Annual Report of Kredyt Bank S.A. prepared for the year ended December 31, 2007

(Submitted to the Polish Financial Supervision Authority on February 29, 2008 - translation from Polish language)

Letter of the President of the Management Board of Kredyt Bank S.A.

Dear Shareholders, Customers and Employees.

The year of 2007 was important for Kredyt Bank S.A. due to a good economic situation, high economic growth and significant changes occurring both on the world as well as Polish financial markets. It was a successful year for us, and that is why I present to you with a great satisfaction 2007 annual financial statement as well as the report on Kredyt Bank S.A. activity in 2007.

The gross profit amounted to PLN 512 202 thousand and was the highest in the Bank's history so far. It was possible thanks to a significant growth of the basic income generated regardless of non-conclusion of one-time transactions, comparable to those of previous years. We have maintained a strict cost control with a simultaneous continuation of certain development projects. In comparison with the year of 2006 the level of costs increased merely by 1.0%, which in combination with the growth of income allowed to improve the results as well as the efficiency.

In comparison with 2006 Kredyt Bank SA significantly increased its scale of activity in the key areas of business. We achieved a 43% growth in net credit portfolio volume as well as 8% growth in customers' deposit base. This permitted to stabilize the market shares, while in some other cases the growth of shares in the financial services market was noted. Primarily, however, we were satisfied to observe a significant growth of Kredyt Bank's share in the market of mortgage-secured credits.

The growth in the scale of credit activity was accompanied by the improving portfolio quality. The improvement was seen in the basic ratios that characterize the credit risk area: share of credits for which individual impairment circumstances were identified in total gross receivables due from customers declined from 14.5% in the end of 2006 to 7.4% in the end of 2007. It should be emphasized that this improvement was achieved in result of reducing the portfolio of so called bad credits. The volume of receivables with the identified impairment circumstances declined by 29.6% in comparison with the end of 2006.

The year of 2007 saw the continuation of the projects of strategic importance for Kredyt Bank S.A. as well as KBC Group in Poland, which are to secure safe foundations for a further growth and generating income in future. Basing on the experience and potential of Żagiel S.A. a consumer finance business line was isolated and reorganized. The product offer was expanded and the distribution network was adopted to the needs of this customer segment, while the number of Żagiel S.A. outlets was doubled within a year. The project of expanding a network of Kredyt Bank outlets is still underway. 62 subsidiaries launched under this project conducted operating activity in the end of 2007.

Signing 2007 annual report of Kredyt Bank S.A. I wish to heartily thank our customers and employees of Kredyt Bank S.A. for the confidence and loyalty. I think that our co-operation is a confirmation that their choice was right. Making a good use of the market position achieved until now as well as expanding the cooperation inside Kredyt Bank S.A. Group is the best guarantee of the further growth.

Yours faithfully,

Ronnie Richardson
CEO of Kredyt Bank S.A.

INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Kredyt Bank S.A.

1. We have audited the attached financial statements for the year ended 31 December 2007 of Kredyt Bank S.A. ('the Bank') located in Warsaw, Kasprzaka 2/8 Street, for the year ended 31 December 2007 containing:
   - the income statement for the period from 1 January 2007 to 31 December 2007 with a net profit amounting to 400,519 thousand zlotys,
   - the balance sheet as at 31 December 2007 with total assets amounting to 27,068,504 thousand zlotys,
   - the statement of changes in equity for the period from 1 January 2007 to 31 December 2007 with a net increase in equity amounting to 194,113 thousand zlotys,
   - the cash flow statement for the period from 1 January 2007 to 31 December 2007 with a net cash inflow amounting to 421,156 thousand zlotys and
   - the summary of significant accounting policies and other explanatory notes

   ('the attached financial statements').
2. The truth and fairness[1] of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2] and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.
3. We conducted our audit of the attached financial statements in accordance with the following regulations being in force in Poland:
   - chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

[1] Translation of the following expression in Polish: '*rzetelność, prawidłowość i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne, prawidłowe i jasne*'

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the audited Bank's operations for the period from 1 January 2007 to 31 December 2007, as well as its financial position[3] as at 31 December 2007;
   - have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the European Union and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Bank's Statutes.
5. We have read the Directors' Report on the Bank's operations for the period from 1 January 2007 to 31 December 2007 and the rules of preparation of annual financial statements ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No 209, item 1744).

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Registration No 130

(–)

Dorota Snarska-Kuman
Certified Auditor No 9667/7232

(–)

Jacek Hryniuk
Certified Auditor No 9262/6958

Warsaw, 29 February 2008

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

Standalone Financial Statements

of Kredyt Bank S.A.

For the Year

Ended 31.12.2007

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1. Income Statement

in PLN '000'	Note	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Interest income	10	1 491 448	1 235 154
Interest expense	11	-729 158	-564 047
Net interest income		**762 290**	**671 107**
Fee and commission income	12	366 150	299 994
Fee and commission expense	13	-58 135	-31 872
Net fee and commission income		**308 015**	**268 122**
Dividend income	14	7 977	1 027
Net trading income	15	178 979	134 536
Net result on derivatives used as hedging instruments and hedged items	16	-3 619	-52
Net gains from investment activity	17	4 533	11 768
Net income from sale of receivables	18	52 506	123 026
Other operating income	20	43 343	43 291
Total operating income		**1 354 024**	**1 252 825**
General and administrative expenses	21	-823 168	-814 643
Net impairment losses on financial assets, other assets and provisions	22	17 789	32 181
Other operating expenses	23	-36 443	-43 482
Total operating expenses		**-841 822**	**-825 944**
		0	
Profit before tax		**512 202**	**426 881**
Income tax expense	24	-111 683	10 562
Net profit		**400 519**	**437 443**
Weighed average number of ordinary shares		271 658 880	271 658 880
Earnings per ordinary share (in PLN)	**25**	**1.47**	**1.61**

The Bank does not calculate diluted earnings per share due to the absence of capital categories resulting in dilution.

Income statement should be analysed with notes, which form an integral part of these financial statements

2. Balance Sheet

in PLN '000'	Note	31.12.2007	Comparable data 31.12.2006
Assets			
Cash and balances with Central Bank	26	611 672	640 722
Gross loans and advances to banks	27	2 456 349	2 205 291
Impairment losses on loans and advances to banks	28	-2 260	-2 753
Financial assets at fair value through profit or loss, including financial assets held for trading (excluding derivatives)	29	448 499	612 912
Derivatives including:	30	495 095	297 427
- derivatives used as hedging instruments	34	34 025	3 403
Gross loans and advances to customers	31	17 738 052	12 914 172
Impairment losses on loans and advances to customers	32	-839 724	-1 100 617
Investment securities:	33	5 478 269	5 902 663
- available-for-sale		3 433 103	3 453 890
- held-to-maturity		2 045 166	2 448 773
Investments in subsidiaries and jointly controlled entities	35	73 876	73 831
Property, plant and equipment	36	343 438	325 050
Intangible assets	37, 38	65 425	84 394
Deferred tax asset	24	124 062	137 123
Current tax receivable		0	15 393
Non-current assets classified as held for sale	39	767	10 571
Other assets	40	74 984	87 616
Total assets		**27 068 504**	**22 203 795**

Balance Sheet (cont.)

in PLN '000'	**Note**	**31.12.2007**	**Comparable data 31.12.2006**
Liabilities			
Amounts due to Central Bank	41	1 101 661	1 990
Amounts due to banks	42	5 271 449	2 164 826
Derivatives including:	30	474 370	296 474
- derivatives used as hedging instruments	34	44 178	554
Amounts due to customers	43	17 180 731	15 875 333
Liabilities arising from repurchase transactions	44	50 126	1 053 928
Current tax liability		7 136	0
Provisions	45	105 724	98 775
Other liabilities	46	249 216	251 107
Subordinated liabilities	47	394 235	421 619
Total liabilities		**24 834 648**	**20 164 052**

in PLN '000'	**Note**	**31.12.2007**	**31.12.2006**
Equity			
Share capital	48	1 358 294	1 358 294
Share premium	48	381 718	104 789
Revaluation reserve	48	-87 617	18 275
Reserves	48	180 942	120 942
Current net profit attributable to the Shareholders of the Bank		400 519	437 443
Total equity		**2 233 856**	**2 039 743**
Total equity and liabilities		**27 068 504**	**22 203 795**

Balance sheet should be analysed with notes, which form an integral part of these financial statements

3. Off-balance Sheet Items

in PLN '000'	Note	31.12.2007	31.12.2006
Liabilities granted, including:		**6 030 093**	**4 706 170**
- financial	49	4 410 804	3 497 903
- guarantees	49	1 619 289	1 208 267
Liabilities received, including:		**2 224 054**	**501 807**
- financial		902 441	205 139
- guarantees		1 321 613	296 668
Liabilities related to sale/purchase transactions		**218 165 219**	**138 370 817**
Other:		**3 300 837**	**3 153 678**
- collaterals' received		3 300 837	3 153 178
- other		0	500

4. Statement of Changes in Equity

Changes in the period from 1 January to 31 December 2007

in PLN '000'	**Share capital**	**Share premium**	**Revaluation reserve**	**Reserves**	**Retained earnings (losses)**	**Net profit/loss for the period**	**Total equity**
Equity at opening balance – as of 01.01.2007	**1 358 294**	**104 789**	**18 275**	**120 942**	**437 443**	**0**	**2 039 743**
Valuation of financial assets available-for-sale			-89 090				-89 090
Effects of valuation of derivatives designated for cash flow hedge			-41 641				-41 641
Deferred tax on items recognised in equity			24 839				24 839
Net profit recognised directly in the equity			**-105 892**				**-105 892**
Net profit/loss for the period						400 519	400 519
Total of recognised income and expenses			**-105 892**			**400 519**	**294 627**
Profit allowance		276 929		60 000	-336 929		0
Dividends paid					-100 514		-100 514
Equity at end of period – as of 31.12.2007	**1 358 294**	**381 718**	**-87 617**	**180 942**	**0**	**400 519**	**2 233 856**

Changes in the period from 1 January to 31 December 2006

in PLN '000'	Share capital	Share premium	Revaluation reserve	Reserves	Retained earnings (losses)	Net profit/loss for the period	Total equity
Equity at opening balance – as of 01.01.2006	**1 358 294**	**0**	**15 928**	**120 942**	**164 554**	**0**	**1 659 718**
Valuation of financial assets available-for-sale			1 972				1 972
Effects of valuation of derivatives designated for cash flow hedge			1 195				1 195
Deferred tax on items recognised in equity			-820				-820
Net profit recognised directly in the equity			**2 347**				**2 347**
Net profit/loss for the period						437 443	437 443
Total of recognised income and expenses			**2 347**			**437 443**	**439 790**
Profit allowance		104 789			-104 789		0
Dividends paid					-59 765		-59 765
Equity at end of period – as of 31.12.2006	**1 358 294**	**104 789**	**18 275**	**120 942**	**0**	**437 443**	**2 039 743**

5. Cash Flow Statement

in PLN '000'	Note	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Net cash flow from operating activities			
Net profit		**400 519**	**437 443**
Adjustments to net profit and net cash from operating activities:		**-2 039 274**	**-666 310**
Current and deferred tax recognised in financial result		111 683	-10 562
Non-realised profit (loss) from currency translation differences	**58b**	-83 803	-8 995
Investing and financing activities		**-304 421**	**-1 338 875**
Depreciation		91 270	99 515
Net increase/decrease in impairment	58c	-253 725	-1 192 959
Dividends		-7 977	-1 027
Interest	58d	-136 196	-265 643
Net increase/decrease in provisions		6 949	21 703
Profit (loss) on dsposal of investments	58e	-4 742	-464
Net increase/decrease in operating assets (excluding cash)		**-4 704 765**	**-843 021**
Net increase/decrease in gross loans and advances to banks	58f	199 148	19 703
Net increase/decrease in financial assets at fair value through profit or loss, including financial assets held for trading and derivatives	58g	-14 517	-206 134
Net increase/decrease in gross loans and advances to customers		-4 823 880	-711 898
Received/paid income tax		-50 657	25 276
Net increase/decrease in other assets	58h	-14 859	30 032
Net increase/decrease in operating liabilities		**2 942 032**	**1 535 143**
Net increase/decrease in amounts due to Central Bank		1 099 671	1 990
Net increase/decrease in amounts due to banks	58i	1 339 042	-387 678
Net increase/decrease in derivatives		177 896	76 319
Net increase/decrease in amounts due to customers	58j	1 305 398	1 206 373
Net increase/decrease in liabilities arisning from repurchase transactions		-1 003 802	685 227
Net increase/decrease in other liabilities	58k	23 827	-47 088
Net cash flow from operating activities		**-1 638 755**	**-228 867**

in PLN '000'	Note	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Net cash flow from investing activities			
Inflows		**2 737 350**	**42 816 200**
Disposal of property, plant and equipment and intangible assets		3 551	323
Disposal of shares in equity investments classified as available for sale	58l	0	17 012
Disposal of investment securities	58m	2 503 086	42 556 989
Dividends		7 977	1 027
Interest received		222 736	240 849
Outflows		**-2 331 897**	**-41 764 084**
Acquisition of property, plant and equipment and intangible assets		-101 659	-86 432
Acquisition of subsidiaries classified as available for sale		-50	-50
Acquisition of investment securities	58m	-2 230 188	-41 677 602
Net cash flows from investing activities		**405 453**	**1 052 116**
Cash flow from financing activities			
Inflows		**1 846 441**	**0**
Proceeds from loans and advances		1 846 441	0
Outflows		**-191 983**	**-803 313**
Dividends paid		-100 514	-59 765
Repayment of subordinated liabilities	58n	0	-157 605
Repayment of loans and advances		0	-95 454
Redemption of own issue bonds	58o	0	-400 000
Other financial outflows	58p	-91 469	-90 489
Net cash flow from financing activities		**1 654 458**	**-803 313**

Net increase/decrease in cash		**421 156**	**19 936**
Cash at the beginning of the period		**2 268 737**	**2 248 801**
Cash at the end of the period, including:	**58a**	**2 689 893**	**2 268 737**
restricted cash		**635 061**	**537 194**

6. General information

Kredyt Bank Spółka Akcyjna ('Kredyt Bank S.A.', 'Bank') with its registered office in Warsaw, (Poland), ul. Kasprzaka 2/8, was established in 1990 and entered into the register of entrepreneurs maintained by the District Court for the Capital City of Warsaw under No. 0000019597.

Kredyt Bank S.A. is a universal bank which provides banking services addressed and tailored to the needs of all customer groups. A wide range of the Bank's services is addressed to business entities, individual customers and local authorities. The Bank provides convenient access to its services via an extended network of banking outlets and ATMs.

These financial statements of Kredyt Bank S.A. were approved for publication by the Management Board of Kredyt Bank S.A. on 29.02.2008.

These financial statements were audited by Ernst & Young Audit Sp. z o.o., an independent licensed certified auditor. The audit was performed in accordance with the Polish law and the certified auditors' professional standards issued by the National Council of Auditors in Poland.

KBC Banking and Insurance Capital Group

Kredyt Bank S.A. is a part of KBC Banking and Insurance Capital Group ('KBC Group') established in 1998 as a result of a merger of ABB Insurance Group, Almanij-Kreditbank Group and CERA Bank Group. KBC Group has been operating in the present structure since 2005, i.e. the merger of KBC Bank and Insurance Holding Company with Almanij. KBC Group is listed on the Euronext Stock Exchange in Brussels.

KBC Group focuses on bancassurance-type operations for individual customers, provides services for businesses, is involved in assets management and other types of market activities. It is one of the three largest banking and insurance companies on its home market in Belgium and one of the leading financial groups in Europe; geographically, its operations are focused in Central Europe.

In Poland, KBC Group is also a sole shareholder of TUiR WARTA S.A.

7. The description of major accounting policies applied for the purpose of preparing these financial statements

7.1. Declaration of compliance with IFRS

Under Article 45 clause 1c of the Act and under the decision of the General Meeting of Shareholders of Kredyt Bank S.A. of 25.04.2005, from 01.01.2005, also the Bank's financial statements have been prepared in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) that were approved by the European Commission.

These financial statements of the Bank for 2007 ended 31.12.2007 have been prepared in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) in force as at 31.12.2007 and approved by the European Commission. Matters not governed by the above-mentioned standards are regulated by the Accounting Act of 29 September 1994 (Journal of Laws of 2002 No. 76 item 694 as amended) and executive regulations thereto, and the Ordinance of the Minister of Finance of 19 October 2005 on current and interim information provided by issuers of securities (Journal of Laws of 2005 No. 209 item 1744).

IFRS include standards and interpretations approved by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee ('IFRIC').

Below, we present new and amended IFRS and new IFRIC interpretations that the Bank has applied this year. Their application, apart from a few additional disclosures, has not affected the financial statements.

- IFRS 7 – Financial Instruments: Disclosures. The Bank applied IFRS 7. The most vital new disclosures were presented in the following notes: 15, 16, 17, 19, 31, 32, 33, 34, 67, 70.
- IAS 1 Presentation of Financial Statements – Capital Disclosures. The Bank applied amended IAS 1. New disclosures are presented in Note 70.

The interpretations mentioned below have not materially affected the financial statements:
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies.
- IFRIC 8 Scope of IFRS 2.
- IFRIC 9 Reassessment of Embedded Derivatives.
- IFRIC 10 Interim Financial Reporting and Impairment.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, however are not in force yet:

- IFRS 8 Operating Segments (applicable to annual periods beginning after 01.01.2009).

- An amendment to IAS 23 Borrowing Costs (in force since 01.01.2009) – as at the date of this financial statement, the amendment has not been approved by the European Union yet.

- IFRIC 11: IFRS 2 – Group and Treasury Share Transactions (applicable to annual periods beginning after 01.03.2007).

- IFRIC 12: Service Concession Arrangements (applicable to annual periods beginning after 01.01.2008) – as at the date of this financial statement, this interpretation has not been approved by the European Union yet.

- IFRIC 13: Customer Loyalty Programmes (applicable to annual periods beginning after 01.07.2008) – as at the date of this financial statement, this interpretation has not been approved by the European Union yet.

- IFRIC 14: IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (applicable to annual periods beginning after 01.01.2008) – as at the date of this financial statement, this interpretation has not been approved by the European Union yet.

The Management Board does not predict that the introduction of the above standards or interpretations will materially affect the Bank's accounting principles (policy).

7.2. Basis of preparation

The figures in this financial statements have been presented in PLN thousands (thousand PLN), unless stated otherwise.

These financial statements were prepared based on the assumption that the Bank companies remain a going concern in the foreseeable future, i.e. for the period of at least one year from the balance sheet date. As at the approval date of these financial statements by the Management Board, there are no circumstances which could threaten the continuation of the Bank's business.

These financial statements were prepared according to the historical cost concept, except for financial assets and financial liabilities which are measured at fair value through profit or loss, loans and advances to customers and financial instruments measured at amortised cost having regard for impairment losses as well as held-for-sale financial instruments which are carried at fair value through revaluation reserve.

Accounting principles adopted to prepare these financial statements are applied in a continuous manner in all presented periods.

7.3. Transactions in foreign currencies

Transactions in foreign currencies are translated into PLN at the exchange rate as at the transaction date. Monetary assets and liabilities expressed in foreign currencies, recognised at historical cost, are translated into PLN at the average exchange rate of the National Bank of Poland as of the balance sheet date. Gains/losses from the translation of the resulting currency translation differences are recognised in the income statement.

Non-monetary assets and liabilities expressed in foreign currencies, recognised at historical cost, are translated into PLN at an exchange rate as at the transaction date, and items carried at fair value are translated at the average exchange rate of the National Bank of Poland as of the measurement date. Currency translation differences on non-monetary items measured at fair value through profit or loss are recognised in gains and losses on the change in fair value.

Below, we present NBP average rates of exchange applied by the Bank to translate balance sheet items.

	31.12.2007	**31.12.2006**
EUR	3.5820	3.8312
USD	2.4350	2.9105
CHF	2.1614	2.3842

7.4. Recognition of financial assets and liabilities in the balance sheet

The Bank recognises financial assets and liabilities in the balance sheet only when it is a party to a transaction.

Sale/purchase transactions related to financial assets valued at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised in the balance sheet always on the date of the transaction settlement. Loans and receivables are recognised at the time of the payment of cash to the borrower.

7.5. Derecognition of financial assets from the balance sheet

The Bank derecognises financial assets from the balance sheet when and only when contractual rights to cash flows from such assets expire or when the Group transfers a financial asset pursuant to paragraphs 18 and 19 of IAS 39, and the transfer meets the requirements for the derecognition from the balance sheet provided for in paragraph 20 of IAS 39. Particularly, the Bank writes off loan receivables from the balance sheet to impairment losses when such receivables are uncollectible receivables, particularly when:

- the costs of further debt recovery will exceed the expected proceeds from debt recovery;
- the ineffectiveness of the Bank's debt recovery process is confirmed with a respective document issued by a respective enforcement body;
- the debtor's assets that can be subjected to enforcement, and the debtor's whereabouts cannot be established;
- claims are prescribed.

Following the decision on writing off an asset, the Bank fails to undertake any further debt recovery action, and any possible proceeds from a given asset are only of incidental nature.

7.6. Classification and measurement of financial assets and liabilities

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

This category includes:

- held-for-trading assets or liabilities, i.e. those acquired or contracted with the intention to sell or repurchase them in the nearest future. This category comprises portfolios of the financial assets and liabilities portfolios managed jointly in order to generate profits in a short time horizon. This category also includes derivatives.
- financial assets or liabilities which, at the time of initial recognition, were designated by the Bank as measured at fair value through profit or loss, as the items are managed in a portfolio on the basis of the valuation at fair value, pursuant to the recorded risk management principles or the Bank's investment strategy.

Fair value is determined on the basis of quotations in active markets, including prices of the latest transactions and generally adopted measurement models based on variables that can be observed in the market environment.

Interest and acquired discount or premium on securities is settled over time in net interest income based on the effective interest rate method. Securities are carried at fair value, and its change is recognised in the profit/loss on financial operations.

Outflows from assets disposal are calculated with the FIFO method.

Financial derivatives are recognised at fair value, without deductions of transaction expenses that can be incurred at the disposal. The transaction price is the best indicator of fair value at the initial recognition of a derivative.

Derivatives with positive valuation as at the date of measurement are recognised in the balance sheet as assets, and derivatives with negative valuation from measurement – in liabilities.

7.6.2. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank intends and is able to hold to maturity or by the date very close to maturity.

Held-to-maturity investments are measured at amortised cost using the effective interest method, taking account of impairment losses. Accrued interest and settled discount or premium is recognised in net interest income.

7.6.3. Loans and receivables

Loans and receivables are non-derivative financial assets, with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Bank disburses cash to customers for purposes other than generating short-term trading gains. This category entails loans and advances to banks and customers, including purchased debts.

Loans are measured in the balance sheet at amortised cost based on the effective interest rate method, taking account of impairment losses.

Accrued interest with net commission (commissions received less commissions paid) settled over time using the effective interest rate method are recognised in interest income; the commission settled on a straight-line basis is recognised in fee and commission income. Impairment charge is recognised in the income statement in correspondence with accounts of provisions which adjust assets value.

7.6.4. Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value on the balance sheet. Changes in fair value are recognised in revaluation reserve until the financial asset is derecognised or impairment is recognised; then accumulated gains/losses included in equity are recognised in the income statement. In the case of debt securities, interest income and discount or premium is settled over time in net interest income using the effective interest rate method.

If fair value cannot be determined, assets are recognised at cost less impairment charge. Impairment charge is recognised in the income statement in correspondence with accounts of provisions which adjust assets value.

Dividends from available-for-sale equity instruments are recognised in the income statement at the time when the right to obtain them arises.

Outflows from assets disposal are calculated with the FIFO method.

7.6.5. Equity investments classified as available for sale

Equity investments classified in the available-for-sale financial assets portfolio are recognised in the financial statement at fair value or cost less impairment, if their fair value cannot be determined reliably. According to IAS 27, p. 37, this category also includes investments in subsidiaries, jointly controlled entities and associates that are measured according to IAS 39, p. 66, i.e. at cost less impairment.

7.6.6. Financial liabilities not held for trading

This category includes amounts due to banks and customers, loans borrowed by the Bank, own debt securities issued, liabilities arising from repurchase transactions and subordinated liabilities, following the deduction of transaction expenses.

Financial liabilities not held for trading are recognised in the balance sheet at amortised cost with the application of the effective interest rate method.

7.6.7. Hedge accounting

Hedge accounting recognises the effects of compensating for changes in fair value of the hedging instrument and the hedged item, which exert impact on the income statement. According to adopted hedge accounting principles, the Bank designates certain derivatives to hedge fair value and future cash flows of specific assets, on condition that the criteria provided for in IAS 39 are met. Hedge accounting is applied in the Bank to hedge certain items, when all the following criteria are met:

- upon the inception of hedge, the Bank officially determines and documents hedging relations as well as the purpose of risk management and the strategy of hedge; the documentation identifies the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the method of the Bank's assessment of hedging instrument effectiveness in offsetting the risk of changes in fair value of the hedged item or cash flows related to the hedged risk;
- the hedging is expected to be highly effective in achieving offsetting changes in fair value (or cash flows) attributable to the hedged risk, according to the initially documented risk management strategy related to a specific hedging relationship;
- the hedge effectiveness may be assessed reliably, i.e. fair value or cash flows attributable to the hedged item resulting from the hedged risk and the fair value of the hedging instrument may be measured reliably;
- the hedge is assessed on an ongoing basis and is found highly effective in all reporting periods in which the hedge was established.

Fair value hedge, which meets hedge accounting conditions, is recognised by the Bank as follows:

- gains or losses resulting from the revaluation of fair value of a hedging derivative are disclosed in the income statement;
- gains or losses related to the hedged item, resulting from the hedged risk, adjust the carrying amount of the hedged item and are recognised in the income statement.

Future cash flows hedge, which meets hedge accounting conditions, is recognised by the Bank as follows:

- a portion of gains or losses associated with the hedging instrument, which constitutes an effective hedge, is recognised directly in equity;
- a non-effective portion of gains or losses associated with the hedging instrument is recognised in the income statement.

Interest received and paid on derivatives used as hedging instruments is recognised in the income statement in interest income/expense respectively.

7.6.8. Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract – with the effect that some of the cash flows of the combined instrument vary in a way similar to the stand-alone derivative.

An embedded derivative is separated from the host contract and accounted for as a derivative only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic and the risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- a hybrid (combined) instrument is not carried at fair value and changes in fair value are not recognised in the income statement.

When an embedded derivative is separated, the host contract is accounted for in accordance with accounting principles appropriate for such contracts.

7.7. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet, when the Bank has a legally enforceable right to offset the recognised amounts and intends to settle it on a net basis, or realise the asset and settle the liability simultaneously.

7.8. Sale and repurchase agreements

Securities sold under repurchase agreements ('repos' and 'sell buy back') are not excluded from the balance sheet. Payments due to the counterparty are recognised as financial liabilities as 'Liabilities arising from repurchase transactions'. Securities purchased under agreements to resell ('reverse repos' and 'buy sell back') are recorded as loans and advances to other banks or customers, depending on their nature. The difference between the sale and repurchase prices is treated as interest and accrued over the life of the agreements using the effective interest method.

7.9. Property, plant and equipment

7.9.1. Owned property, plant and equipment

Property, plant and equipment, complete, prepared for direct use, with a foreseeable useful life of over one year, held by the Bank and used by it, are recognised in the balance sheet at cost less depreciation and impairment losses. Property, plant and equipment with low individual value are fully depreciated in the month of putting them into use.

