	1.3	2.4
Balance sheet valuation of instruments hedging the fair value of securities, including:	0.2	0.4
- Interest Rate Swap	0.2	0.4
Total	**2 454.8**	**2 983.8**

Negative valuation

	2015	2014
Balance sheet valuation of instruments hedging cash flows, including:	1 020.6	1 038.4
- Interest Rate Swap	871.6	1 001.4
- Cross Currency Swap	149.0	37.0
Balance sheet valuation of instruments hedging the fair value of securities, including:	810.3	994.4
- Interest Rate Swap	810.3	994.4
Total	**1 830.9**	**2 032.8**

Positive amounts are presented under *Derivative hedge instruments* in assets whereas negative valuation is presented under *Derivative hedge instruments* in liabilities in the statement of financial position.
For details of the hedge accounting applied by the Bank, refer tonote no. 39 *Hedge accounting*.

20. Loans and receivables to customers

20.1. Customer loan portfolio

	2015	2014
Customer loan portfolio, including:	**67 157.8**	**55 587.3**
Loans and advances	63 998.7	52 815.6
Corporate and municipal bonds	3 159.1	2 771.7
Other receivables, including:	**3 913.6**	**3 984.4**
T-eurobonds	3 838.6	3 923.9
Other	75.0	60.5
Total loans and receivables to customers (gross)	**71 071.4**	**59 571.7**
Impairment losses (including IBNR), including:	**-1 438.0**	**-1 619.6**
concerning customer loan portfolio, including:	**-1 437.0**	**-1 613.9**
concerning loans and advances	-1 333.5	-1 608.3
concerning debt securities (corporate and municipal bonds)	-103.5	-5.6
concerning other receivables, including:	**-1.0**	**-5.7**
concerning T-eurobonds	-0.5	-0.5
other	-0.5	-5.2
Total loans and receivables to customers (net), including:	**69 633.4**	**57 952.1**
to entities from the financial sector other than banks	8 043.6	6 098.2
to entities from the non-financial sector	53 867.1	44 130.4
to entities from the government and self-government institutions' sector	7 722.7	7 723.5

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

	2015	2014
Loans and advances, including:	7 590.5	6 049.1
- in the current account	1 993.2	1 805.0
- term ones	5 597.3	4 244.1
Debt securities (notes)	384.5	0.0
Other receivables	69.3	50.2
Total (gross)	**8 044.3**	**6 099.3**
Impairment losses (including IBNR), including:	**-0.7**	**-1.1**
concerning loans and advances	-0.6	-1.1
concerning debt securities	-0.1	0.0
Total (net)	**8 043.6**	**6 098.2**

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

	2015	2014
Business entities, including:	**28 097.0**	**23 266.3**
Loans and advances, including:	26 589.7	21 592.4
- in the current account	7 000.3	5 724.2
- term ones	19 589.4	15 868.2
Debt securities (corporate bonds i notes)	1 502.1	1 664.1
Other receivables	5.2	9.8
Households, including:	**27 205.9**	**22 481.4**
Loans and advances, including:	27 205.4	22 480.9
- in the current account	1 632.6	1 542.6
- term ones	25 572.8	20 938.3
Other receivables	0.5	0.5
Total (gross)	**55 302.9**	**45 747.7**
Impairment losses (including IBNR), including:	**-1 435.8**	**-1 617.3**
Impairment losses, including:	**-882.8**	**-1 020.5**
Business entities, including:	-779.7	-1 010.2
- concerning loans and advances	-103.1	-5.6
- concerning debt securities	0.0	-4.7
- concerning other receivables	**-553.0**	**-596.8**
Households, including:	-552.5	-596.3
- concerning loans and advances	-0.5	-0.5
Total (net)	**53 867.1**	**44 130.4**

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

	2015	2014
Loans and advances, including:	2 613.1	2 693.2
- in the current account	6.7	6.8
- term ones	2 606.4	2 686.4
Debt securities (municipal bonds)	1 272.5	1 107.6
T-eurobonds	3 838.6	3 923.9
Total (gross)	**7 724.2**	**7 724.7**
Impairment losses (including IBNR), including::	**-1.5**	**-1.2**
concerning loans and advances	-0.7	-0.7
concerning debt securities (municipal bonds)	-0.3	0.0
concerning T-eurobonds	-0.5	-0.5
Total (net)	**7 722.7**	**7 723.5**

In 2008, the Bank reclassified a portion 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 (eurobonds) and corporate and municipal bonds that after reclassification are

presented herein. T-bonds are hedged against IR risk under the fair value hedge accounting. Specific disclosures on reclassification are presented in note no. 17.3.

Loans and receivables to customers by maturity

	2015	2014
up to 1 month	12 545.0	11 229.2
over 1 month and up to 3 months	2 086.6	1 604.9
over 3 months and up to 1 year	8 023.3	5 724.5
over 1 year and up to 5 years	25 558.8	20 324.6
over 5 years	21 852.1	19 470.9
overdue	1 005.6	1 217.6
Total	**71 071.4**	**59 571.7**

Fair value hedge-hedged items

The below table presents value of securities classified to the category of loans and other receivables and hedged under FVH accounting.

	2015	2014
Fixed rate debt instruments, including:	3 838.6	3 923.9
- T-eurobonds	3 838.6	3 923.9
Total	**3 838.6**	**3 923.9**

For details of the hedge accounting applied by the Bank, refer to the subsequent part of the report, note no. 39 Hedge accounting.

Customer loan portfolio by client segment

	2015	2014
Gross value, including:	**67 157.8**	**55 587.3**
Corporate banking segment, including:	41 040.6	33 844.7
- loans and advances	37 881.5	31 073.0
- corporate and municipal debt securities	3 159.1	2 771.7
Retail banking segment, including:	26 117.2	21 742.6
- mortgages	20 294.5	16 680.8
- other loans and advances	5 822.7	5 061.8
Impairment losses (including IBNR), including:	**-1 437.0**	**-1 613.9**
Corporate banking segment, including:	-922.0	-1 047.6
- loans and advances	-818.5	-1 042.0
- corporate and municipal debt securities	-103.5	-5.6
Retail banking segment, including:	-515.0	-566.3
- mortgages	-197.1	-173.3
- other loans and advances	-317.9	-393.0
Net value, including:	**65 720.8**	**53 973.4**
Corporate banking segment, including:	40 118.6	32 797.1
- loans and advances	37 063.0	30 031.0
- corporate and municipal debt securities	3 055.6	2 766.1
Retail banking segment, including:	25 602.2	21 176.3
- mortgages	20 097.4	16 507.5
- other loans and advances	5 504.8	4 668.8

20.2. Quality of customer loan portfolio

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

	2015	2014
Corporate banking segment		
Gross value, including:	**41 040.6**	**33 844.7**
unimpaired (IBNR*)	39 680.9	32 524.2
impaired, including:	1 359.7	1 320.5
- measured individually (ISFA*)	1 145.5	1 080.8
- measured as the portfolio (INSFA*)	214.2	239.7
Impairment losses, including:	**-922.0**	**-1 047.6**
unimpaired (IBNR*)	-72.0	-72.6
impaired, including:	-850.0	-975.0
- measured individually (ISFA*)	-687.6	-795.0
- measured as the portfolio (INSFA*)	-162.4	-180.0
Net value, including:	**40 118.6**	**32 797.1**
unimpaired (IBNR*)	39 608.9	32 451.6
impaired, including:	509.7	345.5
- measured individually (ISFA*)	457.9	285.8
- measured as the portfolio (INSFA*)	51.8	59.7
Retail banking segment		
Gross value, including:	**26 117.2**	**21 742.6**
unimpaired (IBNR*)	25 579.1	21 164.6
impaired	538.1	578.0
Impairment losses, including:	**-515.0**	**-566.3**
unimpaired (IBNR*)	-101.4	-87.6
impaired	-413.6	-478.7
Net value, including:	**25 602.2**	**21 176.3**
unimpaired (IBNR*)	25 477.7	21 077.0
impaired	124.5	99.3
Total gross value, including:	**67 157.8**	**55 587.3**
unimpaired (IBNR) portfolio	65 260.0	53 688.8
impaired portfolio	1 897.8	1 898.5
Total impairment losses, including:	**-1 437.0**	**-1 613.9**
unimpaired (IBNR) portfolio	-173.4	-160.2
impaired portfolio	-1 263.6	-1 453.7
Total net value, including:	**65 720.8**	**53 973.4**
unimpaired (IBNR) portfolio	65 086.6	53 528.6
impaired portfolio	634.2	444.8

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

Receivable sale

In 2015 the Bank made some receivables sale transaction:

- On 14 May 2015, the Bank sold portfolio of corporate receivables recognized as impaired loans or loans written off the balance sheet in full. The total amount of receivables sold under the agreement equalled PLN 265.6 million (principal and interest). The positive transaction impact on the Bank's risk costs was PLN 7.0 million. As a consequence of the agreement described, the Bank decreased its non-performing loans portfolio by PLN 191.7 million,
- On 08 July 2015, the Bank concluded the agreement on the sale of the portfolio, mainly of retail receivables recognised as impaired loans or written off the balance sheet in full. The total amount of the receivables sold under the agreement equalled PLN 253.4 million (principal and interest). The positive impact of the transaction on the Bank's risk costs was PLN 21 million. As a consequence of the said agreement, the Bank decreased its non-performing loans portfolio by PLN 139.4 million,
- On 23 July 2015, the Bnak concluded an agreement on the sale of a portion of corporate receivables from the impaired portfolio. The impact of the transaction on the Bank's gross income was PLN 9 million.

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

Repayment security

In line with the lending 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 at ING Bank Śląski S.A.", in chapter I Credit risk management, in item 7.4. Repayment security and other forms of credit risk mitigation.

20.2. Changes in impairment losses concerning customer loan portfolio

	2015	2014
Opening balance	**1 613.9**	**1 443.4**
Movements in impairment losses, including:	**-176.9**	**170.5**
recognised during the period	843.6	569.5
reversed during the period	-638.7	-330.2
receivables written off *	-401.9	-74.8
amounts recovered from loans previously written off	8.9	5.5
unwinding interest	14.3	8.8
other	-3.1	-8.3
Closing balance	**1 437.0**	**1 613.9**

*) In 2015, the amount of written-off receivables covered PLN-371.3 million worth (PLN-47.5 million in 2014) of redemptions under the sale transactions of receivables discussed in item 20.2.

Movements in impairment losses concerning customer loan portfolio by client segment

2015

	Corporate banking segment			Retail banking segment			TOTAL
	loans and advances	bonds	TOTAL	mortgages	other loans and advances	TOTAL	
Opening balance	**1 042.0**	**5.6**	**1 047.6**	**173.3**	**393.0**	**566.3**	**1 613.9**
Movements in impairment losses, including:	**-223.5**	**97.9**	**-125.6**	**23.8**	**-75.1**	**-51.3**	**-176.9**
recognised and reversed during the period	40.6	94.5	**135.1**	25.6	44.2	**69.8**	**204.9**
receivables written off	-265.3	0.0	**-265.3**	-4.5	-132.1	**-136.6**	**-401.9**
amounts recovered from loans previously written off	2.0	0.0	**2.0**	0.2	6.7	**6.9**	**8.9**
unwinding interest	5.1	1.6	**6.7**	1.2	6.4	**7.6**	**14.3**
other	-5.9	1.8	**-4.1**	1.3	-0.3	**1.0**	**-3.1**
Closing balance	**818.5**	**103.5**	**922.0**	**197.1**	**317.9**	**515.0**	**1 437.0**

2014

	Corporate banking segment			Retail banking segment			TOTAL
	loans and advances	bonds	TOTAL	mortgages	other loans and advances	TOTAL	
Opening balance	**955.9**	**0.8**	**956.7**	**137.1**	**349.6**	**486.7**	**1 443.4**
Movements in impairment losses, including:	**86.1**	**4.8**	**90.9**	**36.2**	**43.4**	**79.6**	**170.5**
recognised and reversed during the period	155.9	4.8	**160.7**	36.6	42.0	**78.6**	**239.3**
receivables written off	-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**
other	-1.6	0.0	**-1.6**	0.2	-6.9	**-6.7**	**-8.3**
Closing balance	**1 042.0**	**5.6**	**1 047.6**	**173.3**	**393.0**	**566.3**	**1 613.9**

21. Receivables from customers due to repo transactions

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 interest determined upfront) are used as a liquidity management tool to deposit cash surplus short-term.

	2015	2014
Receivables from customers due to repo transactions	1 354.4	106.6
Total	**1 354.4**	**106.6**

22. Investments in controlled entities

The Bank has shares in subsidiares and associated entities:

Name of entity	Type of capital link	Bank's percentage share in the business's equity	Carrying amount of shares (at cost)	
			2015	**2014**
ING Securities S.A.	subsidiary	100.00%	30.2	30.2
ING ABL Polska S.A.	subsidiary	100.00%	206.1	206.1
ING Usługi dla Biznesu S.A.	subsidiary	100.00%	15.9	15.9
Nowe Usługi S.A.	subsidiary	100.00%	0.1	0.0
Solver Sp. z o.o.	subsidiary	88.93%	17.0	17.0
Total			**269.3**	**269.2**

All the Bank's subsidiaries operate in Poland.

23. Non-financial assets

	2015	2014
Investment properties	52.9	60.0
Property, plant and equipment	574.1	581.7
Intangible assets	409.1	360.8
Total	**1 036.1**	**1 002.5**

23.1. Investment properties

	2015	2014
Opening value	**60.0**	**0.0**
Additions, due to:	**1.1**	**59.6**
merger with a subsidiary	0.0	59.6
Disposals, due to:	**-7.7**	**-2.4**
reclassification to own real properties	-7.7	-2.4
Revaluation:	**0.6**	**2.8**
Included in profit or loss *	0.6	2.8
Closing value	**52.9**	**60.0**

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

There are neither 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 income statement under item *Net income on other basic activities.*

23.2. Property, plant and equipment

	2015	2014
Real estate and leasehold improvements	305.0	328.0
Computer hardware	60.8	51.8
Other property, plant and equipment	171.9	164.6
Construction in progress	36.4	37.3
Total	**574.1**	**581.7**

2015

	Real estate and leasehold improvements	Computer hardware	Other property plant and equipment	Construction in progress	TOTAL
Opening gross value	**686.6**	**228.0**	**461.2**	**37.3**	**1 413.1**
Additions, including:	**42.1**	**34.7**	**70.0**	**137.2**	**284.0**
purchases	0.0	0.0	0.0	137.2	137.2
investment take-overs	33.4	34.7	70.0	0.0	138.1
reclassification from assets held for sale	7.7	0.0	0.0	0.0	7.7
other	1.0	0.0	0.0	0.0	1.0
Disposals, including:	**-52.3**	**-24.5**	**-48.5**	**-138.1**	**-263.4**
sale and liquidation	-27.3	-24.5	-42.0	0.0	-93.8
investment takeovers	0.0	0.0	0.0	-138.1	-138.1
reclassification to assets held for sale	-24.8	0.0	-4.6	0.0	-29.4
other	-0.2	0.0	-1.9	0.0	-2.1
Revaluation:	**-9.5**	**0.0**	**0.0**	**0.0**	**-9.5**
Included in comprehensive income *	-3.7	0.0	0.0	0.0	-3.7
Included in profit or loss**	-5.8	0.0	0.0	0.0	-5.8
Closing gross value	**666.9**	**238.2**	**482.7**	**36.4**	**1 424.2**
Opening accumulated depreciation/amortisation	**-358.6**	**-176.2**	**-296.6**	**0.0**	**-831.4**
Movements, including::	**-3.3**	**-1.2**	**-14.2**	**0.0**	**-18.7**
amortisation charges	-26.8	-25.2	-52.6	0.0	-104.6
sale and liquidation	17.4	24.0	34.8	0.0	76.2
reclassification to assets held for sale	7.1	0.0	3.6	0.0	10.7
other	-1.0	0.0	0.0	0.0	-1.0
Closing accumulated depreciation/amortisation	**-361.9**	**-177.4**	**-310.8**	**0.0**	**-850.1**
Closing net value	**305.0**	**60.8**	**171.9**	**36.4**	**574.1**

*) 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

2014

	Real estate and leasehold improvements	Computer hardware	Other property plant and equipment	Construction in progress	TOTAL
Opening gross value	**659.8**	**201.4**	**422.3**	**32.6**	**1 316.1**
Additions, including:	**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, including:	**-58.2**	**-5.0**	**-19.3**	**-118.6**	**-201.1**
sale and liquidation	-2.6	-4.8	-8.5	0.0	-15.9
investment takeovers	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:	**-32.5**	**0.0**	**0.0**	**0.0**	**-32.5**
Included in comprehensive income *	0.3	0.0	0.0	0.0	0.3
Included in profit or loss**	-32.8	0.0	0.0	0.0	-32.8
Closing gross value	**686.6**	**228.0**	**461.2**	**37.3**	**1 413.1**
Opening accumulated depreciation/amortisation	**-328.1**	**-157.7**	**-268.0**	**0.0**	**-753.8**
Movements, including::	**-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
Closing accumulated depreciation/amortisation	**-358.6**	**-176.2**	**-296.6**	**0.0**	**-831.4**
Closing net value	**328.0**	**51.8**	**164.6**	**37.3**	**581.7**

*) 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

The item Real estate and leasehold improvements comprises, among others, land whose worth considering the fair value measurement as at 31 December 2015 was PLN 3.9 million (PLN 5.0 million as at 31 December 2014).

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

Contractual obligations to purchase property, plant and equipment

In 2015, the Bank concluded agreements with counterparties that in the future will effect increase in the value of property, plant and equipment of PLN 3.0 million. These are framework agreements and their value will be estimated under cost overviews developed in performance thereof. The agreements refer to real properties (buildings and structures), leasehold improvements, non-current assets under construction and other non-current assets.

In 2014, the Bank concluded framework agreements concerning real properties (buildings and structures), leasehold improvements, non-current assets under construction and other non-current assets of PLN 1.1 million.