Property, plant and equipment also include construction in progress and property, plant and equipment put into use under the contracts of operating lease and property, plant and equipment received to be used under the contracts of finance lease. Property, plant and equipment not used by the Bank, but classified as held for sale, are recognised in the balance sheet at the lower of: carrying amount as at the classification in this category and fair value less selling costs.

Fixed assets at the time of their acquisition are divided into components which are items of material significance and which can be assigned a separate period of useful life.

7.9.2. Capital expenditure incurred in future periods

The Bank recognises, in the carrying amount of property, plant and equipment, expenses of the increase in value or of the replacement of parts of property, plant and equipment at the time of their incurrence, when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of improvement or replacement may be measured reliably. All other expenses are charged to the income statement during the financial period in which they are incurred.

7.9.3. Depreciation

Property, plant and equipment are depreciated with the straight-line method in line with the depreciation schedule. The period of economic useful life is taken into consideration while determining the depreciation period and the annual depreciation rate. Land is not depreciated. Property, plant and equipment that are used together, but which have various useful lives, are depreciated separately.

Estimated periods of expected economic useful life of property, plant and equipment:

Buildings	40 years
Leasehold improvements	10 years
Motor vehicles	6 years
Plant and machinery	between 3 and 7 years
Other property, plant and equipment	5 years

The assets' residual values and useful lives are reviewed on an annual basis. The Bank performs an annual analysis of evidence and the tests for impairment of particular groups of property, plant and equipment to ensure whether the present carrying amount does not exceed the higher value of the following two values: market value or discounted value of future economic benefits.

Depreciation rates resulting from the tax regulations in force are applied for the purpose of tax settlements.

7.10. Intangible assets

Intangible assets are assets, which comply with the following criteria:

- they can be separated from a business unit and sold, transferred, licensed or given for gratuitous use to third parties, both individually and jointly with related agreements, assets or liabilities, or
- they arise from contracts or other titles, irrespective of whether they can be transferred or separated from a business unit.

Intangible assets with a foreseeable useful life of over one year, held by the Bank and used by it, are recognised in the balance sheet at cost less amortisation and impairment losses. Intangible assets with low individual value are fully amortised in the month of putting them into use.

The Bank's costs that are associated with the production, at own cost and expense and for internal use, of intangible assets with a planned useful life of over one year that will probably generate economic benefits exceeding incurred costs, are also recognised as intangible assets in the balance sheet. Direct costs of the production of intangible assets activated in this way are amortised in the estimated useful life not exceeding 5 years.

The Bank recognises, in the carrying amount of intangible assets, expenses of the increase in value or replacement of the parts of such assets at the time of their incurrence, when it is probable that greater future economic benefits associated with the item will flow to it and the cost of improvement or replacement may be measured reliably. All other expenses are charged to the income statement during the financial period in which they are incurred.

7.10.1. Computer software

Acquired computer software licenses are recognised as intangible assets at costs incurred to acquire and bring to use the specific software. The Bank amortises activated expenses in the estimated useful life of 5 years.

The Bank's expenditures on maintenance and technical service of computer software are recognised as expense as incurred.

7.10.2. Other intangible assets

Other intangible assets are recognised by the Bank in the balance sheet at cost less accumulated amortisation and any impairment loss.

7.10.3. Amortisation

Intangible assets are amortised with the straight-line method according to the amortisation schedule. The economic useful life is taken into consideration while determining the amortisation period and the annual amortisation rate. Estimated periods of the expected useful life for intangible assets are equal to 5 years.

Amortisation rates resulting from the tax regulations in force are applied for the purpose of tax settlements.

The Bank does not have any intangible assets with an indefinite useful life.

7.11. The methods of the measurement of impairment of assets other than financial assets

Carrying amounts of particular assets are periodically tested for impairment. If the Bank identifies evidence for impairment, further it determines whether the present book value of a given asset is higher than the value that can be obtained from its further use or sale, i.e. the recoverable amount of a given asset is established. If the recoverable amount is lower than the present carrying amount of a given asset, impairment charge is accounted for in the income statement.

7.11.1. Measurement of recoverable amount

A recoverable amount of an asset is determined as the higher of the following: a price than can be obtained from the sale less costs of sells and value in use of a given asset. Value in use is determined as estimated future cash flows generated by a given asset discounted with the market rate and increased with the margin for the risk specific for a given class of assets.

Cash-generating units (CGU), i.e. groups of financial assets and liabilities directly attributable to goodwill and generating cash inflows independent of other groups, are separated for the purpose of goodwill impairment tests. If negative trends in the generated flows are identified, the impairment of the whole group of assets and liabilities is measured and recognised in attributed goodwill.

The analysis of circumstances and any possible impairment tests for property, plant and equipment and intangible assets are performed once a year. The impairment test for goodwill is performed annually, regardless of whether the evidences for impairment were present or not.

7.11.2. Reversal of impairment

Impairment loss on goodwill is not reversed.

In the case of other assets, except for equity instruments classified as available for sale, impairment loss may be reversed if evidence for impairment ceases to exist or the parameters taken into account in estimates of recoverable amount are changed.

Impairment charge may be reversed only up to the carrying amount of an asset, which, having regard for accumulated depreciation, would have been determined if the impairment charge had not been made.

7.12. Trade and other receivables

Trade and other receivables are reported in the amount due less impairment.

In the case when the impact of time value of money (TVM) is material, the value of receivables is determined by discounting forecasted future cash flows to present value, applying a gross discount rate corresponding to present market valuations of time value of money. In the case the discounting method was applied, the increase in receivables due to the elapse of time is recognised as ‘Other operating income’.

7.13. Assets taken over for debts

Assets taken over for debts are measured at their fair value, including the cost of sale. If fair value of assets taken over is lower than the nominal value of receivables, impairment charge is recognised. If the selling price of the assets is higher than debt, the difference constitutes a liability towards the borrower.

7.14. Non-current assets classified as held for sale and discontinued operations

Prior to the classification as ‘held-for-sale’, assets (and all assets and liabilities in the held-for-sale group) are revalued according to IFRS 5. Property, plant and equipment and non-current assets classified as held for sale are measured at the lower of: present carrying value or fair value less costs to sell. Property, plant and equipment, when they are classified as held for sale, are not depreciated.

Discontinued operation is an element of the Bank’s operations, which constitutes the Bank’s separate major line of business or its geographical area of operations, or if it is a subsidiary acquired exclusively with a view to resale. The Bank recognises operations as discontinued upon sale or classification as ‘held-for-sale’.

7.15. Deferred tax asset and liability

Deferred tax asset is recognised for all deductible temporary differences as well as for carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is subject to a respective decrease by the amount, which corresponds to the lower degree of the probability of generating taxable income or partial or total utilisation of a deferred tax asset.

Deferred tax liability is recognised for all taxable temporary differences. Deferred tax asset and deferred tax liability are measured at tax rates that are expected to apply to the period when an asset is realised or a liability settled, based on tax rates (and tax laws) in force as at the balance sheet date or certain to be in force in the future as at the balance sheet date. Deferred tax liability is not discounted.

Deferred tax related to items recognised directly in equity is also charged or credited directly in equity at the present tax rate.

The Bank offsets deferred tax asset against deferred tax liability.

7.16. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include short-term balances used to settle short-term monetary liabilities, with less than three months maturity from the date of acquisition, including cash and balances with Central Bank and other qualifying short-term receivables, including term deposits on the interbank market.

7.17. Provisions

The Bank recognises provisions in the balance sheet when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- reliable estimate can be made of the amount of the obligation.

The provision is recognised at the amount of the estimated outflow of cash. The amount of the provision is determined as the value of the discounted future cash flow for the period after which the provision will be utilized.

7.17.1. Restructuring provision

The Bank recognises a restructuring provision in the balance sheet for evidenced costs of restructuring. The provision is made on the basis of a detailed, official and published restructuring plan. The provision does not include future operating expense.

7.17.2. Employee benefits

The Bank does not offer a specific pension scheme for its employees, thus has no commitments to its employees in this respect. The Bank, fulfilling the obligations indicated in the law, is obliged to withhold and pay social security and health insurance contributions for its employees and contributions to the Labour Fund and the Guaranteed Employee Benefits Fund. These payments are a part of short-term employee benefits, including remuneration, bonuses, paid leaves. Short-term benefits are recognised in general expenses under general principles.

A provision for retirement severance pays, which is determined annually by actuarial calculations is the only component of long-term employee benefits.

7.18. Equity

Share capital is recognised at nominal value in the amount compliant with the Bank's Memorandum and Articles of Association and the entry in the Court Register. Other equity is recognised in the balance sheet by types as required by law and the Bank's Memorandums and Articles of Association. Equity also comprises net profit/loss for the period and retained profit or loss as well as the result of the measurement of financial assets carried through revaluation reserve.

7.19. Granted off-balance sheet liabilities

Within its operations, the Bank enters into transactions, which, at the time of their conclusion, are not recognised in the balance sheet as assets or liabilities, but result in contingent liabilities. A contingent liability is:

- a possible obligation that arises firm past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly controlled by the Bank;
- a present obligation resulting from past events, but not recognised in the balance sheet, as it is not probable that the outflow of cash or other assets in order to settle the obligation is necessary, or the obligation amount cannot be measured with sufficient reliability.

Granted credit lines and guarantees are the most significant items of granted off-balance sheet liabilities.

Customers' undrawn credit lines granted by the Bank and liabilities under guarantees issued by the Bank to customers are recognised in off-balance sheet liabilities in the amount resulting from contracts.

Provisions for estimated risk are reported in 'Provisions' in the Bank's balance sheet. Credit risk arising from off-balance sheet liabilities is assessed on the basis of IAS 37 and IAS 39.

7.20. Company Social Benefit Fund (CSBF)

CSBF is created on the basis of write-downs made by the Bank and charged to operating expenses as required by the CSBF Act. The objective of the Fund is to finance social benefits for employees. The Fund's liabilities are accumulated write-downs made by the Bank for CSBF less non-returnable expenditure from CSBF. The Bank has no social assets; all CSBF liabilities are expressed in cash deposited on a separate banking account.

For the purpose of presentation in this financial statement, the Bank sets off assets and liabilities of CSBF, as they do not constitute Bank's assets.

7.21. Net interest income

Interest income and expense generated by financial assets and liabilities are recognised in the income statement at amortised cost using the effective interest rate method.

The following financial assets and liabilities are measured by the Bank at amortised cost:

- loans granted as well as other receivables – not held for trading;
- held-to-maturity investments;
- financial liabilities not held for trading and non-derivative financial instruments;
- financial assets (not equity instruments) for which fair value cannot be determined reliably.

In addition, as indicated in "Financial assets and liabilities" section, in the case of debt securities carried at fair value, the coupon rates and acquired discounts or premiums are amortised using effective interest rate method in the income statement.

The effective interest rate is the rate that discounts a future, expected flow of cash payments to present net carrying amount during the period until maturity or by the time of the next market evaluation of a particular financial asset and liability, and its determination entails any due or cash payments as well as cash flows paid or received by the Bank under the agreement on a given instrument, excluding future, possible credit losses.

The method of settling coupon rates, commissions/fees and certain external costs connected with the financial instruments (with the effective interest method rate or straight-line method) depends on the nature of a given instrument. In the case of financial instruments with fixed cash flows schedules, the method of the effective interest rate is applied. In the case of instruments with undefined cash flows schedules, it is impossible to calculate the effective interest rate and commissions/fees are settled on the straight-line basis over time.

And the method of recognising particular types of commissions/fees in the income statement depends on the economic nature of a commission/fee.

The items included in the commissions/fees settled over time include, e.g. fees for a positive appraisal of a loan application, commissions for granting a credit, commissions for releasing a credit, fees for establishing additional collateral and fees paid to loans extension intermediaries paid by the Bank. The collection of the above commissions and fees constitutes an integral part of the return generated by a specific financial instrument. This category also includes fees and costs of changes of contractual terms, which modifies the value of initial effective interest rate. Any significant amendment to the conditions of a given financial instrument in economic terms is connected with the expiry of the financial instrument of the previous type and creation of a new instrument with different characteristics. The fees that are collected in this category include, among others, fees for preparing an annex changing a future cash flows schedule, fees for restructuring loan agreements, fees for postponement of payment dates, etc. The above-mentioned types of fees are deferred and settled over time in the income statement applying the effective interest rate method or on a straight-line basis, depending on the type of a product.

In the case of assets for which evidence for the risk of impairment was identified, interest income is charged to the income statement on the basis of net investment defined as the difference between the gross exposure value (having regard for unsettled commissions) and impairment charge.

7.22. Net fee and commission income

As stated above, fees and commissions deferred and amortised over time using the effective interest rate method are reported in 'net interest income'.

However, fees and commissions not amortised using the effective interest rate, but settled over time with the straight-line method or recognised one-off, are reported in 'net fee and commission income'. Income settled over time with the straight-line method includes commissions on revolving loans, overdraft facilities, credit cards, off-balance sheet liabilities, and fees for managing current accounts. All fees for the activities in which the Bank acts as an agent or provides services related to the distribution of shares of investment funds, transfers, and payments, etc. are recognised once.

7.23. Net trading income

Net trading income comprises gains or losses on the disposal or change of the fair value of financial assets and liabilities measured at fair value through profit or loss. This item also includes foreign exchange and interest on swaps.

7.24. Dividend income

In the case of equity investments recognised in the balance sheet at historical cost, dividend income is recognised in the income statement at the time when the right to dividend is established.

7.26. Net income from sale of receivables

Net income from sale of doubtful receivables is determined by comparing net value of sold assets with the price paid for the assets, having regard for provisions against potential risk associated with the transaction. Net income from sale of receivables is presented as a separate item in the income statement. Sold assets are derecognised from the balance sheet on condition of transferring all rights and rewards from them onto the buyer.

7.27. Other operating income and expenses

Other operating income and expenses include items not related directly to the Bank's operations. These are in particular income and expenses on sale and liquidation of property, plant and equipment, received and paid indemnities, income and expenses on other services provided or acquired by the Bank to a marginal extent.

7.28. Income tax expense

The deductions from profit before tax entail current income tax payable and deductions/credits associated with the change in deferred income tax.

Current tax for the period is calculated by the Bank on the basis of profit before tax as per books adjusted with income and expense which, under the present income tax act, are excluded from the tax base. Furthermore, the book profit before tax in the current year is adjusted to take account of the cash realisation of income and expenses in the current reporting period, which are recognised in profit before tax in previous years. Deferred income tax recognised as an element of income tax charge/credit on book profit before tax is calculated as the net effect of the change in deferred tax assets and liabilities.

Details on the method of calculating deferred tax are presented in Note 7.16.

7.29. Comparable data

Accounting principles adopted to prepare this financial statement are applied in a continuous manner in all presented periods. The description of adjustments of comparable data has been presented in Note 66.

8. Accounting estimates

The preparation of financial statements in line with IFRS requires a professional judgment of the Bank's Management Board on the adopted accounting principles and accounting estimates applied with respect to balance sheet items and income statement items. Estimates are related to uncertain future events and are made basing on historical data and a number of assumptions based on the facts available as at the balance sheet date, resulting from internal and external conditions. The actual results of future business operations may differ from the present accounting estimates as at the balance sheet date. Therefore, accounting estimates are verified on a regular basis. Changes in estimates are recognised in the financial statement in the period they were introduced. If such changes are also related to future periods, the assumptions being the basis for the estimates for future periods are also adjusted.

The most important accounting estimates prepared for the purpose of this financial statement refer to:

- measurement of financial assets and liabilities at fair value, including derivatives for which no active market exists;
- identification and measurement of impairment losses for financial assets measured at amortised cost and historical cost;
- value of deferred tax assets;
- provisions.

8.1. Valuation of financial assets and liabilities at fair value

In the case of financial assets and liabilities recognised in the balance sheet at fair value, for which no active market is identified, except for equity instruments, they are measured on the basis of generally adopted measurement models based on variables that can be observed in the market environment. Certain variables, e.g. future interest rates, volatility parameters, correlations, must be assessed professionally. The models and variables are verified on a regular basis. The change in adopted models or variables in these models might affect accounting estimates related to measurement.

8.2. Impairment of financial assets valued at amortised cost and historical cost

At each balance sheet date (at least once per quarter), the Group analyses whether there is an indication that a financial asset and/or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence for impairment as a result of one or more events that occurred after initial recognition of the asset and that loss event or events has an impact on the estimated future cash flows generated by the financial asset or the group of financial assets. Expected future losses are not taken into account in estimates of impairment.

If the Group identifies an evidence for impairment, the amount of the impairment loss is determined as the difference between the carrying amount of the loan and its economic value measured as the present value of estimated future cash flows discounted using the initial effective interest rate of contracts. Impairment loss is recognised in the income statement in correspondence with provision account which adjusts assets' value.

Loan receivables constitute the most significant class of financial assets recognised in the Group's balance sheet at amortised cost and subject to impairment.

8.2.1. Evidence for impairment

The analysis of the evidence indicating the risk of impairment is performed for individual loans as well as portfolios (groups) of loans.

The list of objective evidence includes:

a) significant financial problems of an issuer or a debtor;

b) a breach of contract, e.g. failure to pay or delaying payment of interest or the principal amount;

c) granting a facility by the lender to the borrower, for economic or legal reasons related to the borrower's financial problems, where such a facility would not have been granted otherwise;

d) high probability of the borrower's bankruptcy or their other financial reorganisation.

If there is no evidence that the impairment occurred, the previously recognised impairment losses are reversed through income statement.

8.2.2. Measurement of individual impairment

Individual impairment is measured for all loan receivables over a specific exposure level, for which certain individual evidence indicating impairment were identified. The process of estimating future, expected cash flows is carried out in a specially dedicated IT tool.

Expected future cash flows from collaterals are estimated on the basis of debt recovery value which is calculated with the application of periodically verified adjusting indicators determined for each type of hedging on the basis of historical data collected by the Bank concerning the time of debt collection process, recovered amounts from hedging and their value determined in the valuation.

The quality of the measurement of individual impairment of loan receivables is verified during a multi-stage independent process.

8.2.3. Measurement of collective impairment

In the event where no objective evidence for loan impairment assessed on individual basis occurred, regardless of whether or not it constitutes a significant reporting item, such exposure is included in the credit portfolio of similar nature and the collective analysis of the impairment is conducted.

Homogenous loans portfolios are created basing upon similar characteristics of credit risks that are specific for the defined groups of customers and products.

The collective impairment is measured basing on historical parameters of losses generated by similar assets portfolios. Historical trends for losses are cleared of one-off events and are updated against a current risk profile of homogenous groups of assets. Hence, the portfolios systematic risk is identified.

The following issues, apart from corrected historical trends, have material impact on the level of the collective impairment:

- fluctuations in the receivables portfolios;
- the Bank's operating effectiveness in credit risk management processes, particularly taking into account the restructuring and debt collecting activities;
- Poland's macroeconomic situation and its direct impact on the main indicators applied in the banking sector;
- the Bank's credit policy for selected sectors of economy as well as receivables portfolios compared to the models adopted by other banks.

8.2.4. Available-for-sale financial assets

If the Group identifies objective evidence for the impairment of an asset classified as available for sale, the cumulative negative measurement of this asset, previously accounted for in the revaluation reserve, is written off and recognised directly in the income statement, despite the fact that this asset is not excluded from the balance sheet.

In the case of an equity instrument classified as available for sale for which fair value cannot be determined reliably, i.e. measured at historical cost having regard for impairment, impairment losses are not reversed. In the case of a debt instrument measured at fair value at the time when the circumstances indicating impairment are no longer identified, the amount of the reversed impairment loss is recognised in the income statement.

8.3. Values of deferred tax assets

The probability of realising net deferred tax asset is determined on the basis of financial plans and tax forecasts prepared by the Bank's Management Board, updated on an ongoing basis as at the end of each quarter, having regard for the prudence principle.

9. Segment reporting

The Bank's operation, as in the previous reporting periods, was divided into four basic sector segments: corporate, retail, treasury and investment. The Bank's operations are not diversified in geographical terms. Operations are focused on the Polish market; the main customer base is composed of Polish natural and legal persons and foreign customers operating on the Polish market

Corporate Segment

The Corporate Segment entails transactions with large companies (with annual sales revenue exceeding PLN 16 million) as well as state budgetary units at central and local levels. Beside the traditional deposit, credit and settlement services, the customers from this segment are offered other specific services. They are tailored to customers' individual needs, e.g. organizing syndicates supporting investment projects, financing real estate transactions, financing foreign trade and bulk payments. The Bank's offer in this segment is expanded by the products of Kredyt Lease, which offers a complete range of services for companies in respect of leasing of property, plant and equipment and real estates, and also of real estate trade.

Retail Segment

The Retail Segment incorporates products targeted at individual customers as well as Small and Medium-sized Enterprises (SME), whose annual sales revenue does not exceed PLN 16 million. The products on offer comprise a wide range of deposit and loan products, insurance products (bancassurance and assurebanking) offered in co-operation with WARTA S.A. as well as clearing services. This offer is addressed to customers through traditional channels of distribution via the Bank's nationwide network of branches as well as KB24 - an Internet network. Furthermore, the Bank's offer for this segment includes products offered by KBC TFI with regard to the sale of shares in investment funds, and the intermediation in the distribution of selected services offered by WARTA Group.

Treasury Segment

The Treasury Segment comprises the result of the transactions performed by the Bank on its own account as an active participant of the money market (Treasury and NBP bills), bonds market (Treasury and commercial bonds), currency market and interbank market. The result of the segment also includes net income on derivative instruments transactions: forward, FX swap, IRS, CIRS, FRA, interest rate and currency options.

Investment Segment

The Investment Segment incorporates the Bank's equity investments in shares of companies whose core business is focused on generating added value for the Bank by specialising in non-banking areas of operation, and also on investments in the shares of companies with an expected high long-term rate of return. In addition, the segment focuses on custodian services.

The segment's income and expenses had been determined before inter-segmental eliminations were made. The selling prices exercised among segments are calculated on the basis of the transfer pricing methodology.

Income statement for the period 01.01.2007-31.12.2007

	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Other	Eliminations	Total
1. Segment income (external)	500 746	987 656	596 065	21 329	39 140	0	**2 144 936**
2. Segment income (internal)	216 360	548 847	622 915	0	14	-1 388 136	**0**
3. Total segment income	**717 106**	**1 536 503**	**1 218 980**	**21 329**	**39 154**	**-1 388 136**	**2 144 936**
4. Segment expenses (external)	-153 643	-352 442	-315 209	-7 648	1 586	0	**-827 356**
4a. Allocated expenses	-110 059	-671 965	-9 197	-1 036	-30 910	0	**-823 167**
5. Segment expenses (internal)	-290 877	-316 514	-765 221	-4 741	-10 783	1 388 136	**0**
6. Total segment expenses	**-554 579**	**-1 340 921**	**-1 089 627**	**-13 425**	**-40 107**	**1 388 136**	**-1 650 523**
7. Net operating income for the segment	**162 527**	**195 582**	**129 353**	**7 904**	**-953**	**0**	**494 413**
8. Net impairment losses on financial assets, other assets and provisions	**59 108**	**-36 616**	**0**	**0**	**-4 703**	**0**	**17 789**
9. Profit before tax for the segment	**221 635**	**158 966**	**129 353**	**7 904**	**-5 656**	**0**	**512 202**
10. Income tax expense							-111 683
11. Net profit/loss							**400 519**

Balance sheet as at 31.12.2007

	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Other	Total
1. Segment assets	7 320 619	9 545 326	9 469 612	260 706	0	**26 596 263**
2. Other assets (unallocated)	0	0	0	0	472 241	**472 241**
4. Total assets	**7 320 619**	**9 545 326**	**9 469 612**	**260 706**	**472 241**	**27 068 504**
5. Segment liabilities	4 894 473	12 095 097	7 274 731	0	0	**24 264 301**
6. Equity	0	0	0	2 233 856	0	**2 233 856**
7. Unallocated liabilities	0	0	0	0	570 347	**570 347**
8. Total liabilities and equity	**4 894 473**	**12 095 097**	**7 274 731**	**2 233 856**	**570 347**	**27 068 504**
1. Investments (costs of assets acquisition)	0	0	0	0	101 659	**101 659**
2. Depreciation	0	0	0	0	91 270	**91 270**

Income statement for the period 01.01.2006-31.12.2006

	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Other	Eliminations	Total
1. Segment income (external)	413 751	793 697	497 469	14 961	128 918	0	**1 848 796**
2. Segment income (internal)	165 408	456 433	431 574	0	11	-1 053 426	**0**
3. Total segment income	**579 159**	**1 250 130**	**929 043**	**14 961**	**128 929**	**-1 053 426**	**1 848 796**
4. Segment expenses (external)	-115 785	-291 646	-203 090	-3 264	-25 669	0	**-639 454**
4a. Allocated expenses	-105 011	-657 929	-9 720	-2 938	-39 044	0	**-814 642**
5. Segment expenses (internal)	-218 127	-207 141	-621 854	-6 304	0	1 053 426	**0**
6. Total segment expenses	**-438 923**	**-1 156 716**	**-834 664**	**-12 506**	**-64 713**	**1 053 426**	**-1 454 096**
7. Net operating income for the segment	**140 236**	**93 414**	**94 379**	**2 455**	**64 216**	**0**	**394 700**
8. Net impairment losses on financial assets, other assets and provisions	**114 022**	**-53 130**	**0**	**-50**	**-28 661**	**0**	**32 181**
9. Profit before tax for the segment	**254 258**	**40 284**	**94 379**	**2 405**	**35 555**	**0**	**426 881**
10. Income tax expense							10 562
11. Net profit/loss							**437 443**

Balance sheet as at 31.12.2006

	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Other	Total
1. Segment assets	6 148 397	5 572 483	9 607 394	271 995	0	**21 600 269**
3. Other assets (unallocated)	0	0	0	0	603 526	**603 526**
4. Total assets	**6 148 397**	**5 572 483**	**9 607 394**	**271 995**	**603 526**	**22 203 795**
5. Segment liabilities	4 165 601	11 425 444	3 945 375	0	0	**19 536 420**
6. Equity	0	0	0	2 039 743	0	**2 039 743**
7. Unallocated liabilities	0	0	0	0	627 632	**627 632**
8. Total liabilities and equity	**4 165 601**	**11 425 444**	**3 945 375**	**2 039 743**	**627 632**	**22 203 795**
1. Investments (costs of assets acquisition)	0	0	0	0	86 432	**86 432**
2. Depreciation	0	0	0	0	99 515	**99 515**

10. Interest income

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
On account of:		
Loans and advances to banks	146 223	95 327
Loans and advances to customers, including:	997 630	773 805
- from financial sector	34 813	18 994
- from non-financial sector	935 378	725 456
- from the budgetary sector	27 439	29 355
Securities:	302 426	361 778
- at fair value through profit or loss	17 783	17 480
- available-for-sale	164 303	183 930
- held-to-maturity	120 340	160 368
Receivables arising from repurchase transactions	904	43
Interest on hedging instruments	44 265	4 201
Total	**1 491 448**	**1 235 154**

Interest income comprises cash interest and interest calculated on an accrual basis on receivables for which evidence for impairment was identified. Interest was calculated with the effective interest rate applied in discounting expected cash flows for the purpose of estimating the impairment loss on loan receivables. The amount of interest on receivables for which individual evidence for impairment was identified recognised in interest income for 2006 amounts to PLN 26,463 thousand as compared to PLN 19,146 thousand in 2007. Accrued interest was taken into consideration when estimating impairment losses on such receivables.