23.3. Intangible assets

	2015	2014
Goodwill	223.3	223.3
Software	154.6	116.7
Outlays for intangible assets	29.2	19.1
Other	2.0	1.7
Total	**409.1**	**360.8**

2015

Opening gross value	Goodwill	Software	Outlays for intangible assets	Other intangible assets	**TOTAL**
Additions, including:	**223.3**	**670.9**	**19.1**	**8.5**	**921.8**
purchases	**0.0**	**117.0**	**129.1**	**2.0**	**248.1**
investment takeovers	0.0	0.0	129.1	0.0	129.1
Opening gross value	0.0	117.0	0.0	2.0	119.0
Disposals, including:	**0.0**	**-0.2**	**-119.0**	**0.0**	**-119.2**
investment takeovers	0.0	0.0	-119.0	0.0	-119.0
sale and liquidation	0.0	-0.2	0.0	0.0	-0.2
Closing gross value	**223.3**	**787.7**	**29.2**	**10.5**	**1 050.7**
Opening accumulated depreciation/amortisation	**0.0**	**-554.2**	**0.0**	**-6.8**	**-561.0**
Movements, including:	**0.0**	**-78.9**	**0.0**	**-1.7**	**-80.6**
amortisation charges	0.0	-78.9	0.0	-1.7	-80.6
Closing accumulated depreciation/amortisation	**0.0**	**-633.1**	**0.0**	**-8.5**	**-641.6**
Closing net value	**223.3**	**154.6**	**29.2**	**2.0**	**409.1**

2014

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	TOTAL
Opening gross value	**223.3**	**574.2**	**41.1**	**6.8**	**845.4**
Additions, including:	**0.0**	**96.8**	**76.2**	**1.7**	**174.7**
purchases	0.0	0.0	76.2	0.0	76.2
investment takeovers	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, including:	**0.0**	**-0.1**	**-98.2**	**0.0**	**-98.3**
investment takeovers	0.0	0.0	-98.2	0.0	-98.2
sale and liquidation	0.0	-0.1	0.0	0.0	-0.1
Closing gross value	**223.3**	**670.9**	**19.1**	**8.5**	**921.8**
Opening accumulated depreciation/amortisation	**0.0**	**-483.6**	**0.0**	**-5.9**	**-489.5**
Movements, including:	**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
Closing accumulated depreciation/amortisation	**0.0**	**-554.2**	**0.0**	**-6.8**	**-561.0**
Closing net value	**223.3**	**116.7**	**19.1**	**1.7**	**360.8**

Contractual obligations to purchase intangible assets

In 2015, the Bank concluded with counterparties the agreements that in the future will effect increase in the value of intangible assets of PLN 8.5 million. Since these are framework agreements, the said amount is not ultimate. As in the previous year, those agreements concern licence purchase and computer software implementation.

As at 2014 yearend, the Bank held the agreements for licence purchase and computer software implementation totalling PLN 7.9 million. These agreements were partly framework arrangements.

Impairment test of cash generating units with respective goodwill

The goodwill impairment test is carried out at least once every year, irrespective of identification of any objective evidence of impairment.

At the Bank, the impairment test is made for the goodwill created as a result of the in-kind contribution of ING Bank NV branch. The smallest identifiable cash-generating units were determined and goodwill totalling 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 test input data for the cover the economic capital, risk-weighted assets and profit before tax per segment.

The test is performed using 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, the discount rate of 8.07% is used that represents the average weighted cost of capital. 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 cash flows generated during the continued use. The cash flow 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 cash flow forecasts are based on mid-term plan approved by the Bank and the strategy covering the maximum period of the next three years. The data regarding the subsequent two years come from extrapolation. Extrapolation assumes that the cash flow 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 cash flows estimated based on the future cash flows and the actual ones is analysed as appropriate.

As at 31 December 2015, net present value of cash flows was PLN 5,238.8 million.The test showed the surplus of present value over the net book value of the cash-generating unit, totalling PLN 3,051.8 million thus, no impairment was determined. For the discount rate lower by 1p.p. the surplus of present value of cash flows over the net book value of the cash-generating unit would amount to PLN 4,089.5 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 2,351.2 million.

24. Assets held for sale

	2015	2014
Property, plant and equipment held for sale	38.4	28.4
Shares in the associated entities held for sale	0.0	40.0
Total	**38.4**	**68.4**

	2015	2014
Opening value	**68.4**	**28.3**
Additions, including:	**18.7**	**60.0**
reclassification from investments in subsidiaries and associated entities	0.0	40.0
reclassification from property, plant and equipment	18.7	20.0
Disposals, including:	**-44.5**	**-18.8**
sale	-44.5	-18.5
other	0.0	-0.3
Revaluation:	**-4.2**	**-1.1**
Included in profit or loss*	-4.2	-1.1
Closing value	**38.4**	**68.4**

*) in line General and administrative expenses, in detailed item Maintenance and rental of buildings

As at 31 December 2015, the amount of *Property, plant and equipment held for sale* included:

- 16 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 date.
- 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.

In Q3 2015, the Group concluded the sale operation for 20% of shares of ING Powszechne Towarzystwo Emerytalne S.A to ING Continental Europe Holdings B.V. (ING CEH). For details of the aforesaid share purchase agreement, refer to Chapter II. *Significant events in 2015*, item 9. *Sale of shares of ING Powszechne Towarzystwo Emerytalne S.A. Company*.

25. Income tax assets / liabilities

	2015	2014
Income tax liabilities, including:	**153.7**	**248.5**
Liabilities of the current income tax	20.6	30.5
Reserve on deferred income tax	133.1	218.0

Movements in temporary differences during the year

2015

	Balance as at 01 Jan 2015	Changes carried through profit or loss	Changes carried through equity	**Balance as at 31 Dec 2015**
Deferred tax assets				
Interest accrued	-31.3	9.2	0.0	**-22.1**
Revaluation	-118.6	0.0	20.8	**-97.8**
Impairment losses on credit receivables	-133.0	23.9	0.0	**-109.1**
Other provisions	-45.8	0.8	0.0	**-45.0**
Employee benefits	-34.9	1.2	0.0	**-33.7**
Correction due to effective interest rate	-12.3	0.0	0.0	**-12.3**
Other	-15.9	0.0	0.0	**-15.9**
Total	**-391.8**	**35.1**	**20.8**	**-335.9**
Deferred tax provision				
Interest accrued	35.4	-32.7	0.0	**2.7**
Settlement of the difference between tax and balance sheet depreciation	2.3	-0.7	0.0	**1.6**
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief	5.8	-0.4	0.0	**5.4**
Revaluation	556.9	0.9	-113.4	**444.4**
Other	9.4	5.5	0.0	**14.9**
Total	**609.8**	**-27.4**	**-113.4**	**469.0**
Deferred tax disclosed in the balance sheet	**218.0**	**7.7**	**-92.6**	**133.1**

2014

	Balance as at 01 Jan 2014	Changes carried through profit or loss	Changes carried through equity	Merger with the subsidiary	**Balance as at 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	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**

Unrecognised deferred tax assets

Unrecognised deferred tax assets relate to the specific provisions whose recovery will not become probable. As at the 2015 yearend, the amount of respective unrecognized temporary differences was PLN1.5 million (expiry date of temporary differences: 2017) compared with PLN 1.8 million as at the end of 2014 (expiry date of temporary differences: 2016).

Deferred tax recognised directly in equity

	2015	**2014**
Revaluation of available-for-sale financial assets	117.0	131.6
Revaluation of property, plant and equipment	2.9	6.3
Revaluation of cash flow hedging instruments	225.3	299.8
Actuarial gains/losses	0.6	0.7
Total	**345.8**	**438.4**

26. Other assets

	2015	2014
Prepayments, including:	**76.2**	**74.0**
accrued income	25.4	33.1
commission-related settlements	23.7	16.2
prepaid bank operating expenses	25.5	23.0
expenses to be settled	1.2	1.6
other	0.4	0.1
Other assets, including:	**43.8**	**36.7**
settlements of material purchases	4.0	3.6
interbank settlements	14.4	8.2
settlements with customers	5.8	1.4
public and legal settlements	0.4	0.2
other	19.2	23.3
Total	**120.0**	**110.7**
Including financial assets	43.8	36.7

27. Liabilities due to other banks

	2015	2014
Current accounts	1 527.1	1 823.2
Interbank deposits	316.5	1 818.7
Other liabilities	11.8	2.3
Total	**1 855.4**	**3 644.2**

Liabilities due to other banks by maturity

	2015	2014
up to 1 month	1 845.8	3 644.2
over 1 month and up to 3 months	9.6	0.0
Total	**1 855.4**	**3 644.2**

28. Financial liabilities at fair value through profit or loss

	2015	2014
Financial liabilities held for trading, including:	162.8	56.9
- repo transactions	162.8	56.9
Book short position in trading securities	466.6	860.5
Total	**629.4**	**917.4**

Financial liabilities at fair value through profit or loss by maturity

	2015	2014
up to 1 month	162.8	56.9
over 3 months and up to 1 year	0.0	133.5
over 1 year and up to 5 years	249.4	595.4
over 5 years	217.2	131.6
Total	**629.4**	**917.4**

29. Liabilities due to customers

	2015	2014
Deposits	86 596.8	74 652.3
Liabilities under cash collateral	300.1	256.8
Other liabilities	486.8	416.9
Total liabilities due to customers, including:	**87 383.7**	**75 326.0**
due to entities from the financial sector other than banks	2 667.0	2 568.8
due to entities from the non-financial sector	83 084.8	70 881.4
due to entities from the government and self-government institutions' sector	1 631.9	1 875.8

Liabilities due to entities from the financial sector other than banks

	2015	2014
Deposits, including:	2 610.4	2 468.1
- current accounts	2 284.2	1 717.6
- term deposits	326.2	750.5
Liabilities under cash collateral	0.5	0.4
Other liabilities	56.1	100.3
Total	**2 667.0**	**2 568.8**

Liabilities due to entities from the non-financial sector

	2015	2014
Business entities, including:	**24 272.4**	**20 746.2**
Deposits, including:	23 615.3	20 238.5
- current accounts	13 129.0	10 648.1
- savings accounts	8 000.5	6 139.6
- term deposits	2 485.8	3 450.8
Liabilities under cash collateral	244.1	202.4
Other liabilities	413.0	305.3
Households, including:	**58 812.4**	**50 135.2**
Deposits, including:	58 751.6	50 077.2
- current accounts	9 730.6	7 575.4
- savings accounts	42 989.9	36 622.6
- term deposits	6 031.1	5 879.2
Liabilities under cash collateral	49.5	49.3
Other liabilities	11.3	8.7
Total	**83 084.8**	**70 881.4**

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

	2015	2014
Deposits, including:	1 619.5	1 868.5
- current accounts	1 530.6	1 809.4
- term deposits	88.9	59.1
Liabilities under cash collateral	6.0	4.7
Other liabilities	6.4	2.6
Total	**1 631.9**	**1 875.8**

Liabilities due to customers by maturity

	2015	2014
up to 1 month	81 970.0	70 124.2
over 1 month and up to 3 months	2 003.8	1 762.5
over 3 months and up to 1 year	3 214.4	3 029.1
over 1 year and up to 5 years	192.3	406.9
over 5 years	3.2	3.3
Total	**87 383.7**	**75 326.0**

30. Liabilities under repurchase transactions made with customers

The Bank has been presenting customer receivables under reverse repo and sell-buy-back transactions under 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/ sell-buy-back transactions (purchase of financial instruments to be sold back in the future at the same price plus interest determined upfront) are used as a liquidity management tool to deposit short-term cash surpluses.

At the end of 2015 and 2014, the following assets were sold under repo transactions made with customers:

2015

	Repurchase date	Market value	Carrying amount
Debt securities	2016-01-04	43.3	43.4
Debt securities	2016-01-05	4.1	4.1
Total		**47.4**	**47.5**

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**

31. Liabilities under issue of debt securities

	2015	2014
Liabilities under issue of debt securities, including:	866.3	866.5
- Bonds issued by ING Bank Śląski S.A.	866.3	866.5
Total	**866.3**	**866.5**

Liabilities under issue of debt securities by maturity

	2015	2014
over 1 to 5 years	866.3	866.5
Total	**866.3**	**866.5**

32. Provisions

	2015	2014
Provision for issues in dispute	3.3	20.4
Provision for off-balance sheet liabilities	26.1	18.3
Provision for retirement benefits	20.6	19.1
Provision for unused holidays	13.8	12.5
Total	**63.8**	**70.3**

2015

	Provision for issues in dispute	Provision for off-balance sheet liabilities	Provision for retirement benefits	Provision for unused holidays	**TOTAL**
Opening balance	20.4	18.3	19.1	12.5	**70.3**
provisions recognised	0.7	20.8	0.9	1.3	**23.7**
provisions reversed	-1.9	-13.5	0.0	0.0	**-15.4**
provisions utlised	-15.9	0.0	0.0	0.0	**-15.9**
exchange rate changes	0.0	0.5	0.0	0.0	**0.5**
actuarial gains / loosses	0.0	0.0	0.6	0.0	**0.6**
Closing balance	**3.3**	**26.1**	**20.6**	**13.8**	**63.8**
Expected provision settlement period:					
up to 1 year	1.5	0.0	1.7	13.8	**17.0**
over to 1 year	1.8	26.1	18.9	0.0	**46.8**

*) The amount of utilised provisions for litigations comprises PLN-14.1 million worth of payment of the fine imposed on the Bank under the President of the Office of Competition and Consumer Protection's decision in 2006. The decision of the Office of Competition and Consumer Protection became final and binding in consequence of the judgement of the Appeals Court in Warsaw, made in 2015. In the previous years, the Bank provisioned for the projected costs of the said fine in 100%. For details of the judgment of the Appeals Court as regards the fine imposed by the Office of Competition and Consumer Protection, refer to Chapter II. *Significant events in 2015*, item 8. *Judgement of Appeals Court as regards the fine imposed by the Office of Competition and Consumer Protection in 2006.*

2014

	Provision for issues in dispute	Provision for off-balance sheet liabilities	Provision for retirement benefits	Provision for unused holidays	**TOTAL**
Opening balance	20.6	13.5	18.9	10.7	**63.7**
provisions recognised	7.1	15.8	1.7	1.8	**26.4**
provisions reversed	-1.3	-11.8	0.0	0.0	**-13.1**
provisions utlised	-6.0	0.0	0.0	0.0	**-6.0**
exchange rate changes	0.0	0.8	0.0	0.0	**0.8**
actuarial gains / loosses	0.0	0.0	-1.5	0.0	**-1.5**
Closing balance	**20.4**	**18.3**	**19.1**	**12.5**	**70.3**
Expected provision settlement period:					
up to 1 year	0.2	0.0	1.6	12.5	**14.3**
over to 1 year	20.2	18.3	17.5	0.0	**56.0**

Provision for issues in dispute

The value of the proceedings conducted in 2015 concerning liabilities and debt claims did not exceed 10% of the Bank's equity.

The Bank is of the opinion that none of the proceedings conducted in 2015 before court, competent authority for arbitration proceedings or public administration authority, pose a risk to the Bank's financial liquidity, individually or in total.

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 2015 stood at 3.0% (2.7% at the 2014 yearend). The actuarial valuation-based provision is recognised and reviewed per annum.

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

	2015	**2014**
Opening balance	19.1	18.9
Costs included in the income statement, including:	1.6	2.0
- regular employment costs	1.2	1.3
- costs of interest	0.4	0.7
Actuarial gains / losses	0.6	-1.5
Paid benefits	-0.7	-0.3
Closing balance	**20.6**	**19.1**

33. Other liabilities

	2015	2014
Accruals, including:	**322.2**	**337.5**
due to employee benefits	201.4	207.1
- variable remuneration programme	48.9	44.2
due to commissions	99.9	103.5
other	20.9	26.9
Other liabilities, including:	**465.0**	**500.4**
interbank settlements	225.8	269.2
settlements with suppliers	183.8	174.2
public and legal settlements	38.7	36.1
other	16.7	20.9
Total	**787.2**	**837.9**

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

Each ordinary share entitles its holder to dividend and one vote during the general meeting.

35. Revaluation reserve

	2015	2014
Revaluation reserve from measurement of available-for-sale financial assets	498.5	560.7
- including deferred tax	-117.0	-131.6
Revaluation reserve from measurement of property, plant and equipment	12.4	26.9
- including deferred tax	-2.9	-6.3
Revaluation reserve from measurement of cash flow hedging instruments	960.6	1 278.3
- including deferred tax	-225.3	-299.8
Actuarial gains / losses	2.6	3.1
- including deferred tax	-0.6	-0.7
Total	**1 474.1**	**1 869.0**

2015

	Revaluation reserve from measurement of available-for-sale financial assets	*including deferred tax*	Revaluation reserve from measurement of property, plant ande equipment	*including deferred tax*	Revaluation reserve from measurement of cash flow hedging instruments	*including deferred tax*	Aktuarial gains / losses	*including deferred tax*	TOTAL
Stan na początek okresu	**560.7**	**-131.6**	**26.9**	**-6.3**	**1 278.3**	**-299.8**	**3.1**	**-0.7**	**1 869.0**
gains/losses on remeasurement of available- for-sale financial assets carried through equity	13.4	-3.2	0.0	0.0	0.0	0.0	0.0	0.0	**13.4**
reclassified to the financial result as a result of sale of available-for-sale financial assets	-47.2	11.1	0.0	0.0	0.0	0.0	0.0	0.0	**-47.2**
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the held-to-maturity portfolio	-28.4	6.7	0.0	0.0	0.0	0.0	0.0	0.0	**-28.4**
effective part of cash flow hedging instruments revaluation	0.0	0.0	0.0	0.0	-317.7	74.5	0.0	0.0	**-317.7**
remeasurement of property, plant and equipment	0.0	0.0	-3.7	0.8	0.0	0.0	0.0	0.0	**-3.7**
disposal of fixed assets	0.0	0.0	-10.8	2.6	0.0	0.0	0.0	0.0	**-10.8**
actuarial gains / losses	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	0.1	**-0.5**
Closing balance	**498.5**	**-117.0**	**12.4**	**-2.9**	**960.6**	**-225.3**	**2.6**	**-0.6**	**1 474.1**

2014

	Revaluation reserve from measurement of available-for-sale financial assets	*including deferred tax*	Revaluation reserve from measurement of property, plant ande 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 carried through 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**

36. Retained earnings

	2015	2014
Other supplementary capital	65.4	65.4
Reserve capital	5 466.6	4 969.1
General risk fund	1 110.2	1 060.2
Retained earnings	93.3	81.8
Result for the current year	1 140.0	1 067.9
Total	**7 875.5**	**7 244.4**

2015

	other supplemen-tary capital	reserve capital	general risk fund	retained earnings	result for the current year	TOTAL
Opening balance	**65.4**	**4 969.1**	**1 060.2**	**1 149.7**	**0.0**	**7 244.4**
net result for the current period	0.0	0.0	0.0	0.0	1 140.0	**1 140.0**
profit allocation, including:	0.0	497.5	50.0	-1 067.9	0.0	**-520.4**
- profit written off to reserve capital	0.0	497.5	0.0	-497.5	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	-520.4	0.0	**-520.4**
remeasurement of property, plant and equipment	0.0	0.0	0.0	0.0	0.0	**0.0**
disposal of fixed assets	0.0	0.0	0.0	11.5	0.0	**11.5**
Closing balance	**65.4**	**5 466.6**	**1 110.2**	**93.3**	**1 140.0**	**7 875.5**

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**

Supplementary capital

Supplementary capital is formed from appropriations from profit after tax, surpluses generated under issue of shares above their face value and 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 formed 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.

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 of banking activity. The decision on the use of the Fund is taken by the Management Board.

Dividend payout

On 15 December 2015, the Polish Financial Supervision Authority (PFSA) published their stance on the rules of 2015-dividend payout by banks in 2016.

In order to ensure further stable operations of banks in Poland, PFSA recommends the dividend policy to banks which will further consolidate their capital base and adjust it to the levels held by other European Union member states.

The PFSA recommends that the dividend can be paid out only by those banks which satisfy all of the below criteria:

- the bank is not covered by rehabilitation proceedings,
- BION score is not lower than 2.5,
- their financial leverage is above 5%,
- Tier 1 ratio plus the security buffer:
  - banks with over 5% share in the non-financial sector deposits – from 13.25% plus 75% of potential capital add-on for FX loans risk,
  - other commercial banks – over 11.25% plus 75% of potential capital add-on for FX loans risk.

PFSA recommends the following:

- up to 50% of the profit earned be released by the banks meeting regulatory expectations concerning the total capital ratio i.e. the ones with total capital ratio over 13.25% plus 100% of potential capital add-on for FX loans risk levied by PFSA on banks individually on 23 October 2015
- up to 100% of the profit earned be released by the banks meeting regulatory expectations concerning the total capital ratio plus the safety buffer:
  - the banks with over 5% share in the non-financial sector deposits - having the total capital ratio over 16.25% plus 100% of potential capital add-on for FX loans risk levied by PFSA on banks individually on 23 October 2015,
  - other commercial banks – having the total capital ratio over 14.25% plus 100% of potential capital add-on for FX loans risk levied by PFSA on banks individually on 23 October 2015.

Banks will receive individual instructions on the dividend policy from the PFSA Chairman based on their financial results as at 31 December 2015.

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

Hereinbelow, the 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:

	31.12.2015	31.12.2014
EUR	4.2615	4.2623
USD	3.9011	3.5072
CHF	3.9394	3.5447

2015

STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		other currencies (after translation into PLN)	TOTAL
		after translation into PLN	*in currency*	after translation into PLN	*in currency*	after translation into PLN	*in currency*		
Assets									
Cash in hand and balances with the Central Bank	3 120.0	352.9	*82.8*	81.7	*20.9*	7.8	*2.0*	27.3	**3 589.7**
Loans and receivables to other banks	232.2	692.8	*162.6*	62.7	*16.1*	1.4	*0.4*	24.0	**1 013.1**
Financial assets at fair value through profit or loss	1 127.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**1 127.1**
Valuation of derivatives	1 385.5	326.0	*76.5*	237.9	*61.0*	40.0	*10.2*	1.5	**1 990.9**
Investments	22 283.1	1 195.6	*280.6*	0.0	*0.0*	0.0	*0.0*	0.0	**23 478.7**
Derivative hedge instruments	2 277.0	177.8	*41.7*	0.0	*0.0*	0.0	*0.0*	0.0	**2 454.8**
Loans and receivables to customers	54 948.6	11 857.2	*2 782.4*	1 284.2	*329.2*	1 395.2	*354.2*	148.2	**69 633.4**
Receivables from customers due to repo transactions	1 354.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**1 354.4**
Investments in controlled entities	269.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**269.3**
Non-financial assets	1 036.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**1 036.1**
Assets held for sale	38.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**38.4**
Tax assets	0.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**0.0**
Other assets	117.8	2.1	*0.5*	0.1	*0.0*	0.0	*0.0*	0.0	**120.0**
Total assets	**88 189.5**	**14 604.4**	***3 427.1***	**1 666.6**	***427.2***	**1 444.4**	***366.8***	**201.0**	**106 105.9**

2015

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*		
Liabilities									
Liabilities due to other banks	467.7	1 371.1	*321.7*	12.3	*3.2*	2.2	*0.6*	2.1	**1 855.4**
Financial liabilities at fair value through profit or loss	629.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**629.4**
Valuation of derivatives	1 533.8	247.2	*58.0*	221.0	*56.7*	0.0	*0.0*	0.8	**2 002.8**
Derivative hedge instruments	966.0	864.9	*203.0*	0.0	*0.0*	0.0	*0.0*	0.0	**1 830.9**
Liabilities due to customers	77 638.8	7 030.0	*1 649.7*	2 329.7	*597.2*	10.5	*2.7*	374.7	**87 383.7**
Liabilities due to customers under repo transactions	47.5	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**47.5**
Liabilities under issue of debt securities	866.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**866.3**
Provisions	57.0	4.0	*0.9*	2.8	*0.7*	0.0	*0.0*	0.0	**63.8**
Tax liabilities	153.7	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**153.7**
Other liabilities	775.1	11.2	*2.6*	0.9	*0.2*	0.0	*0.0*	0.0	**787.2**
Total liabilities	**83 135.3**	**9 528.4**	***2 235.9***	**2 566.7**	***658.0***	**12.7**	***3.3***	**377.6**	**95 620.7**
Equity									
Share capital	130.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**130.1**
Supplementary capital – issuance of shares over nominal value	956.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**956.3**
Revaluation reserve	1 243.0	231.1	*54.2*	0.0	*0.0*	0.0	*0.0*	0.0	**1 474.1**
Revaluation of share-based payments	49.2	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**49.2**
Retained earnings	7 875.5	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**7 875.5**
Total equity	**10 254.1**	**231.1**	***54.2***	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**	**10 485.2**
Total equity and liabilities	**93 389.4**	**9 759.5**	***2 290.1***	**2 566.7**	***658.0***	**12.7**	***3.3***	**377.6**	**106 105.9**

Contingent liabilities granted	19 696.9	2 077.9	*487.6*	1 660.4	*425.6*	0.0	*0.0*	18.3	**23 453.5**
Contingent liabilities received	42 693.0	7 338.5	*1 722.0*	1 303.2	*334.1*	54.7	*13.9*	35.4	**51 424.8**
Off-balance sheet financial instruments	295 425.9	43 316.5	*10 164.6*	19 092.7	*4 894.2*	39.3	*10.0*	747.8	**358 622.2**

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*		
Assets									
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 at fair value through profit or 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**
Total assets	**82 246.0**	**11 953.1**	***2 804.4***	**1 012.1**	***288.5***	**1 375.2**	***387.9***	**156.0**	**96 742.4**

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*		
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 at fair value through profit or 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 payments	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**

	PLN	EUR after translation into PLN	*EUR in currency*	USD after translation into PLN	*USD in currency*	CHF after translation into PLN	*CHF in currency*	other currencies	TOTAL
Contingent liabilities granted	19 989.6	1 783.0	*418.3*	1 600.0	*456.2*	0.0	*0.0*	22.0	**23 394.6**
Contingent liabilities received	34 575.0	6 292.2	*1 476.2*	501.6	*143.0*	51.9	*14.6*	33.9	**41 454.6**
Off-balance sheet 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**

38. Contingent liabilities

38.1. Contingent liabilities granted

	2015	2014
Undrawn credit facilities	17 367.6	18 120.4
Guarantees	3 461.0	2 892.4
Undrawn overdrafts in current account	1 310.3	1 214.7
Credit card limits	922.5	845.2
Letters of credit	392.1	321.9
Total	**23 453.5**	**23 394.6**

The Bank discloses obligations to grant loans. These obligations include approved loans, credit card limits and overdrafts 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 the 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

	2015	2014
up to 1 month	113.6	127.6
over 1 month and up to 3 months	382.9	342.4
over 3 months and up to 1 year	1 028.9	1 156.7
over 1 year and up to 5 years	1 566.4	1 139.4
over 5 years	369.2	126.3
Total	**3 461.0**	**2 892.4**

Information on issue underwriting for other issuers

As at the 2015 yearend, the Bank underwrote to purchase bonds issued by six issuers. The total amount of the obligation (understood as the unused limit of the total nominal underwriting facility) was PLN 404.5 million. As at the 2014 yearend, the Bank underwrote to purchase bonds issued by four issuers, totalling PLN 636.8 million.

38.2. Contingent liabilities received

	2015	2014
Guarantees received	51 373.2	41 378.8
Financing	51.6	75.8
Total	**51 424.8**	**41 454.6**

39. Hedge accounting

39.1. Fair value hedge accounting

In the financial statements for the year 2015 (similar to year 2014), 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 the hedging relationship has a specific fair value recognised in the revaluation reserve and the 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

	2015		2014	
	Face value	Fair value	Face value	Fair value
Hedged items, including:	**6 564.6**	**7 370.0**	**7 051.2**	**8 019.8**
Debt securities from available-for-sale portfolio, including:	3 266.2	3 515.5	3 752.2	4 095.9
- Treasury bonds	3 266.2	3 515.5	3 461.2	3 726.0
- BGK bonds	0.0	0.0	291.0	369.9
Debt securities from loans and other receivables portfolio, including:	3 298.4	3 854.5	3 299.0	3 923.9
- Treasury bonds	3 298.4	3 854.5	3 299.0	3 923.9
Hedging instruments, including:	**6 566.6**	**-810.1**	**7 036.3**	**-994.0**
Interest Rate Swap – positive valuation	17.0	0.2	550.0	0.4
Interest Rate Swap – negative valuation	6 549.6	-810.3	6 486.3	-994.4

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

39.2. Cash flow hedge accounting

In the financial statements for the year 2015 (similar to year 2014), 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, the 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 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 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 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 liabilities is presented in the item *Interest on deposits from customers*, further split into *Interest on deposits*.

As at 31 December 2015, the revaluation reserve included PLN 960.6 million (including deferred tax) relating to the effective part of the hedging relationship in the cash flow hedge accounting (PLN 1,278.3 million as at 31 December 2014). In 2015, 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 1.1 million compared with PLN 0.3 million in 2014.

Fair value of hedging instruments under cash flow hedge accounting

	2015		2014	
	Face value	Fair value	Face value	Fair value
Hedging instruments, including:	**76 899.2**	**1 434.0**	**73 326.4**	**1 945.0**
Interest Rate Swap – positive valuation	50 484.2	2 453.3	54 218.5	2 981.0
Interest Rate Swap – negative valuation	26 415.0	-871.6	19 107.9	-1 001.4
Cross Currency Swap – positive valuation	0.0	1.3	0.0	2.4
Cross Currency Swap – negative valuation	0.0	-149.0	0.0	-37.0

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

Cash flows (PLN million)

2015

	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)	592.2	951.2	2 030.3	253.3
Cash outflows (liabilities)	-83.6	-178.1	-382.7	-41.1
Net cash flows	**508.6**	**773.1**	**1 647.6**	**212.2**

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**

Cash flows (EUR million)

2015

	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)	-1.9	-1.3	15.7	4.7
Cash outflows (liabilities)	0.0	0.0	-3.0	-0.5
Net cash flows	**-1.9**	**-1.3**	**12.7**	**4.2**

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**

Cash flows (CHF million)

2015

	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)	-2.1	-1.5	1.0	0.1
Cash outflows (liabilities)	0.0	0.0	0.0	0.0
Net cash flows	**-2.1**	**-1.5**	**1.0**	**0.1**

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**

40. Fair value

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. Financial assets and liabilities at fair value in statement of financial position

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

- Level 1: financial assets/liabilities measured directly on the basis of prices quoted in the active market.
- Level 2: financial assets/liabilities measured using the measurement techniques based on assumptions using data from an active market or market observations.
- Level 3: financial assets/liabilities measured using the 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.

2015

	Level 1	Level 2	Level 3	Total
Financial assets, including:	**20 959.4**	**5 108.3**	**183.1**	**26 250.8**
Financial assets held for trading, including:	964.3	162.8	0.0	1 127.1
- repo transactions	0.0	162.8	0.0	162.8
- treasury bonds	964.3	0.0	0.0	964.3
Valuation of derivatives	0.0	1 990.9	0.0	1 990.9
Financial assets available for sale, including:	19 995.1	499.8	183.1	20 678.0
- treasury bonds	19 995.1	0.0	0.0	19 995.1
- NBP bills	0.0	499.8	0.0	499.8
- equity instruments	0.0	0.0	183.1	183.1
Derivative hedge instruments	0.0	2 454.8	0.0	2 454.8
Financial liabilities, including:	**466.6**	**3 996.5**	**0.0**	**4 463.1**
Financial liabilities held for trading, including:	0.0	162.8	0.0	162.8
- repo transactions	0.0	162.8	0.0	162.8
Book short position in trading securities	466.6	0.0	0.0	466.6
Valuation of derivatives	0.0	2 002.8	0.0	2 002.8
Derivative hedge instruments	0.0	1 830.9	0.0	1 830.9

2014

	Level 1	Level 2	Level 3	Total
Financial assets, including:	**23 733.5**	**6 342.5**	**4.9**	**30 080.9**
Financial assets held for trading, including:	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, including:	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, including:	**860.5**	**4 611.0**	**0.0**	**5 471.5**
Financial liabilities held for trading, including:	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

Movements between valuation levels

In 2015, there were no movements between valuation levels.

Valuation of financial instruments classified to level 2

The Bank classifies derivatives, cash bills of the National Bank of Poland and repo transactions to level 2 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, and
- 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's website,
- implied volatilities – obtained from Bloomberg BGN or Bloomberg Synthetic for currency pairs with lower liquidity, and
- 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 level. 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 indexes for variable rates, 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 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.

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 2015 yearend, the prudent valuation adjustment totalled PLN 38.8 million, out of which PLN 32.9 million reduced the revaluation reserve of instruments hedging cash flows, whereas PLN 5.9 million encumbered the financial result (including: PLN -1.9 million was recognised under net income on hedge accounting while PLN -4.0 million under Net income on financial instruments carried through profit or loss and FX result).

Valuation of financial instruments classified to the level 3

The Bank classifies the shares of Visa Europe Limited to the 3rd valuation level. These shares were priced based on the foreseeable allocation of settlement of the Visa Europe Limited takeover by VISA Inc. As per the notice received, the potential impact of transaction settlement covers EUR 31.1 million in cash and EUR 10.7 million in shares (PLN 177.9 million upon conversion at the valuation date rate, that is 31 December 2015). For transaction details, refer to Chapter II. *Significant events in 2015,* item 2. *Impact of Visa Europe takeover by Visa Inc. transaction.*

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

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

	2015	2014
Opening balance	**4.9**	**2.6**
Increases, including:	**178.2**	**2.3**
purchase	0.3	2.3
valuation recognized in the revaluation reserve	177.9	0.0
Closing balance	**183.1**	**4.9**

The fair value measurement changes carried through the income statement are recognised in the item of the income statement *Net income on financial instruments at fair value through profit or loss and FX result.*

Potential changes to the estimates of the measured financial instruments classified to level 3 of the measurement do not have a significant impact on the financial statements of the Bank.

40.2. Non-financial assets at fair value in statement of financial position

2015

	Level 1	Level 2	Level 3	Total
Investment property	-	-	52.9	**52.9**
Own real property	-	-	305.0	**305.0**
Property, plant and equipment held for sale	-	-	38.4	**38.4**

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**

Changes in non-financial assets classified to level 3 of the measurement is presented in this statement, note no. 23. *Non-financial assets.*

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.

In 2015, the following real properties were appraised:

- ING Bank Śląski S.A. Head Office in Katowice – as at 31 December 2015, the building's value totalled PLN 107.1 million, the change in the value of this real property for the year 2015 increased the financial result by PLN 0.1 million (PLN 0.1 million upon including deferred tax) and
- 24 other real properties located across Poland; change in the value of the real properties for the year 2015 increased the revaluation reserve by PLN 4.5 million (PLN 3.6 million upon including deferred tax) and decreased the 2015 financial result by PLN 8.3 million (PLN 6.7 million upon including deferred tax).

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 reserve 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).

The results of real properties appraisals were presented in the income statement in the item Operating costs (in note no. 8 in detailed item *Maintenance and rental of buildings*).

As at 31 December 2015, PLN 12.4 million, which amount (including deferred tax) refers to the real properties assessed at fair value, was recognised in the revaluation reserve. As at 31 December 2014, the same item amounted to PLN 26.9 million.

The value of the appraised real properties estimated at the historical cost upon including impairment loss and depreciation would amount to PLN 289.7 million as at 31 December 2015 against PLN 294.8 million as at 31 December 2014.

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

2015

	Carrying amount	Fair value			TOTAL
		Level 1	Level 2	Level 3	
Assets					
Cash in hand and balances with the Central Bank	3 589.7	-	3 589.7	-	**3 589.7**
Financial assets held to maturity	2 800.7	2 758.4	-	-	**2 758.4**
Loans and receivables to other banks	1 013.1	-	1 013.1	-	**1 013.1**
Loans and receivables to customers	69 633.4	-	3 854.5	62 813.9	**66 668.4**
Receivables from customers due to repo transactions	1 354.4	-	1 354.4	-	**1 354.4**
Investments in controlled entities	269.3	-	-	269.3	**269.3**
Other assets	43.8	-	-	43.8	**43.8**
Liabilities					
Liabilities due to other banks	1 855.4	-	1 855.4	-	**1 855.4**
Liabilities due to customers	87 383.7	-	-	87 383.0	**87 383.0**
Liabilities due to customers under repo transactions	47.5	-	47.5	-	**47.5**
Liabilities under issue of debt securities	866.3	-	862.3	-	**862.3**

2014

	Carrying amount	Fair value			TOTAL
		Level 1	Level 2	Level 3	
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**

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 does not take into account restructuring-based changes either.