11. Interest expense

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
On account of:		
Amounts due to banks	161 907	73 952
Amounts due to customers	479 803	398 798
- financial sector	44 917	36 180
- non-financial sector	368 956	309 193
- budgetary sector	65 930	53 425
Liabilities arising from repurchase transactions	26 365	30 385
Issued securities, including:	0	17 114
- subordinated securities	0	17 114
Other subordinated liabilities	22 253	18 592
Interest on hedging instruments	38 830	3 485
Other	0	21 721
Total	**729 158**	**564 047**
Net interest income	**762 290**	**671 107**

12. Fee and commission income

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Fees and commissions on loans	44 114	27 852
Fees and commissions on deposit-related transactions with customers	131 197	124 045
Fees and commissions due for the servicing of payment cards and ATMs	89 916	67 270
Fees and commissions on foreign clearing operations	16 305	15 871
Fees and commissions on guarantee commitments	10 970	12 479
Commissions on distribution and management of investment and insurance products	62 485	44 122
Commissions on other custodian services	3 180	2 662
Other fees and commissions	7 983	5 693
Total	**366 150**	**299 994**

13. Fee and commission expense

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Brokerages	1 202	1 076
Fees and commissions due for the servicing of payment cards and ATMs	36 695	20 750
Fees related to loan guarantees	9 430	4 528
Other fees and commissions	10 808	5 518
Total	**58 135**	**31 872**

Net fee and commission income	**308 015**	**268 122**

14. Dividend income

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Available-for-sale shares	7 977	1 027
Total	**7 977**	**1 027**

15. Net trading income

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Net trading income, including:		
- debt securities, including:	-6 848	219
- held for trading	-5 108	-103
- at fair value through profit or loss	-1 740	322
- on derivatives	53 153	27 654
- foreign exchange	132 674	106 663
Total	**178 979**	**134 536**

16. Net result on derivatives used as hedging instruments and hedged items

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Result on cash flows hedge	-3 497	-165
- on hedging derivatives**	-3 497	-165
- on hedged financial assets	0	0
Result on fair value hedge	-122	113
- on hedging derivatives	1 014	244
- on hedged financial assets	-1 136	-131
Total *	**-3 619**	**-52**

* result on derivatives used as hedging instruments also comprises amounts of transactions settled prior to the balance sheet date

** ineffective part of profits and losses connected with hedging instruments

17. Net gains from investment activity

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Available-for-sale financial assets:	**4 030**	**9 070**
- equity instruments	2 851	3 019
- debt instruments	1 179	6 051
Held-to-maturity assets:	**503**	**2 698**
- equity instruments	0	0
- debt instruments	503	2 698
Total	**4 533**	**11 768**

18. Net income from sale of receivables

On 17.12.2007, the Bank and an external entity (ULTIMO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty) concluded an agreement on the sale of the Bank's receivables. Under the contract, the principal of PLN 89,935 thousand was sold, and the impact of the transaction on the Bank's profit before tax amounted to PLN 24,069 thousand. Furthermore, in 2007, under other contracts on the sale of receivables, the Bank sold principal of PLN 81,916 thousand. Total profit before tax of the Bank from the sale of receivables in 2007 amounted to PLN 52,506 thousand.

The Bank's profit before tax from the sale of receivables to a securitisation fund in 2006 amounted to PLN 123,026 thousand.

19. Result for particular categories of financial assets

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
- at fair value through profit or loss, including:	38 627	13 519
- held for trading	32 366	7 447
- hedging instruments	1 816	664
- available-for-sale	168 333	181 450
- held-to-maturity	120 843	155 792
- loans and credits, leasing	1 143 853	869 132
- deposits	-641 710	-472 750
- subordinated liabilities, issue of securities	-22 253	-35 706
Total *	**809 509**	**712 101**

* the item comprises net interest income, net trading income net of result on exchange item, net result on derivatives used as hedging instruments and hedged items, profit/loss from investment activity.

20. Other operating income

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Sale or liquidation of property, plant and equipment and assets to be disposed	3 703	1 168
Recovered bad debts, including reimbursed debt recovery costs	16 407	9 954
Indemnities, penalties and fines received	256	95
Side income	7 910	9 312
Reversal of impairment losses on receivables from other debtors	2 109	4 489
Lease income	4 678	3 930
Other operating income	8 280	14 343
Total	**43 343**	**43 291**

21. General and administrative expenses

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Staff costs, including:	**417 522**	**383 852**
- salaries and wages	339 901	309 398
- deductions from salaries and wages	55 574	52 186
- employee benefits	12 432	12 571
- training expenses	9 615	9 697
Operating expense, including:	**314 376**	**331 276**
- costs of buildings maintenance and lease	106 890	103 003
- postal and telecommunication expenses	51 310	52 032
- IT systems operation costs	31 124	27 783
- promotion and advertising services	17 381	26 461
- costs of machinery repairs and services provided under warranties	12 033	12 353
- property protection costs	9 613	15 935
- costs of balance sheet audit, consulting and advisory	11 928	12 702
- transportation costs	14 025	10 277
- other banking services	20 009	22 010
- materials purchase	7 960	11 442
- business trips costs	4 554	4 402
- taxes and fees	9 810	18 555
- other	17 739	14 321
Depreciation and amortisation, including:	**91 270**	**99 515**
- property, plant and equipment	54 797	59 111
- intangible assets	36 473	40 404
Total	**823 168**	**814 643**

Operating lease rentals

Leasing contracts under which the lessor retains the whole risk and all rewards arising from the possession of the leased property, are accounted for as an operating lease. Fees under operating lease are recognised as expenses in the income statement on a straight-line basis over the period of leasing.

Contracts of operating lease under which the Bank acts as the lessee are mainly related to the lease of real estate and real estate used by the Bank in the normal course of business. All contracts are executed on market terms, without any exceptional or non-standard terms or conditions.

Gross leasing payments paid by the Bank and recognised in particular reporting periods as operating expense were as follows (rent + VAT):

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Leasing payments	90 835	79 722

The majority of fees were the fees for the leasing of real estates.

The total amount of future gross minimum leasing fees that the Bank is obliged to pay under irrevocable contracts of operating leasing, determined as at the balance sheet date, is as follows:

	31.12.2007	31.12.2006
Future gross minimum lease payments		
- not later than one year	50 749	56 777
- later than one year and not later than five years	110 342	168 556
- later than five years	15 879	60 357
Total	176 970	**285 690**

Under operating leasing contracts, the parent company operates two Head Office buildings, which, towards the end of 2004, were sold to companies not related to the Bank and are now leased from them. Sale transactions were executed on market terms; contracts of lease were also executed on market terms. The contracts are executed for 10 years and their terms provide for the possibility of their extension, without the terms set out on the day of their executions. Under the contracts, the parent company has no guaranteed repurchase right to the buildings after the 10-year term of lease. The contracts do not meet the criteria of financial leasing and, therefore, are classified as operating leasing contracts.

22. Net impairment losses on financial assets, other assets and provisions

Recognition of impairment on assets and provisions

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Recognition of impairment on assets		
Loans and advances	653 501	837 114
Financial assets available-for-sale	0	876
Assets to be disposed, property, plant and equipment and intangible assets	5 259	11 098
Total impairment	**658 760**	**849 088**
Additions of provisions		
Provision for restructuring	2 780	12 482
Provisions for employee benefits	0	272
Provisions for liabilities	27 977	20 578
Provision for off-balance sheet liabilities	79 883	124 558
Total provisions	**110 640**	**157 890**
Total	**769 400**	**1 006 978**

Reversal of impairment for assets and provisions

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Reversal of impairment losses on assets		
Loans and advances	695 888	866 175
Assets to be disposed, property, plant and equipment and intangible assets	556	113
Total impairment	**696 444**	**866 288**
Reversal of provisions		
Provision for restructuring	10	0
Provisions for employee benefits	0	72
Provisions for liabilities	5 742	1 983
Provision for off-balance sheet liabilities	84 993	170 816
Total provisions	**90 745**	**172 871**
Total	**787 189**	**1 039 159**

Net impairment losses on financial assets, other assets and provisions	**17 789**	**32 181**

23. Other operating expenses

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Written off receivables and debt recovery expenses	22 482	24 364
Other impairment	3 244	3 926
Disposal or liquidation of property, plant and equipment and intangible assets	842	2 480
Indemnities, penalties and fines paid	384	608
Other expenses	9 491	12 104
Total	**36 443**	**43 482**

24. Taxation

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Profit before tax	**512 202**	**426 881**
Income tax expense at basic tax rate (19%)	**97 318**	**81 107**
Permanent differences, including:	**14 365**	**-28 186**
loss on the sale of receivables	14 582	75 995
dividends received	-1 516	-264
provisions and impairment losses	1 660	-108 817
other permanent differences	-361	4 900
Additional asset resulting from the change of the calculation method for the asset on temporary provisions	**0**	**-26 984**
Recognised asset surplus related to differences from previous periods	**0**	**-36 499**
Actual deductions from net profit	**111 683**	**-10 562**
Effective tax rate	**21.80%**	**-2.47%**

Income tax expense in the income statement	**01.01.2007-31.12.2007**	**01.01.2006-31.12.2006**
Current income tax	73 783	28 633
Deferred income tax	37 900	-39 195
Total	**111 683**	**-10 562**

Deferred tax on the valuation of available-for-sale securities and cash flow hedge instruments, charged to revaluation reserve	**01.01.2007-31.12.2007**	**01.01.2006-31.12.2006**
Equity instruments	0	245
Debt instruments	-12 869	3 814
Cash flow hedge instruments	-7 684	227
Total	**-20 553**	**4 286**

Deferred tax asset	31.12.2007	31.12.2006	*Impact on 2007 result*
Loans portfolio write-downs	84 581	127 097	42 516
Impairment of property, plant and equipment	5 277	0	-5 277
Accruals	19 768	17 370	-2 398
Interest on deposits	9 808	7 626	-2 182
Commissions and interest settled according to EIR	15 102	17 563	2 461
Income taxed in advance	2 985	4 151	1 166
Derivatives	71 084	8 693	-62 391
Costs of debt securities	32 915	28 780	-4 135
Finance lease	3 124	4 277	1 153
Valuation of available-for-sale securities	21 977	609	
Other negative temporary differences	1 813	3 740	1 927
Total asset	**268 434**	**219 906**	**-27 160**
including: an asset recognised with the income statement (in the period and in previous periods)	246 457	219 297	
an asset recognised with revaluation reserve	21 977	609	

Deferred tax liability	31.12.2007	31.12.2006	*Impact on 2007 result*
Accrued income from securities	-33 180	-37 065	-3 885
Accrued interest on receivables	-20 736	-20 495	241
Derivatives	-79 426	-8 429	70 997
Depreciation	-6 696	-11 899	-5 203
Other negative temporary differences	-2 910	0	2 910
Valuation of available-for-sale securities	-1 424	-4 895	
Total liability	**-144 372**	**-82 783**	**65 060**
including: a liability recognised with the income statement (in the period and in previous periods)	-142 948	-77 888	
a liability recognised with revaluation reserve	-1 424	-4 895	
Total asset/liability	**124 062**	**137 123**	

25. Earnings per share (EPS)

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Net profit	400 519	437 443
Weighed average number of ordinary shares	271 658 880	271 658 880
Net profit (loss) per share	**1.47**	**1.61**

Earnings per share were calculated as the quotient of net profit per Bank's shareholders and weighted average number of shares. Diluted earnings per share are not calculated due to the absence of capital categories resulting in dilution.

26. Cash and balances with Central Bank

By types

	31.12.2007	31.12.2006
Cash in hand	505 214	416 766
Current account in the Central Bank	106 458	223 956
Total	**611 672**	**640 722**

27. Gross loans and advances to banks

By types

	31.12.2007	Comparable data 31.12.2006
Current accounts	20 638	29 821
Deposits in other banks	2 361 935	2 054 132
Loans and advances to banks	67 281	72 477
Purchased debt	3 488	25 963
Other	3 007	22 898
Total	**2 456 349**	**2 205 291**

By maturity dates

	31.12.2007	Comparable data 31.12.2006
- up to 1 month	1 760 456	1 556 577
- 1-3 months	357 434	146 195
- 3-6 months	189 870	191 075
- 6 months to 1 year	81 703	136 062
- 1 - 3 years	63 968	110 750
- 3 - 5 years	658	61 879
- past due	2 260	2 753
Total	**2 456 349**	**2 205 291**

Classification due to impairment

	31.12.2007	Comparable data 31.12.2006
Loans and advances with no individual evidence for impairment	2 454 089	2 202 538
Loans and advances with individual evidence for impairment	2 260	2 753
Total	**2 456 349**	**2 205 291**

28. Impairment losses on loans and advances to banks

	31.12.2007	31.12.2006
Impairment at period beginning	2 753	2 894
a) increase	0	0
b) decrease	493	141
- reversal of impairment	493	141
c) utilization	0	0
Period end	**2 260**	**2 753**

29. Financial assets at fair value through profit or loss, including held-for-trading financial assets (excluding derivatives)

	31.12.2007	31.12.2006
Debt securities held for trading	**341 948**	**495 248**
Treasury securities	341 672	494 637
- bonds	336 612	136 754
- bills	5 060	357 883
Central Bank securities	0	0
Other securities	276	611
- bonds	276	611
Equity securities	0	0
Financial assets at fair value through profit or loss	**106 551**	**117 664**
Treasury securities	60 300	113 487
- bonds	60 300	113 487
Central Bank securities	0	0
Other securities	46 251	0
- bonds	46 251	0
Shares in investment funds	0	4 177
Equity securities	0	0
Total	**448 499**	**612 912**

	31.12.2007	31.12.2006
Listed	**402 248**	**612 912**
- bonds	397 188	250 852
- bills	5 060	357 883
- shares in investment funds	0	4 177
Non-listed	**46 251**	**0**
- bonds	46 251	0
Total	**448 499**	**612 912**

By maturity dates

	31.12.2007	31.12.2006
- up to 1 month	2 403	349 249
- 1-3 months	198	31 432
- 3-6 months	1 039	6 474
- 6 months to 1 year	41 550	8 683
- 1 - 3 years	122 230	51 091
- 3 - 5 years	54 294	118 736
- 5 - 10 years	126 921	37 498
- 10 - 20 years	99 864	5 572
- with unspecified maturity dates	0	4 177
Total	**448 499**	**612 912**

30. Derivatives

Derivatives (by types)

	31.12.2007		31.12.2006	
	Assets	Liabilities	Assets	Liabilities
Interest rate transactions	**357 179**	**341 052**	**244 093**	**258 084**
Options purchased	75	0	0	0
Options sold	0	75	0	0
IRS	207 605	209 515	187 951	199 609
FRA	149 499	131 462	56 142	58 475
Foreign exchange transactions	**136 143**	**133 318**	**53 316**	**34 264**
FX swap	46 892	37 635	10 091	9 033
CIRS	19 029	14 086	24 961	5 910
Forward	6 138	17 824	7 635	8 893
Options purchased	62 916	0	10 324	0
Options sold	0	62 816	0	10 259
Other	1 168	957	305	169
Futures	0	0	18	0
Embedded instruments	**1 773**	**0**	**0**	**4 126**
Total	**495 095**	**474 370**	**297 427**	**296 474**

Derivatives (by maturity dates)

	31.12.2007		31.12.2006	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate transactions (fair value)	**357 179**	**341 052**	**244 093**	**258 084**
Interest rate transactions (nominal value)	**108 870 932**	**90 038 880**	**68 532 762**	**60 594 823**
- up to 1 month	2 308 200	740 000	3 312 085	600 000
- 1-3 months	4 221 750	4 554 029	1 901 050	2 325 000
- 3-6 months	20 402 500	20 352 675	13 260 000	10 516 420
- 6 months to 1 year	47 704 000	34 601 500	23 295 370	22 335 204
- 1 - 3 years	32 251 525	26 584 640	25 913 000	24 061 299
- 3 - 5 years	1 517 373	2 456 500	643 657	600 300
- 5 - 10 years	465 584	749 536	207 600	156 600
Foreign exchange transactions (fair value)	**136 143**	**133 318**	**53 316**	**34 264**
Foreign exchange transactions (nominal value)	**9 608 170**	**9 611 264**	**4 364 418**	**4 350 481**
- up to 1 month	4 493 926	4 485 410	1 474 217	1 464 506
- 1-3 months	1 105 254	1 105 900	550 023	546 851
- 3-6 months	1 391 650	1 394 516	904 660	905 640
- 6 months to 1 year	2 117 549	2 122 882	1 276 770	1 277 470
- 1 - 3 years	462 081	463 404	158 748	156 014
- 3 - 5 years	11 517	11 984	0	0
- 5 - 10 years	26 193	27 168	0	0
Futures (fair value)	**0**	**0**	**18**	**0**
Futures (nominal value)	**0**	**0**	**0**	**3 839**
- 1-3 months	0	0	0	3 839
Total fair value*)	**493 322**	**474 370**	**297 427**	**292 348**
Total nominal value	**118 479 102**	**99 650 144**	**72 897 180**	**64 949 143**

* net of embedded derivatives

31. Gross loans and advances to customers

By types

	31.12.2007	Comparable data 31.12.2006
Loans and advances	17 673 453	12 845 069
Purchased debt	34 286	30 340
Realised guarantees and sureties	10 912	32 262
Other receivables	19 401	6 501
Total	**17 738 052**	**12 914 172**

By maturity dates

	31.12.2007	Comparable data 31.12.2006
- up to 1 month	2 608 723	418 775
- 1-3 months	539 638	575 958
- 3-6 months	488 146	699 006
- 6 months to 1 year	2 644 646	2 805 464
- 1 - 3 years	2 435 887	1 993 800
- 3 - 5 years	1 982 251	1 435 936
- 5 - 10 years	2 382 547	1 843 582
- 10 - 20 years	2 186 040	1 496 784
- over 20 years	1 633 074	664 365
- past due	837 100	980 502
Total	**17 738 052**	**12 914 172**

By customer types

	31.12.2007	Comparable data 31.12.2006
Natural persons *	**9 723 900**	**6 242 117**
- overdraft facilities	594 784	523 371
- purchased debt	2 621	4 211
- term loans**	1 073 564	988 397
- cash and instalment loans	2 164 315	1 545 534
- mortgages	5 876 171	3 172 752
- realised guarantees	1 519	1 602
- other receivables	10 926	6 250
Corporate customers	**7 607 239**	**6 102 175**
- overdraft facilities	1 602 633	1 072 321
- term loans**	5 955 083	4 972 833
- purchased debt	31 655	26 110
- realised guarantees	9 393	30 660
- other receivables	8 475	251
Budget	**406 913**	**569 880**
- overdraft facilities	932	3 464
- term loans**	405 971	566 397
- purchased debt	10	19
Total	**17 738 052**	**12 914 172**

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services for households

** The item contains mainly: in the case of natural persons - investment loans and working capital loans for individual entrepreneurs and mortgage loans, and in the case of corporate customers and budget – investment and working capital loans

Receivables in breakdown by customer types and by impaired and non-impaired receivables (as at 31.12.2007)

	Gross receivables	Impaired gross receivables	Impairment excluding IBNR	Non-impaired gross receivables by days of delay in payment					
				Total	no delay	up to 30 days	31 - 60 days	61 - 90 days	over 90 days
Natural persons*	**9 723 900**	**489 673**	**349 638**	**9 234 227**	**8 534 577**	**615 028**	**59 943**	**24 018**	**661**
- overdraft facilities	594 784	76 520	69 463	518 264	446 804	67 183	2 393	1 382	502
- purchased debt	2 621	1 959	1 914	662	606	56	0	0	0
- term loans**	1 073 564	186 631	131 900	886 933	798 538	82 897	4 362	1 083	53
- cash and instalment loans	2 164 315	131 108	98 066	2 033 207	1 823 981	157 318	32 761	19 103	44
- mortgages	5 876 171	91 936	46 776	5 784 235	5 453 722	307 574	20 427	2 450	62
- realised guarantees	1 519	1 519	1 519	0	0	0	0	0	0
- other receivables	10 926	0	0	10 926	10 926	0	0	0	0
Corporate customers	**7 607 239**	**824 742**	**449 713**	**6 782 497**	**6 301 148**	**477 573**	**744**	**128**	**2 904**
- overdraft facilities	1 602 633	49 511	26 020	1 553 122	1 529 660	23 278	184	0	0
- term loans**	5 955 083	759 748	409 896	5 195 335	4 741 737	450 212	354	128	2 904
- purchased debt	31 655	6 090	5 772	25 565	21 276	4 083	206	0	0
- realised guarantees	9 393	9 393	8 025	0	0	0	0	0	0
- other receivables	8 475	0	0	8 475	8 475	0	0	0	0
Budget	**406 913**	**10**	**10**	**406 903**	**406 813**	**90**	**0**	**0**	**0**
- overdraft facilities	932	0	0	932	932	0	0	0	0
- term loans**	405 971	0	0	405 971	405 881	90			
- purchased debt	10	10	10	0	0	0	0	0	0
Total	**17 738 052**	**1 314 425**	**799 361**	**16 423 627**	**15 242 538**	**1 092 691**	**60 687**	**24 146**	**3 565**

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services for households

** The item contains mainly: in the case of natural persons - investment loans and working capital loans for individual entrepreneurs and mortgage loans, and in the case of corporate customers and budget – investment and working capital loans

Receivables in breakdown by customer types and by impaired and non-impaired receivables (comparable data as at 31.12.2006)

	Gross receivables	Impaired gross receivables	Impairment excluding IBNR	Non-impaired gross receivables by days of delay in payment					
				Total	no delay	up to 30 days	31 - 60 days	61 - 90 days	over 90 days
Natural persons*	**6 242 117**	**574 807**	**385 643**	**5 667 310**	**5 288 963**	**312 918**	**47 355**	**16 821**	**1 253**
- overdraft facilities	523 371	86 113	72 809	437 258	405 796	27 013	2 821	1 519	109
- purchased debt	4 211	1 992	1 882	2 219	1 955	264	0	0	0
- term loans**	988 397	266 037	162 522	722 360	681 947	32 814	5 979	1 369	251
- cash and instalment loans	1 545 534	129 807	103 737	1 415 727	1 251 129	126 913	25 905	11 753	27
- mortgages	3 172 752	89 256	43 714	3 083 496	2 941 886	125 914	12 650	2 180	866
- realised guarantees	1 602	1 602	979	0	0	0	0	0	0
- other receivables	6 250	0	0	6 250	6 250	0	0	0	0
Corporate customers	**6 102 175**	**1 292 266**	**660 675**	**4 809 909**	**4 707 126**	**100 931**	**1 514**	**238**	**100**
- overdraft facilities	1 072 321	70 669	28 776	1 001 652	984 047	17 435	170	0	0
- term loans**	4 972 833	1 184 808	595 807	3 788 025	3 704 061	82 282	1 344	238	100
- purchased debt	26 110	5 965	5 687	20 145	18 931	1 214	0	0	0
- realised guarantees	30 660	30 660	30 306	0	0	0	0	0	0
- other receivables	251	164	99	87	87	0	0	0	0
Budget	**569 880**	**19**	**17**	**569 861**	**556 931**	**12 930**	**0**	**0**	**0**
- overdraft facilities	3 464	0	0	3 464	3 464	0	0	0	0
- term loans**	566 397	0	0	566 397	553 467	12 930	0	0	0
- purchased debt	19	19	17	0	0	0	0	0	0
Total	**12 914 172**	**1 867 092**	**1 046 335**	**11 047 080**	**10 553 020**	**426 779**	**48 869**	**17 059**	**1 353**

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services for households

** The item contains mainly: in the case of natural persons - investment loans and working capital loans for individual entrepreneurs and mortgage loans, and in the case of corporate customers and budget – investment and working capital loans

Impairment is measured for all loan receivables in the case of which evidence for impairment was identified with regard to all evidence for impairment for a given exposure and a given borrower, including mainly the credit risk and the risk of a borrower's insolvency, the probability of recovering amounts due, the transferability of assets being material collateral and the period of recovering amounts due and the collection of collateral.

As at 31.12.2007, the amount of non-amortised loan commissions settled with the effective interest rate, which, according to the concept of the measurement of financial assets at amortised cost decreases the value of gross receivables, amounted to PLN 54,740 thousand, as compared to PLN 88,655 thousand as at 31.12.2006. The amounts were already recognised in total gross receivables.

Receivables quality ratio

in PLN '000'	31.12.2007	31.12.2006
Loans and advances with no evidence for impairment, including interest	16 423 627	11 047 080
Loans and advances with evidence for impairment, including interest	1 314 425	1 867 092
Total gross loan and advances to customers	**17 738 052**	**12 914 172**
Impairment losses on loans and advances to customers	839 724	1 100 617
including: impairment losses on loans and advances with evidence for impairment	799 361	1 046 335
Total net loans and advances to customers	**16 898 328**	**11 813 555**
The share of loans and advances with evidence for impairment in total gross loans and advances	**7.4%**	**14.5%**
Coverage of loans and advances with evidence for impairment with impairment losses	**60.8%**	**56.0%**
Coverage of gross loans and advances to customers with corresponding impairment losses	**4.7%**	**8.5%**

Over 12 months, the value of impaired receivables, i.e. for which evidence for impairment was identified, decreased by 29.6%, primarily as a result of the sale of receivables, writing down receivables, the improvement of the borrowers' financial standing and repayments of receivables following the restructuring measures. As a result of the above-mentioned situation and the material increase in loans portfolio, over the last 12 months, the quality ratio for the Bank's gross receivables portfolio improved by 7.1 p.p.

Receivables assessed individually

Gross receivables	Impairment	Net receivables
633 972	313 817	320 155

Loan collaterals accepted by the Bank

In the case of receivables for which impairment was identified, the total fair value of collateral approved by the Bank considered in estimated future cash flow is presented in the table below.

	31.12.2007	31.12.2006
Value of approved collateral	423 921	682 969

Apart from standard loan collateral specified in loan agreements which are in line with the practices applied in the industry (mortgage, transfers of ownership to secure a loan, registered pledges, sureties, guarantees and transfers of receivables), the Bank does not apply any other loan collateral, e.g. credit derivatives.

The Bank monitors established legal securities of loan transactions by evaluation of the value of approved collateral on the basis of documents lodged by the borrower and internal databases including historic data about the recoverability of collateral.