Loans and other receivables

The credit portfolio including securities classified to financial assets measured at amortised cost is divided into sub-portfolios according to the product type, client 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 the case of those sub-portfolios, the discounting factor is used for each cash flow.

For loans/securities, the discounting factor is assumed as the total of:

- the market rate based on the yield curve as at 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, and
- 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).

For FX loans, fair value is measured without impact of potential future regulatory changes. In the 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 product type, client segment and the currency. For deposits paid on demand, it is assumed that the fair value equals their book value.

Another phase involves the calculation of future cash flows as the total of principal- and interest cash flows. After that, by applying the discounting factor for each cash flow 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 total 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, and
- 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. 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 impairment (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 amount is approximately the same as the fair value.

Financial assets held to maturity

In the case of financial assets classified into the portfolio held to maturity used an approach that for the purpose of determining the fair value measurement parameters were adopted, which would be applied if these assets were included in the portfolio of financial assets available for sale.

Below the comparison of the carrying amount with the fair value of the lending portfolio and deposits by segment is presented:

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Net lending portfolio, including:	**65 720.8**	**62 739.4**	**53 973.4**	**53 247.9**
Corporate banking segment, including	40 118.6	39 520.8	32 797.1	32 633.7
- loans and advances	37 063.0	36 574.2	30 031.0	29 961.3
- corporate and municipal debt securities	3 055.6	2 946.6	2 766.1	2 672.4
Retail banking segment, including:	25 602.2	23 218.6	21 176.3	20 614.2
- mortgages	20 097.4	17 627.2	16 507.5	15 869.0
- other loans and advances	5 504.8	5 591.4	4 668.8	4 745.2
Deposits, including:	**86 596.8**	**86 596.1**	**74 652.3**	**74 652.7**
deposits of customers from corporate banking segment	27 951.0	27 951.0	24 510.1	24 510.1
deposits of customers from retail banking segment	58 645.8	58 645.1	50 142.2	50 142.6

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

2015

	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, including:	4 445.7	4 445.7	-2 178.9	-1 268.6	998.2
- valuation of derivatives	1 990.9	1 990.9	-1 185.4	0.0	805.5
- derivative hedge instruments	2 454.8	2 454.8	-993.5	0.0	1 461.3
- derivatives collateral	0.0	0.0	0.0	-1 268.6	-1 268.6
Reverse sale and repurchase agreements, including:	1 517.1	1 517.1	0.0	-1 507.2	9.9
- transactions classified to category of financial assets held for trading	162.7	162.7	0.0	-158.9	3.8
- transactions classified to category of loans and other receivables	1 354.4	1 354.4	0.0	-1 348.3	6.1
Total					**1 008.1**

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, including:	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, including:	1 218.5	1 218.5	0.0	-1 204.9	13.6
- transactions classified to category of financial assets held for trading	447.0	447.0	0.0	-442.3	4.7
- transactions classified to category of loans and other receivables	771.5	771.5	0.0	-762.6	8.9
Total					**861.2**

Financial liabilities

2015

	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, including:	3 833.7	3 833.7	-2 178.9	-857.8	797.0
- valuation of derivatives	2 002.8	2 002.8	-1 185.4	0.0	817.4
- derivative hedge instruments	1 830.9	1 830.9	-993.5	0.0	837.4
- derivatives collateral	0.0	0.0	0.0	-857.8	-857.8
Sale and repurchase agreements, including:	210.3	210.3	0.0	-210.2	0.1
- transactions classified to category of financial liabilities held for trading	162.8	162.8	0.0	-162.8	0.0
- transactions classified to category of liabilities due to other banks and customers	47.5	47.5	0.0	-47.4	0.1
Total					**797.1**

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, including:	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, including:	86.6	86.6	0.0	-85.6	1.0
- transactions classified to category of financial liabilities held for trading	56.9	56.9	0.0	-56.3	0.6
- transactions classified to category of liabilities due to other banks and customers	29.7	29.7	0.0	-29.3	0.4
Total					**535.8**

42. Custody activities

As at 31 December 2015, the Bank maintained 800 (3,748 as at 31 December 2014) 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 2015 yearend, the Bank acted as the custodian bank for 154 mutual funds and subfunds, 2 pension funds, 2 staff funds and 8 insurance portfolios (166 funds in total). To compare, as at 2014 yearend, the Bank acted as the custodian bank for 151 mutual funds and subfunds, 1 open-end pension fund, 1 staff pension fund and 1 voluntary pension fund.

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 under 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 option of their prolongation, object purchase or price change.

Lease payments by maturity are disclosed in the table below:

	2015	2014
up to 1 year	109.2	105.8
over 1 year and up to 5 years	248.6	230.1
over 5 years – annual payment amount	29.8	26.4

43.2. Bank as a lessor

The Bank earns income from renting own real estate. Those agreements are treated as operating lease agreements. They 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 option of prolongation or price change; however they do not warrant the purchase option.

Lease payments by maturity are disclosed in the table below:

	2015	2014
up to 1 year	11.8	15.3
over 1 year and up to 5 years	13.7	11.4
over 5 years – annual payment amount	2.2	0.1

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.

	2015	2014
Cash in hand (presented in note 13)	1 102.7	1 097.3
Balances with the Central Bank (presented in note 13)	2 487.0	4 233.4
Current accounts in other banks (presented in note 14)	820.7	963.4
Total	**4 410.4**	**6 294.1**

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

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

Investment activity covers purchase and sale of shares and holdings in controlled entities, intangible assets and property, plant and equipment as well as financial assets held to maturity. Investment activity proceeds also comprise dividends received under shares and holdings 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 are mainly due 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. Reasons for differences between changes in certain items recognised in statement of financial position and in cash flow statement

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

1) Changes in the individual assets and liabilities were adjusted with interest disclosed in the position Interest received/ paid.
2) Change in the receivables being an equivalent of cash (current accounts and O/N deposits at other banks) was excluded from the position Change in loans and other receivables to other banks; it was disclosed in the position Net increase/decrease in cash and cash equivalents.
3) Change in available-for-sale financial assets does not account for the part of financial assets valuation that was carried through equity (revaluation reserve from measurement of available-for-sale financial assets).
4) The change following reclassification to the portfolio of financial assets held to maturity was excluded from the change in available-for-sale financial assets.

2015

	changes						
	in statement of financial position	in cash flow statement	**difference, including:**	1)	2)	3)	4)
Change in loans and other receivables to other banks	808.2	664.1	**-144.1**	-1.4	-142.7		
Change in financial assets at fair value through profit or loss	729.7	729.6	**-0.1**	-0.1			
Change in available-for-sale financial assets	2 150.6	286.0	**-1 864.6**	-89.1		-62.2	-1 713.3
Change in loans and other receivables to customers	-12 929.1	-12 903.8	**25.3**	25.3			
Change in liabilities due to other banks	-1 788.8	-1 788.5	**0.3**	0.3			
Change in liabilities due to customers	12 075.5	12 107.1	**31.6**	31.6			

2014

	changes					
	in statement of financial position	in cash flow statement	**difference, including::**	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		

45. Related entities

ING Bank Śląski S.A. subsidiaries:

- 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.,
- Solver Sp. z o.o.,
- Nowe Usługi S.A.,

as part of their business activity hold current accounts at ING Bank Śląski S.A. via which they perform standard clearing operations and also place their funds in 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 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 (Polska) Sp. z o.o. received long-term funding for leasing contracts in EUR ("matched funding") from ING Bank NV. The above mentioned transactions are carried out on an arm's length basis.

There are also other transactions between the ING Bank Śląski S.A. related entities and under co-operation agreements, sublease of premises, lease of equipment, data processing as well as employees' insurance contributions.

In the period from 01 January 2015 to 31 December 2015 the following transactions were made for the total value exceeding EUR 500 thousand:

- 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 financial advisory services; the fee for using data processing and financial information analysis services by ING Bank Śląski S.A. and the fee for advisory services rendered for business operations and product development in the PCM area for 12 months of 2015 amounted to PLN 50.8 million versus PLN 51.4 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 16.3 million versus PLN 27.1 million in the same period last year (net amounts).

As at 31 December 2015, ING Bank Śląski S.A. had no financial exposure to the Supervisory Board Members (in the composition as at the end of 2015) or any entities connected with them in equity or organisational terms.

Transactions between related entities (PLN million)

2015

	ING Bank NV	Other ING Group entities	Subsidiaries*	Affiliated entities*
Receivables				
Nostro accounts	4.7	31.1	-	-
Loans	3.8	5.9	5 811.6	-
Positive valuation of derivatives	364.8	235.7	0.9	-
Other receivables	5.1	0.5	0.2	-
Liabilities				
Deposits received	274.2	12.6	277.7	-
Loro accounts	54.6	5.8	-	-
Negative valuation of derivatives	351.3	166.2	0.2	-
Other liabilities	4.3	-	-	-
Off-balance-sheet operations				
Contingent off-balance sheet liabilities	1 399.8	171.6	2 023.7	-
FX transactions	8 329.4	35.6	-	-
Forward transactions	72.2	-	77.3	-
IRS	11 186.7	3 532.9	74.1	-
Options	2 141.3	478.3	48.0	-
Revenue and costs**				
Revenue	4.6	11.7	110.2	80.7
Costs of cooperation agreements***	50.8	16.3	-3.9	-

*) Includes transactions between ING Bank Śląski S.A. and ING Bank Śląski S.A. Group subsidiaries /affiliated entities (on 20 July 2015, the Bank's share in ING PTE S.A. was sold as specified in Chapter II item 10 hereof. As at 31 December 2015 the Bank had no associated entities).
**) 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).

2014

	ING Bank NV	Other ING Group entities	Subsidiaries*	Affiliated entities*
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 off-balance sheet liabilities	533.1	198.9	2 349.2	-
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	140.0	-0.3	121.6	-2.2
Costs of cooperation agreements***	51.4	27.1	-2.1	-

*) Includes transactions between ING Bank Śląski S.A. and ING Bank Śląski S.A. Group subsidiaries /affiliated entities.
**) 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 Bank employees and senior management

Employees of the ING Bank Śląski S.A. Group are granted loans on the same terms and conditions as the customers of the Bank (no preferential loans for employees exist). Loans for employees disclosed in the amount of loans for customers as at 31 December 2015 amounted to PLN 154.0 million excluding loans from the In-House Social Benefits Fund. As at 31 December 2014, their value amounted to PLN 146.3 million.

Granting of a loan, cash loan, 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 2015 cover loans, cash loans, bank guarantees and sureties for the Bank's senior management (within the meaning of Article 79 of the Banking Law) amounting to PLN 34.4 million. As at 31 December 2014, their value amounted to PLN 33.7 million.

In-House Social Benefits Fund

The employees may use various forms of social assistance within the framework of In-House Social Benefits Funds. The balance of money advances granted from the In-House Social Benefits Fund as at 31 December 2015 amounts to PLN 7.1 million versus PLN 8.2 million as at 31 December 2014. The balance of the In-House Social Benefits Fund as at 31 December 2015 was PLN 3.6 million versus

PLN 3.2 million as at 31 December 2014.

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

As at the end of 2015, 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,
- Mr Ignacio Juliá Vilar - Bank Management Board Vice-President,
- Ms Justyna Kesler - Bank Management Board Vice-President,
- Mr Patrick Roesink- Bank Management Board Vice-President.

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

	2015	2014
Short-term employee benefits, including:	11.3	10.6
- remuneration	8.8	8.6
- benefits	2.5	2.0
Total	**11.3**	**10.6**

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 incentive system benefits. In 2015, they amounted to PLN 0.9 million compared with PLN 1.5 million in 2014.

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

	2015		2014	
	Short-term benefits	Long-term benefits	Short-term benefits	Long-term benefits
Cash payments	2.7	1.8	2.5	1.6
Phantom stock	2.7	1.8	2.5	1.7
Total	**5.4**	**3.6**	**5.0**	**3.3**

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 2015 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 2015 bonus; some part of it will be paid out in 2016, and some part will be deferred

for the upcoming years (2017-2020). The maximum obtainable amount of the bonus for 2015, for which a reserve was established, arrives at PLN 9.0 million, including cash pay-out in 2016 of PLN 2.7 million, and for the deferred part of the bonus PLN 6.3 million. The Bank Supervisory Board will take the final decision on the bonus amount.

As at 31 December 2014, the reserve for the cash payment under the bonus for the Bank Management Board Members was PLN 8.3 million. The bonus for 2014 approved in 2015 by the Bank Supervisory Board was PLN 8.3 million.

In the years ended 31 December 2015 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 Member is not reappointed for another term of office or is recalled from his/ her function, he or she is entitled to severance pay. Information on severance pay for 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 of ING Bank Śląski S.A. Supervisory Board Members (PLN million)

As at the end of 2015, 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 Adrianus Johannes Antonius Kas (Ad Kas) - Member,
- Mr Aleksander Kutela – Member,
- Mr Diederik van Wassenaer – Member.

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

	2015	2014
Short-term employee benefits, including:	0,6	0,5
- remuneration	0,6	0,5
Total	**0,6**	**0,5**

The Management Board Members and other persons employed by ING Bank Śląski S.A. do not receive any remuneration or awards for performing functions in the governing bodies of subsidiaries and affiliated entities 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 2015, neither Management Board nor Supervisory Board Members held shares of ING Bank Śląski S.A., similarly as at the date of rendering the annual consolidated financial statements of the ING Bank Śląski S.A. Group for 2014 into the public domain.

47. Headcount

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

	2015	2014
Individuals	7 728	7 687
FTEs	7 686.3	7 637.5

48. Significant events after the balance sheet date

Act on Tax on Some Financial Institutions

On 01 February 2016 *the Act on Tax on Some Financial Institutions* entered into force. Under the Act, from February 2016 the banks, insurance undertakings, co-operative savings and credit unions as well as lending companies among many other institutions will have to pay the so-called bank levy of 0.0366% of their assets per month. The tax base will be the entity's assets less PLN 4 billion, own funds and T-securities. The new levy will significantly impact profitability of the banking system.

Licence to conduct brokerage activity

On 19 January 2016 the Polish Financial Supervision Authority granted ING Bank Śląski S.A. the licence to conduct brokerage activity comprising the following:

- accepting and transmitting orders to buy or sell financial instruments,
- processing the orders to buy or sell financial instruments for the ordering party,
- proprietary trading in financial instruments on its own account,
- providing investment advisory services,
- offering financial instruments,
- providing services in performance of previously concluded agreements on stand-by underwriting and firm commitment underwriting or in conclusion and performance of other agreements of similar nature concerning financial instruments,
- safekeeping or recording financial instruments, including keeping securities accounts, omnibus accounts and cash accounts;
- advising companies on capital structure, corporate strategy and other matters relating to such a structure or strategy,
- providing advisory and other services relating to the mergers, divisions and acquisitions of companies,
- developing investment analyses, financial analyses and other recommendations of a general nature relating to transactions in financial instruments, and
- providing additional services relating to stand-by underwriting or firm commitment underwriting.

Notice of Intention to Divide ING Securities S.A.

On 3 February 2016 the Management Board of ING Bank Śląski S.A. gave notice that they intended to divide ING Securities S.A. The division shall be completed by way of transferring the entire assets of ING Securities S.A. onto ING Bank Śląski S.A. and onto Nowe Usługi S.A. Following the division of ING Securities S.A., the brokerage services which have been provided to date via ING Securities S.A.

and ING Bank Śląski S.A. will be integrated within one entity (ING Bank Śląski S.A.). Services other than brokerage services which have been provided by ING Securities S.A. will be transferred to Nowe Usługi S.A., a member of the ING Bank Śląski S.A. Group.

Risk management in ING Bank Śląski S.A.

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

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 for setting 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, assessment and approval,
- 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 – is 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 to maintain the consistency and compliance with the regulatory requirements.

Within the credit risk management process the following actions is performed:

- determination of the Credit Risk Management Strategy and the risk appetite RAS level,
- development, implementation and monitoring of the Credit Policy and the tools supporting risk measurement and assessment,
- development and implementation of credit products,

- an analysis and appraisal of the method of the credit process execution and the scope of functional control,
- management of the credit exposures portfolio.

Maximum exposure to credit risk

	2015	2014
Loans and other receivables to other banks	1 013.1	1 821.3
Financial assets measured at fair value through profit or loss	1 127.1	1 856.8
Valuation of derivatives	1 990.9	2 411.7
Investments (excluding equity instruments)	23 295.6	22 815.3
Derivative hedge instruments	2 454.8	2 983.8
Loans and other receivables to customers	69 633.4	57 952.1
Receivables from customers due to repo transactions	1 354.4	106.6
Receivables presented in other assets	43.8	36.7
Off-balance sheet liabilities granted, including:	23 453.5	23 394.6
- unused credit facilities	17 367.6	18 120.4
- guarantees	3 461.0	2 892.4
- unused overdraft facilities	1 310.3	1 214.7
- credit card limits	922.5	845.2
- letters of credit	392.1	321.9
Total	**124 366.6**	**113 378.9**

2. Organisational structure of risk management

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

- Bank Supervisory Board,
- Bank Management Board 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, and
- Credit Risk Inspection Department.

The mission of these units is to ensure proper balance between the commercial objectives of ING Bank Śląski S.A. and a risk appetite level that is acceptable for the Bank, 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 for 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 principle).

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.:

- set the key credit risk limits (RAS),
- approve 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,
- approve 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.:

- approve 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,
- appoint and approve the composition of the Credit Policy Committee through which they ensure ongoing oversight of the credit risk management process,
- provide 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,
- promote 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 determining the related write-offs; assess the adequacy and sensitivity of the methods to changes of external conditions,
- review the processes and the methods of monitoring the quality of credit exposures.

2.3. Committees

There are the following standing committees at the Bank whose powers covers the credit risk areas:

- Credit Policy Committee (or CPC) 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 CPC. The similar process of taking credit decisions by two Approval Signatories is used to these transactions with the corporate network clients, for which the lower level of credit approval authorities is required than the powers reserved for the Bank Credit Committee or Restructuring Committee.