Carrying amount of restructured receivables

	31.12.2007	31.12.2006
Carrying amount	268 443	46 403

32. Impairment losses on loans and advances to customers

	Impair-ment as at 31.12.2006	Recognised	Reversed	Sale	Written off	Other changes	Impair-ment as at 31.12.2007
Natural persons	**415 540**	**392 457**	**-294 208**	**-90 611**	**-37 194**	**-4 891**	**381 093**
overdraft facilities	73 975	13 558	-16 730	0	0	0	70 803
purchased debt	1 882	857	-825	0	0	0	1 914
term loans	167 056	221 826	-212 944	0	-36 300	-4 891	134 747
cash and instalment loans	109 887	103 232	-17 836	-90 611	0	0	104 672
mortgages	61 770	52 009	-45 627	0	-894	0	67 258
realised guarantees	970	795	-246	0	0	0	1 519
other receivables	0	180	0	0	0	0	180
Corporate customers	**685 055**	**258 584**	**-399 477**	**-58 764**	**-25 758**	**-1 774**	**457 866**
overdraft facilities	33 290	20 341	-25 483	0	0	0	28 148
term loans	615 582	226 496	-340 315	-58 764	-25 758	-1 399	415 842
purchased debt	5 778	992	-550	0	0	-369	5 851
realised guarantees	30 306	8 335	-30 616	0	0	0	8 025
other receivables	99	2 420	-2 513	0	0	-6	0
Budget	**22**	**2 460**	**-1 710**	**0**	**-7**	**0**	**765**
overdraft facilities	0	24	-24	0	0	0	0
term loans	4	2 436	-1 685	0	0	0	755
purchased debt	18		-1	0	-7	0	10
Total	**1 100 617**	**653 501**	**-695 395**	**-149 375**	**-62 959**	**-6 665**	**839 724**

	Impairment as at 31.12.2005	Recognised	Reversal	Sale	Writen-off	Other changes	Impairment as at 31.12.2006
Natural persons	**850 828**	**707 035**	**-403 957**	**-504 039**	**-231 387**	**-2 940**	**415 540**
overdraft facilities	85 714	90 172	-42 749	-23 605	-35 557	0	73 975
purchased debt	24 956	55 040	-22 689	-45 756	-9 669	0	1 882
term loans	411 625	255 796	-283 764	-204 096	-9 913	-2 592	167 056
cash and instalment loans	291 786	262 104	-41 105	-228 047	-174 851		109 887
mortgages	35 283	41 661	-13 650	-462	-714	-348	61 770
realised guarantees	1 464	2 262	0	-2 073	-683	0	970
Corporate customers	**1 468 390**	**130 074**	**-462 064**	**-166 658**	**-246 620**	**-38 067**	**685 055**
overdraft facilities	103 271	78 504	-131 404	-4 279	-12 802	0	33 290
term loans	1 254 238	44 675	-294 631	-161 768	-189 592	-37 340	615 582
purchased debt	50 871	580	-28 853	-611	-16 300	91	5 778
realised guarantees	60 010	6 274	-7 176	0	-27 926	-876	30 306
other receivables	0	41	0	0	0	58	99
Budget	**30**	**5**	**-13**	**0**	**0**	**0**	**22**
overdraft facilities	10	0	-10	0	0	0	0
term loans	0	4 0		0	0	0	4
purchased debt	20	1	-3	0	0	0	18
Total	**2 319 248**	**837 114**	**-866 034**	**-670 697**	**-478 007**	**-41 007**	**1 100 617**

IBNR

Impairment for incurred but not reported (IBNR) credit losses for homogenous balance sheet and off-balance sheet receivables portfolios as at 31.12.2007 amounted to PLN 45,550 thousand, including PLN 5,187 thousand related to off-balance sheet liabilities; and PLN 54,282 thousand as at 31.12.2006 (the whole amount was related to balance sheet receivables).

33. Investment securities

	31.12.2007	31.12.2006
Available-for-sale securities	**3 433 103**	**3 453 890**
Treasury securities	2 658 096	2 888 291
- bonds	2 658 096	2 788 421
- bills	0	99 870
Central Bank securities	331 544	331 563
- bonds	331 544	331 563
Other securities	441 626	228 612
- bonds	441 626	228 612
Equity securities (excluding investments in subsidiaries, jointly controlled entities and associates)	1 837	5 424
Held-to-maturity securities	**2 045 166**	**2 448 773**
Treasury securities	2 045 166	2 448 773
- bonds	2 045 166	2 448 773
Total	**5 478 269**	**5 902 663**

All investment securities classified in the portfolio of available-for-sale financial assets are measured at fair value, except for NBP bonds issued for the purpose of statutory reserve of banks and non-listed equity investments. NBP bonds are measured at amortised cost, as there is no active market for them, and NBP bonds may only be redeemed by the issuer. Non-listed equity investments are recognised at cost, having regard for impairment losses, as there is also no active market for them and their fair value cannot be determined reliably.

	31.12.2007	31.12.2006
Available-for-sale securities	**3 433 103**	**3 453 890**
Listed	**2 658 096**	**3 115 034**
- shares	0	3 584
- bonds	2 658 096	3 011 580
- bills	0	99 870
Non-listed	**775 007**	**338 856**
- shares	1 837	1 840
- bonds	773 170	337 016
Held-to-maturity securities	**2 045 166**	**2 448 773**
Listed	**2 045 166**	**2 448 773**
- bonds	2 045 166	2 448 773
Total	**5 478 269**	**5 902 663**

Maturities of available-for-sale investment securities

	31.12.2007	31.12.2006
- up to 1 month	2 100	110 173
- 1-3 months	0	23 800
- 3-6 months	0	327 403
- 6 months to 1 year	0	172 772
- 1 - 3 years	959 052	786 980
- 3 - 5 years	1 563 337	1 265 137
- 5 - 10 years	702 391	752 791
- 10 - 20 years	204 386	9 410
- with unspecified maturity dates	1 837	5 424
Total	**3 433 103**	**3 453 890**

Maturities of held-to-maturity investment securities

	31.12.2007	31.12.2006
- up to 1 month	0	14 740
- 1-3 months	0	23 447
- 3-6 months	350 423	306 214
- 6 months to 1 year	0	109 015
- 1 - 3 years	1 037 634	620 760
- 3 - 5 years	433 213	1 202 107
- 5 - 10 years	223 896	157 763
- 10 - 20 years	0	14 727
Total	**2 045 166**	**2 448 773**

34. Financial assets subject to hedge accounting

The Bank applies hedge accounting for fair value hedge for asset swaps. The purpose of hedge accounting is to hedge fixed interest rate bonds with IRS, on which the Bank pays a fixed interest rate and receives a floating interest rate.

The aim of loans-related cash flow hedge is to change floating interest rate cash flows generated by the loans portfolio to cash flows based on a fixed interest rate to match the structure of the interest rate risk for assets and liabilities based on a fixed interest rate. The hedge involves swap transactions in which the Bank, on the whole, pays cash flows based on variable O/N interest rate matched to the interest rate of the loans portfolio and receives interest flows at a fixed interest rate with required maturity. The above structure makes it possible to change the floating interest rate into the fixed interest rate without the necessity for employing additional liquid cash for the purchase of new assets (e.g. fixed coupon bonds), at the same time ensuring stable impact on the result by recognising changes of fair value of swaps in the Bank's equity.

The Bank applies cash flow hedge accounting for asset swaps. The transaction involves hedging cash flows from floating interest rate bonds, as a result of which the Bank receives fixed and pays floating interest flows.

The rules of recognising and measuring the effectiveness of the hedges for transactions subject to hedge accounting are described in Note 7.6.7 of this financial statement.

As at 31.12.2007

Financial assets subject to cash flow hedge accounting

- bonds

Hedged assets - available-for-sale bonds

Bond nominal value	Maturity date	Interest rate	Coupon rate payment
100 000	24.09.2011	variable 5.23% (31.12.2007)	every 6 months
50 000	24.09.2011	variable 5.23% (31.12.2007)	every 6 months
36 000	24.09.2011	variable 5.23% (31.12.2007)	every 6 months
70 000	25.01.2018	variable 4.93% (31.12.2007)	every 6 months
50 000	25.01.2018	variable 4.93% (31.12.2007)	every 6 months
80 000	25.01.2018	variable 4.93% (31.12.2007)	every 6 months

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in income statement (interest presented in net interest income)
		Coupon received	Coupon paid	Coupon received	Coupon paid		
100 000	24.09.2009	fixed 5,32%	WIBOR 6M	annually	every 6 months	-1 298	-69
50 000	25.09.2008	fixed 5.25%	WIBOR 6M	annually	every 6 months	-268	-28
36 000	23.03.2009	fixed 4.38%	WIBOR 6M	annually	every 6 months	-4	-13
70 000	23.01.2009	fixed 5.30%	WIBOR 6M	annually	every 6 months	-477	-82
50 000	25.07.2010	fixed 5.5075%	WIBOR 6M	annually	every 6 months	-612	-117
80 000	29.08.2011	fixed 5.66%	WIBOR 6M	annually	every 6 months	-888	-153
					Total	**-3 547**	**-462**

- <u>loans portfolio</u>

Hedged assets – overdraft loans portfolio of PLN 1,100,000 thousand based on WIBOR O/N rate.

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in income statement (interest presented in net interest income)
		Coupon received	Coupon paid	Coupon received	Coupon paid		
70 000	13.06.2012	fixed 5.4475%	WIBOR 6M	annually	every 6 months	301	229
70 000	13.06.2008	fixed 5.78%	WIBOR O/N	every 6 months	every 6 months	-21	
30 000	13.06.2012	fixed 5.4475%	WIBOR 6M	annually	every 6 months	129	66
30 000	13.06.2008	fixed 5.78%	WIBOR O/N	every 6 months	every 6 months	-9	
50 000	01.03.2013	fixed 5.11%	WIBOR 6M	annually	every 6 months	-593	77
50 000	03.03.2008	fixed 5.11%	WIBOR O/N	every 6 months	every 6 months	-17	
25 000	03.03.2014	fixed 5.12%	WIBOR 6M	annually	every 6 months	-378	41
25 000	03.03.2008	fixed 5.11%	WIBOR O/N	every 6 months	every 6 months	-9	
25 000	02.03.2015	fixed 5.14%	WIBOR 6M	annually	every 6 months	-425	35
25 000	03.03.2008	fixed 5.11%	WIBOR O/N	every 6 months	every 6 months	-9	
100 000	01.08.2013	fixed 5.075%	WIBOR 3M	annually	every quarter	-2 892	248
100 000	02.02.2008	fixed 5.05%	WIBOR O/N	every quarter	every quarter	-29	
25 000	22.06.2015	fixed 5.09%	WIBOR 3M	annually	every quarter	-558	99
25 000	18.03.2008	fixed 5.56%	WIBOR O/N	every quarter	every quarter	2	
50 000	18.12.2009	fixed 4.78%	WIBOR 3M	annually	every quarter	-1 297	101
50 000	18.03.2008	fixed 5.56%	WIBOR O/N	every quarter	every quarter	4	
100 000	05.01.2009	fixed 4.6875%	WIBOR 3M	annually	every quarter	1 983	36
100 000	04.01.2008	fixed 5.02%	WIBOR O/N	every quarter	every quarter	-22	
50 000	02.03.2012	fixed 5.09%	WIBOR 6M	annually	every 6 months	-406	13
50 000	03.03.2008	fixed 5.11%	WIBOR O/N	every 6 months	every 6 months	-17	
100 000	21.03.2011	fixed 4.9275%	WIBOR 3M	annually	every quarter	319	301
100 000	18.03.2008	fixed 5.56%	WIBOR O/N	every quarter	every quarter	8	
100 000	30.03.2009	fixed 4.8%	WIBOR 3M	annually	every quarter	1 942	100
100 000	31.03.2008	fixed 5.45%	WIBOR O/N	every quarter	every quarter	-27	
50 000	30.03.2011	fixed 5.00%	WIBOR 6M	annually	every 6 months	-313	52
50 000	31.03.2008	fixed 5.15%	WIBOR O/N	every 6 months	every 6 months	-42	
50 000	30.03.2012	fixed 5.03%	WIBOR 6M	annually	every 6 months	-577	79
50 000	31.03.2008	fixed 5.15%	WIBOR O/N	every 6 months	every 6 months	-42	
50 000	30.03.2010	fixed 4.94%	WIBOR 6M	annually	every 6 months	-20	33
50 000	31.03.2008	fixed 5.15%	WIBOR O/N	every 6 months	every 6 months	-42	
50 000	04.04.2012	fixed 5.03%	WIBOR 6M	annually	every 6 months	-576	173
50 000	04.04.2008	fixed 5.12%	WIBOR O/N	every 6 months	every 6 months	-72	
25 000	15.09.2014	fixed 5.085%	WIBOR 3M	annually	every quarter	-832	76

25 000	18.03.2008	fixed 5.56%	WIBOR O/N	every quarter	every quarter	2	
50 000	09.07.2013	fixed 5.675%	WIBOR 6M	annually	every 6 months	-531	150
50 000	09.01.2008	fixed 4.90%	WIBOR O/N	every 6 months	every 6 months	8	
50 000	09.07.2014	fixed 5.67%	WIBOR 6M	annually	every 6 months	-532	136
50 000	09.01.2008	fixed 4.90%	WIBOR O/N	every 6 months	every 6 months	8	
50 000	14.12.2009	fixed 4.78%	WIBOR 3M	annually	every quarter	-1 294	77
50 000	13.03.2008	fixed 5.48%	WIBOR O/N	every quarter	every quarter	2	
100 000	02.01.2008	fixed 4.99%	WIBOR O/N	every quarter	every quarter	30	0
					Total	**-6 844**	**2 122**

Hedged assets – mortgage loans of PLN 570,000 thousand.

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in income statement (interest presented in net interest income)
		Coupon received	Coupon paid	Coupon received	Coupon paid		
100 000	09.07.2012	fixed 5.6975%	WIBOR 3M	annually	every quarter	261	178
100 000	13.08.2012	fixed 5.615%	WIBOR 3M	annually	every quarter	-152	176
50 000	13.08.2012	fixed 5.615%	WIBOR 3M	annually	every quarter	-76	88
120 000	10.09.2011	fixed 5.65%	WIBOR 3M	annually	every quarter	1	297
20 000	10.09.2011	fixed 5.65%	WIBOR 3M	annually	every quarter	0	50
150 000	09.11.2012	fixed 5.75%	WIBOR 3M	annually	every quarter	-1 476	288
30 000	17.12.2014	fixed 5.90%	WIBOR 3M	annually	every quarter	-29	0
570 000					**Total**	**-1 471**	**1 077**

Financial assets subject to fair value hedge accounting

- <u>bonds</u>

Hedged assets - available-for-sale bonds

Bond nominal value	Maturity date	Interest rate	Coupon rate payment	Valuation for 2007 recognised in income statement
25 389	24.10.2013	fixed 5%	annually	-1 136

IRS's hedging fair value of bonds

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in income statement (interest presented in net interest income)
		Coupon received	Coupon paid	Coupon received	Coupon paid		
26 000	03.10.2013	WIBOR 3M	fixed 4.595%	every quarter	annually	1 709	1 668
					Total	**1 709**	**1 668**

As at 31.12.2006

Financial assets subject to cash flow hedge accounting

- loans portfolio

Hedged assets – overdraft loans of PLN 100,000 thousand based on WIBOR O/N rate.

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in income statement (interest presented in net interest income)
		Coupon received	Coupon paid	Coupon received	Coupon paid		
50 000	14.12.2009	fixed 4.78%	WIBOR 3M	annually	every quarter	-92	-44
50 000	14.03.2007	fixed 4.05%	WIBOR O/N	payment at transaction closure, i.e. 14.03.2007	payment at transaction closure, i.e. 14.03.2008	-7	
50 000	18.12.2009	fixed 4.78%	WIBOR 3M	annually	every quarter	0	-25
50 000	19.03.2007	fixed 4.05%	WIBOR O/N	payment at transaction closure, i.e. 19.03.2007	payment at transaction closure, i.e. 19.03.2008	-103	
					Total	**-202**	**-69**

- bonds

Hedged assets - available-for-sale bonds

Bond nominal value	Maturity date	Interest rate	Coupon rate payment
100 000	24.09.2011	variable 4.11% (31.12.2006)	every 6 months
50 000	24.09.2011	variable 4.11%	every 6 months
36 000	24.09.2011	variable 4.11% (31.12.2006)	every 6 months

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in income statement (interest presented in net interest income)
		Coupon received	Coupon paid	Coupon received	Coupon paid		
100 000	24.09.2009	fixed 5.32%	WIBOR 6M	annually	annually	1 403	1 164
50 000	25.09.2008	fixed 5.25%	WIBOR 6M	annually	annually	521	411
36 000	23.12.2009	fixed 4.38%	WIBOR 6M	annually	every 6 months	484	-311
					Total	**2 408**	**1 264**

Financial assets subject to fair value hedge accounting

- <u>bonds</u>

Hedged assets - available-for-sale bonds

Bond nominal value	Maturity date	Interest rate	Coupon rate payment	Valuation recognised in income statement
25 389	24.10.2013	fixed 5%	annually	-131

IRS's hedging fair value of bonds

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in income statement (interest presented in net interest income)
		Coupon received	Coupon paid	Coupon received	Coupon paid		
26 000	03.10.2013	WIBOR 6M	fixed 4.595%	every 6 months	annually	643	-593
					Total	**643**	**-593**

In the case of cash flow hedge, the amount recognised in equity in 2007 was - PLN 44,108 thousand, and the amount derecognised from equity amounted to - PLN 3,663 thousand. And, the amount recognised in equity in 2006 was PLN 1,029 thousand, and the amount derecognised from equity amounted to - PLN 164 thousand.

Summary of valuations of hedging derivatives

	31.12.2007	31.12.2006
Total positive valuations (with interest)	34 025	3 403
including positive valuations net of interest on cash flow hedge	30	1 574
Total negative valuations (with interest)	-44 178	-554
including negative valuations net of interest on cash flow hedge	-44 138	-545

35. Investments in subsidiaries and jointly controlled entities

	31.12.2007	31.12.2006
In financial sector companies	2 643	2 598
In non-financial sector companies	71 233	71 233
Total	**73 876**	**73 831**

36. Property, plant and equipment

	31.12.2007	31.12.2006
Property, plant and equipment, including:	**280 567**	**275 498**
- land	6 886	6 973
- buildings and premises	139 974	145 486
- plant and machinery	58 132	47 526
- motor vehicles	271	9 465
- other property, plant and equipment	75 304	66 048
Construction in progress	62 871	49 552
Total	**343 438**	**325 050**

Movement on property, plant and equipment

For the period of 12 months ended 31.12.2007

	Land	Buildings and premises	Plant and machinery	Motor vehicles	Other property, plant and equipment	Construction in progress	Total property, plant and equipment
a) gross property, plant and equipment as at 01.01.2007	7 371	200 409	438 867	14 344	136 525	49 552	847 068
b) increase	2 908	3 574	43 822	58	26 676	16 541	93 579
- acquisition	0	1 599	43 395	58	26 676	7 541	79 269
- other increase	2 908	1 975	427	0	0	9 000	14 310
c) decrease	163	4 586	53 147	12 824	2 651	3 222	76 593
- sale	163	4 548	4 539	1 351	345	0	10 946
- liquidation	0	6	48 608	0	1 797	0	50 411
- other decrease	0	32	0	11 473	509	3 222	15 236
d) gross property, plant and equipment as at 31.12.2007	10 116	199 397	429 542	1 578	160 550	62 871	864 054
e) accumulated depreciation of property, plant and equipment as at 01.01.2007	203	39 076	389 766	4 639	69 384	0	503 068
f) net property, plant and equipment as period beginning as at 01.01.2007	6 973	145 486	47 526	9 465	66 048	49 552	325 050
g) changes in depreciation	-8	2 991	-19 345	-3 553	15 066	0	-4 849
- depreciation	0	4 558	33 557	164	16 518	0	54 797
- sale	-8	-1 567	-4 512	-1 265	-43	0	-7 395
- liquidation	0	0	-48 239	0	-1 292	0	-49 531
- other changes	0	0	-151	-2 452	-117	0	-2 720
h) accumulated depreciation as at 31.12.2007	195	42 067	370 421	1 086	84 450	0	498 219
i) impairment as at 01.01.2007	195	15 847	1 575	240	1 093	0	18 950
- increases	2 840	1 540	0	14	0	0	4 394
- decreases	0	31	586	33	297	0	947
j) impairment as at 31.12.2007	3 035	17 356	989	221	796	0	22 397
Net property, plant and equipment as at 31.12.2007	**6 886**	**139 974**	**58 132**	**271**	**75 304**	**62 871**	**343 438**

For the period of 12 months ended 31.12.2006

	Land	Buildings and premises	Plant and machinery	Motor vehicles	Other property, plant and equipment	Construction in progress	Total property, plant and equipment
a) gross property, plant and equipment as at 01.01.2006	7 585	209 138	440 710	7 505	125 714	39 225	829 877
b) increase	0	1 828	22 085	8 525	14 448	30 976	77 862
- acquisition	0	1 781	20 918	0	14 448	30 976	68 123
- other increase	0	47	1 167	8 525	0	0	9 739
c) decrease	214	10 557	23 928	1 686	3 637	20 649	60 671
- sale	0	0	7 597	1 495	0	0	9 092
- liquidation	0	235	12 577	128	3 036	0	15 976
- other decrease	214	10 322	3 754	63	601	20 649	35 603
d) gross property, plant and equipment as at 31.12.2006	7 371	200 409	438 867	14 344	136 525	49 552	847 068
e) accumulated depreciation of property, plant and equipment as at 01.01.2006	203	35 170	371 618	4 077	58 823	0	469 891
f) net property, plant and equipment as at 01.01.2006	6 973	158 416	66 844	3 428	66 179	39 225	341 065
g) changes in depreciation	0	3 906	18 148	562	10 561	0	33 177
- depreciation	0	4 847	39 844	1 909	12 511	0	59 111
- sale	0	0	-7 579	-1 290	0	0	-8 869
- liquidation	0	-104	-12 154	-35	-1 781	0	-14 074
- other changes	0	-837	-1 963	-22	-169	0	-2 991
h) accumulated depreciation as at 31.12.2006	203	39 076	389 766	4 639	69 384	0	503 068
i) impairment as at 01.01.2006	409	15 552	2 248	0	712	0	18 921
- increases	0	845	357	281	505	0	1 988
- decreases	214	550	1 030	41	124	0	1 959
j) impairment as at 31.12.2006	195	15 847	1 575	240	1 093	0	18 950
Net property, plant and equipment as at 31.12.2006	**6 973**	**145 486**	**47 526**	**9 465**	**66 048**	**49 552**	**325 050**

37. Intangible assets

	31.12.2007	31.12.2006
Patents, licenses and similar rights, including:	40 903	59 954
- software	40 903	59 954
Other intangible assets	24 522	24 440
Total	**65 425**	**84 394**

38. Movement on intangible assets

For the period of 12 months ended 31.12.2007

	Patents, licenses and similar assets	including: software	Other intangible assets	Total intangible assets
a) gross intangible assets as at 01.01.2007	257 933	257 933	32 339	290 272
b) increase	17 782	17 782	10 830	28 612
- acquisition	11 611	11 611	10 779	22 390
- other increase	6 171	6 171	51	6 222
c) decrease	6 111	6 111	8 086	14 197
- liquidation	5 540	5 540	1 915	7 455
- other decrease	571	571	6 171	6 742
d) gross intangible assets as at 31.12.2007	269 604	269 604	35 083	304 687
e) accumulated amortisation as at 01.01.2007	193 383	193 383	7 899	201 282
f) net intangible assets as at 01.01.2007	59 954	59 954	24 440	84 394
g) amortisation in the period	30 792	30 792	-1 621	29 171
- amortisation	36 179	36 179	294	36 473
- liquidation	-5 538	-5 538	-1 915	-7 453
- other changes	151	151	0	151
h) accumulated amortisation at period end as at 31.12.2007	224 175	224 175	6 278	230 453
i) impairment as at 01.01.2007	4 596	4 596	0	4 596
- increases	501	501	4 283	4 784
- decreases	571	571	0	571
j) impairment as at 31.12.2007	4 526	4 526	4 283	8 809
Net intangible assets as at 31.12.2007	**40 903**	**40 903**	**24 522**	**65 425**

For the period of 12 months ended 31.12.2006

	Patents, licenses and similar assets	including: software	Other intangible assets	Total intangible assets
a) gross intangible assets as at 01.01.2006	259 742	259 742	36 229	**295 971**
b) increase	3 861	3 861	15 836	**19 697**
- acquisition	2 719	2 719	15 590	**18 309**
- other increase	1 142	1 142	246	**1 388**
c) decrease	5 670	5 670	19 726	**25 396**
- sale	120	120	0	**120**
- liquidation	4 613	4 613	18 561	**23 174**
- other decrease	937	937	1 165	**2 102**
d) gross intangible assets as at 31.12.2006	257 933	257 933	32 339	**290 272**
e) accumulated amortisation as at 01.01.2006	157 909	157 909	26 152	**184 061**
f) net intangible assets as at 01.01.2006	100 480	100 480	10 077	**110 557**
g) amortisation in the period	35 474	35 474	-18 253	**17 221**
- amortisation	40 100	40 100	304	**40 404**
- sale	-20	-20	0	**-20**
- liquidation	-4 606	-4 606	-18 557	**-23 163**
h) accumulated amortisation as at 31.12.2006	193 383	193 383	7 899	**201 282**
i) impairment as at 01.01.2006	1 353	1 353	0	**1 353**
- increases	4 179	4 179	0	**4 179**
- decreases	936	936	0	**936**
j) impairment as at 31.12.2006	4 596	4 596	0	**4 596**
Net intangible assets as at 31.12.2006	**59 954**	**59 954**	**24 440**	**84 394**

39. Non-current assets classified as held for sale

	31.12.2007	31.12.2006
Gross non-current assets classified as held for sale	767	14 951
Impairment losses	0	4 380
Net non-current assets classified as held for sale	**767**	**10 571**

40. Other assets

	31.12.2007	Comparable data 31.12.2006
Various debtors* (including):	60 033	64 726
- gross various debtors	75 934	87 981
- Impairment losses	15 901	23 255
Prepaid expenses	14 743	21 581
Other assets, including:	208	1 309
- gross assets taken over for debts	1 057	2 698
- impairment on assets taken over for debts	-849	-1 798
- other assets	0	409
Total	**74 984**	**87 616**

* The item contains: amounts due from the sale of financial and property, plant and equipment, returnable security deposits paid by the Bank under finance and operating lease agreements for real estates used by the Bank, settlements under payment cards, amounts due to the State Treasury.

41. Amounts due to Central Bank

By types

	31.12.2007	31.12.2006
Lombard loan	1 100 000	0
Other amounts due	1 661	1 990
Total	**1 101 661**	**1 990**

By maturity dates

	31.12.2007	31.12.2006
- up to 1 month	1 101 661	41
- 3-6 months	0	1 949
Total	**1 101 661**	**1 990**

42. Amounts due to banks

By types

	31.12.2007	Comparable data 31.12.2006
Current accounts	28 114	51 026
Term deposits	2 517 509	1 174 007
Loans and advances	2 720 710	935 505
Other amounts due	5 116	4 288
Total	**5 271 449**	**2 164 826**

Amounts due to banks (by maturity dates as at the balance sheet date)

	31.12.2007	Comparable data 31.12.2006
- up to 1 month	2 362 562	1 118 205
- 1-3 months	130 793	75 300
- 3-6 months	56 782	35 816
- 6 months to 1 year	602	0
- 1 - 3 years	865 715	0
- over 3 years	1 854 995	935 505
Total	**5 271 449**	**2 164 826**

43. Amounts due to customers

By types

	31.12.2007	Comparable data 31.12.2006
Current accounts	10 864 712	9 524 544
Term deposits	6 201 694	6 094 337
Other amounts due	114 325	256 452
Total	**17 180 731**	**15 875 333**

By maturity dates (as at the balance sheet date)

	31.12.2007	Comparable data 31.12.2006
- up to 1 month	14 677 673	13 323 179
- 1-3 months	1 229 987	1 247 182
- 3-6 months	541 260	776 939
- 6 months to 1 year	417 963	381 076
- 1 - 3 years	21 806	24 973
- 3 - 5 years	262 602	78 762
- 5 - 10 years	28 597	42 061
- 10 - 20 years	843	988
- over 20 years	0	173
Total	**17 180 731**	**15 875 333**

Liabilities by customer types

	31.12.2007	Comparable data 31.12.2006
Natural persons*	**10 298 896**	**9 812 992**
- in current account	7 039 089	6 101 088
- term deposits	3 154 154	3 676 939
- other	105 653	34 965
Corporate customers	**4 824 646**	**4 252 098**
- in current account	2 487 847	2 037 201
- term deposits	2 328 127	1 993 484
- other	8 672	221 413
Budget	**2 057 189**	**1 810 243**
- in current account	1 337 776	1 386 255
- term deposits	719 413	423 914
- other	0	74
Total	**17 180 731**	**15 875 333**

* The item contains: amounts due to private persons, individual entrepreneurs, individual farmers, non-commercial institutions providing services for households

44. Liabilities arising from repurchase transactions

	31.12.2007	31.12.2006
- up to 1 month	50 126	1 033 290
- up to 3 months	0	20 638
Total	**50 126**	**1 053 928**

The securities repurchase price is determined on the basis of or equal to the selling price plus financing cost. In the case the Bank fails to meet its commitments, the securities subject to the transaction remain in the possession of the Bank's customer.

45. Provisions

	31.12.2007	31.12.2006
Employee benefits provision	702	933
Provision for off-balance sheet items	15 009	17 594
Provision for restructuring	5 256	10 988
Provision for litigation	84 757	69 260
Total	**105 724**	**98 775**

Net increase/decrease in provisions

	01.01.2007-31.12.2007	**01.01.2006-31.12.2006**
Period beginning	**98 775**	**77 072**
- employee benefits provision	933	869
- provision for off-balance sheet items	17 594	63 039
- provision for restructuring	10 988	0
- provision for litigation	69 260	13 164
a) increases	**110 640**	**157 890**
- employee benefits provision	0	272
- provision for off-balance sheet items	79 883	124 558
- provision for restructuring	2 780	12 482
- provision for litigation	27 977	20 578
b) -decreases - utilization	**-12 920**	**-4 831**
- employee benefits provision	-231	-136
- provision for restructuring	-8 502	-1 494
- provision for litigation	-4 187	-3 201
c) decreases - releases	**-90 745**	**-172 871**
- employee benefits provision	0	-72
- provision for off-balance sheet items	-84 993	-170 816
- provision for restructuring	-10	0
- provision for litigation	-5 742	-1 983
d) other changes	**-26**	**41 515**
- employee benefits provision	0	0
- provision for off-balance sheet items	2 525	813
- provision for restructuring	0	0
- provision for litigation	-2 551	40 702
Period end (by items)	**105 724**	**98 775**
- employee benefits provision	702	933
- provision for off-balance sheet items	15 009	17 594
- provision for restructuring	5 256	10 988
- provision for litigation	84 757	69 260
Period end	**105 724**	**98 775**

Major items recognised in the provision for litigation are as follows: a security in the case of negative result of litigation in cases against the Bank, including security for payment of the fine imposed by the President of the Office for Competition and Customer Protection.

The restructuring provision entails the costs of employment and property, plant and equipment restructuring to be incurred while performing the next stage of the rebuilding of the Bank's structure resulting from the implemented Bank's strategy.

'Provisions for employee benefits' are composed of provisions for retirement benefits.

46. Other liabilities

	31.12.2007	Comparable data 31.12.2006
Amounts due to the State Treasury	17 675	16 781
Various creditors	72 907	48 107
Expenses and income settled over time	91 858	65 637
Leasing payables	40 842	65 304
Inter-bank clearings	25 934	55 278
Total	**249 216**	**251 107**

47. Subordinated liabilities

	31.12.2007	31.12.2006
Subordinated liabilities	394 235	421 619
Total	**394 235**	**421 619**

As at 31.12.2007

Entity	Loan value by currencies	Loan value in '000'	Interest rate terms	Maturity date	Subordinated liabilities
KBC Bank NV O/Dublin	EUR	110 000	3M EURIBOR +1.20p.p	25.05.2008	394 235
Total					**394 235**

As at 31.12.2006

Entity	Loan value by currencies	Loan value in '000'	Interest rate terms	Maturity date	Subordinated liabilities
KBC Bank NV O/Dublin	EUR	110 000	3M EURIBOR +1.20p.p	25.05.2008	421 619
Total					**421 619**

48. Equity

Share capital

As at 31.12.2007, the Bank's share capital totalled PLN 1,358,294,400 and was divided into 271,658,880 shares of nominal value PLN 5.00 each. The Bank's shares are registered shares and bearer shares, but not preference shares. Each share entitles its holder to one vote at the Bank's General Meeting of Shareholders. All the Bank's shares are admitted to public trading. The share capital did not change in 2007.

The analysis of registered shares and bearer shares presented below was prepared as at 31.12.2007.

Registered shares

Shareholders of the Bank hold 68,060 registered shares, which accounts for 0.02% of the share capital. Registered shares as at 31.12.2007:

Series	Number of shares
A	2 942
C	1 425
F	5 792
P	29 621
S1	26 663
Total	**66 443**

Series A, C and F shares were admitted to stock exchange trading on condition that they are converted into bearer shares, and series P and S1 shares may be admitted to stock exchange trading when respective authorizations are obtained.

Bearer shares

The Bank's Shareholders hold 271,592,437 bearer shares, which account for 99.98% of the share capital. Originally, the number of bearer shares amounted to 264,204,350. In addition, as a result of the conversion of registered shares into bearer shares, 7,386,470 became bearer shares. Bearer shares as at 31.12.2007:

(Original) bearer shares		Following the conversion of registered shares into bearer shares	
Series	**Number of shares**	**Series**	**Number of shares**
B	2 500 000	A	2 497 058
D	100 000	C	98 575
E	1 580 425	F	308 923
G	480 000	P	3 660 061
H	3 777 350	S1	823 470
I	5 600 000		
J	4 400 000		
K	2 278 814		
L	2 000 000		
M	10 000 000		
N	847 000		
O	25 000 000		
R	32 583 993		
T	49 301 056		
U	63 387 072		
W	60 368 640		
Total	**264 204 350**	**Total**	**7 388 087**
Total bearer shares			**271 592 437**

As at 31.12.2007, as many as 271,592,437 bearer shares were traded on the main market of the Warsaw Stock Exchange. And, as at 31.12.2006, the number of shares traded on the stock exchange amounted to 271,590,820.

The shareholding structure changed as compared to the structure as at 31.12.2006 presented in the Bank's annual financial report for 2006.

On 27.04.2007, Kredyt Bank S.A. was informed by KBC Bank NV that, on 24.04.2007, KBC Securities NV, a wholly-owned subsidiary of KBC Bank NV, had purchased 7,690,966 shares of Kredyt Bank S.A. in a block transaction.

As informed by KBC Bank NV, both companies jointly, i.e. KBC Bank NV and KBC Securities NV, are entitled to exercise up to 75% of votes at the General Meeting of Shareholders of Kredyt Bank S.A., i.e. KBC Bank NV and KBC Securities NV jointly may exercise 203,744,160 votes at the General Meeting of Shareholders of Kredyt Bank S.A.

The table below presents Shareholders of Kredyt Bank S.A. holding over 5% of total votes at the General Meeting of Shareholders of Kredyt Bank S.A. as at 31.12.2007.

Shareholder	Line of business	Number of shares and votes at GMS	Share in votes and in share capital (in %)
KBC Bank N.V.	Banking	217 327 103	80.00
Sofina S.A.	Investment company	15 014 772	5.53

On 18 December 2007, the Management Board of Kredyt Bank S.A. was informed by Pioneer Pekao Investment Management S.A. ('PPIM' based in Warsaw) that, on 17 December 2007, PPIM held over 5% of total votes at the General Meeting of Shareholders of Kredyt Bank S.A. concerning the financial instruments included in the portfolios managed within the services of managing broker-traded financial instruments upon order provided by PPIM and in performance of the agreement on the management of broker-traded financial instruments upon order, concluded between Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych SA and PPIM.

PPIM notified, on behalf of the funds it managed, of the increase in the interest of the said funds to 5.001% of total votes at the General Meeting of Shareholders of Kredyt Bank S.A. (the said investment funds are shareholders who jointly hold the above-mentioned number of votes at the General Meeting of Shareholders. Portfolios of investment funds are a sub-group of all portfolios of PPIM's Customers.)

Total interest of PPIM amounts to 13,674,064 shares of Kredyt Bank S.A. which account for 5.03% of total votes and share capital of Kredyt Bank S.A. (all Customers of Pioneer Pekao Investment Management S.A., related to portfolios managed by PPIM, are shareholders who jointly hold the above-mentioned number of votes at the General Meeting of Shareholders).

Share premium

	31.12.2007	31.12.2006
Profit allowance	381 718	104 789
Other	0	0
Total share premium	**381 718**	**104 789**

The Bank's net profit for 2006 amounting to PLN 437,442,933.29 was allocated to:

- reserves - PLN 60,000,000.00;
- dividend payment - PLN 100,513,785.60;
- share premium – PLN 276,929,147.69.

Revaluation reserve

	31.12.2007	31.12.2006
Valuation of available-for-sale financial assets	-67 724	21 366
Valuation of derivatives designated for cash-flow hedge	-40 446	1 195
Deferred tax on items recognised in equity	20 553	-4 286
Total revaluation reserve	**-87 617**	**18 275**

Reserves

	31.12.2007	31.12.2006
General banking risk reserve created from profit	180 942	120 942
Total reserves	**180 942**	**120 942**

General banking risk reserve is created from profit after tax according to the Banking Law.

49. Contingent liabilities granted

Concerning financing by maturity dates

	31.12.2007	31.12.2006
- up to 1 month	380 148	177 696
- 1 - 3 months	181 268	216 508
- 3 - 6 months	228 173	303 576
- 6 months to 1 year	996 224	842 799
- 1 - 3 years	794 089	478 020
- 3 - 5 years	456 545	406 438
- over 5 years	1 374 357	1 072 866
Total	**4 410 804**	**3 497 903**

Concerning guarantees by maturity dates

	31.12.2007	31.12.2006
- up to 1 month	91 574	32 357
- 1 - 3 months	54 380	81 590
- 3 - 6 months	110 315	45 526
- 6 months to 1 year	159 764	188 361
- 1 - 3 years	399 811	367 445
- 3 - 5 years	461 233	192 540
- over 5 years	342 212	300 448
Total	**1 619 289**	**1 208 267**

By types

	31.12.2007	31.12.2006
For financing	**4 410 804**	**3 497 903**
- undrawn credit lines	2 459 150	1 847 912
- undrawn overdraft facilities	1 374 983	1 314 585
- limits on credit cards	343 645	222 651
- opened import letters of credit	73 026	69 088
- term deposits to be released	160 000	43 667
Guarantees	**1 619 289**	**1 208 267**
- guarantees granted	1 617 741	1 207 616
- export letters of credit	1 548	651
Total	**6 030 093**	**4 706 170**

Major items in ‘contingent liabilities’ related to the guarantees issued for customers are guarantees of good contracts performance and loan repayment guarantees. The Bank offers its customers guarantees as a standard loan product offer mainly for corporate customers. Commission income from guarantees granted are charged to fee and commission income in the income statement on a straight-line basis over the lifetime of the guarantee.

The Bank treats guarantees granted and unconditional financing liabilities as an exposure with credit risk for the purpose of credit risk management. The assessment of risk under issued guarantees is an element of the credit risk assessment process resulting from other credit products held by particular customers, i.e. all credit facilities, including guarantees, issued to particular borrowers are at the same time analysed for the occurrence of the impairment indicators and required level of allowance for impairment.

As at 31.12.2007, the estimated provision for the guarantees granted and unconditional financing liabilities amounted to PLN 15,009 thousand. This amount is presented in Note 45 in ‘provision for off-balance sheet items.

50. Capital adequacy ratio

	31.12.2007	31.12.2006
Capital requirement, including:	**1 703 523**	**1 167 878**
- credit risk	1 636 655	1 142 751
- other risk	15 622	10 649
- market risk	51 246	14 478
Own funds, short-term capital and minority interest	**2 050 598**	**1 963 378**
- share capital	1 358 294	1 358 294
- share premium	381 718	104 789
- revaluation reserve included in equity	-56 148	18 275
- other reserves	180 942	120 942
- subordinated liabilities	78 804	168 573
- shares in financial entities	-10 139	-13 267
- intangible assets	-64 645	-82 792
- short-term capital	66 868	25 127
- net profit included in the calculation of capital adequacy ratio	114 904	263 437
Capital adequacy ratio	**9.63**	**13.45**

Capital adequacy ratio was calculated as required by the regulations of the National Bank of Poland in force as at 31.12.2007 and 31.12 2006.

Risk metrics underlying the calculations of the capital requirements for credit risk set forth in the Banking Law.

As at 31.12.2007

Balance sheet instruments

Instrument	Carrying amount	Risk weighted value
Banking portfolio		
Cash	**505 214**	**0**
Receivables	**19 458 875**	**16 481 298**
Loans and advances to banks (including Central Bank)	**2 560 547**	**488 118**
Loans and advances to customers	**16 898 328**	**15 993 180**
Natural persons*	**9 342 807**	**8 920 071**
- overdraft facilities	523 981	513 680
- purchased debt	707	691
- term loans	938 817	891 321
- cash and instalment loans	2 059 643	2 057 760
- mortgages	5 808 913	5 445 873
- other receivables	10 746	10 746
Corporate customers	**7 149 374**	**6 999 409**
- overdraft facilities	1 574 485	1 547 821
- term loans	5 539 242	5 416 023
- purchased debt	25 804	25 722
- realised guarantees	1 368	1 368
- other receivables	8 475	8 475
Budget	**406 148**	**73 700**
- overdraft facilities	932	190
- term loans	405 216	73 510
Debt securities	**5 582 984**	**487 878**
Other securities, shares	**75 714**	**73 135**
Property, plant and equipment	**344 205**	**344 205**
Intangible assets (including goodwill)	**65 425**	**781**
Other	**238 777**	**37 597**
Total banking portfolio	**26 271 194**	**17 424 894**
Trading portfolio	**797 310**	**276**
Total balance sheet instruments	**27 068 504**	**17 425 170**

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services for households

Off-balance sheet instruments in the Banking Book

Instrument	Nominal value	Balance sheet equivalent	Risk weighted value
Interest rate instruments	3 393 600	24 880	4 976
Foreign exchange instruments	8 733	87	44
Total derivatives	**3 402 333**	**24 967**	**5 020**

Other off–balance sheet items – banking portfolio

Instrument	Carrying amount	Credit equivalent	Risk weighted value
Credit lines	4 169 140	1 655 005	1 578 790
Guarantees granted	1 611 370	1 357 974	1 343 431
Letters of credit	74 574	74 574	74 057
Other	160 000	160 000	32 000
Total	**6 015 084**	**3 247 553**	**3 028 278**

	Risk weighted value	Capital requirement
Total credit risk exposure (banking portfolio)	**20 458 192**	**1 636 655**

As at 31.12.2006

Balance sheet instruments

Instrument	Carrying amount	Risk weighted value
Banking portfolio		
Cash	**416 766**	**0**
Receivables	**14 240 049**	**11 479 316**
Loans and advances to banks (including Central Bank)	**2 426 494**	**460 789**
Loans and advances to customers	**11 813 555**	**11 018 527**
Natural persons*	**5 826 577**	**5 555 849**
- overdraft facilities	449 396	441 690
- purchased debt	2 329	2 312
- term loans	821 341	759 591
- cash and instalment loans	1 435 647	1 435 132
- mortgages	3 110 982	2 913 367
- realised guarantees	632	632
- other receivables	6 250	3 125
Corporate customers	**5 417 122**	**5 358 213**
- overdraft facilities	1 039 030	1 025 698
- term loans	4 357 255	4 311 804
- purchased debt	20 331	20 248
- realised guarantees	354	354
- other receivables	152	109
Budget	**569 856**	**104 465**
- overdraft facilities	3 463	693
- term loans	566 392	103 772
- purchased debt	1	0
Debt securities	**6 010 725**	**159 550**
Other securities, shares	**83 433**	**80 835**
Property, plant and equipment	**335 621**	**335 621**
Intangible assets (including goodwill)	**84 394**	**1 603**
Other	**244 255**	**51 954**
Total banking portfolio	**21 415 243**	**12 108 879**
Trading portfolio	**788 552**	**1 413**
Total balance sheet instruments	**22 203 795**	**12 110 292**

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services for households

Off-balance sheet instruments in the Banking Book

Instrument	Nominal value	Balance sheet equivalent	Risk weighted value
Interest rate instruments	573 600	6 322	1 264
Foreign exchange instruments	8 986	0	0
Other instruments	3 839	249	125
Total derivatives	**586 425**	**6 571**	**1 389**

Other off–balance sheet items – banking portfolio

Instrument	Carrying amount	Credit equivalent	Risk weighted value
Credit lines	3 374 417	1 283 904	1 239 766
Guarantees granted	1 200 754	971 869	775 713
Letters of credit	69 738	69 738	69 218
Other	124 357	124 357	89 423
Total	**4 769 266**	**2 449 868**	**2 174 120**

	Risk weighted value	Capital requirement
Total credit risk exposure (banking portfolio)	**14 284 388**	**1 142 751**

51. Discontinued operations

The Bank did not carry out operations that were discontinued in 2007.

52. Social assets and the Company Social Benefit Fund (CSBF)

The Act of 4 March 1994 on Company Social Benefit Fund, as amended, stipulates that the Company Social Benefit Fund shall be established by employers hiring over 20 full-time employees. The Bank established such a Fund and makes periodical charges in the amount of the basic charge. The fund has no property, plant and equipment. The objective of the Fund is to subsidize the Company's employee-related operations, loans borrowed to employees and other employee-related expenses.

The Bank set off the Fund assets against its liabilities to the Fund, as these assets are not Bank's separate assets.

The table below presents the analysis of the Fund's assets, liabilities and expenses.

	31.12.2007	31.12.2006
Employee cash loans	5 090	6 472
Cash on CSBF's bank account in KB's 1st Branch	8 506	7 033
Fund-related payables	13 596	13 505
Balance after set-off	0	0
Charges to the Fund in the period	2 600	2 600

53. Employee benefits

53.1. Employee Stock Ownership Plan

No employee stock ownership plan is implemented in the Bank.

53.2. Retirement benefits and other benefits after retirement

The Bank pays retirement severance pays to employees who become retired in the amount set out in the Labour Code. As at the balance sheet date, a provision is established on the basis of an actuary's estimate.

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Period beginning	933	869
Provision recognised	0	272
Paid benefits	-231	-136
Provision reversed	0	-72
Total	**702**	**933**

53.3. Benefits related to the dissolution of employment

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Period beginning	8 059	0
Increases	2 555	9 553
Decreases - releases	0	0
Decreases - utilization	7 414	1 494
Period end*	**3 200**	**8 059**

*restructuring provisions presented in Note 45 also include network restructuring provisions of PLN 2,056 thousand for 2007, and of PLN 2,929 thousand for 2006.

54. Related party transactions

Related parties with which the Bank concludes transactions are the subsidiaries and the companies of KBC Group, persons managing the Group and other related parties.

Transactions with related parties are standard banking operations, provided at arm's length: granting loans, issuing bank guarantees, issuing own securities, accepting deposits, borrowing loans, foreign exchange transactions, transactions made in derivatives. The volumes of transactions and related income and expense have been presented below:

As at 31.12.2007

Assets	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2007
Loans and advances to banks	0	170 059	614 023	784 082
Derivatives	0	66 862	1 052	67 914
Loans and advances to customers	514 970	0	205 242	720 212
Other assets	5 971	0	10 413	16 384
Total assets	**520 941**	**236 921**	**830 730**	**1 588 592**

Liabilities	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2007
Amounts due to banks	0	3 430 940	938 378	4 369 318
Derivatives	0	85 516	248	85 764
Amounts due to customers	92 093	0	90 547	182 640
Subordinated liabilities	0	393 973	0	393 973
Other liabilities	45 830	807	15	46 652
Total liabilities	**137 923**	**3 911 236**	**1 029 188**	**5 078 347**

Off-balance sheet items	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2007
Granted financing liabilities	36 340	0	0	36 340
Guarantees granted	1 613	2 252	15 194	19 059
Guarantees received	0	1 230 172		1 230 172
Derivatives	0	13 854 400	396 925	14 251 325
Securities received	90 557	0	0	90 557
Total off-balance sheet items	**128 510**	**15 086 824**	**412 119**	**15 627 453**

Income	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total for 2007
Interest income	12 736	11 854	39 110	63 700
Fee and commission income	739	13	64 141	64 893
Net trading income	-592	0	0	-592
Other operating income	2 628	31	4 547	7 206
Total income	**15 511**	**11 898**	**107 798**	**135 207**

Expenses	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total for 2007
Interest expense	6 130	102 182	24 169	132 481
Fee and commission expense	0	48	449	497
General and administrative expenses	29 448	1 129	8 707	39 284
Other operating expenses	573	0	0	573
Total expenses	**36 151**	**103 359**	**33 325**	**172 835**

* including WARTA S.A.

As at 31.12.2006

Assets	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2006
Loans and advances to banks	0	237 434	346 232	583 666
Derivatives	0	45 289	765	46 054
Loans and advances to customers	428 319	0	15 219	443 538
Other assets	7 910	23	12 641	20 574
Total assets	**436 229**	**282 746**	**374 857**	**1 093 832**

Liabilities	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2006
Amounts due to banks	0	948 958	15 784	964 742
Derivatives	0	47 565	49	47 614
Amounts due to customers	68 070	0	306 018	374 088
Subordinated liabilities	0	421 619	0	421 619
Other liabilities	76 223	371	103	76 697
Total liabilities	**144 293**	**1 418 513**	**321 954**	**1 884 760**

Off-balance sheet items	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2006
Guarantees granted	4 421	10 548	1 135	16 104
Guarantees received	0	0	7 999	7 999
Derivatives	0	10 290 804	365 251	10 656 055
Liabilities related to sale/purchase transactions	0	319 146	81 779	400 925
Total off-balance sheet items	**4 421**	**10 620 498**	**456 164**	**11 081 083**

Income	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total for 2006
Interest income	11 936	10 156	15 543	37 635
Fee and commission income	316	41	13 704	14 061
Other operating income	-505	0	0	-505
Total income	**11 747**	**10 197**	**29 247**	**51 191**

Expenses	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total for 2006
Interest expense	16 024	61 732	4 958	82 714
Fee and commission expense	1 660	0	11 947	13 607
General and administrative expenses	26 841	4 403	2 719	33 963
Total expenses	**44 525**	**66 135**	**19 624**	**130 284**

* including WARTA S.A.

55. Remuneration of the Members of the Supervisory Board and the Management Board of Kredyt Bank S.A.

Remunerations, awards, bonuses and other benefits for Members of the Bank's managing and supervisory authorities.

Bank's Management Board	01.01.2007 – 31.12.2007				
	Basic pay	Bonus	Other benefits	Severance pay	Total
Richardson Ronald	1 037	99	135	0	**1 271**
Arts Umberto	1 639	0	1 129	0	**2 768**
Kokot Krzysztof	1 008	257	94	0	**1 359**
Kozik Konrad	331	328	16	0	**675**
Mierzwiński Bohdan	314	162	12	2 559	**3 047**
Oziembło Michał	78	0	0	0	**78**
Witkowski Andrzej	109	0	0	0	**109**
Total	**4 516**	**846**	**1 386**	**2 559**	**9 307**

Bank's Management Board	01.01.2006 – 31.12.2006				
	Basic pay	Bonus	Other benefits	Severance pay	Total
Richardson Ronald	1 030	0	133	0	1 163
Arts Umberto	461	0	507	0	968
Kokot Krzysztof	1 004	180	99	0	1 283
Kozik Konrad	564	0	0	0	564
Kroker-Jachiewicz Małgorzata	431	384	17	6 098	6 930
Libot Guy	567	722	0	0	1 289
Mierzwiński Bohdan	915	799	34	0	1 748
Total	**4 972**	**2 085**	**790**	**6 098**	**13 945**

Bank's Supervisory Board		01.01.2007- 31.12.2007			01.01.2006-31.12.2006
		Basic pay	Severance pay	Total	Basic pay
1	Witkowski Andrzej	218	0	218	268
2	Noga Adam	254	0	254	255
3	Bergen Andre	0	0	0	84
4	Docx Rita	0	0	0	184
5	Florquin Frans	0	0	0	84
6	Gillet Francois	218	0	218	18
7	Hollows John	218	0	218	117
8	Kulikowski Feliks	218	0	218	200
9	Michałowski Marek	218	0	218	200
10	Luc Philips	218	0	218	117
11	Toczek Józef	54	164	218	201
12	Vanhevel Jan	218	0	218	117
13	Vojc Marko	0	0	0	84
14	Trębaczkiewicz Krzysztof	153	0	153	0
	Total	**1 987**	**164**	**2 151**	**1 929**

Total remuneration for each category of benefits paid to the Members of the Bank's Supervisory Board and the Management Board.

Benefit	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Short-term employee benefits	8 725	9 408
Benefits paid after employment termination	10	368
Severance pays	2 723	6 098
Total	**11 458**	**15 874**

In 2007 and in 2006, the Members of the Bank's Management Board and the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

All disclosed information concerning the Members of the Management Board and the Members of the Supervisory Board is presented in this Note and no other material remuneration-related benefits for the Members of the Management Board and the Members of the Supervisory Board were paid.

56. Value of loans and advances granted to Members of the Management Board and of the Supervisory Board of the Bank and in its subsidiaries

Transactions concluded with the Bank's Management Staff are executed within the standard product offer.

As at 31.12.2007, total indebtness related to loans and advances, and cash loan granted by the Bank amounted to:

- for Members of the Bank's Management Board – PLN 1,071 thousand;
- for Members of the Bank's Supervisory Board – PLN 773 thousand;
- for the Bank's employees – PLN 176,628 thousand.

As at 31.12.2006, total indebtness related to loans and advances, and cash loan granted by the Bank amounted to:

- for Members of the Bank's Management Board – PLN 363 thousand;
- for Members of the Bank's Supervisory Board – PLN 858 thousand;
- for the Bank's employees – PLN 144,842 thousand.

As at 31.12.2007, the total indebtness of Members of the Management Board and Supervisory Board of the Bank is paid on a regular basis, due indebtness is not present. Past due debts of employees amount to PLN 332 thousand.

The Members of the Management Board and the Members of the Supervisory Board did not receive any loans and advances in subsidiaries.

All disclosed information concerning the Members of the Management Board and the Members of the Supervisory Board is presented in this Note and no other material information on loans and advances to the Members of the Management Board and the Members of the Supervisory Board of the Bank, subsidiaries and associates is available.