2.4. Credit- and Market Risk Management Division

There is a separate Credit- and Market Risk Management Division in the organisational structure of the Bank. 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 Bank Executive Directors, supervising transactional risk area and the non-transactional risk area, respectively. The Bank Executive Directors are subordinated and report to the Chief Risk Officer.

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

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

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

- Credit Risk Policy Department,
- Credit Risk Modelling Department, and
- 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

- development of 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 ING Bank Śląski S.A. and the adequate awareness level/ risk appetite level, while taking into account the market environment in Poland,
- ensuring effective functioning of the risk and process management area, 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 Division, Strategic Clients Division, Retail Banking Division and Operations Division, as well as by implementation of the requests of the Bank Management Board and ING Group Head Office,
- raising credit risk awareness among the employees of the Bank and opportunities and methods of its mitigation.

2.6. Credit Risk Modelling Department

- creation, 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 update of credit capacity calculation models,
- initiation of the preparation and update of the statistical acceptance models,
- support for the credit risk and counterparty risk management process by development of tools for risk identification and measurement, issuance of the recommendations concerning provisions for credit risk,
- regular verification of the compliance of internal methodologies and procedures with regulatory requirements and ING Group standards as regards the construction of models and estimation of the capital requirements,
- support for the credit risk and counterparty risk management units in the interpretation of the regulatory regulations and recommendations.

2.7. Credit Risk Reporting Department

- development of the credit risk reporting principles,
- execution of tasks in the field of measurement and reporting of credit risk, including the collective method of impairment provisions calculation and capital requirements for credit risk calculation,
- development, maintenance and support of tools and support systems for credit risk management,
- implementation of credit risk models, including models for making impairment provisions and models for estimating capital requirements for credit risk,
- planning and forecasting the level of impairment provisions under the collective method and capital requirements for credit risk,
- carrying 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,

- management of 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 and recommending required changes in the credit process management,
- provision of important data for the credit policy principles as well as processes and procedures in order to approve the acceptable client risk level,
- raising the level of credit- and counterparty risk awareness among the Bank's employees in order to mitigate those risks,
- recommending and providing opinions to the provisioning level and changes in the management of credit processes, defining products and credit policy in order to mitigate the risk.

2.9. Monitoring and Collection Department

- management of exposures to retail customers and small businesses as regards monitoring of the timeliness of repayments, verification of collaterals and conducting dunning actions against the debtor in order to minimize the credit risk and losses of the Bank,
- restructuring and negotiation of the terms of repayment and collection of credit debts,
- verification of collateral value, takeover and sales of credit collaterals,
- cooperation with external debt collection companies and law firms in charge of the debt collection process.

2.10. Corporate Credit Restructuring Department

- management of (corporate) problem loans oriented towards 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 impairment provisions for credit exposures and provisions for off-balance sheet credit liabilities with discounted cash flow method for clients with the biggest impaired exposure,
  - identification of forbearance regarding credit process for irregular portfolio,
- participation in the Watch List portfolio reviews,
- development of principles related to problem loans management in order to mitigate risks and reduce losses,
- analysis and reporting as regards corporate problem loans portfolio,
- co-operation with the auditor, banking supervision authorities, inter-bank organizations and appropriate organisational units of ING Group in respect of problem corporate loans management, loan loss provisioning and provisions for off-balance sheet liabilities,
- participation in projects connected with credit risk management, especially referring to problem loans management, loan loss provisioning and provisions for off-balance sheet liabilities, including issuing opinions and recommendations for changes in the said areas.

2.11. Credit Risk Inspection Department

- verification on a regular basis of the credit documentation and assessment of 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),
- analysis of the selected loans and adequacy of risk management during regular inspections at the Bank organisational units,
- identification of potentially problematic areas and responding to the signals coming from the organisation,
- control of 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. Determining the decision approval mode in the credit 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 shaping 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. Credit 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 decisions 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 the credit process for regular portfolio are taken by two Approval Signatories in the Signatory Approval Process (SAP), taking into account the credit decision-making process as set forth in the Credit Manual. Some exceptions apply to some corporate clients wherefore:

- decisions are taken by the Bank Credit Committee (BCC) – as regards the largest credit exposures provided for the Credit Manual,
- decisions are taken by one Approval Signatory – as regards "Fast Track" credit process.

The delegated authority level is co-related with the level of credit risk arising from the client risk and the transaction risk. As the credit risk rises, the decisions are taken by more experienced individuals who have 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 rating and the following elements:

- the total exposure of ING Group towards the debtor and the members of the group (within Article 3 section 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-person basis. For specific situations decisions are taken automatically by IT system. In the case of two-person basis mode, for positive decision, unanimous approval of both decision-makers is always required. The scope of decisions taken on a one-person or two-person basis and rules of establishing, giving and reviewing of authorities to approve credit decision are specified in the General Terms and Conditions of Lending: "Rules of Taking Credit Decisions".

An appropriate risk acceptance level depends on the overall exposure of the Bank to the client. Each new exposure to a private individual 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 private individual and in relation to his/her business operations.

4. Structure of credit exposure portfolio

Credit exposure portfolio*	exposure in PLN million			
	2015		2014	
	on-balance	off-balance	on-balance	off-balance
Gross credit exposure to corporate clients, including:	**41 040.6**	**19 415.4**	**33 844.7**	**19 081.5**
exposures with no impairment triggers	39 566.0	19 298.1	32 318.5	19 021.5
exposures with impairment triggers but with no actual impairment declared**	114.9	35.2	205.7	30.3
impaired exposures, including:	1 359.7	82.1	1 320.5	29.7
- exposures measured individually	1 145.5	74.1	1 080.8	26.0
- exposures measured as per portfolio	214.2	8.0	239.7	3.7
Gross credit exposure to retail clients, including:	**26 117.2**	**3 009.1**	**21 742.6**	**2 736.4**
exposures with no impairment triggers	25 579.1	3 007.4	21 164.6	2 734.4
impaired exposures	538.1	1.7	578.0	2.0
Total credit exposure	**67 157.8**	**22 424.5**	**55 587.3**	**21 817.9**

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

**) For each exposure wherefor impairment triggers occurred but no impairment was recognized as 31 December 2015, the value of collateral (mortgages on real estate, surety, pledge or assignment debts) was included in the expected future discounted cash flows, while the exposure with default on principal or interest accounted for PLN 15.2 million compared with PLN 8.9 million as at 31 December 2014.

Credit exposure to corporate clients by risk rating

2015

risk rating	Credit exposure to corporate clients in PLN million										Credit exposure to retail clients in PLN million					
	exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		impaired exposures, including:- measured individually		impaired exposures, including: - measured as per portfolio		TOTAL		exposures with no impairment triggers		impaired exposures - measured as per portfolio		TOTAL	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
2	0.0	0.0	-	-	-	-	-	-	**0.0**	**0.0**	1 199.8	35.3	-	-	**1 199.8**	**35.3**
4	0.0	35.1	-	-	-	-	-	-	**0.0**	**35.1**	5 105.8	528.2	-	-	**5 105.8**	**528.2**
5	133.1	0.1	-	-	-	-	-	-	**133.1**	**0.1**	2 353.6	128.2	-	-	**2 353.6**	**128.2**
6	227.8	622.6	-	-	-	-	-	-	**227.8**	**622.6**	6 710.3	743.9	-	-	**6 710.3**	**743.9**
7	5 549.9	1 270.6	-	-	-	-	-	-	**5 549.9**	**1 270.6**	0.0	0.0	-	-	**0.0**	**0.0**
8	2 301.7	2 638.0	-	-	-	-	-	-	**2 301.7**	**2 638.0**	29.4	89.9	-	-	**29.4**	**89.9**
9	6 853.7	3 166.9	-	-	-	-	-	-	**6 853.7**	**3 166.9**	3 563.9	263.1	-	-	**3 563.9**	**263.1**
10	4 539.4	2 441.4	-	-	-	-	-	-	**4 539.4**	**2 441.4**	193.2	100.1	-	-	**193.2**	**100.1**
11	3 314.6	1 471.5	-	-	-	-	-	-	**3 314.6**	**1 471.5**	1 501.4	197.3	-	-	**1 501.4**	**197.3**
12	4 904.8	2 786.9	-	-	-	-	-	-	**4 904.8**	**2 786.9**	427.0	44.4	-	-	**427.0**	**44.4**
13	5 126.3	2 313.5	-	-	-	-	-	-	**5 126.3**	**2 313.5**	638.1	47.9	-	-	**638.1**	**47.9**
14	3 109.2	1 212.3	-	-	-	-	-	-	**3 109.2**	**1 212.3**	2 784.1	799.6	-	-	**2 784.1**	**799.6**
15	2 510.0	1 047.5	-	-	-	-	-	-	**2 510.0**	**1 047.5**	589.7	19.5	-	-	**589.7**	**19.5**
16	749.5	193.6	-	-	-	-	-	-	**749.5**	**193.6**	172.8	4.0	-	-	**172.8**	**4.0**
17	139.8	77.7	-	-	-	-	-	-	**139.8**	**77.7**	123.3	4.8	-	-	**123.3**	**4.8**
18	64.7	17.7	48.7	12.0	-	-	-	-	**113.4**	**29.7**	49.1	0.9	-	-	**49.1**	**0.9**
19	41.5	2.7	66.2	23.2	-	-	-	-	**107.7**	**25.9**	137.6	0.3	-	-	**137.6**	**0.3**
20	-	-	-	-	748.7	58.2	54.8	3.5	**803.5**	**61.7**	-	-	330.4	1.5	**330.4**	**1.5**
21	-	-	-	-	3.2	0.0	6.1	0.1	**9.3**	**0.1**	-	-	0.0	0.0	**0.0**	**0.0**
22	-	-	-	-	393.6	15.9	153.3	4.4	**546.9**	**20.3**	-	-	207.7	0.2	**207.7**	**0.2**
Total	**39 566.0**	**19 298.1**	**114.9**	**35.2**	**1 145.5**	**74.1**	**214.2**	**8.0**	**41 040.6**	**19 415.4**	**25 579.1**	**3 007.4**	**538.1**	**1.7**	**26 117.2**	**3 009.1**

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2014

risk rating	Credit exposure to corporate clients in PLN million										Credit exposure to retail clients in PLN million					
	exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		impaired exposures, including:- measured individually		impaired exposures, including: - measured as per portfolio		TOTAL		exposures with no impairment triggers		impaired exposures - measured as per portfolio		TOTAL	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
2	0.0	0.0	-	-	-	-	-	-	**0.0**	**0.0**	1 095.3	63.3	-	-	**1 095.3**	**63.3**
4	0.0	0.0	-	-	-	-	-	-	**0.0**	**0.0**	4 340.3	546.1	-	-	**4 340.3**	**546.1**
5	71.1	10.2	-	-	-	-	-	-	**71.1**	**10.2**	1 921.3	109.3	-	-	**1 921.3**	**109.3**
6	231.6	902.5	-	-	-	-	-	-	**231.6**	**902.5**	5 307.0	610.2	-	-	**5 307.0**	**610.2**
7	5 829.0	1 994.2	-	-	-	-	-	-	**5 829.0**	**1 994.2**	0.0	0.0	-	-	**0.0**	**0.0**
8	784.6	1 700.7	-	-	-	-	-	-	**784.6**	**1 700.7**	26.8	82.7	-	-	**26.8**	**82.7**
9	6 306.0	4 431.0	-	-	-	-	-	-	**6 306.0**	**4 431.0**	2 776.1	206.8	-	-	**2 776.1**	**206.8**
10	1 461.8	1 243.9	-	-	-	-	-	-	**1 461.8**	**1 243.9**	169.8	98.6	-	-	**169.8**	**98.6**
11	6 135.8	3 109.2	-	-	-	-	-	-	**6 135.8**	**3 109.2**	1 279.7	130.5	-	-	**1 279.7**	**130.5**
12	3 086.4	2 210.5	-	-	-	-	-	-	**3 086.4**	**2 210.5**	363.1	37.0	-	-	**363.1**	**37.0**
13	4 217.1	1 770.3	-	-	-	-	-	-	**4 217.1**	**1 770.3**	558.7	82.8	-	-	**558.7**	**82.8**
14	1 577.5	626.4	-	-	-	-	-	-	**1 577.5**	**626.4**	2 384.7	740.1	-	-	**2 384.7**	**740.1**
15	1 677.1	622.3	-	-	-	-	-	-	**1 677.1**	**622.3**	509.3	19.8	-	-	**509.3**	**19.8**
16	461.1	147.0	-	-	-	-	-	-	**461.1**	**147.0**	167.5	3.5	-	-	**167.5**	**3.5**
17	393.8	163.1	-	-	-	-	-	-	**393.8**	**163.1**	102.3	2.8	-	-	**102.3**	**2.8**
18	53.9	26.7	55.4	2.0	-	-	-	-	**109.3**	**28.7**	44.2	0.6	-	-	**44.2**	**0.6**
19	31.7	63.5	150.3	28.3	-	-	-	-	**182.0**	**91.8**	118.5	0.3	-	-	**118.5**	**0.3**
20	-	-	-	-	544.9	23.9	47.8	1.3	**592.7**	**25.2**	-	-	313.6	1.9	**313.6**	**1.9**
21	-	-	-	-	5.1	0.0	5.0	0.0	**10.1**	**0.0**	-	-	0.0	0.0	**0.0**	**0.0**
22	-	-	-	-	530.8	2.1	186.9	2.4	**717.7**	**4.5**	-	-	264.4	0.1	**264.4**	**0.1**
Total	**32 318.5**	**19 021.5**	**205.7**	**30.3**	**1 080.8**	**26.0**	**239.7**	**3.7**	**33 844.7**	**19 081.5**	**21 164.6**	**2 734.4**	**578.0**	**2.0**	**21 742.6**	**2 736.4**

Credit exposures to corporate clients by days past due

2015

number of days past due	Credit exposure to corporate clients in PLN million										Credit exposure to retail clients in PLN million					
	exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		impaired exposures, including:- measured individually		impaired exposures, including: - measured as per portfolio		TOTAL		exposures with no impairment triggers		impaired exposures - measured as per portfolio		TOTAL	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
0	39 522.4	19 292.1	99.7	35.2	524.6	74.1	38.7	7.9	**40 185.4**	**19 409.3**	24 979.8	2 985.2	78.2	1.5	**25 058.0**	**2 986.7**
1-30	35.6	2.1	3.1	0.0	16.1	0.0	3.8	0.0	**58.6**	**2.1**	463.8	20.1	24.5	0.1	**488.3**	**20.2**
31-60	5.5	0.0	10.5	0.0	2.9	0.0	8.0	0.0	**26.9**	**0.0**	103.1	1.7	14.7	0.0	**117.8**	**1.7**
61-90	1.7	0.0	1.2	0.0	0.0	0.0	5.0	0.0	**7.9**	**0.0**	27.6	0.2	10.6	0.0	**38.2**	**0.2**
91-180	0.5	0.0	0.4	0.0	10.9	0.0	15.2	0.0	**27.0**	**0.0**	2.4	0.2	42.9	0.1	**45.3**	**0.3**
181-365	0.1	0.0	0.0	0.0	53.8	0.0	36.9	0.0	**90.8**	**0.0**	1.5	0.0	62.0	0.0	**63.5**	**0.0**
>365	0.2	3.9	0.0	0.0	537.2	0.0	106.6	0.1	**644.0**	**4.0**	0.9	0.0	305.2	0.0	**306.1**	**0.0**
Total	**39 566.0**	**19 298.1**	**114.9**	**35.2**	**1 145.5**	**74.1**	**214.2**	**8.0**	**41 040.6**	**19 415.4**	**25 579.1**	**3 007.4**	**538.1**	**1.7**	**26 117.2**	**3 009.1**

2014

number of days past due	Credit exposure to corporate clients in PLN million										Credit exposure to retail clients in PLN million					
	exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		impaired exposures, including:- measured individually		impaired exposures, including: - measured as per portfolio		TOTAL		exposures with no impairment triggers		impaired exposures - measured as per portfolio		TOTAL	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
0	32 218.2	19 017.2	196.8	30.3	300.7	26.0	32.0	3.4	**32 747.7**	**19 076.9**	20 636.9	2 716.1	58.6	1.5	**20 695.5**	**2 717.6**
1-30	90.8	0.4	1.8	0.0	1.5	0.0	5.1	0.0	**99.2**	**0.4**	406.7	16.6	17.6	0.3	**424.3**	**16.9**
31-60	7.7	0.0	6.0	0.0	8.3	0.0	6.2	0.0	**28.2**	**0.0**	89.2	1.0	12.1	0.1	**101.3**	**1.1**
61-90	0.1	0.0	0.9	0.0	6.3	0.0	3.4	0.0	**10.7**	**0.0**	27.1	0.3	10.0	0.0	**37.1**	**0.3**
91-180	0.4	0.0	0.2	0.0	10.8	0.0	20.5	0.0	**31.9**	**0.0**	2.4	0.4	44.9	0.1	**47.3**	**0.5**
181-365	0.4	3.4	0.0	0.0	69.8	0.0	32.5	0.0	**102.7**	**3.4**	1.6	0.0	65.6	0.0	**67.2**	**0.0**
>365	0.9	0.5	0.0	0.0	683.4	0.0	140.0	0.3	**824.3**	**0.8**	0.7	0.0	369.2	0.0	**369.9**	**0.0**
Total	**32 318.5**	**19 021.5**	**205.7**	**30.3**	**1 080.8**	**26.0**	**239.7**	**3.7**	**33 844.7**	**19 081.5**	**21 164.6**	**2 734.4**	**578.0**	**2.0**	**21 742.6**	**2 736.4**

5. Forborne exposures and non-performing exposures

Bank set 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.

In 2015 Bank made post-implementation review of the approach taken in this regard in order to confirm compliance with the EBA standards and the Implementing Regulation of Commission (EU) 2015/1278 of 9 July 2015 amending Implementing Regulation of Commission (EU) no 680/2014 establishing implementing technical standards on supervisory reporting of institutions with respect to instructions, models and definitions.