57. Employment structure

	31.12.2007	**31.12.2006**
- Head Office	2 073	2 130
- branches and affiliates	3 506	3 419
Total for the Bank	**5 579**	**5 549**

58. Cash flow statement – additional information

a) Cash and cash equivalents

	31.12.2007	31.12.2006
Cash and balances with Central Bank	611 672	640 722
Due from other banks (up to 3 months)	2 078 221	1 628 015
Cash and cash equivalents	**2 689 893**	**2 268 737**

In 'cash and cash equivalents', the Bank presents obligatory reserve held in line with the adequate regulations, on NBP account, marked as restricted cash.

b) Operating activities - unrealised gains/losses on currency translation differences

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Currency translation differences for investment securities	53 159	18 473
Currency translation differences from held-for-trading financial assets	-18 738	-317
Currency translation differences on equity investments	5	-2
Currency translation differences on subordinated liabilities	-27 597	-8 665
Currency translation differences for received loans	-90 632	-18 484
Total	**-83 803**	**-8 995**

c) Operating activities – net increase/decrease in impairment losses

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Net increase/decrease in impairment losses on loans and advances to banks	-493	-141
Net increase/decrease in impairment losses on loans and advances to customers	-260 893	-1 218 631
Net increase/decrease in impairment losses on property, plant and equipment and intangible assets	7 661	3 272
Net increase/decrease in equity investments	0	876
Net increase/decrease in impairment losses on investment securities	0	21 665
Total	**-253 725**	**-1 192 959**

d) Operating activities - interest

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Interest on investment securities	-213 335	-324 302
Interest on borrowed loans	54 699	22 953
Interest on issued debt securities	0	17 114
Interest on subordinated liabilities	22 440	18 592
Total	**-136 196**	**-265 643**

e) Operating activities - gains/losses from the sale of investments

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Profit (loss) on disposal of equity investments	0	-292
Gains (losses) from the sale of held-to-maturity investment securities	-1 682	-1 881
Profit/loss on sale of property, plant and equipment and intangible assets	-3 060	1 709
Total	**-4 742**	**-464**

f) Loans and advances to banks

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Net balance sheet change	-251 551	33 279
Change in Nostro accounts - cash	-13 042	3 535
Change in term deposits up to 3 months - cash	463 248	-17 252
Impairment	493	141
Total	**199 148**	**19 703**

g) Financial assets at fair value through profit or loss, including held-for-trading financial assets and valuation of derivatives

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Balance sheet change in financial assets at fair value through profit or loss, including held-for-trading financial assets	164 413	-125 294
Balance sheet change in derivatives	-197 668	-81 157
Currency translation differences in operating activities	18 738	317
Total	**-14 517**	**-206 134**

h) Operating activities - net increase/decrease in other assets

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Balance sheet change in other assets	12 632	23 823
Net increase/decrease in property, plant and equipment held for sale	9 804	-4 723
Other net increase/decrease in property, plant and equipment and intangible assets	2 818	23 791
Other changes	-40 113	-12 859
Total	**-14 859**	**30 032**

i) Amounts due to banks

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Balance sheet change in other assets	3 106 623	-404 795
Currency translation differences from borrowed loans in operating activity	90 632	18 484
Loans and advances borrowed in investing activities	-1 846 441	0
Interest on borrowed loans in operating activities	-54 699	-22 953
Paid interest on borrowed loans – presentation in financial activities	42 927	21 586
Total	**1 339 042**	**-387 678**

j) Amounts due to customers

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Balance sheet change	1 305 398	1 110 634
Repayment of Banking Guarantee Fund (BGF) loan - presentation in financial activity	0	95 454
Repayment of interest on BGF loan - presentation in financial activity	0	285
Total	**1 305 398**	**1 206 373**

k) Operating activity - net increase/decrease in other liabilities

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Balance sheet change of other liabilities	-1 891	-8 806
Payment of leasing payables from financial activities	26 315	28 785
Other changes	-597	-67 067
Total	**23 827**	**-47 088**

l) Equity investments classified as available for sale

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Balance sheet change	-45	17 544
Acquisition of shares in subsidiaries	50	50
Gains on the sale of investments in operating activities	0	292
Currency translation differences	-5	2
Impairment in operating activities	0	-876
Total	**0**	**17 012**

m) Net increase/decrease in investment securities

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Acquisition in investment activity	-2 230 188	-41 677 602
Disposal in investment activity	2 503 086	42 556 989
Interest received in investment activity	222 736	240 849
Net increase/decrease in interest receivables in operating activities	-213 335	-324 302
Net increase/decrease in available-for-sale financial assets in operating activities	88 936	-29 084
Net increase/decrease in impairment of investment securities	0	21 665
Currency translation differences in operating activities	53 159	18 473
Balance sheet change	**424 394**	**806 988**

n) Subordinated liabilities

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Balance sheet change	-27 384	-167 962
Repayment of interest on subordinated liabilities – presentation in financial activities	22 227	20 284
Accrued interest on subordinated liabilities – presentation in operating activities	-22 440	-18 592
Currency translation differences on subordinated liabilities – presentation in operating activities	27 597	8 665
Total	**0**	**-157 605**

o) Issued debt securities

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Balance sheet change	0	-402 435
Accrued interest on issued debt securities – presentation in operating activities	0	-17 114
Interest payment on own issue payables	0	19 549
Redemption of own issue bonds	**0**	**-400 000**

p) Financing activity - other financing expenses

	01.01.2007-31.12.2007	01.01.2006-31.12.2006
Interest repayment on loans received	-42 927	-21 586
Interest repayment on BGF loan	0	-285
Interest repayment on subordinated liabilities	-22 227	-20 284
Interest payment on own issue payables	0	-19 549
Payment of leasing payables	-26 315	-28 785
Total	**-91 469**	**-90 489**

59. Disposal of subordinated companies

No subordinated companies were sold in 2007.

In 2006, the Bank sold:

- to BFI Serwis Sp. z o.o. (the Bank's subsidiary), 16,720 shares in BFI Serwis Sp. z o.o. to redeem them. They accounted for 86.86% of the share capital and total votes at the General Meeting of Shareholders of BFI Serwis Sp. z o.o. Following the sale of shares, the Bank holds 2,529 shares in BFI Serwis Sp. z o.o., which account for 99.96% of the share capital and total votes at the General Meeting of Shareholders of BFI Serwis Sp. z o.o.
- to Zakłady Odzieżowe Bytom S.A., 160,195 registered shares of Zakłady Przemysłu Jedwabniczego Dolwis S.A. based in Leśna, which account for 50.06% of the share capital of ZPJ Dolwis S.A. and 50.06% of votes at the General Meeting of Shareholders of ZPJ Dolwis S.A. The nominal value of shares in ZPJ Dolwis S.A. amounts to PLN 1.57 per share. The book value of the shares in the Bank's books amounted to PLN 0. The selling price amounted to PLN 167 thousand.

60. Assets pledged as collateral

As at 31.12.2007, the following assets in the form of Treasury bills and bonds were collateral for the Bank's own liabilities:

- Treasury bonds of the nominal value of PLN 42,080 thousand and of the carrying amount of PLN 44,061 thousand were collateral for the protection fund for guaranteed cash in the Banking Guarantee Fund and were deposited in the National Depository for Securities;
- Treasury bonds of the nominal value of PLN 1,850,000 thousand and of the carrying amount of PLN 2,121,754 thousand as security for possible borrowing of a lombard loan in the National Bank of Poland (NBP);
- Treasury bonds of the nominal value of PLN 48,620 thousand and of the carrying amount of PLN 50,286 thousand pledged in relation to REPO transactions with customers.

As at 31.12.2006, the following assets in the form of Treasury bonds and bills were collateral for the Bank's own liabilities:

- Treasury bonds of the nominal value of PLN 73,620 thousand and of the carrying amount of PLN 78,140 thousand were collateral for the protection fund for guaranteed cash in the Banking Guarantee Fund and were deposited in the National Depository for Securities;
- Treasury bonds of the nominal value of PLN 1,000,000 thousand and of the carrying amount of PLN 1,015,235 thousand as security for possible borrowing of a lombard loan in the National Bank of Poland (NBP);
- Treasury bonds of the nominal value of PLN 1,000,057 thousand and of the carrying amount of PLN 1,038,716 thousand and Treasury bills of the nominal value of PLN 15,070 thousand and of the carrying amount of PLN 15,039 pledged in relation to REPO transactions with customers.
- Treasury bonds of the nominal value of PLN 500 thousand and of the carrying amount of PLN 495 thousand were a guarantee deposit for futures.

61. Changes in the Management and Supervisory Boards of Kredyt Bank S.A. in 2007

On 06.04.2007, Mr. Konrad Kozik, the Vice President of the Management Board of Kredyt Bank S.A., resigned from his position of the Vice President of the Management Board of Kredyt Bank S.A. and from the membership in the Management Board of Kredyt Bank S.A. as of 27.04.2007.

On 18.04.2007, at the session of the Bank's Supervisory Board, Mr. Bohdan Mierzwiński, the Vice President of the Management Board of Kredyt Bank S.A., was dismissed from his position of the Vice President of the Management Board of Kredyt Bank S.A. and from the membership in the Management Board of Kredyt Bank S.A. as of 18.04.2007.

On 05.06.2007, the Supervisory Board of Kredyt Bank S.A. appointed, as of 01.07.2007, Mr. Andrzej Witkowski, the Chairman of the Supervisory Board, to be a temporary Vice President of the Management Board of Kredyt Bank S.A. The period for which Mr Andrzej Witkowski, the Chairman of the Supervisory Board of Kredyt Bank S.A. was delegated to perform the function of a Member of the Management Board of Kredyt Bank S.A. expired on 30 September 2007. As a result, the Supervisory Board of Kredyt Bank S.A., during its session on 26 September 2007, pursuant to its powers under § 25 item 2 of the Articles of Association of Kredyt Bank S.A., decided that, since 1 October 2007, the Management Board of Kredyt Bank, by the time of the appointment of a new Member of the Bank's Management Board, would be composed of 4 members.

On 18 December 2007, at the session of the Bank's Supervisory Board, Mr. Ronald Richardson, the President of the Bank's Management Board, resigned from his position of the President of the Bank's Management Board, and from the membership in the Bank's Management Board as of 29 February 2008.

On 18 December 2007, at the session of the Bank's Supervisory Board, Mr. Maciej Bardan was appointed the President of the Management Board of Kredyt Bank S.A. as of 1 March 2008. At the same time, the Supervisory Board addressed the Commission for Banking Supervision to grant its consent to the appointment of Mr. Maciej Bardan as the President of the Bank's Management Board.

As at 31.12.2007, the Management Board of Kredyt Bank S.A. was composed of:

Mr. Ronald Richardson	- President of the Management Board, CEO
Mr. Umberto Arts	- Vice President of the Management Board, Vice CEO
Mr. Krzysztof Kokot	- Vice President of the Management Board, Vice CEO
Mr. Michał Oziembło	- Vice President of the Management Board, Vice CEO

On 27.03.2007, Mr. Józef Toczek, a Member of the Supervisory Board of Kredyt Bank S.A. resigned from his position of a Member of the Supervisory Board of Kredyt Bank S.A.

On 05.06.2007, the Annual General Meeting of Shareholders of Kredyt Bank S.A., appointed, as of 05.06.2007, Mr. Francois Gillet and Mr. Krzysztof Trębaczkiewicz to be Members of the Supervisory Board of Kredyt Bank S.A.

As at 31.12.2007, the Supervisory Board of Kredyt Bank S.A. was composed of:

Mr. Andrzej Witkowski	- Chairman of the Supervisory Board
Mr. Adam Noga	- Vice Chairman of the Supervisory Board
Mr. Francois Gillet	- Member of the Supervisory Board
Mr. John Hollows	- Member of the Supervisory Board
Mr. Feliks Kulikowski	- Member of the Supervisory Board
Mr. Marek Michałowski	- Member of the Supervisory Board
Mr. Luc Philips	- Member of the Supervisory Board
Mr. Jan Vanhevel	- Member of the Supervisory Board
Mr. Krzysztof Trębaczkiewicz	- Member of the Supervisory Board

62. Seasonality or cyclical nature of operations

The operations of the Bank companies are not of seasonal nature.

63. Non-typical factors and events

In 2007, no untypical events occurred in the Bank (not related to operating activities) that would affect the structure of balance sheet items and the financial result.

In 2006, the Bank sold receivables to a securitisation fund; the impact of this sale on the Bank’s profit before tax for 2006 amounted to PLN 123,026 thousand.

64. Dividends paid

On 05.06.2007, the Annual General Meeting of Shareholders of Kredyt Bank S.A. adopted a resolution on the distribution of profit for 2006. The net profit for 2006 amounting to PLN 437,442,933.29 was allocated to:

- reserves - PLN 60,000,000.00;
- dividend payment - PLN 100,513,785.60;
- Bank’s share premium - PLN 276,929,147.69.

65. Post-balance sheet events

On 7 February 2008, Kredyt Bank S.A. executed, with a Kredietbank S.A. Luxembourgeoise, a multicurrency loan agreement up to the amount equivalent to EUR 200 million (i.e. PLN 719,580,000 at the average exchange rate of the NBP of 7 February 2008).The agreement was concluded on market terms with the repayment date of 2 years and one day.
The loan can be drawn in CHF or PLN. The interest rate is based on LIBOR/WIBOR rates + margin. The amount of cash received under the above-mentioned agreement exceeds 10% of the Bank's equity.
Cash obtained under the above-mentioned loan will be used to finance the Bank's current operations.

66. Comparable data

	Published data 31.12.2006	Changes	Comparable data 31.12.2006	Explanations
Assets				
Cash and balances with Central Bank	640 722		640 722	
Gross loans and advances to banks	2 182 393	22 898	2 205 291	a)
Impairment losses on loans and advances to banks	-2 753		-2 753	
Financial assets at fair value through profit or loss, including financial assets held for trading	612 912		612 912	
Derivatives including:	297 427		297 427	
- derivatives used as hedging instruments	3 403		3 403	
Gross loans and advances to customers	12 907 835	6 337	12 914 172	a)
Impairment losses on loans and advances to customers	-1 100 617		-1 100 617	
Investment securities:	5 902 663		5 902 663	
Equity investments classified as available for sale	73 831		73 831	
Other assets (*)	526 295	-29 235	497 060	a)
Deferred tax asset	137 123		137 123	
Current tax receivable	15 393		15 393	
Non-current assets classified as held for sale	10 571		10 571	
Total assets	**22 203 795**	**0**	**22 203 795**	

LIABILITIES				
Amounts due to Central Bank	1 990		1 990	
Amounts due to banks	2 160 538	4 288	2 164 826	a)
Derivatives including:	296 474		296 474	
- derivatives used as hedging instruments	554		554	
Amounts due to customers	15 618 881	256 452	15 875 333	a)
Other financial liabilities (**)	1 475 547		1 475 547	
Provisions and other liabilities	610 622	-260 740	349 882	a)
Total liabilities	**20 164 052**	**0**	**20 164 052**	
Total equity	**2 039 743**	**0**	**2 039 743**	
TOTAL EQUITY AND LIABILITIES	**22 203 795**	**0**	**22 203 795**	

(*) The item contains: property, plant and equipment; intangible assets; other assets.

(**) The item contains: issued debt securities; liabilities arising from repurchase transactions; subordinated liabilities.

a) reclassification of receivables and liabilities on clearing accounts;

67. Fair value of financial assets and liabilities not recognised at fair value in the balance sheet

67.1. Fair value

Fair value is an amount for which an asset may be sold or exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

The main categories of financial assets and liabilities not measured in the Group’s balance sheet at fair value are assets or liabilities measured at amortised cost or historical cost:

- loans and advances granted as well as other own receivables not held for trading;
- held-to-maturity investments;
- available-for-sale financial assets recognised at cost, including equity investments;
- financial liabilities not held for trading.

The table below shows differences between the carrying amount and estimated fair value of the Group's financial assets and liabilities not recognised in the Group's balance sheet at fair value.

31.12.2007

	Carrying amount	Fair value
Assets		
Cash and balances with Central Bank	**611 672**	**611 672**
Net loans and advances to banks	**2 454 089**	**2 453 914**
Net loans and advances to customers	**16 898 328**	**16 896 382**
Natural persons*	**9 342 807**	**9 365 834**
- overdraft facilities	523 981	528 643
- purchased debt	707	1 493
- term loans**	938 817	937 535
- cash and instalment loans	2 059 643	2 105 720
- mortgages	5 808 913	5 781 697
- other receivables	10 746	10 746
Corporate customers	**7 149 373**	**7 133 528**
- overdraft facilities	1 574 485	1 576 592
- term loans**	5 539 241	5 520 200
- purchased debt	25 804	26 989
- realised guarantees	1 368	1 272
- other receivables	8 475	8 475
Budget	**406 148**	**397 020**
- overdraft facilities	932	933
- term loans**	405 216	396 087
Investment securities:	**2 376 710**	**2 358 260**
- available-for-sale	331 544	331 544
- held-to-maturity	2 045 166	2 026 716

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services for households

** The item contains mainly: working capital loans and investment loans.

	Carrying amount	Fair value
Liabilities		
Amounts due to banks and Central Bank	6 373 110	6 372 079
Amounts due to customers	17 180 731	17 161 291
Other financial liabilities recognised in the balance sheet at amortised cost ***	444 361	444 361

*** The item contains: subordinated liabilities and liabilities arising from repurchase transactions.

31.12.2006

	Carrying amount	Fair value
Assets		
Cash and balances with Central Bank	**640 722**	**640 722**
Net loans and advances to banks	**2 202 538**	**2 202 538**
Net loans and advances to customers	**11 813 555**	**11 848 705**
Natural persons*	**5 826 577**	**5 876 973**
- overdraft facilities	449 396	451 081
- purchased debt	2 329	3 111
- term loans**	821 341	818 149
- cash and instalment loans	1 435 647	1 430 858
- mortgages	3 110 982	3 166 937
- realised guarantees	632	587
- other receivables	6 250	6 250
Corporate customers	**5 417 120**	**5 408 252**
- overdraft facilities	1 039 031	1 039 316
- term loans**	4 357 252	4 346 894
- purchased debt	20 331	21 972
- realised guarantees	354	0
- other receivables	152	70
Budget	**569 858**	**563 480**
- overdraft facilities	3 464	3 460
- term loans**	566 393	560 019
- purchased debt	1	1
Investment securities:	**2 861 460**	**2 913 996**
- available-for-sale	412 687	412 687
- held-to-maturity	2 448 773	2 501 309

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services for households

** The item contains mainly: working capital loans and investment loans.

	Carrying amount	Fair value
Liabilities		
Amounts due to banks and Central Bank	2 166 816	2 166 816
Amounts due to customers	15 875 333	15 876 083
Other financial liabilities recognised in the balance sheet at amortised cost ***	1 475 547	1 475 547

*** The item contains: subordinated liabilities and liabilities arising from repurchase transaction.

67.2. Loans and advances to banks and to customers

As stated in the sections concerning the accounting principles adopted by the Bank and the material accounting estimates, granted loans and advances and other own receivables not held for trading are measured at amortised cost with the effective interest rate method, having regard for impairment measured on the basis of future expected cash flows (including those generated upon the sale of loan collateral) discounted with the original effective interest rate.

Poland does not have an active market on which loans and receivables may be traded, therefore, it is not possible to reliably determine the market price of these assets. Estimates performed on the basis of the models of measurement relying on discounted expected cash flows of the principal and interest is the best reflection of the fair value. The discount rate is the market rate as at the balance sheet date plus credit margin offered on the market for particular loan facilities and specific customer groups/segments.

67.3. Held-to-maturity investments and available-for-sale financial assets

As stated in the section on the accounting principles adopted by the Bank, held-to-maturity investments are measured at amortised cost with the effective interest rate methodology. Available-for-sale debt securities not measured at fair value in the balance sheet are also measured in this way. The market prices of securities applied in the measurement of fair value, for both categories of assets, do not take into consideration any potential adjustments resulting from the limited liquidity of the market or transaction costs.

The Bank has no material commitment in shares of companies which are recognised at historical cost. Minority interests are also of specific nature, as, to a large extent, they are shares taken up for a borrowers' debt, therefore there is no active market for those assets and the fair value estimation may significantly differ from the real offers.

67.4. Other financial assets not recognised in the balance sheet at fair value

In the case of certain groups of financial assets held at the value of the payment due, it was assumed that fair value was equal to the book value. It is mainly related to cash and current receivables.

67.5. Financial liabilities not held for trading

As stated in Note 42 and Note 43, the bulk of deposits made in banks and customer deposits are deposits on current accounts and term deposits with balance sheet maturities of less than three months.

On the basis of the assumptions adopted for the measurement models, estimated fair value of financial liabilities not held for trading is not considerably different from their carrying amount.

68. Information on proceedings before courts or public administration authority

In 2007, the Bank was not a party to any proceedings before court or public administration authority, where the amount(s) claimed would amount to at least 10% of the Bank's equity.

Below are presented those proceedings, in which the amounts claimed are the highest

68.1. The cases in which the Bank is the plaintiff

With reference to the Bank's failure in the litigation against Inspektoria Towarzystwa Salezjańskiego (Salesian Society Inspectorate) in Wrocław, the guarantor of loans granted by the Bank from February to August 2001 to four entities: St. Jan Bosko's Roman-Catholic Parish, St. Jack's Roman-Catholic Parish and two monastic houses of the Salesian Society in Lublin, the Bank is now pursuing claims by the reason of groundless enrichment against church institutions for the total amount of PLN 14,567,2 thousand with possible extension of the suit. The defendants replied to lawsuits and applied for the dismissal of all claims. Upon the Bank's request, accounting experts prepared reports to determine whether the resources obtained from lombard loans had been transferred to the accounts of the parish and monastic houses and determine the way of disposing the resources from these accounts. In two cases the court dismissed the suits; in both cases the Bank appealed against the court decision.

68.2. The cases in which the Bank is the defendant

The highest claim cases are as follows:

- Two court proceedings regarding a credit granted to Laboratorium Frakcjonowania Osocza Sp. z o.o. in Mielec ('LFO'). The Bank is the leader of the syndicate of five banks, which, under the agreement of 04.03.1997, granted a syndicated loan to LFO. The loan was secured by, among others, a registered pledge on the company's property, plant and equipment and the surety of the State Treasury up to 60% of the drawn amount of the loan and accrued interest. As the investment project for which the loan was extended had not been completed and the dates of the payment of commitments had not been met, the Bank, representing the syndicate, terminated the agreement under its terms and conditions and called LFO to pay claims. The proceedings related to the Bank's exercise of the collateral under the loan agreement were unsuccessful; as a result, on 28.03.2003, the Bank, on behalf of syndicate members, called the Minister of Finance representing the State Treasury to pay USD 12.7 million, i.e. 60% of the drawn loan amount and USD 1,6 million of interest. The Finance Minister refused to exercise the surety. On the basis of the executory title obtained by the Bank, the court debt collector enforced the whole claim for the Bank, i.e. PLN 8,120.1 thousand on account of the repayment of loan principle and interest, and PLN 30.0 thousand on account of expenses.

- The State Treasury requested for determination whether the syndicated loan agreement concluded between LFO and the syndicate of five banks had expired on 28.02.1998 as a result of the occurrence of a contractual condition, and, as a result, the commitment of the State Treasury as the guarantor of the loan under the guarantor’s agreement had expired as well. The State Treasury is represented by the General Public Prosecutor’s Office of the State Treasury. Experts’ opinions and auxiliary opinions were prepared and additional witnesses were questioned. In the first quarter of 2007, the State Treasury changed the lawsuit and claimed PLN 8,207.4 thousand including interest. Upon the request of the State Treasury, the court called upon the trustee in bankruptcy of LFO to participate in the case. In the meantime, the parties submitted pleadings.
- Claims of LFO for damages due to the termination of the loan agreement amounting to PLN 119,477 thousand. The lawsuit was submitted on 18.06.2003. The Bank is of the opinion that LFO claims are not based on any actual and legal grounds. On 16.03.2005, the court rejected the suit by LFO. At present, after being heard by courts of all instances, the case was referred to the Circuit Court in Warsaw, which, as a result of LFO bankruptcy, stayed legal proceedings. The proceedings are still suspended.

• A trustee in bankruptcy of a company operating in the real estate developing sector (the name of the company is subject to confidentiality application) claims for payment of indemnity of PLN 32,256 thousand by the reason of effecting by the Bank of financial orders from the company’s account on the basis of bank transfers orders and checks bearing a forged signature of one of the persons authorized to represent the company in dealings with the Bank. At the hearing on 21.11.2006, the plaintiff limited its claim for interest. The total amount claimed by the plaintiff amounts to PLN 20,665.6 thousand. On 20.03.2007, the court announced its decision and claimed the whole disputed amount with interest from the Bank. The Bank requested the court to justify the verdict. Following the receipt of the justification, the Bank appealed against the court’s decision. Having lodged the appeal, the Bank requested to summon the member of the company’s management board who had forged signatures. Furthermore, the Bank lodged a motion claiming that the proceedings in the first instance had been invalid (the motion regards the composition of the panel of judges). The trustee in bankruptcy lodged another pleading in this case. On 14.11.2007, the Supreme Court expressed its opinion on the composition of the panel of judges stating that it had been correct.

• A suit filed by MSG Investment Sp. z o.o. in liquidation. The plaintiff claims that, as a result of debt recovery measures taken by the Bank, he lost PLN 25 million (no calculations are presented in the lawsuit). In the Bank’s opinion, the basis for claims specified in the lawsuit are doubtful. The Court set a new date to 29.02.2008.

• On 17.01.2001, the President of the Office for Competition and Customer Protection, upon the request of Polska Organizacja Handlu i Dystrybucji, initiated proceedings concerning competition-restricting practices on payment cards market by VISA and MasterCard as well as 20 banks, including Kredyt Bank S.A. On 29.12.2006, the President of the Office for Competition and Customer Protection issued the decision in which:

  - they imposed a fine on Kredyt Bank of PLN 12,158.4 thousand;

- HSBC Bank Polska S.A. was fined with PLN 193.0 thousand and the proceedings against this company were discontinued (under a binding agreement between HSBC and Kredyt Bank S.A., the fine for HSBC should be paid by Kredyt Bank S.A. as well).

The decision was to be enforced immediately as regards the order to discontinue the practice of joint determination of the intercharge fee rate. On 17.01.2006 and 19.01.2007, appeals against Decision No. DAR 15/2006 of the President of the Office for Competition and Customer Protection were made on behalf of HSBC Bank Polska and Kredyt Bank. In this decision, the President of the Office for Competition and Customer Protection resolved that joint determination by the Banks, Visa and MasterCard of the interchange fee restricted competition. On 18.01.2007, the President of the Office for Competition and Customer Protection issued a decision in which they obliged the banks to jointly and severally pay PLN 157.6 thousand to the Polish Organization of Commerce and Distribution (POHiD) as reimbursement of the proceedings costs. Kredyt Bank S.A. complained against this decision on 31.01.2007 and deemed it unjustified. The case was referred to the Economic Court in Warsaw which split the case into separate proceedings against each of the banks involved in the case. The hearing date has not been set yet. The parties are now exchanging multiple pleadings.

- In relation to a loan transaction to finance the construction of Altus building in Katowice, the Bank and Reliz Sp. z o.o. are involved in certain disputes of legal nature. The said disputes are related to claims of the guarantor of the loan to finance the building, i.e. Mostostal Zabrze Holding S.A., against the Bank and the building owner. The court requested the parties to settle the case amicably. Negotiations between the parties are underway.

  Another suit was lodged by MZH against Reliz – actio Pauliana. MZH demands to recognize the sale of the real estate ‘Altus’ to Reliz (the Bank holds 100% of shares in Reliz) as ineffective towards them. At the hearing on 21.01.2008, the Court requested the plaintiff to submit the bankruptcy documentation of BC 2000 in 7 days under the pain of exclusion. The Court, at its hearing on 25.02.2008, decided to postpone the decision by 14.04.2008 in order to supplement the evidence documentation.

- From May to August 2005, the Bank entered into nine framework agreements concerning the conclusion of term exchange transactions. The transaction result amounts to PLN 7,986.5 thousand. The transactions were negotiated by the Bank’s employee with customers’ consent. As a result of a change of trends on the market, the majority of forwards resulted in huge losses. Customers who were requested to additionally hedge the transaction challenge the concluded transactions. Seven proceedings are pending in these cases, including two proceedings that were suspended by the end of the criminal proceedings. Four proceedings were combined and will be heard jointly: at the hearing of 21.12.2007, the Court awarded the total amount (with interest) of PLN 5.7 million to four customers, to be paid by the Bank. In the seventh case, the hearing date was adjourned to 28.03.2008.

- The trustee in bankruptcy for a company from the media industry claims damages of PLN 4,350.0 thousand due to improper performance by Inwestycyjny Dom Maklerski Kredyt Banku S.A. of the firm commitment underwriting agreement for the shares of the said company by alleged improper settlement of proceeds from the issue of such shares. On 27.04.2007, the Bank responded to the suit. At the hearing on 24.09.2007, the Court obliged the Bank and KBC Securities (the legal successor of Inwestycyjny Dom Maklerski since 01.04.2005) to present documents in the case. At the hearing on 11.01.2008, the Court dismissed the lawsuit. The sentence is not legally valid.

The Management Board is of the opinion that any risks related to the proceedings before courts or public administration authorities are properly secured by the provisions established by the Bank.

69. Custodian services

An offer of the Bank's custodian services entails managing securities accounts for domestic and foreign, both institutional and individual, customers. For the special group of customers, i.e. investment funds, the Bank also plays a role of a depository, a transfer agent and an issue sponsor.

The Bank holds an authorization of the Polish Securities and Exchange Commission to manage securities accounts; it is also a direct participant of the National Depository for Securities (KDPW) as a Depository and a participant of the Securities Register (RPW) managed by the National Bank of Poland (NBP). On these basis, the Bank manages accounts for securities admitted to public trading, deposited in KDPW or RPW. The Custody Department in the Bank's Head Office is the Bank's business unit providing the said services.

In 2007, income related to the management of securities accounts and registers as well as the services of an issue sponsor amounted to PLN 3,878 thousand as compared to PLN 3,733 thousand in 2006.

70. Risk management in Kredyt Bank S.A.

The Bank's supervisory bodies, explicitly the Management Board and the Supervisory Board, play the most important role in the risk management process.

The Bank's Supervisory Board, through the Audit Committee, is informed about the most vital decisions and give opinions about the actions of the Management Board in this respect.

Particular risks are dealt with directly by specialised Committees:

- Assets and Liabilities Management Committee – responsible for management of the risk in the banking portfolio as well as management of the Bank's structural liquidity;
- Operating Risk Committee – supervising the management of the operating risk;
- Credit Risk Committee – supervising the credit risk management process.

Members of the Management Board supervise works of the above committees; there are at least two Board Members in each committee.

The Risk Management Department deals with measurement and monitoring of all types of risks in Kredyt Bank. This is the only unit reporting all issues regarding risk, fully independent of business units.

In the process of the identification, measurement and risk management, the Bank applies techniques relevant to a given type of risk.

In the previous year, the main risk management objectives, policy and processes did not change. The Bank's exposure to credit risk, market risk and operating risk did not change as well. The overriding objectives of risk management policy concerning mainly the observance of internal and external limits and optimising and mitigating risk in the process of ongoing monitoring are being systematically implemented. The risk management process is strictly related to the capital management process. The main objective of capital management in the Bank is to optimise it and, at the same time, to meet external capital requirements. To achieve this goal, since 2007, the Bank has been implementing ICAAP (Internal Capital Adequacy Assessment Process). With regard to the Bank's application of the approach referred to in paragraph 14 of the Resolution of the Commission for Banking Supervision No. 1/2007 dated 13 March 2007, since 31.12.2007, the Bank has not been obliged to apply the regulations concerning the estimation and maintenance of the internal capital.

70.1. Credit risk

The Bank's credit risk is defined as the risk of non-payment of amounts due if a borrower, guarantors, reassurer, contractor or an issuer loses its creditworthiness.

Credit risk is managed taking into account the credit risk aspect corresponding to individual transactions and from the portfolio perspective.

The process of risk management for individual transactions entails risk assessment for such a transaction and, depending on its level, application of an appropriate decision-making process.

The portfolio risk management is the responsibility of the Credit Risk Committee. In particular, the Credit Risk Committee is responsible for the following:

- acceptance and substantial supervision over the methods of credit risk measurement;
- recommending to the Bank's Management Board and the Supervisory Board an admissible level of credit risk in the Bank and subsidiaries;
- expressing opinions on the Bank's credit policy;
- expressing opinions on creation of write-downs and valuation of collateral;
- expressing opinions on internal credit limits;
- changing risk limits and approval of limit exceeds within the powers of the Bank's Management Board;
- substantial supervision over the program of the Bank's adjustment to the requirements of the New Capital Accord related to credit risk;
- approval of the new products in terms of credit risk.

The Bank manages the credit risk, applying different tools. Monitoring of the Bank's exposure concentration in customers or groups of related customers (in accordance with applicable banking law), and also monitoring of the utilization of the industry exposure concentration limits are among the basic ones.

As at 31.12.2007, the limits of the concentration were not exceeded.

Exposure towards 10 major corporate customers

As at 31.12.2007

Company	Share (%) in the portfolio
Customer 1	3.5
Customer 2	3.3
Customer 3	2.9
Customer 4	2.8
Customer 5	2.6
Customer 6	2.5
Customer 7	2.4
Customer 8	2.4
Customer 9	2.3
Customer 10	2.2
Total	**26.9**

As at 31.12.2006

Company	Share (%) in the portfolio
Customer 1	4.2
Customer 2	2.8
Customer 3	2.4
Customer 4	2.1
Customer 5	2.0
Customer 6	1.9
Customer 7	1.7
Customer 8	1.5
Customer 9	1.4
Customer 10	1.2
Total	**21.2**

Exposure in industrial segments

Industry	Exposure % 31.12.2007	Exposure % 31.12.2006
Production activities	33.5	29.8
Retail and wholesale; repairs of motor vehicles and articles for personal and home use	20.8	20.6
Financial intermediation	17.8	10.4
Real estate administration and lease	9.0	14.2
Construction	4.1	4.3
Public administration and national defence, legally guaranteed social care	4.0	7.0
Transport, storing and communication	3.9	3.6
Agriculture, hunting and forestry	1.9	2.0
Other services for municipalities, social and individual services	1.0	1.1
Mining	1.0	0.1
Health care and social care	1.0	1.0
Hotels and restaurants	0.9	1.3
Supplies of electricity, gas and water	0.8	4.1
Education	0.3	0.5
Total	**100**	**100**

Geographical exposure

Province	Gross loans structure (%) 31.12.2007	Gross loans structure (%) 31.12.2006
Mazowieckie	23.9	20.8
Lubelskie	13.6	14.6
Dolnośląskie	10.6	10.5
Wielkopolskie	9.1	10.1
Małopolskie	7.8	7.8
Pomorskie	6.9	7.4
Śląskie	6.9	8.1
Zachodniopomorskie	4.3	3.8
Łódzkie	3.8	3.5
Podlaskie	3.1	3.3
Kujawsko-pomorskie	2.5	2.1
Podkarpackie	2.3	2.5
Warmińsko-mazurskie	2.3	2.5
Świętokrzyskie	1.2	1.3
Lubuskie	1.0	1.0
Opolskie	0.6	0.6
Non-resident	0.1	0.1
Total	**100**	**100**

To limit the risk of exposure concentration, the Bank tries to expand loan extending activities for SMEs and individual customers.

Except for standard loan collateral included in loan agreements which are in line with the practices in the industry (mortgages, transfers of ownership to secure a loan, registered pledges, sureties, guarantees and assignment of receivables), the Bank does not apply any other loan collateral, e.g. credit derivatives.

The Bank monitors established legal securities of loan transactions by evaluation of the value of approved collateral on the basis of documents lodged by the borrower and internal databases including historic data about the recoverability of collateral.

With regard to the Bank's application of the approach referred to in paragraph 14 of the Resolution of the Commission for Banking Supervision No. 1/2007 dated 13 March 2007, since 1 January 2008, the Bank has applied the standardized method to calculate risk weighted assets. Since the beginning of 2007, the Bank deployed IT tools to calculate capital requirements according to the standardized method, and developed and implemented models which make it possible to determine the parameters necessary to calculate capital requirements according to the Foundation Internal Ratings Based (FIRB) approach. At the beginning of 2008, the Bank intends to submit a request to the Belgian and Polish banking supervision authorities for the consent to apply the FIRB approach.

The coverage of balance sheet and off-balance sheet receivables with internal ratings as at 31.12.2007 (the table below contains data for rated receivables, i.e. 91.5% of total receivables):

		31.12.2007
Internal PD rating	**Standard & Poors**	**Total**
PD 1	AAA - A-	7%
PD 2	BBB+	8%
PD 3	BBB	22%
PD 4	BBB-/BB+	17%
PD 5	BB	18%
PD 6	BB-	8%
PD 7	B+/B	7%
PD 8	B-	4%
PD 9	CCC+ lower	2%
PD 10		1%
PD 11		2%
PD 12		4%
Total		**100%**

70.2. Maximum exposure to credit risk

Balance sheet instruments	**31.12.2007**	**31.12.2006**
Debt securities:	**5 924 931**	**6 362 335**
- financial assets at fair value through profit or loss	448 499	459 612
- available-for-sale	3 431 265	3 453 950
- held-to-maturity	2 045 167	2 448 773
Net loans and advances to banks (including NBP)	**2 560 547**	**2 426 494**
Net loans and advances to customers, including:	**16 898 328**	**11 813 555**
Natural persons	**9 342 807**	**5 826 577**
- overdraft facilities	523 981	449 396
- purchased debt	707	2 329
- term loans	938 817	821 341
- cash and instalment loans	2 059 643	1 435 647
- mortgages	5 808 913	3 110 982
- realised guarantees	0	632
- other receivables	10 746	6 250
Corporate customers	**7 149 373**	**5 417 120**
- overdraft facilities	1 574 485	1 039 031
- term loans	5 539 241	4 357 252
- purchased debt	25 804	20 331
- realised guarantees	1 368	354
- other receivables	8 475	152
Budget	**406 148**	**569 858**
- overdraft facilities	932	3 464
- term loans	405 216	566 393
- purchased debt	0	1
Various debtors (receivables recognised in other assets)	**60 033**	**64 726**
Total	**25 443 839**	**20 667 110**

Contingent liabilities granted	**31.12.2007**	**31.12.2006**
Financial	4 410 804	3 497 903
Guarantees	1 619 289	1 208 267
Total liabilities granted	**6 030 093**	**4 706 170**
TOTAL ASSETS AND OFF-BALANCE SHEET ITEMS	**31 473 932**	**25 373 280**

70.3. Operational risk

The Bank defines the operational risk as a possibility of an unexpected influence upon the financial result, as a consequence of maladjustment or unreliability of internal processes, people, technical systems as well as a consequence of external incidents.

With regard to the Bank’s application of the approach referred to in paragraph 14 of the Resolution of the Commission for Banking Supervision No. 1/2007 dated 13 March 2007, since 01.01.2008, the

Bank has applied the standardized method to calculate the capital requirement related to the operational risk. As a result, the Bank:

- has implemented a documented operational risk assessment and management system closely related to the Bank's risk management process, and the result of the assessment forms an integral part of the operational risk profile monitoring and control process in Kredyt Bank;
- specified roles and responsibilities of employees within this system;
- keeps a record of operational events and losses resulting from the operational risk;
- has its operational risk assessment and management system regularly reviewed by independent auditors.

Operational risk coordinators, directly supporting the management staff of business units, play a crucial role in applying operational risk management tools and techniques.

The infrastructure of management and methodology are coherent within the Bank and its subsidiaries. Identification and operational risk rating tools are identical. The whole process is supervised by the Operational Risk Committee which is managed by the President of the Management Board.

70.4. Market risk and ALM

Market risk is defined as a degree of a hazard to the Bank's financial standing resulting from adverse changes in market parameters (interest rates, exchange rates and prices of shares) and their market volatility.

The Bank does not trade on stock market (investments in shares are long-term investments or investments in strategic subsidiaries). The Bank does not trade on commodity markets. In the Bank, among all types of market risks, we deal with interest rate risk and currency risk.

The Bank's activity is divided into two parts: Trading Book and Banking Book. Due to different nature of opened positions, the risk is monitored in each book separately.

70.5. Trading Book

The Trading Book is a separated part of the Bank's portfolio, where the Bank intends to generate income resulting from short-term changes of prices, interest rates, exchange rates or other market parameters. The main activity of the Trading Book is associated with financial instruments in PLN, and, to a lesser extent, also in USD and EUR.

Value at Risk (VaR) is the basic metric of risk in the trading portfolio. Value at Risk means such a value that the probability of the Bank's loss exceeding this value amounts to 1% (with assumed 99% level of significance - such a level was assumed by the Bank). Value at Risk (VaR) in the Bank is calculated by historical method in the time horizon of 10 days, taking into account market figures for the previous 500 days. VaR limit for the Trading Book overlaps Global VaR, which includes both the currency risk and the interest rate risk.

VaR (for the whole Trading Book, entails both interest rate risk and currency risk) – in EUR '000'

	Limit	31.12.2007	Data for 2007		
			Average	Minimum	Maximum
VaR	3000,0	1100.42	508.06	175.86	1212.45

Comparable data as at 31.12.2006:

VaR (for the whole Trading Book, entails both interest rate risk and currency risk) – in EUR '000'

	Limit	31.12.2006	Data for 2006*		
			Average	Minimum	Maximum
VaR	3000,0	237.78	359,85	135.53	1237.61

* data for the period 09/02/2006 – 29/12/2006. Previous calculations (prior to 09/02/2006) were made only separately for a position in currencies and an interest rate.

Interest rate risk

Interest rate risk reflects a degree of a hazard to the Bank's financial standing arising from adverse changes in market interest rates.

Additionally, the level of interest rate risk is monitored and limited (by establishment of limits) against BPV (basis point value - price sensitivity to parallel shifts in interest rates on the yield curve).

All above-mentioned limits concern the total Trading Book. The Trading Book Unit in the Cash Management Department managing the Trading Book is divided into two sections (with the primary term of instruments/transactions made at the interbank market as the basic division criterion): Short Term Desk and Long Term Desk. Internal VaR limits and stop-loss (maximum acceptable loss) restrict the activities of particular sections.

VaR for particular sections – in EUR '000'

	Limit	31.12.2007	Data for 2007		
			Average	Minimum	Maximum
Short term Desk	1300.0	472.86	324.09	96.87	825.02
Long Term Desk	1300.0	319.03	378.40	84.05	1039.42

Comparable data as at 31.12.2006:

VaR for particular sections – in EUR '000'

	Limit	31.12.2006	Data for 2006		
			Average	Minimum	Maximum
Short term Desk	1300.0	255.72	290.83	58.92	746.86
Long Term Desk	1300.0	149.50	236.62	72.88	872.50

In addition, the analysis of the sensitivity of the total Trading Book position to interest rate risk is performed through the calculation of interest rate risk VaR (with the same parameters as Global VaR, i.e. the significance range of 99%, 10-day time horizon and 500-day observation horizon). Interest rate VaR values are as follows:

VaR for the Trading Book – interest rate risk – in EUR '000'

	31.12.2007	Data for 2007		
		Average	Minimum	Maximum
Trading	514.91	495.95	137.07	1263.95

Comparable data as at 31.12.2006:

VaR for the Trading Book – interest rate risk – in EUR '000'

	31.12.2006	Data for 2006		
		Average	Minimum	Maximum
Trading	306.95	338.08	130.69	1201.74

The interest rate risk analysis is supplemented by stress-testing which is the amount of possible loss due to extremely adverse (critical) changes in interest rates.

Interest rate options

The Bank also offers interest rate options. The Bank does not maintain options portfolio for its own account, i.e. it does not pursue speculative activities. Options on the inter-bank market are the options hedging the position resulting from transactions with customers. Therefore, the market risk in the portfolio of interest rate options does not exist.

Currency risk

Position in currencies

The exchange rate risk is a degree of the risk for the Bank's financial standing resulting from adverse changes in exchange rates on the market. This risk covers income on currency exchange operations and measurement of open position in currenciess resulting from the difference between the value of assets and liabilities in a given currency. The Bank's position in currencies is managed for the Trading Book and the Banking Book jointly. The Bank's position in currencies is managed in the Trading Book.

The daily analysis of the sensitivity of the total Trading Book position to currency risk is performed through the calculation of currency risk VaR (with the same parameters as Global VaR, i.e. the significance range of 99%, 10-day time horizon and 500-day observation horizon). Currency risk VaR values are as follows:

VaR for the Trading Book – currency risk – in EUR '000'

	31.12.2007	**Data for 2007**		
		Average	Minimum	Maximum
Trading	810.23	118.93	2.57	864.57

Comparable data as at 31.12.2006:

VaR for the Trading Book – currency risk – in EUR '000'

	31.12.2006	**Data for 2006**		
		Average	Minimum	Maximum
Trading	103.03	102.99	25.33	352.65

In the event of currency risk, 'value at risk' method is supplemented daily by stress-testing which is the amount of possible loss due to extremely adverse (critical) changes in exchange rates.

Currency options

The Bank also offers currency options. The Bank does not maintain options portfolio for its own account, i.e. it does not pursue speculative activities. Options on the inter-bank market are the options hedging the position resulting from transactions with customers. Therefore, the market risk in the portfolio of currency option transactions does not exist.

Below, we present the breakdown of balance sheet and off-balance sheet items by main currencies.

Balance sheet (as at 31.12.2007)

in PLN '000'	CHF	EUR	GBP	USD	PLN	other currencies	Total
Assets							
Cash and balances with Central Bank	1 335	38 923	11 380	17 266	541 482	1 286	611 672
Gross loans and advances to banks	39 333	1 070 042	12 420	431 335	890 869	12 350	2 456 349
Impairment losses on loans and advances to banks	0	0	0	0	-2 260	0	-2 260
Financial assets at fair value through profit or loss, including held-for-trading financial assets (excluding derivatives)	0	2 348	54	28 489	417 608	0	448 499
Derivatives	32	73 207	580	64 242	356 796	238	495 095
Gross loans and advances to customers	2 843 058	1 324 883	1 968	158 365	13 406 054	3 724	17 738 052
Impairment losses on loans and advances to customers	-17 488	-38 891	-1	-12 449	-770 648	-247	-839 724
Investment securities:	0	330 656	0	13 963	5 133 650	0	5 478 269
- available-for-sale	0	272 910	0	13 963	3 146 230	0	3 433 103
- held-to-maturity	0	57 746	0	0	1 987 420	0	2 045 166
Investments in subsidiaries and jointly controlled entities	0	64	0	0	73 812	0	73 876
Property, plant and equipment	0	0	0	0	343 438	0	343 438
Intangible assets	0	0	0	0	65 425	0	65 425
Deferred tax asset	0	0	0	0	124 062	0	124 062
Non-current assets classified as held for sale	0	0	0	0	767	0	767
Other assets	0	6 684	51	563	67 665	21	74 984
Total assets	**2 866 270**	**2 807 916**	**26 452**	**701 774**	**20 648 720**	**17 372**	**27 068 504**

(as at 31.12.2007)

Balance sheet (cont.)

in PLN '000'	CHF	EUR	GBP	USD	PLN	other currencies	Total
Liabilities							
Amounts due to Central Bank	0	0	0	0	1 101 661	0	1 101 661
Amounts due to banks	1 242 596	919 457	2 749	240 483	2 861 124	5 040	5 271 449
Derivatives	30	36 319	8 085	82 347	347 398	191	474 370
Amounts due to customers	8 302	1 514 343	144 301	1 152 739	14 358 538	2 508	17 180 731
Liabilities arising from repurchase transactions	0	0	0	0	50 126	0	50 126
Current tax liability	0	0	0	0	7 136	0	7 136
Provisions	145	1 365	0	0	104 214	0	105 724
Other liabilities	9	5 702	39	431	242 673	362	249 216
Subordinated liabilities	0	394 235	0	0	0	0	394 235
Total liabilities	**1 251 082**	**2 871 421**	**155 174**	**1 476 000**	**19 072 870**	**8 101**	**24 834 648**

Off-balance sheet items (as at 31.12.2007)

in PLN '000'	CHF	EUR	GBP	USD	PLN	other currencies	Total
Liabilities granted, including:	**199 194**	**869 127**	**129 588**	**170 639**	**4 508 867**	**152 678**	**6 030 093**
- financial	198 972	328 257	804	63 268	3 817 707	1 796	4 410 804
- guarantees	222	540 870	128 784	107 370	691 161	150 882	1 619 289
Liabilities received, including:	**336 530**	**863 938**	**0**	**84 788**	**936 563**	**2 235**	**2 224 054**
- financial	336 530	82 893	0	17 332	463 451	2 235	902 441
- guarantees	0	781 045	0	67 456	473 112	0	1 321 613
Liabilities related to sale/purchase transactions	**2 055 580**	**8 854 269**	**177 094**	**4 870 563**	**202 005 559**	**202 154**	**218 165 219**
Other:	**639 713**	**258 991**	**0**	**86 378**	**2 314 342**	**1 413**	**3 300 837**
- collaterals' received	639 713	258 991	0	86 378	2 314 342	1 413	**3 300 837**

Balance sheet (as at 31.12.2006)

in PLN '000'	CHF	EUR	GBP	USD	PLN	other currencies	Total
Assets							
Cash and balances with Central Bank	697	19 830	4 933	13 917	600 897	448	640 722
Gross loans and advances to banks	95 951	191 606	33 658	814 831	1 047 091	22 154	2 205 291
Impairment losses on loans and advances to banks	0	0	0	0	-2 753	0	-2 753
Financial assets at fair value through profit or loss, including held-for-trading financial assets (excluding derivatives)	0	8 190	143	9 794	594 785	0	612 912
Derivatives	0	4 131	7	3 515	289 774	0	297 427
Gross loans and advances to customers	1 826 709	1 396 436	3 784	327 461	9 357 126	2 656	12 914 172
Impairment losses on loans and advances to customers	-28 395	-124 833	0	-23 538	-923 480	-371	-1 100 617
Investment securities:	0	331 700	0	74 934	5 496 029	0	5 902 663
- available-for-sale	0	234 238	0	33 728	3 185 924	0	3 453 890
- held-to-maturity	0	97 462	0	41 206	2 310 105	0	2 448 773
Investments in subsidiaries and jointly controlled entities	0	69	0	0	73 762	0	73 831
Property, plant and equipment	0	0	0	0	325 050	0	325 050
Intangible assets	0	0	0	0	84 394	0	84 394
Deferred tax asset	0	0	0	0	137 123	0	137 123
Current tax receivable	0	0	0	0	15 393	0	15 393
Non-current assets classified as held for sale	0	0	0	0	10 571	0	10 571
Other assets	0	8 297	55	137	79 127	0	87 616
Total assets	**1 894 962**	**1 835 426**	**42 580**	**1 221 051**	**17 184 889**	**24 887**	**22 203 795**

(as at 31.12.2006)

Balance sheet (cont.)

in PLN '000'	CHF	EUR	GBP	USD	PLN	other currencies	Total
Liabilities							
Amounts due to Central Bank	0	0	0	0	1 990	0	1 990
Amounts due to banks	419 508	682 496	2	336 176	720 614	6 030	2 164 826
Derivatives	0	7 100	322	1 489	287 563	0	296 474
Amounts due to customers	10 018	1 430 077	111 430	1 424 896	12 888 948	9 964	15 875 333
Liabilities arising from repurchase transactions	0	0	0	0	1 053 928	0	1 053 928
Provisions	217	3 977	0	134	94 447	0	98 775
Other liabilities	25	4 611	38	392	245 534	507	251 107
Subordinated liabilities	0	421 619	0	0	0	0	421 619
Total liabilities	**429 768**	**2 549 880**	**111 792**	**1 763 087**	**15 293 024**	**16 501**	**20 164 052**

Off-balance sheet items (as at 31.12.2006)

in PLN '000'	CHF	EUR	GBP	USD	PLN	other currencies	Total
Liabilities granted, including:	**136 695**	**1 085 365**	**87 305**	**102 422**	**3 279 599**	**14 784**	**4 706 170**
- financial	136 450	628 192	33 667	49 879	2 649 715	0	3 497 903
- guarantees	245	457 173	53 638	52 543	629 884	14 784	1 208 267
Liabilities received, including:	**4 768**	**89 018**	**0**	**76 292**	**331 358**	**371**	**501 807**
- financial	4 768	0	0	0	200 000	371	205 139
- guarantees	0	89 018	0	76 292	131 358	0	296 668
Liabilities related to sale/purchase transactions	**1 951 733**	**8 469 074**	**94 629**	**10 980 321**	**116 859 809**	**15 251**	**138 370 817**
Other:	**454 490**	**584 319**	**0**	**178 453**	**1 935 056**	**1 360**	**3 153 678**
- collaterals' received	454 490	584 319	0	178 453	1 934 556	1 360	3 153 178
- other	0	0	0	0	500	0	500

Capital market risk

The Bank does not operate on the stock market within the Trading Book.

Commodity price risk

The Bank is not active on the commodity market within the Trading Book.

Capital requirements

The capital requirements for the Trading Book as of 31.12.2006 and 31.12.2007 are as follows:

Capital requirements for the Trading Book (data in PLN '000')

	31.12.2007	31.12.2006
Equity securities price risk	0	0
Specific risk of debt instruments	22	49
General interest rate risk	46 748	14 429
Settlement risk and counterparty risk	15 622	10 651
Currency risk (total for the Trading Book and the Banking Book)	4 476	0
Total capital requirement in the Trading Book	**66 868**	**25 129**

The increase in the value of capital requirements for the Trading Book results from the increase in the trading activity on interest rate derivatives in 1-2 years.

70.6. Banking Book (ALM)

The Banking Book covers operations not covered by the trading portfolio, i.e. commercial activities of branches, credit intermediaries and the portfolios of securities hedging the liquidity and constant interest income.

Interest rate risk

The Bank actively manages the interest rate risk for 5 main currencies of the balance sheet: PLN, EUR, USD, CHF, GBP.

An interest rate gap prepared separately for each currency is the basic measurement and risk-limiting tool in the banking portfolio. The following risk metrics are calculated on that basis:

- sensitivity of the measurement of assets and liabilities (BPV);
- duration;
- accumulated gap ratios.

An analysis of the interest rate gap applied in the interest rate risk management of the Banking Book is based on information on particular items of the Bank's balance sheet as well as off-balance items sensitive to changes of interest rates. In the case of financial instruments without defined maturity date (according to a stability analysis for each type of product), the Bank implemented the model of periodic deposits rollover. This approach towards products allows for effective management of risk associated with this type of instruments and for the generation of constant income from investments of these assets.

Stress-testing and VaR calculations are additional interest rate risk monitoring tools in the Banking Book.

Interest rate risk analysis

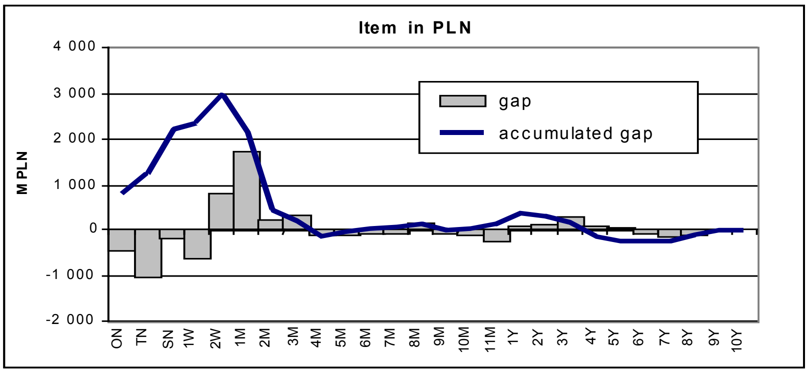
The interest rate risk analysis was conducted upon the following assumptions:

- a stable part of current accounts in PLN and of accounts in foreign currencies (EUR and USD) is cyclically invested for the period of:
    1. 8 years for PLN;
    2. 5 years for EUR;
    3. 2 years for USD.
- two stable portions are separated from savings accounts; the first portion is invested cyclically (monthly) for 6 months, and the second part is invested for 5 years (also monthly);
- unstable parts of current accounts in PLN, EUR and USD, and current accounts in other currencies are classified in the shortest term horizon;
- unstable parts of savings accounts are classified in the shortest term horizon;
- the methodology of including free capital has changed – although free capital approved for the whole year is still invested cyclically for the period of 10 years (with 1/120th of the free capital invested monthly), an excess or shortage compared to an actual amount of free capital is classified in the shortest term horizon, and the passive portion of the free capital portfolio is deemed as insensitive to changes in interest rates;
- benchmark is applied to non-working loans (40% - ON, 30% - 1M, 30% - 3M);
- loans are recognised in net terms;
- loans are presented according to repayment schedules;
- the gap analysis report, apart from for nominal flows, also presents known future interest flows;
- each flow is divided proportionally into two parts which are classified in adjoining nodes of the curve;
- a cumulative gap is calculated from the longest to the shortest term periods.