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 credit contract, Bank granted the client concession which is not due to commercial reasons and not granted under market standards in order to allow a client to meet its obligations under the agreement or to prevent at the client's difficulty in repaying (modification to the contract or refinance) and, at the same time, the client accepted this concession, i.e. the relevant agreement was concluded or original contract was modified by 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 repayment),
  - margin reduction,
  - debt write-off,
  - other concession (which is not made for commercial reasons and is not granted on an arm's-length basis).

In keeping with the cited EBA, the Regulation of Commission (EU) 2015/1278 of 9 July 2015, the Bank recognizes 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 repay its credit obligation in full without taking by the Bank the actions such as enforcement 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 forborne contract becomes more than 30 days past due or if additional forbearance measure is extended to this forborne exposure, while it is not applicable to exposures which has been classified as performing at the moment of assigning of forbearance status, and until now have not been reclassified to non-performing portfolio.

For the retail segment – all exposures in restructuring are deemed forborne exposures. Impairment is recognized for exposures in restructuring.

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

2015	*performing exposure*	including forbearance				*non-performing exposure*	including forbearance				
			Modifi-cation of terms and conditions	Refinan-cing	Under probation*			Modifi-cation of terms and conditions	Refinan-cing	Defaulted	Impaired
Gross lending portfolio, including:	**65 251.4**	**135.7**	**134.6**	**1.1**	**6.0**	**1 906.4**	**820.8**	**819.8**	**1.0**	**510.6**	**819.5**
Corporate banking including:	**39 679.0**	129.7	128.6	1.1	0.0	**1 361.6**	745.4	744.4	1.0	436.5	745.4
- loans and advances	**36 828.8**	129.7	128.6	1.1	0.0	**1 052.7**	436.5	435.5	1.0	436.5	436.5
- corporate and municipal debt securities	**2 850.2**	0.0	0.0	0.0	0.0	**308.9**	308.9	308.9	0.0	0.0	308.9
Retail banking, including:	**25 572.4**	6.0	6.0	0.0	6.0	**544.8**	75.4	75.4	0.0	74.1	74.1
- mortgages	**20 072.1**	4.9	4.9	0.0	4.9	**222.4**	40.1	40.1	0.0	38.8	38.8
- other loans and advances	**5 500.3**	1.1	1.1	0.0	1.1	**322.4**	35.3	35.3	0.0	35.3	35.3
Impairment losses, including:	**-174.1**	**-5.2**	**-5.1**	**-0.1**	**0.0**	**-1 262.9**	**-428.5**	**-428.5**	**-0.1**	**-326.0**	**-428.4**
Corporate banking, oncluding:	**-73.2**	-5.2	-5.1	-0.1	0.0	**-848.8**	-384.6	-384.6	-0.1	-282.2	-384.6
- loans and advances	**-72.1**	-5.2	-5.1	-0.1	0.0	**-746.4**	-282.2	-282.2	-0.1	-282.2	-282.2
- corporate and municipal debt securities	**-1.1**	0.0	0.0	0.0	0.0	**-102.4**	-102.4	-102.4	0.0	0.0	-102.4
Retail banking, including:	**-100.9**	0.0	0.0	0.0	0.0	**-414.1**	-43.9	-43.9	0.0	-43.8	-43.8
- mortgages	**-39.9**	0.0	0.0	0.0	0.0	**-157.2**	-22.5	-22.5	0.0	-22.4	-22.4
- other loans and advances	**-61.0**	0.0	0.0	0.0	0.0	**-256.9**	-21.4	-21.4	0.0	-21.4	-21.4
Netlending portfolio, including:	**65 077.3**	**130.5**	**129.5**	**1.0**	**6.0**	**643.5**	**392.3**	**391.3**	**0.9**	**184.6**	**391.1**
Corporate banking, including:	**39 605.8**	124.5	123.5	1.0	0.0	**512.8**	360.8	359.8	0.9	154.3	360.8
- loans and advances	**36 756.7**	124.5	123.5	1.0	0.0	**306.3**	154.3	153.3	0.9	154.3	154.3
- corporate and municipal debt securities	**2 849.1**	0.0	0.0	0.0	0.0	**206.5**	206.5	206.5	0.0	0.0	206.5
Retail banking, including:	**25 471.5**	6.0	6.0	0.0	6.0	**130.7**	31.5	31.5	0.0	30.3	30.3
- mortgages	**20 032.2**	4.9	4.9	0.0	4.9	**65.2**	17.6	17.6	0.0	16.4	16.4
- other loans and advances	**5 439.3**	1.1	1.1	0.0	1.1	**65.5**	13.9	13.9	0.0	13.9	13.9

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

2014	*performing exposure*	including forbearance				*non-performing exposure)*	including forbearance				
			Modification of terms and conditions	Refinancing	Under probation			Modification of terms and conditions	Refinancing	Defaulted	Impaired
Gross lending portfolio, including:	**53 697.4**	**289.9**	**288.4**	**1.5**	**0.0**	**1 889.9**	**741.0**	**739.7**	**1.3**	**740.8**	**740.8**
Corporate banking including:	**32 537.4**	289.9	288.4	1.5	0.0	**1 307.3**	698.8	697.5	1.3	698.6	698.6
- loans and advances	**29 765.7**	289.9	288.4	1.5	0.0	**1 307.3**	698.8	697.5	1.3	698.6	698.6
- corporate and municipal debt securities	**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, including:	**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, including:	**-353.0**	**-17.1**	**-16.9**	**-0.2**	**0.0**	**-1 260.9**	**-446.1**	**-446.1**	**0.0**	**-446.0**	**-446.0**
Corporate banking, oncluding:	**-265.8**	-17.1	-16.9	-0.2	0.0	**-781.8**	-420.0	-420.0	0.0	-419.9	-419.9
- loans and advances	**-260.2**	-17.1	-16.9	-0.2	0.0	**-781.8**	-420.0	-420.0	0.0	-419.9	-419.9
- corporate and municipal debt securities	**-5.6**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking, including:	**-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
Netlending portfolio, including:	**53 344.4**	**272.8**	**271.5**	**1.3**	**0.0**	**629.0**	**294.9**	**293.6**	**1.3**	**294.8**	**294.8**
Corporate banking, including:	**32 271.6**	272.8	271.5	1.3	0.0	**525.5**	278.8	277.5	1.3	278.7	278.7
- loans and advances	**29 505.5**	272.8	271.5	1.3	0.0	**525.5**	278.8	277.5	1.3	278.7	278.7
- corporate and municipal debt securities	**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, including:	**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

Exposure with forborne exposures indication according risk rating – corporate banking

risk rating	gross exposure in PLN million				gross exposure in PLN million			
	2015				2014			
	performing		non-performing		performing		non-performing	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
Corporate banking	**129.7**	**151.4**	**745.4**	**46.7**	**289.9**	**82.2**	**698.8**	**43.7**
12	0.1	0.0	0.0	0.0	9.5	0.0	0.0	0.0
14	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15	33.6	60.3	0.0	0.0	30.6	48.5	0.0	0.0
16	17.2	32.9	0.0	0.0	2.7	0.0	0.0	0.0
17	4.5	0.0	0.0	0.0	40.4	1.6	0.0	0.0
18	27.3	42.0	0.0	0.0	71.8	8.2	0.0	0.0
19	45.8	16.2	0.0	0.0	134.9	23.9	0.2	0.0
20	0.0	0.0	563.8	33.1	0.0	0.0	369.4	40.6
21	0.0	0.0	6.2	0.0	0.0	0.0	7.9	0.0
22	0.0	0.0	175.4	13.6	0.0	0.0	321.3	3.1
Retail banking	**6.0**	**0.0**	**75.4**	**0.0**	**0.0**	**0.0**	**42.2**	**0.1**
02	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
04	0.7	0.0	0.6	0.0	0.0	0.0	0.0	0.0
05	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
06	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
09	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0
17	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
19	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
20	0.0	0.0	72.5	0.0	0.0	0.0	41.9	0.0
22	0.0	0.0	1.7	0.0	0.0	0.0	0.3	0.0
Total	135.7	151.4	820.8	46.7	289.9	82.2	741.0	43.8

Exposure with forborne exposures indication according days past due

number of days past due	gross exposure in PLN million				gross exposure in PLN million			
	2015				2014			
	performing		non-performing		performing		non-performing	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
Corporate banking	**129.7**	**151.4**	**745.4**	**46.7**	**289.9**	**82.2**	**698.8**	**43.7**
0	128.6	151.4	487.0	46.7	281.4	82.2	284.9	43.7
1-30	0.0	0.0	1.5	0.0	1.6	0.0	4.0	0.0
31-60	1.1	0.0	2.5	0.0	6.0	0.0	9.3	0.0
61-90	0.0	0.0	1.3	0.0	0.9	0.0	4.9	0.0
91-180	0.0	0.0	9.0	0.0	0.0	0.0	20.1	0.0
181-365	0.0	0.0	31.3	0.0	0.0	0.0	58.1	0.0
>365	0.0	0.0	212.8	0.0	0.0	0.0	317.5	0.0
Retail banking	**6.0**	**0.0**	**75.4**	**0.0**	**0.0**	**0.0**	**42.2**	**0.1**
0	5.8	0.0	49.6	0.0	0.0	0.0	28.9	0.1
1-30	0.2	0.0	11.8	0.0	0.0	0.0	7.7	0.0
31-60	0.0	0.0	4.5	0.0	0.0	0.0	2.3	0.0
61-90	0.0	0.0	2.4	0.0	0.0	0.0	1.5	0.0
91-120	0.0	0.0	0.8	0.0	0.0	0.0	0.9	0.0
121-150	0.0	0.0	0.3	0.0	0.0	0.0	0.3	0.0
151-180	0.0	0.0	0.2	0.0	0.0	0.0	0.2	0.0
>180	0.0	0.0	5.8	0.0	0.0	0.0	0.4	0.0
Total	**135.7**	**151.4**	**820.8**	**46.7**	**289.9**	**82.2**	**741.0**	**43.8**

Interest on loans and other receivables to customers in the 2015 income statement includes interest income on "forborne exposures" of PLN 20.3 million (as on 2014 PLN 31.7 million), where PLN 6.7 million derives from the performing exposures portfolio and PLN 13.6 million from non-performing exposures (as on 2014 PLN 13.9 million and PLN 17.8 million respectively).

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 objective evidences of impairment or impairment triggers by the Bank were discussed in Chapter IV. _Significant accounting principles_, item 6.11. _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. Occurrence of an objective evidence of impairment requires the identification of impairment of financial asset without the need to perform the analyses of expected cash flows for a given exposures.

The impairment loss computation basis and approach for credit exposures and provisions for off-balance sheet liabilities were described in Chapter IV. _Significant accounting principles_, item 3.1.1. _Impairment of financial assets._

7. Rules and process of corporate credit risk management

7.1. Reviews and credit risk rating

Commercial functions performed by the person whose actions generate credit risk are separated from the process of transaction- and client risk rating (the four-eye principle). Credit risk is rated (by the Risk Manager) independently from the commercial function's rating (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. For borrowers rated 18 to 22, with applied restructuring or debt collection strategy whose exposure is called irregular, Corporate Credit Restructuring Department becomes a Rating Owner.

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,
- assessing 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:
  - a borrower has defaulted or is expected to default on any financial obligation to any party,
  - there has been a major disruption of client's activities,
  - there have been changes in legislation that may seriously impact the client's financial performance.
- additional information is available supporting the setting of the rating for customer.

The IT system at ING Bank Śląski S.A., used in whole ING Group, supports credit risk rating process and makes centralized gathering of data on risk rating grades of clients possible.

7.2. Frequency of Risk Rating Reviews and Updates (if any)

Only the Rating Owner can review the risk rating. The following rules 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 rating review when the value of one or more risk drivers has materially changed; events that could cause a consideration for a rating review are for example a change of risk rating of the parent entity or a change of any of the qualitative risk model drivers,
- in absence of a review till the end of 18th month from the last approval date of the risk rating, a risk rating will automatically expire (not applicable to irregular borrowers whose ratings do not expire).

7.3. Concentration limits

To mitigate the concentration risk, in the 2015 the Bank observed the following exposure concentration limits as defined in Article 71 of the Banking Law Act and Article 395 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26th June 2013:

- 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 and Market Risk Management 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 of specific transactions and periodic exposure reviews.

Over the year 2015, the statutory 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.

Concentration of exposures to corporate clients in national economy sectors

industry	exposure (on-balance and off-balance)			
	2015		2014	
	exposure in PLN million	share in total exposure (%)	exposure in PLN million	share in total exposure (%)
financial intermediation	10 997.7	18.2%	8 545.0	16.2%
wholesale trade	7 154.2	11.8%	6 150.2	11.6%
real estate service	5 208.9	8.6%	3 831.6	7.2%
public administration and national defence	4 101.2	6.8%	4 122.8	7.8%
power industry	2 828.9	4.7%	3 638.4	6.9%
foodstuff and beverage production	2 782.8	4.6%	2 592.0	4.9%
construction industry	2 686.9	4.4%	2 567.6	4.9%
retail trade	2 649.8	4.4%	2 790.4	5.3%
remaining business activities	1 640.6	2.7%	666.6	1.3%
ready-made metal goods productions	1 574.5	2.6%	1 333.3	2.5%
agriculture, forestry, fishery	1 465.7	2.4%	914.8	1.7%
rubber industry	1 281.7	2.1%	1 155.6	2.2%
wood and paper	1 244.1	2.1%	584.8	1.1%
support activities for transportation	993.4	1.6%	432.9	0.8%
computer industry and associated service	975.8	1.6%	1 128.9	2.1%
fuel industry	940.2	1.6%	863.9	1.6%
post and telecommunications	908.7	1.5%	704.4	1.3%
mining of metal ores	897.5	1.5%	806.7	1.5%
remaining non-metal raw materials industries	879.8	1.5%	774.8	1.5%
other	9 243.6	15.3%	9 321.5	17.6%
Total	**60 456.0**	**100.0%**	**52 926.2**	**100.0%**

Exposure concentration risk in the geographical areas is monitored according to the branch network regional division. A 20% limit of the Bank's total portfolio is adopted for controlling concentration at the level of Regions. Exceeding this limit may trigger setting a geographical limit.

However, since geographical concentration is minor and does not increase the credit risk, so far there has been no need for ING Bank Śląski to set geographical limits.

Bank's greatest exposures

The table below presents the breakdown of 20 largest Bank exposures towards entities/ related entities (inclusive of groups of entities wherefore 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 the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 and Polish Financial Supervision Authority Resolution No 208/2011 of 22 August 2011.

Client	exposure in PLN million	
	2015	**2014**
Group 1 (banking)	1 029.3	658.5
Group 2	1 007.2	825.6
Group 3	743.8	742.2
Group 4	717.1	519.1
Group 5	706.0	589.0
Group 6	679.3	775.2
Group 7	675.0	796.9
Group 8	650.3	818.3
Group 9 (banking)	636.4	468.9
Group 10	575.2	272.8
Group 11 (banking)	561.0	179.3
Group 12	525.3	125.5
Group 13	520.1	911.4
Group 14	519.7	400.0
Group 15	518.0	563.7
Group 16	504.3	246.7
Group 17	446.2	339.7
Group 18	445.5	285.8
Group 19	394.9	391.0
Group 20	392.8	310.0

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 – Corporate Sales Network,
- mortgage secured financing – Strategic Clients,
- portfolio of mortgage secured retail credit exposures,
- portfolio of mortgage secured retail exposures in foreign currencies,
- portfolio of credit exposures secured by mortgage on commercial property,
- share of consolidation loans,
- portfolio of credit exposures, with maturity over 30 years at the time of opening account,
- share of the biggest single region,
- portfolio of credit exposures granted by external sales channels,
- share of 30+ DPD loans in the portfolio of credit exposures granted by external sales channels,
- share of the portfolio with current LTV above 80% for PLN portfolio,
- share of the portfolio with current LTV above 80% for portfolio in foreign currencies.

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

7.4. Collaterals and other forms of credit risk mitigation

Even though collaterals are a major factor that allows the Bank to mitigate the credit risk, it is the Bank'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 collaterals 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 collaterals,
- the type and duration of exposure,
- the level of client's risk,
- the level of transaction's risk,
- the liquidity of collaterals offered (the ability to cash it easily),
- the collateral value.

The internal regulations of the Bank concerning collaterals 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 collaterals take into account in particular those aspects of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013, which concern the application of LGD models, legal reliability of collaterals and their monitoring.

The LGD models developed for corporate assets are based on statistically estimated recovery ratios for specific groups of collaterals. The estimations are based on an analysis of historical recovery processes at the Bank. The rates of recovery for specific types of collateral determine their fair value.

The recovery rate for a specific type of collateral depends on the character of the collateral item, the legal form of the security and the efficiency of the collateral liquidation process by the Bank. The final level of the recovery is also influenced by the costs of debt-collection and the costs of keeping an irregular exposure in the Bank's books (until the debt is recovered or cancelled).

Apart from the classic types of collaterals (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 and 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 collaterals.

The structure of individual collateral types is diversified. The following types of collaterals have the biggest share:

- mortgages – this is due to the scale of the involvement of the Bank in financing of the residential real estate purchase and in commercial real estate financing as well as due the fact that mortgages usually secure long-term investment loans,
- 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.

7.5. Exposure Classification Methodology

7.5.1. Client Risk Class Determination

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 client risk grade 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 22grade rating, employed throughout ING Group. Its grades present the debtor-related risk. The client 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 the Bank assess as encumbered with a relatively low risk; however, in making risk classification, the 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 scale of risk levels, and thus the characteristics of extreme grades within this group vary considerably. In general, we may say that:

- the entities from top grades under this group are fulfilling their financial obligations at present, however the debt service 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 unfavorable business or economic conditions;
- the borrowers assigned to the top risk grades (the worst grades from that group) can be characterized by uncertain income perspectives, worse quality of assets and over a longer term the risk of equity mismatch and possibility of loss occurrence.

Problem loan grade 18 - 22

This risk group comprises the borrowers who showed explicit symptoms of problems with debt service or who are in the situation of financial asset impairment.

Borrowers from this risk group are rated 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 permanent compliance with the advanced internal-ratings based approach (AIRB) for the purpose of regulatory capital calculation[1], the 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 clients 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 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, the 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 (PD, LGD) are appropriately adjusted 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 been included. Additionally, LGD risk parameters for impaired exposures are determined by the time the exposure has been impaired.

The models are used also for the credit decision-making, loan prices, Bank's reference limits and risk appetite 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.

[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.

7.6. Restructuring

In some cases, ING Bank Śląski S.A. will work with a borrower and its other creditors (if any) to restructure the borrower'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,
- redeeming part of the financial obligations,
- selling assets,
- selling business lines of the borrower,
- 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 borrower 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 as well as credit risk control in scope of integrated system, consisting of all processes realized at the Bank in relation to pursuing activity connected with granting loans, cash loans and other lending products. Rules of retail credit risk management are described in the *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 provisioned for, for which the impairment triggers occurred (without recognition of losses expected as a result of future events).

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

The Bank groups balance sheet 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. The Bank distinguishes three basic groups of exposures (product segments):

- consumer loans and cash loans – loans, cash loans and credit lines granted to individuals not aimed at conducting economic activity excluding mortgage loans and cash loans,
- mortgage loans and cash loans – loans for housing purpose or secured by mortgage on housing real estate granted to individual person, payable in instalments, except for mortgage loan (without finance target) and mortgage line (payable in instalments since fixed moment, previously payment of interest),
- loans and cash loans in the Entrepreneurs segment – loans and cash loans granted to individual persons, legal persons or organizations, who were awarded by the legal act with legal capacity regarding conducting economic activity on their behalf for the purpose connected with conducted economic activity. The Entrepreneurs group includes companies with annual net sales income not exceeding equivalent in Polish currency of EUR 1.2 million according to average exchange rate of the National Bank of Poland (according to the

Accounting Act) and total credit exposures on all credit products at the Bank not exceeding the amount of PLN 1.2 million.

9. Compliance reviews

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

10. Identification of derivative-related credit risk

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 at the Bank, as for all other credit exposures.

ACR system (Adaptive 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 risk – arising for FX and derivative transactions as well as transactions in securities as a result of replacing the transaction on the market at a potentially unfavorable 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 replace 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 replacement 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/ sale

The risk connected with securities purchase/sale 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 fulfilment 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 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):

	2015	2014
Money market	13.8	29.2
MtM gross*	913.1	1 273.3
MtM net**	119.1	198.8
Present value + potential future value (FM value)	618.3	531.0

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

10.6. Derivative-related credit risk

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 principles* in item 3.2. *Derivative-related credit risk.*

The item *Loans and other receivables to customers* in the statement of financial position presents receivables resulting from restructuring of derivative transactions made by the Bank with clients. The receivables equaled to PLN 109.1 million as at 31 December 2015 compared to PLN 194.5 million as at 31 December 2014. The carrying amount of impairment losses connected with transactions on derivatives amounted to PLN 103.9 million as at 31 December 2015 compared to PLN 184.6 million as at 31 December 2014.

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.

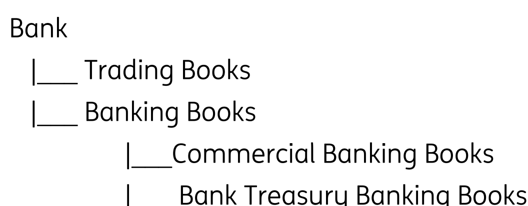
The Bank defines market risk as the potential loss due to unfavourable changes in market prices (e.g. yields, FX rates, equity prices, etc.) and/or market parameters (e.g. volatility of market prices and the correlation between moves in market prices) and/or customer behaviour (e.g. early loan repayments).

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 by monitoring the correctness of valuation models and controlling the quality of market data used for valuation and calculation of financial result. 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.

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:



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.

<u>*Commercial Banking Books*</u>

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 (for interest rate risk, basis risk and liquidity risk) and to trading books of Financial Markets (for FX risk) 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.

<u>*Bank Treasury Banking Books*</u>

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, EaR, NPVaR 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 and banking books 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.

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.

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 half-yearly 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 2015 (in PLN thousand)

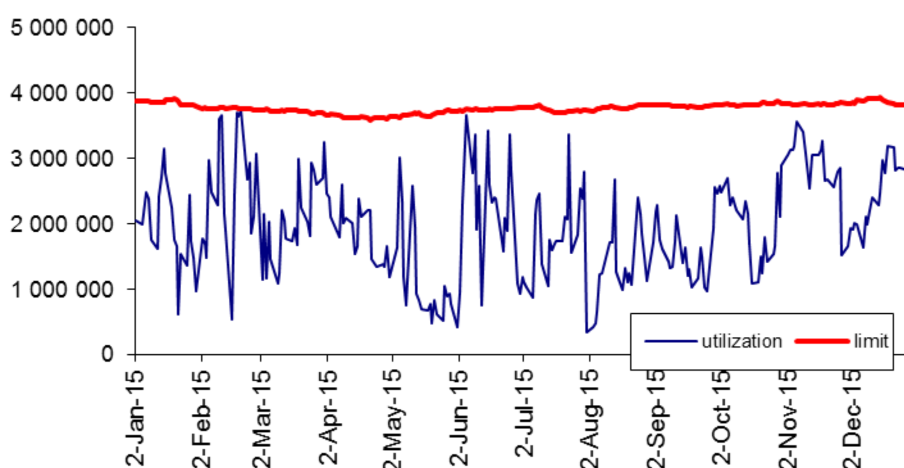
Area	Limit	as at 31 Dec 2015	Average	Min	Max
Interest rate	3 835.4	2 835.5	1 986.6	345.2	3 736.5
FX	3 409.2	72.4	299.6	5.8	1 852.6
FX Options	1 704.6	557.3	357.8	192.2	1 160.1

VaR numbers in 2014 (in PLN thousand)

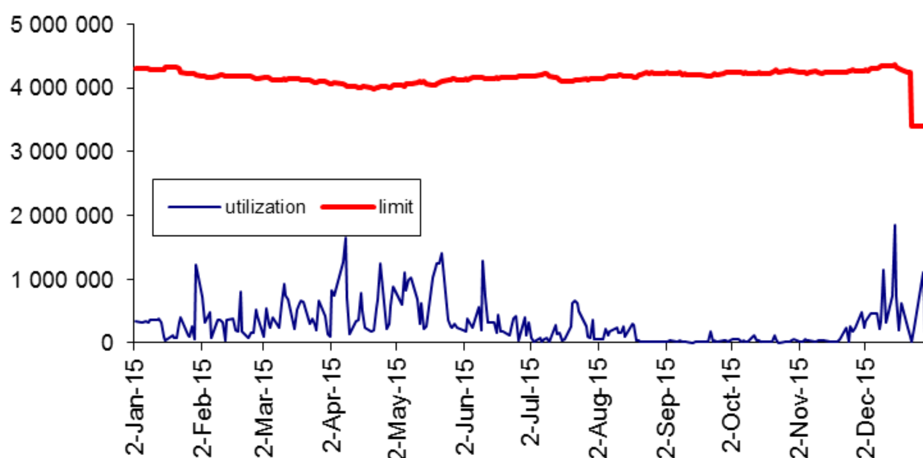
Area	Limit	as at 31 Dec 2014	Average	Min	Max
Interest Rate	**3 836.1**	**1 770.9**	**1 983.2**	**394.5**	**4 448.4**
FX	**4 262.3**	**371.5**	**600.6**	**132.5**	**2 051.7**
FX Options	**2 131.2**	**423.8**	**456.3**	**168.6**	**829.0**

** 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.*

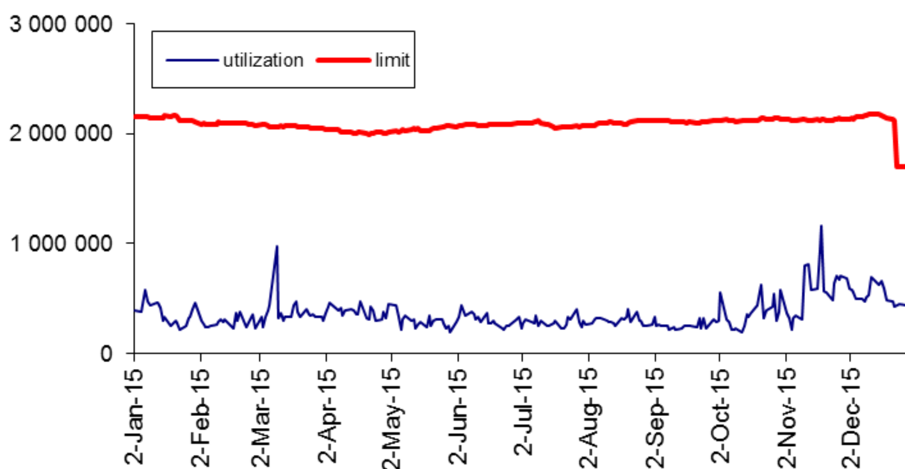
Interest Rate VaR (PLN)



FX VaR (PLN)



FX Options VaR (PLN)



Financial Markets Division actively has taken interest rate open position while minimalizing trading FX risk. The average VaR limit utilization in 2015 amounted to: 53% for interest rate risk, 7% for FX risk and 17% for foreign exchange options risk. VaR limits breaches has not been reported. Due to low utilization, the VaR limits were decreased from EUR 1 million to EUR 800 thousands for FX desk and from EUR 500 thousands to EUR 400 thousands for FX Options desk.

*Bank Treasury Banking Books Market Risk (VaR statistics)**

VaR numbers in 2015 (in PLN thousand)

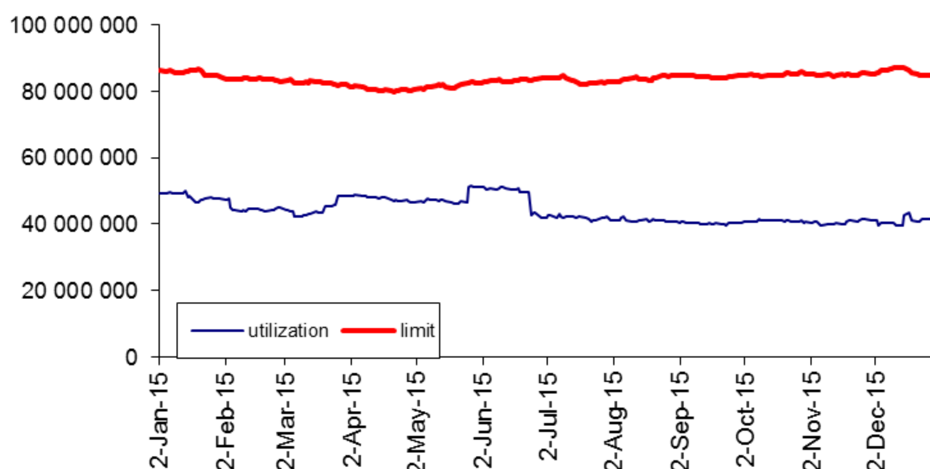
Area	Limit	as at 31 Dec 2015	Average	Min	Max
LMF&ALM	85 230.0	42 471.5	43 866.2	39 413.4	51 439.1

*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	49 449.9	48 513.5	50 397.9

**) 2014 statistical data (average, minimum, maximum) cover only December; i.e. the month when the Bank implemented the historical simulation measurement method effective in 2015. Previously, the Bank applied the variance-covariance method excluding the credit spread.*

LMF & ALM VaR (PLN)



Treasury Department kept their exposures in banking book at moderate levels comparing to approved limits. The average usage of limit for Bank Treasury banking book amounted to 52 %. In 2015 there was no VaR limit breaches.

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). Specifically, the Bank hedges optionality risk (the potential losses on these positions given early-withdrawal of deposits and/or early re-payment of loans). Additionally Bank measures 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). This risk is considered as 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; 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.
- 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 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.
- 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 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. The calculations for 2015 year end were done per paper taking into account the level for the reserve and its sign and then aggregated, which gives more precise results than in case of previously used portfolio method based on sensitivities.

The decrease of changes in capital base in 2015 comparing to 2014 results from the strategy of mitigating the sensitivity of AFS portfolio by building HTM portfolio and using hedge accounting on AFS.

Sensitivity of results to changes in interest rates (PLN million)

2015

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	-83.96	-39.61	39.61	83.96	54.17	-42.89	64.48	-11.47
TRADING	13.50	6.75	-6.75	-13.50	13.50	6.75	-6.75	-13.50
TOTAL	**-70.46**	**-32.86**	**32.86**	**70.46**	**67.67**	**-36.14**	**57.73**	**-24.97**

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**

*) adopted scenarios in the case of change to the financial results assume an annual horizon of analysis for gradual (uniform over time) changes by 200 points and the shock (one-time) changes by 100 basis points.

Sensitivity of capital accounts to changes in interest rates (PLN million)

2015

Position	Approximate Change in Regulatory Capital Base for Yield Curve Move			
	-2%	**-1%**	**+1%**	**+2%**
AFS Portfolio	197.60	99.04	-101.06	-215.29

2014

Position	Approximate Change in Regulatory Capital Base for Yield Curve Move			
	-2%	**-1%**	**+1%**	**+2%**
AFS Portfolio	563.79	281.89	-281.89	-563.79

III. Liquidity Risk Management

1. General information

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.

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 allow 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 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.

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 Bank. Risk might be controlled by operations which reduce probability of risk materializing or action aimed to reduce of effects in case of risk materializing. 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.

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

The Bank runs an active policy of liquidity management within major currencies. 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.

2. Roles and responsibilities in the process of liquidity risk management

Bank'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.

First line of defence: The business management in the Bank. The managers heading up a given business units bear the primary accountability for the actions, operations, compliance with norms and effective risk control affecting the particular business unit.

Second line of defence: The risk and finance management functions. The risk management functions and, where applicable, finance management functions, are realized through:

- developing policies, standards and guidance for their particular risk areas;
- coordinating, supervision and control of the actions taken by the first line of defence within the scope of completed tasks and the management, control and reporting of risks generated by the first line of defence;
- escalating/vetoing of the business unit activities that could possibly create risks unacceptable for the Bank.

Third line of defence: Internal Audit Department. The Internal Audit Department is responsible for providing an independent assessment and assurance of:

- the design and effectiveness of internal controls over the risks resulting from the Bank's activity;
- the design and effectiveness of risk management performed by the first and second line of defence.

The Asset and Liability Management Committee (ALCO) takes a special role in the liquidity and financing management process:

- ALCO implements the Bank's liquidity and funding strategy, implements the limits of the accepted risk appetite (as approved by the Board), and supervises and monitors the level of liquidity risk as well as the structure of the financing under the Bank's balance sheet.
- ALCO manages the liquidity buffer under the relevant policies and limits approved by the Management Board, operational actions in this area are delegated to the Treasury Department.

3. Centralization of liquidity risk management and financing

The process of liquidity risk management is fully centralized at the level of the function of treasury and risk management. Liquidity risk (and generated liquidity position) of individual business lines are transferred to the Treasury Department for centralized management.

Bank includes cost and benefits resulting from different types of liquidity risk in risk transfer system, yield measurement and product approval process in all material bank activities (both balance sheet and off-balance sheet).

Bank Treasury manages the positions transferred to their books via risk transfer system, including liquidity risk management connected to the liquidity premium reprising risk. In order to ensure proper, independent and centralized performance of tasks necessary in the liquidity risk management process (including risk measurement and reporting as well as preparation, review and update of the documentation), the Bank established the Market Risk Management Department reporting directly to the Vice-President of the Management Board.

4. Funding activities

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 2015. 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 to identify potential risks associated with the financing.

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 2015 and 2014 with the split between direct and reciprocal funding.

Direct funding (in PLN million)

	2015		2014	
General customer type	**direct funding**	**percentage share**	**direct funding**	**percentage share**
Banks	397	0%	1 851	2%
Corporate clients	28 147	29%	24 610	29%
Retail clients	58 690	60%	50 137	58%
Own Issued Bonds	865	1%	865	1%
Equity	9 181	9%	8 591	10%

Reciprocal funding (in PLN million)

	2015		2014	
General customer type	**reciprocal funding**	**percentage share**	**reciprocal funding**	**percentage share**
Banks	16 211	98%	13 714	98%
Corporate clients	346	2%	330	2%
Retail clients	0	0%	0	0%

5. Stress tests and contingency funding plans

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 semi-annual basis prepares scenario analysis and sensitivity analysis for liquidity risk.

The results of stress tests are taken into account in the creation of the strategy, taking corrective action or actions to limit the bank's risk exposure, development of emergency action plans for when the stress of daily risk management practices, defining risk appetite and internal limits and to adapt and improve the internal regulations of the Bank.

Testing program consists of a scenario analysis, sensitivity analysis, and reverse tests. During the scenario analysis are combined elements of shock, for which there is a likelihood of at the same time.

As part of the tests are analyzed three options:

- Idiosyncratic – specific to the Bank, market conditions generally remain at a good level, the banking sector as a whole is not subject to extreme conditions,
- System – external market crisis, the Bank is affected by extreme conditions as a result of the deterioration of market conditions,
- Mixed – a combination of the two variants mentioned above.

Within each variant we studied a number of risk factors and built a set of scenarios. As a rule, test scenarios are built assuming conservative assumptions. The aim of the sensitivity analysis is to understand the sensitivity of the Bank's individual risk factors. An additional element tests are reversed, that is analyzing the potential risks to the Bank.

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.

In the process of testing liquidity are an important element of specific scenarios for liquidity risks in the day and the indicators and measures of liquidity during the day.

The results of the 2015 tests confirm a stable and safe position of the Bank. The Bank has liquidity reserves in an adequate level.

Development of the liquidity contingency plan, which is mutually linked to stress testing, is one of the essential processes of liquidity risk management. The Funding Contingency Plan developed by the Bank is designed to provide for guidelines on identification of a liquidity-related crisis and should such a crisis be identified to describe a set of actions to be taken to mitigate that crisis. The Funding Contingency Plan applies to the entire operations of the Bank. The Liquidity Crisis Team is a significant contributing factor if the Funding Contingency Plan needs to be implemented (started).

6. Management of the liquidity reserves

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 table below presents the structure of a buffer of liquid assets as at 31 December 2015:

The structure of the liquidity buffer	share%
bonds issued by the government or the central bank (in PLN)	79%
bonds issued by the government or the central bank (in EUR)	16%
BGK bonds	5%

7. The limits and measurement of liquidity risk

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, the stress tests results 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 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.

The Polish Financial Supervision Authority regulation no. 386/2008 requires banks to calculate the 4 liquidity measures: short term liquidity gap (minimum: 0.00), 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 2015 the bank kept all liquidity measures over their minimum amounts.

As of 31 December 2015 liquidity measures of Bank amounted as follows:

Liquidity measurement		Minimum	2015	2014
M1	Short term liquidity gap (in PLN million)	0.00	14 141.43	14 434.85
M2	Short term liquidity ratio	1.00	1.57	1.59
M3	Own Funds to Non-Liquid Assets Ratio	1.00	10.68	9.05
M4	Own Funds and Core Deposits to Non-Liquid and Semi-Liquid Assets Ratio	1.00	1.31	1.33

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 - Liquidity Covered 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 2015 liquidity measures of Bank amounted as follows:

Liquidity measurement		**Minimum**	**2015**	**2014**
LCR	Liquidity coverage ratio	60%	183%	176%
NSFR	Net Stable funding ratio	n/a*	111%	111%

*) 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)

2015

	1-6 months	**7-12 months**	**1-5 years**	**6-10 years**	**11-15 years**	**over 15 years**
Direct gap	19 053.7	2 294.3	-4 133.8	-20 242.8	3 078.9	-50.5
Cumulative gap	19 053.7	21 348.1	17 214.3	-3 028.5	50.5	0.0

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

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.

2015 *(in PLN million)*

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
Liabilities due to other banks	1 845.8	9.6	0.0	0.0	0.0
Financial liabilities measured at fair value through profit and loss	162.8	0.0	0.0	249.4	217.2
Liabilities due to customers	81 972.1	2 009.5	3 230.5	195.1	3.2
Liabilities due to customers under repo transactions	47.5	0.0	0.0	0.0	0.0
Liabilities due to issue of debt securities	0.0	0.0	22.8	902.9	0.0
Contingent liabilities granted	23 453.5	0.0	0.0	0.0	0.0

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

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 2015 and 31 December 2014 respectively was taken as the cash flow amount.

2015 *(in PLN million)*

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
Interest Rate Swap, including:	-79.3	-214.1	-589.6	-2 298.7	-563.6
- hedging transactions in the hedge accounting	-66.1	-115.0	-240.5	-1 057.2	-280.3
other derivatives	-11.6	-20.6	-40.8	-50.2	-3.3

2014 *(in PLN million)*

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
Interest Rate Swap, including:	-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

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 2015 and 31 December 2014 respectively.

2015 *(in PLN million)*

	up to month	1- 3 months	3 – 12 months	1-5 years	over 5 years
outflows	-3 917.3	-2 963.1	-1 840.8	-2 934.0	-366.1
inflows	3 890.7	2 942.1	1 868.9	2 912.1	340.4

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

IV. Other material risks management

1. Operational risk management

ING Bank Śląski S.A. manages operational and anti-fraud risks pursuant to the laws, recommendations and resolutions of the Polish Financial Supervision Authority and other regulatory bodies as well as abiding by the standards developed by ING Group.

Operational risk is recognised at ING Bank Śląski S.A. as the risk of sustaining direct or indirect material loss or reputational damage resulting from inadequate or failing internal processes, people, technical systems or external events. Reputation and business risk factors and impact are also watched within the operational risk domain.

Having obtained the Supervisory Board's approval, the Bank Management Board outlined the strategy for managing operational and anti-fraud risks by implementing a coherent set of internal prescriptive documents governing the scope, principles and duties of Bank employees relating to mitigation of effects and probability of incidents' occurrence in that area.

In agreement with the Supervisory Board, the Bank Management Board adopted the Non-Financial Risk Appetite Statement in 2015, wherein they specified the maximum acceptable limits of losses, capital limits and the risk that the Bank would be willing to undertake when achieving planned business goals in full compliance with the law and regulatory requirements. The level of limits utilisation is monitored and presented from time to time to the Bank Management Board, Audit Committee, Risk Committee and Supervisory Board.

The role of the Bank Non-Financial Risk Committee and Non-Financial Risk Committees within individual business lines which support the former in performing supervisory and decision-taking functions is crucial for ensuring continuity and consistency of risk management.

In 2015, caring about the safety of funds entrusted by clients and maintenance of the acceptable operational risk level, the Bank continued its efforts to ensure compliance with the new regulatory requirements and enhance the risk management system. The most important activities in that regard are as follows:

- analysis of key business development-related threats to the Bank business,
- testing of controls mitigating key risks at the Bank,
- review of the scope of scenario analyses and their adaptation to the business strategy of the Bank,
- update of risk assessment regulations and implementation of the operational risk limits-based risk assessment method,
- continued risk analyses for individual Bank processes,
- monitoring and testing of business continuity mechanisms for key processes, the crisis management system and the mechanisms ensuring physical security of individuals and the Bank's property,
- further improvement of the efficiency of counteracting the cyber-crime practices involving payment transactions and identity or funds theft, counteracting the Advanced Persistent Threat (ATP) to the Bank's IT infrastructure targeting data theft or destruction and counteracting Distributed Denial of Service (DDoS) attacks,
- performance of a series of risk analyses for critical and important business applications and support applications, including an in-depth analysis of IT systems security vulnerabilities (in particular for e-banking systems), penetration tests and intensive monitoring of the electronic banking systems,
- fulfilment of the requirements to be implemented in 2015 under the revised PFSA Recommendation D concerning management of information technology and ICT security at banks,
- renewal of the local insurance programme of the ING Bank Śląski S.A. Group as regards third-party liability and property insurance adjusted to the current market situation,
- update of regulations on non-financial risk transfer to insurance market,
- development of the integrated system supporting the operational risk management processes,
- continued preparatory works to implement the advanced methods of operational risk measurement (AMA) for the purpose of regulatory capital requirements calculation,
- modification of organisational structure from the aspect of operational risk management, including:
    - establishment as of 01 June 2015 of a new organisational unit – IT Security Department, whose role is to make the actions aimed at mitigating the information (technology) security risk more efficient,
    - entrusting the Bank Management Board Member supervising the Risk Division with oversight of non-financial risk management units, following the amendments to the Banking Law Act, as of 22 December 2015, and
- raising employees' awareness as regards effective operational and anti-fraud risks management by introducing new mandatory training courses for all Bank employees.

2. Model risk management

Model risk is defined as risk of introducing incorrectly built (defined) models, tariffs or parameters, inappropriate application of models or lack of their necessary update. It is also a risk of improper control and monitoring during the functioning of the model in the Bank. In relation to aforementioned definition the following risk subcategories are distinguished:

- data risk - risk resulting from the application of improperly built, unreliable or incomplete data including data with time series not long enough,
- assumptions risk - risk resulting from the assumptions and simplifications applied to model construction and setting the parameters (tariffs),
- methodology risk - risk resulting from improper application of tools, techniques and methods (including statistical methods) to build models and setting of tariffs and parameters,
- administration risk - risk resulting from improper implementation (proper model, but incorrectly applied in a Bank's IT infrastructure), improper application (including mistakes resulting from improper IT system operation) and improper model functioning. Within the scope of administration risk the risks resulting from inadequate monitoring, validation or update, shall be distinguished.

The legal basis for the model risk management process is "Policy on management of risk models and valuation models at ING Bank Śląski S.A." and the activities are coordinated by the Capital Management Department. The Policy determines among others:

- model life cycle,
- rules for evaluating the significance of the models,
- principles of operation of the model register,
- the rules for calculating capital for model risk,
- the rules for carrying out the validation process.

Capital Management Department also maintains the models register which is a repository of information about Bank's risk models and evaluation models and its functioning. It contains among others information about the model significance, the monitoring date and results, the validation date and results and current models risk level.

The Bank regularly assesses the risk of individual models and estimates economic capital for model risk in accordance with the rules set in internal regulations. The method of capital calculation for models with identified increased or high risk levels are described in economic capital calculation methodology of bank's significant models.

The status of activities in that area of model risk management is reported to the relevant Committees and Management Board and includes the results of model validation and model risk assessment and the level of capital calculated for model risk.

As at 31 December 2015, the Bank operates 47 models identified as essential, out of 73 present at the Bank.

Validation of models is performed in accordance with "Model Validation Policy at ING Bank Śląski S.A." and validation instructions. In the analysed period, the Model Validation Department (established on the 1 February 2014) pre-validated newly implemented models and started a series of periodic validation.

3. Business risk management

Business risk in ING Bank Śląski S.A. includes:

- macroeconomic risk (stress tests) - risk arising from macroeconomic changes and their impact on the minimum capital requirements,
- financial result risk - risk associated with taking adverse or erroneous decisions, the lack of or faulty execution of taken assumptions/objectives and changes in the external environment and an inappropriate response to these changes which results in the financial results under the requirements arising from the need to conduct current operations and development mainly in order to ensure an adequate supply of capital,
- FX mortgage portfolio risk - risk of losses connected with FX mortgage loans conversion into PLN mortgage loans.

The main element of macroeconomic risk management are stress tests, which includes balance sheet, economic and regulatory capital, and profit and loss. These tests are performed twice a year and send to ALCO and once a year to Management Board and Supervisory Board. Economic capital is calculated only when the capital adequacy metrics, in mild recession scenario, are in one year horizon below required level.

Financial result risk has several sources:

- poorly defined financial objectives of the Bank or its improper transfer of the operational and tactical level. Defined financial objectives are not consistent with the introduced new products and/or services,
- inadequate response to events in the economic environment, such as the demand for financial services customers, changes in the socio-political and regulatory/legal environment,
- lack of appropriate means of qualitative and quantitative information to achieve financial objectives,
- improper management processes, including the adjustment of current operations to the market situation and planning of activities for the anticipated market environment.

The management process of financial result risk is realized through management accounting, which includes monthly financial result divided per business lines reporting.

One of the elements of business risk is FX mortgage portfolio risk. It is defined as risk of losses connected with fx mortgage loans conversion into PLN mortgage loans.

Bank on regular basis is monitoring proposed changes in law and takes part in preparing a solution, which will satisfy clients. Bank exposure on FX portfolio mortgage loans is around 1.4 bn PLN. Due to that the portfolio is not significant (around 1%) in relation to total assets PFSA decided not to impose any additional capital requirements on Bank.

V. Regulatory and Economic Capital Management

ING Bank Śląski manages its capital under the Banking Law, EU Regulations, Macroprudential supervision on financial institutions Act, 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 the 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 case of a solvency crisis.

The Bank's organisational structure and the management model are in line with the guidelines of the European and local regulations. The Bank implemented the resolutions of the European Parliament and Council Regulations (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit

institutions and investment firms (hereinafter "CRR Regulation"); moreover, it is implementing resolutions of specific legal acts and guidelines on a daily basis. To improve this operation, the Bank introduced a process of identifying and monitoring whether the regulations published by the European Commission have been implemented.

The adequacy measures set by the Bank drive us to conclusion that the Bank maintains sufficient capital to facilitate the efficient and effective pursuit of the development plan and running of ongoing operations.

1. Regulatory capital

For the purpose of 2015 reporting, the 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 to apply AIRB approach for the following exposure classes: 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.

For operational risk the Bank uses the Basic Indicator Approach (BIA).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.

For market risk the Bank uses standard approach following the CRR Regulation. The area is managed by the Market Risk Management Department.

The Bank also sets the capital requirements for concentration risk, settlement and delivery risk and credit value adjustment risk (CVA). In all the cases the requirements are set in compliance with the CRR Regulation.

At present, own funds are above the PFSA minimum of 12.00%. As per the PFSA guidelines, as of 01 January 2016 the total capital ratio should be 13.25% at least. At present, the total capital ratio of the Bank is above the requirement from the 2015 yearend and the 2016 minimum.

Unrealised gains and losses on debt and equity instruments available for sale are recognized in own funds in accordance with the guidelines in European Parliament and Council Regulations (EU) No. 575/2013 of 26 June 2013 and the Banking Law Act.

In accordance with the article 171a of the Banking Law Act applied the following percentages:

- unrealised gains are removed from own funds to 60%, and
- unrealised losses are included in own funds to 100%.

Own funds of the Bank are formed of the Tier 1 capital only. As at 31 December 2015, the Bank identified neither additional Tier 1 capital (AT1) nor Tier 2 capital.

Under the CRR Regulation, 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 with the use of 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".

The table below presents the detailed calculation of basic figures of regulatory capital and total capital ratio for the ING Bank Śląski S.A.

Regulatory capital base and total capital ratio

	2015	2014
Own funds		
A. Tier 1 capital (T1)	**7 750.2**	**6 774.6**
A.I. Common equity Tier 1 capital (CET1)	**7 750.2**	**6 774.6**
capital instruments eligible as CET1 Capital	130.1	130.1
share premium	956.3	956.3
retained earnings	398.8	81.8
- previous years retained earnings	93.3	81.8
- profit or loss eligible *	305.5	0.0
accumulated other comprehensive income	155.5	-3.5
other reserves	5 532.0	5 034.5
funds for general banking risk	1 110.2	1 060.2
intangible assets	-409.1	-360.8
IRB shortfall of credit risk adjustments to expected losses	-123.6	-124.0
A.II. Additional Tier 1 capital (AT1)	**0.0**	**0.0**
B. Tier 2 capital (T2)	**0.0**	**0.0**
Own funds taken into account in total capital ratio calculation	**7 750.2**	**6 774.6**
Capital requirements		
capital requirements for credit risk, counterparty credit risk, dilution risks and free deliveries risk	3 513.2	2 947.6
settlements/delivery risk capital requirements	0.0	10.3
capital requirements for position, foreign exchange and commodities risks	104.4	33.8
capital requirements for operational risk	472.0	443.3
capital requirements for credit valuation adjustment risk	25.8	41.9
supplement to the overall level of capital requirements	0.0	16.0
Total capital requirements	**4 115.4**	**3 492.9**
Total capital ratio	**15.07%**	**15.52%**

*) As at 31 December 2015 in the own funds of the Bank was recognized Bank's net profit in the amount of PLN 305.5 million for the period from 1 January 2015 to 30 June 2015, after deducting the expected charges and dividend, based on the decision of the Financial Supervision Authority of 29 October 2015.

2. Leverage ratio

The calculation of regulatory leverage ratio in the ING Bank Śląski S.A. as at 31 December 2015, was based on provisions of Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to the leverage ratio (hereinafter referred to as the "Regulation 2015/62").

Leverage ratio is calculated as Tier 1 capital measure divided by the total exposure measure and expressed as a percentage. Total exposure measure is the sum of the exposure value calculated in accordance with the Regulation 2015/62 of all assets and off-balance sheet items not deducted when calculating the Tier 1 capital measure.

Calculation of the leverage ratio at 31 December 2015 for the ING Bank Śląski S.A.

Tier 1 capital	7 750.1
Total leverage ratio exposures	107 648.6
Leverage ratio (%)	**7.20**

On the basis of CRD IV Directive and implementing standards, the Bank prepared and implemented "The procedure of preparing the report: Leverage Ratio". This document describes the recipients and detailed rules of leverage ratio calculation in LIREP application for NBP reporting.

As a consequence of leverage ratio calculation process, the Bank during risk assessment workshops for the year 2015 identified excessive financial leverage risk. The risk is defined as risk resulting from a vulnerability of an institution to threats connected to leverage ratio, which might require some unintentional corrective actions to its business plan, including emergency sale of assets that could result in losses or in need of valuation adjustments of the remaining assets. The Bank implemented management process, including: "Excessive financial leverage risk management policy" and "Leverage ratio planning procedure". The documents provision responsibilities of departments and ALCO Committee. In the Policy, the limit of leverage ratio level was also set and the actions to maintain the ratio on required level are defined. The Bank also included the leverage ratio in stress tests.

In 2015 the leverage ratio was at the level above internal and regulatory minimum. The massive influence on the leverage ratio resulted from credit volumes dynamics and inclusion of 2014 and first half of 2015 net result to Tier 1 capital.

3. Economic capital (internal)

Economic capital is a capital defined as amount of capital required to cover all kinds of risk in the Bank's operations. The amount of economic capital should cover the assumed level of unexpected losses to which the Bank may be exposed to in the future. When estimating the capital required to cover adverse impact of risk, a year time horizon and confidence level corresponding to Bank's rating (99.95%) are assumed.

Bank identifies following economic capital categories as significant:

- credit risk (default and counterparty risk, concentration risk, residual risk, other non-credit obligation assets risk; residual value risk),
- market risk (risk of loss due to negative changes in financial market, like: interest rate risk, exchange rate risk),
- business risk (macroeconomic risk, financial result risk, foreign currency mortgage loan risk),
- liquidity and funding risk,
- 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),
- model risk.

In 2015 risk of excessive leverage and foreign currency mortgage loan risk were identified as a result of workshop on the significance of risks in the Bank. As adequate processes to manage risk of excessive leverage were implemented and also level for leverage ratio is appropriate the Bank assessed this risk as insignificant. However, taking into account uncertainty of legislative changes concerning foreign currency mortgage loan, the risk of CHF mortgage loan portfolio was deemed significant.

During 2015 own funds level stood at the level above internal capital. The major part of internal capital related to credit risk. It was caused by increase in the loan portfolio and changes in models. The capital for liquidity risk was very volatile in the part pertaining to client behaviour risk. This phenomenon was caused by volatile interest rates. Interest rate volatility was a reason of increase in capital requirement on market risk and liquidity risk (customer behavior risk) as well.

4. Disclosure requirements (Pillar III)

Regulatory disclosure are met by COREP and FINREP reporting as well as publishing additional qualitative and quantitative information, based on European and local regulations. The Bank analysed the regulations binding as at 31 December 2015 and published the required information on its website.

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

2016-02-22	**Małgorzata Kołakowska** *President*	*Signed on the Polish original*
2016-02-22	**Mirosław Boda** *Vice-President* *responsible for bookkeeping*	*Signed on the Polish original*
2016-02-22	**Michał Bolesławski** *Vice-President*	*Signed on the Polish original*
2016-02-22	**Joanna Erdman** *Vice-President*	*Signed on the Polish original*
2016-02-22	**Ignacio Juliá Vilar** *Vice-President*	*Signed on the Polish original*
2016-02-22	**Justyna Kesler** *Vice-President*	*Signed on the Polish original*
2016-02-22	**Patrick Roesink** *Vice-President*	*Signed on the Polish original*