The interest rate gaps diagrams for the position resulting from the operation of branches (including derivatives used as hedging instruments) in particular currencies based on an internal system of transfer rates are presented below.

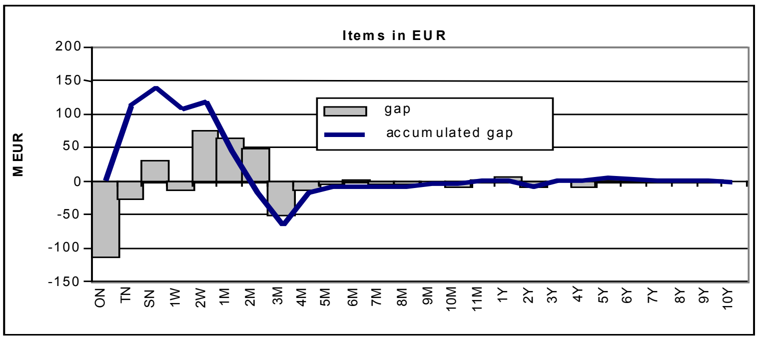
Data as at 31.12.2007:

- PLN



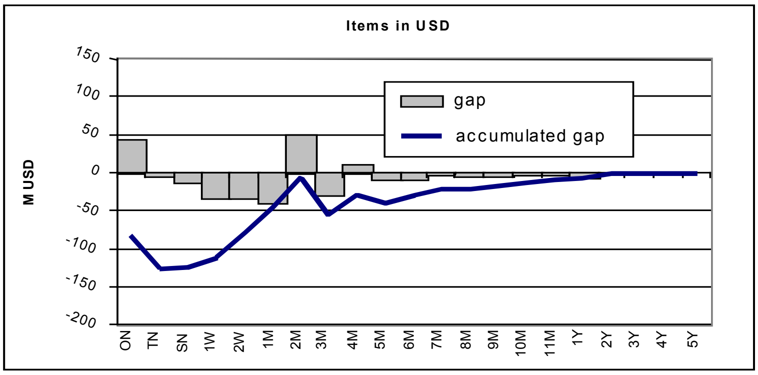
The non-stable portion of current deposits and savings accounts as well as short-term customer deposits and received short-term interbank deposits create a gap in ON term range. A negative mismatch in TN-1W term ranges is generated by short-term fixed interest rate customer deposits and OIS's (SN and 1W term ranges). The positive gap in term ranges from 2W to 2M is a result of variable interest rate loans with 1- and 3-month repricing periods, and the positive gap in 8M term range is associated with granted FRA's. The gaps in term ranges from 10M to 10Y result from the mismatch between fixed interest rate bonds and financing deposits in benchmark portfolios of saving and current accounts.

- EUR



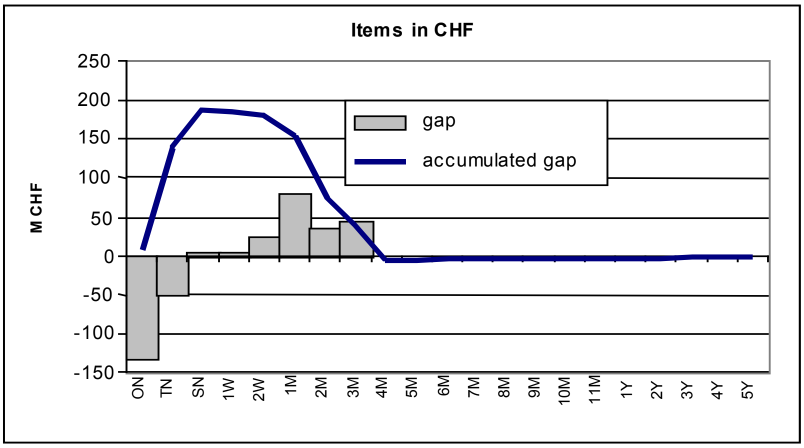
For EUR items, customer loans which generate a positive mismatch in 2W-2M term ranges and floating interest rate cash loans received from KBC Dublin matched to loans in terms of interest rate risk hedge, play a major role; the negative gap in 3M term range is related to them. The positive gap in SN term range is the result of granted swaps. The negative mismatch in TN and 1W term ranges is generated by fixed interest rate term customer deposits, and in ON term range – by a deposit taken over from the Trading Book and the unstable part of current and savings accounts.

- USD



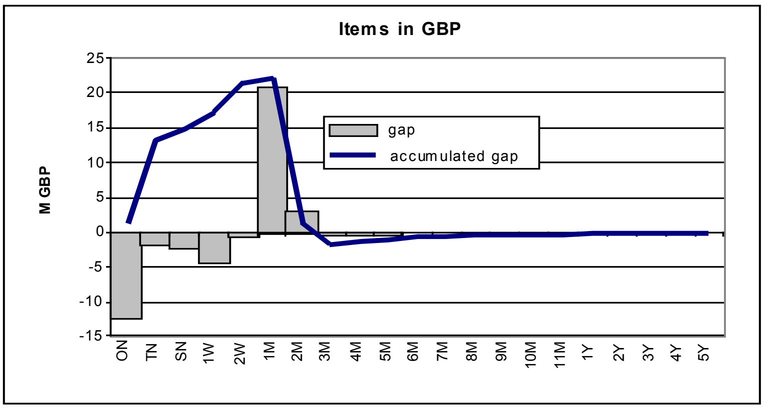
As regards USD, fixed interest rate customer deposits are key items. In the diagram, they are shown as the negative mismatch in TN to 1Y term ranges. Positive gaps in ON, 2M and 4M term ranges result from swaps (2M) and deposits granted to the Trading Book (ON and 4M).

- CHF



The main item in this currency are floating interest rate customer loans with 1- and 3-month repricing period. The positive mismatch in 1W to 4M term ranges is determined by the above-mentioned loans. This mismatch is closed by long–term cash loans from KBC (1W – 3M ranges), CIRS (TN – 3M ranges) and deposits received from the Trading Book (ON range).

- ***GBP***



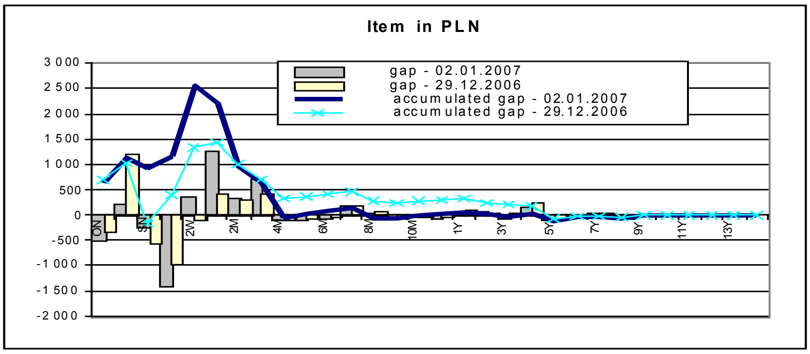
The negative gap in ON term range reflects current deposits and savings accounts which form the major item in this currency.

The negative mismatch in ON to 1M term ranges is created mainly by fixed interest rate customer term deposits. The positive gap in 1M and 2M term ranges results from granted swaps.

Comparable data as at 31.12.2006:

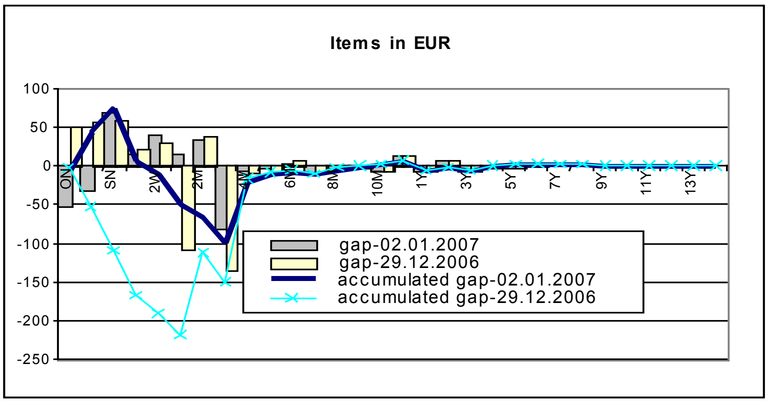
As 30.12.2006 fell on Sunday, the gaps for working days were presented, i.e. from the day directly preceding and the day directly following the last day of the year. Visible differences in the shapes of gaps between these days result from the repricing of the floating interest rate part of the item, which, for the major part of financial instruments, is performed on the first day of each month. The description of the diagrams presented below is as at 2.01.2007.

- PLN



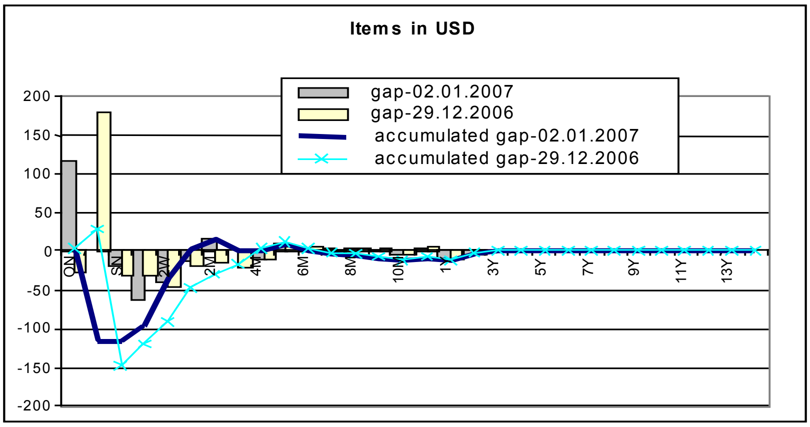
A gap for items in PLN shows the following mismatches: 5Y, 4Y and 7Y term ranges result from the mismatch in benchmark portfolios of saving and current accounts between bonds and financing deposits. The positive gap in term ranges from 2W to 3M is a result of the mismatch of volumes of floating interest rate loans and deposits. The gap is closed with OIS's, which is presented in the diagram as the negative gap in 1W term range. The negative mismatch in ON and SN term ranges is generated by the non-stable portion of current deposits and savings accounts as well as short-term customer deposits.

- EUR



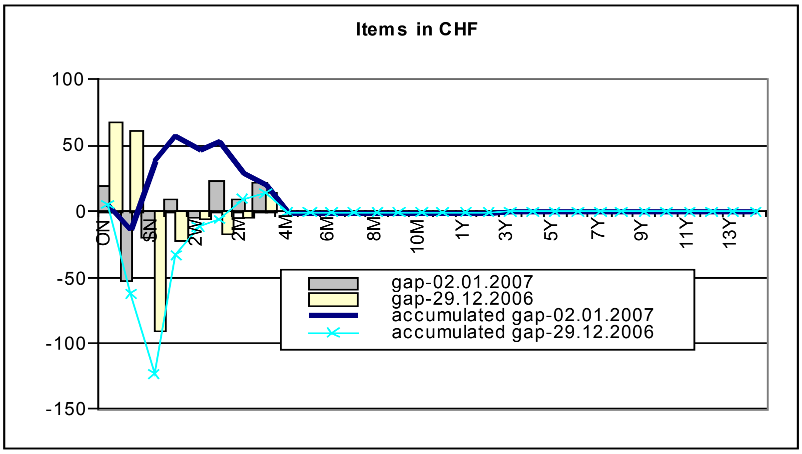
The negative gap in 3M term range is characteristic for EUR; it results from floating interest rate cash loans received from KBC Dublin, which form a major item in this currency. The mismatch resulting from cash loans is balanced with floating interest rate customer loans and CIRS's, which is demonstrated as the positive gap in SN-2M term ranges. And, the negative mismatch in TN-ON term ranges results from CIRS (TN range), and current accounts and savings accounts (ON range).

- USD



As regards USD, fixed interest rate customer deposits are key items; they determine the balance sheet and the shape of the gap in this currency, creating the negative mismatch in 2W to 1Y term ranges. Positive gaps in 2M and 5M term ranges result from swaps (2M range) and a deposit granted to the Trading Book (5M range). The gap resulting from deposits is closed with OIS's (the positive mismatch in ON term range).

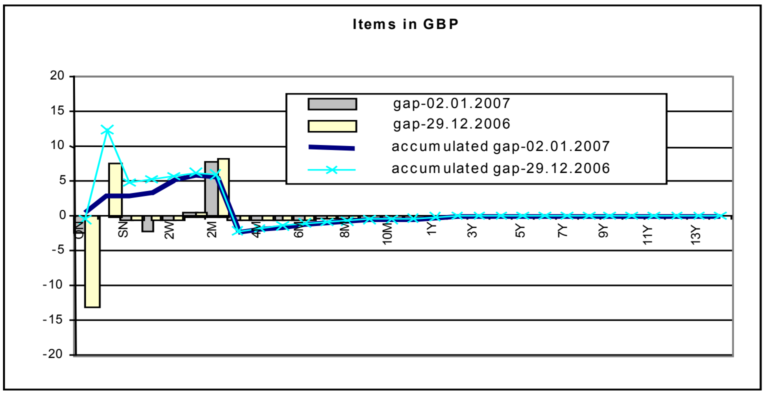
- CHF



The positive gap in 1W and 1M-3M term ranges is the result of floating interest rate customer loans. The change of the gap from positive to negative in SN term range results from CIRS and from the receipt of a deposit from the Trading Book in TN term range.

The closing of the exposure in ON term range is affected by overdraft facilities and a deposit extended to the Trading Book.

- ***GBP***



The negative mismatch is created by customer deposits, mainly with fixed interest rate, and current deposits in ON term range.

The gap in 1M-2M term ranges is positive due to CIRS.

The tables below illustrate the Bank's basis point value (BPV) accompanied with the parallel shift in interest rates by 10 b.p. up for particular currencies calculated for 'Hedging' and 'Transformation' items.

Data as at 31.12.2007

BPV in millions of a currency	1 M	3M	6M	12M	3Y	5Y	over 5Y	TOTAL
PLN	-0.169	-0.122	0.143	0.216	-1.223	0.065	1.019	-0.071
EUR	-0.008	0.004	0.003	-0.001	0.012	0.003	-0.017	-0.004
USD	0.006	-0.002	0.004	0.016	0.000	0.000	0.000	0.024
CHF	-0.007	-0.017	0.000	0.001	0.003	0.003	0.000	-0.017
GBP	-0.002	0.000	0.000	0.000	0.000	0.000	0.000	-0.002

Comparable data as at 02.01.2007

BPV in millions of a currency	1 M	3M	6M	12M	3Y	5Y	over 5Y	TOTAL
PLN	-0.088	-0.212	0.061	-0.011	0.209	-0.356	0.253	-0.143
EUR	-0.004	0.013	0.002	0.006	0.006	0.011	-0.021	0.014
USD	0.004	-0.002	-0.002	0.004	0.003	0.000	0.000	0.006
CHF	-0.002	-0.007	0.000	0.000	0.001	0.000	0.000	-0.007
GBP	0.000	-0.001	0.000	0.001	0.000	0.000	0.000	0.000

The total BPV for the Banking Book is presented below. It is calculated as total BPV for particular currencies and portfolios; contrary to the Bank's basis point value in breakdown into particular term ranges presented above, the 'liabilities' portion of the Free Capital portfolio is not taken into account. It results from the new BPV calculation methodology for limits and the assumption of the insensitivity of the 'liabilities' side of the Free Capital to changes in interest rates (the rule is effective from 1 May 2007. Previously, global BPV for the Banking Book was calculated as the total value of absolute BPVs for particular portfolios, including the 'liabilities' side of the Free Capital).

		31.12.2007	Comparable data 02.01.2007
BPV in millions of EUR (calculation to limit)	Present rules (effective since May 2007)	-1.571	-1.101
	Previous rules (effective by May 2007)	-	0.060

70.7. Hedge accounting

Fair value hedging accounting

As at 31.12.2007, the Bank continued to apply hedge accounting for fair value hedge for asset swaps. The purpose of hedge accounting is to hedge fixed interest rate bonds with IRS, on which the Bank pays a fixed interest rate and receives a floating interest rate.

Hedge accounting of cash flows

As at 31.12.2007, the Bank continued to apply hedge accounting of cash flows for asset swaps which consists in hedging cash flows resulting from floating interest rate bonds (which involves the conclusion of IRS in which the Bank receives fixed and pays floating interest flows).

As at 31.12.2007, the Bank continued to apply hedge accounting also as regards the part of the loans portfolio based on O/N rate. The hedge consists in creating swap structure composed of a revolving OIS (the Bank pays cash flow based on O/N rate) and a standard IRS in which the Bank pays cash flow based on a floating interest rate adjusted to OIS maturity date and receives fixed interest flows. The hedged risk in this case is an interest rate risk resulting from a change of short-term interest rates.

In the second half of 2007, the Bank began to apply hedge accounting for the portion of mortgage loans based on 3M WIBOR, which involves the conclusion of IRS in which the Bank receives fixed and pays floating interest flows. The hedged risk in this case is the interest rate risk resulting from a change of 3-month interest rate.

70.8. Currency risk

As mentioned above, the position in currencies is managed in the Trading Book. The positions related to the Bank's customers' transactions arising during the day are transferred, via internal transactions, to the Trading Book.

It should be noted here that the currency risk at Kredyt Bank is perceived not only as the risk occurring for an open position in currencies, but also as the risk of a change in the value of certain products as a result of changes in exchange rates. In particular, this risk occurs in the case of loans extended in foreign currencies. In order to mitigate credit risk, increasing in the case of the growth in the exchange rate of the loan currency (this also refers to loans granted in PLN, with its value indexed to the foreign currency exchange rate), the loans agreements for institutional customers contain clauses on the establishment of additional collateral or permit to translate the loan, when the customer does not generate income in the loan currency. Additionally, in order to hedge the exchange rate risk the customer is exposed to, derivatives (forwards, options) are offered to him.

In order to mitigate the currency risk on granting mortgages in a foreign currency to individual customers, the Bank, analysing the creditworthiness:

a) determines the value of the highest monthly interest and principal repayment instalment for the applied loan with the assumption that the principal of the applied loan is 20% higher,

b) the Bank calculates the maximum level of LtV *(Loan To Value)* ratio on a lower level than for loans in PLN (LtV ratio should be understood as the loan value/collateral value ratio);

c) additionally, the applicant is informed about the foreign exchange risk.

70.9. Liquidity risk

The liquidity risk is strictly associated with activities of any bank. It results, among other things, from the mismatch of assets and liabilities in terms of maturity dates what is a natural effect of varied customers' requirements as regards deposits and loans. Maintenance of financial liquidity, understood as the ability to timely meet financial liabilities, is the crucial element of the policy on assets and liabilities management applied by the Bank. The current liquidity is maintained through correcting the surplus or shortage of liquid cash by operations conducted on the interbank money market. The Bank's safety calls for the maintenance of liquid reserves as well as the term and quality structure of the whole balance sheet. Decisions related to liquidity risk management are made by the Bank's Assets and Liabilities Management Committee. The Risk Management Department measures and monitors strategic (long-term) liquidity.

The Bank hedges the liquidity risk by:

- maintenance of an appropriate level of cash, taking into account volume of statutory provisions;
- possession of a proper volume of portfolios of liquid securities (governmental bonds);
- performing transactions on derivatives;
- maintenance of a diversified portfolio of deposits as regards terms and customers;
- access to the interbank market and open market transactions;
- access to the lombard loan.

Support of KBC Group, the strategic investor, is a crucial factor affecting the safety of the Bank operations.

An analysis of the Bank's liquidity is performed mainly on the basis of the liquidity gap report and the assessment of the deposit base stability by, among others, monitoring the mismatch of the maturity dates of assets and liabilities, what makes it possible to forecast the demand for liquid assets and avoid excessive concentration of cash disbursements on a close date.

Amounts due to customers as at 31.12.2007 - contractual flows (interest flows according to FSA methodology are recognized up to 6 months); the stable part of savings and current accounts is recognized according to benchmark method.

To facilitate monitoring of the the liquidity risk, the Bank applies the following liquidity limits:

- Stock Liquidity Ratio (SLR) – short-term liquidity ratio (up to 5 working days);
- Liquidity Mismatch Ratio (LMR) – liquidity ratio (up to 1 month);
- Coverage Ratio (CR) – strategic liquidity ratio which informs about a degree of financing long-term assets with long-term liabilities (2, 3 and 5 years).

Liquidity gap report

Data as at 31.12.2007 (in millions of PLN)

	up to 1M	1 - 3M	3 - 6M	6 M - 1 Y	1Y - 2 Y	2Y - 3 Y	3Y - 5 Y	over 5Y	Total
Current accounts/savings accounts	2 491.46	876.09	599.89	579.72	1 299.94	1 246.38	1 914.33	719.17	9 726.98
Deposits	6 280.46	1 196.28	546.74	393.41	18.37	2.44	260.56	1.28	8 699.54
Inter-bank deposits	2 376.90	131.77	57.54	0.60	0.00	0.00	0.00	0.00	2 566.81
Perpetual bonds and cash loans	13.39	24.99	432.25	0.00	0.00	861.26	1 846.31	0.00	3 178.20
LORO	23.71	0.17	0.27	0.00	0.00	0.00	0.00	0.00	24.15
REPO	50.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	50.10
Free capital*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 535.23	1 535.23
Other	0.13	64.93	0.00	87.89	0.00	0.00	0.00	0.00	152.95
Derivatives - cash flows to be received									
Swaps - sale	2 485.64	123.92	14.43	114.26	0.81	0.00	0.00	0.00	2 739.06
IRS/CCIRS	426.32	389.10	761.63	505.54	0.00	0.00	11.51	26.19	2 120.29
FRA	13.44	25.50	41.13	51.87	16.17	-	-	-	148.12
Derivatives - cash flows to be paid									
Swaps - purchase	2 477.29	123.87	13.55	113.90	0.72	0.00	0.00	0.00	2 729.33
IRS/CCIRS	437.00	391.31	864.55	507.72	0.00	0.00	11.98	27.17	2 239.73
FRA	12.82	25.87	37.92	43.46	11.67	-	-	-	131.73
TOTAL	**11 237.86**	**2 296.76**	**1 735.50**	**1 055.02**	**1 313.71**	**2 110.08**	**4 021.67**	**2 256.66**	**26 027.26**

* equity net of current result less net property, plant and equipment (net of finance lease and operating lease), net intangible assets (net of finance lease and operating lease) and net value of interests in financial subsidiaries.

Comparable data as at 31.12.2006 (in millions of PLN):

	up to 1M	1 - 3M	3 - 6M	6 M - 1 Y	1Y - 2 Y	2Y - 3 Y	3Y - 5 Y	over 5Y	Total
Current accounts/savings accounts	3 159.74	353.97	575.38	503.88	1 131.04	1 016.60	1 670.67	37.50	8 448.78
Deposits	4 804.14	1 269.01	794.58	364.97	22.81	3.08	78.90	2.37	7 339.86
Inter-bank deposits	1 105.86	75.87	36.55	0.00	0.00	0.00	0.00	0.00	1 218.28
Perpetual bonds and cash loans	0.87	2.57	4.07	0.00	422.05	0.00	933.37	0.00	1 362.93
LORO	33.15	0.08	0.12	0.00	0.00	0.00	0.00	0.00	33.35
REPO	1 033.41	20.59	0.00	0.00	0.00	0.00	0.00	0.00	1 054.00
Free capital*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 248.69	1 248.69
Other	0.76	79.42	0.00	94.72	96.87	0.00	0.00	0.00	271.77
Derivatives - cash flows to be received									
Swaps - sale	154.93	24.07	79.98	251.34	0.00	0.00	0.00	0.00	510.32
IRS/CCIRS	67.18	74.00	98.54	0.00	0.00	0.00	0.00	0.00	239.72
FRA	4.41	3.65	13.01	0.00	0.00	0.00	0.00	0.00	21.07
Derivatives - cash flows to be paid									
Swaps - purchase	154.03	23.67	82.56	249.15	0.00	0.00	0.00	0.00	509.41
IRS/CCIRS	53.89	92.53	102.31	0.00	0.00	0.00	0.00	0.00	248.73
FRA	4.16	4.07	14.25	0.00	0.00	0.00	0.00	0.00	22.48
TOTAL	**10 123.49**	**1 820.06**	**1 418.29**	**961.38**	**1 672.77**	**1 019.68**	**2 682.94**	**1 288.56**	**20 987.17**

* equity net of current result less net property, plant and equipment (net of finance lease and operating lease), net intangible assets (net of finance lease and operating lease) and net value of interests in financial subsidiaries.

In 2007, as compared to 2006, changes occurred in the structure of the Bank's financial liabilities. The major changes in the liabilities structure are as follows:

- An increase in the balance of deposits and interbank deposits with maturity dates up to one month (by PLN 1,476 million and PLN 1,271 million respectively).
- The total amount of perpetual bonds and cash loans with maturity dates over 2 years increased by PLN 1,774 million.
- In 2007, the Bank also increased its activeness on the interest rate derivatives market.

The Bank continues works on the methodology of making a liquidity gap report real. The process of making the gap real is aimed at presenting a a true picture of liquidity; the Bank models customers' behaviour (the quantity of revolving term deposits, amounts of extended but still undrawn loans) and takes into account results of those analyses in the picture of the Bank's liquidity.

The stability of the deposits base

A stable deposit base, not affected by seasonal phenomena, is the basic source of the Bank's financing.

The diversification of the deposit base allows for the Bank's clear independence of any specific market segment, customer group or specific deposit type.

	31.12.2007	**31.12.2006**
- individual customers	51.5%	55.1%
- financial institutions	8.5%	5.0%
- business entities	28.2%	28.6%
- budgetary sector	11.8%	11.3%

	31.12.2007	**31.12.2006**
- current deposits	27.4%	26.4%
- negotiable term deposits	34.4%	30.6%
- term deposits	10.1%	16.3%
- savings accounts	28.1%	26.7%

The structure of term deposits (except for interbank term deposits and negotiable term deposits) is advantageous from the point of view of an initial maturity date. As at 31.12.2007 and 31.12.2006, it was as follows:

	31.12.2007	**31.12.2006**
- up to 1 week	26.3%	1.7%
- up to 1 month	7.5%	23.9%
- up to 3 months	17.8%	25.5%
- up to 6 months	23.0%	17.7%
- up to 12 months	16.9%	23.7%
- up to 24 months	3.0%	2.1%
- other	5.5%	5.4%

In terms of a currency type, the structure of the deposit base as at 31.12.2007 and 31.12.2006 was as follows:

	31.12.2007	**31.12.2006**
PLN	83.5%	80.8%
USD	6.7%	9.1%
EUR	8.9%	9.2%
GBP	0.8%	0.7%
CHF	0.1%	0.1%
Other	0.0%	0.1%

Signatures of all Management Board Members

date	29.02.2008	Ronald Richardson	President of the Management Board	....
date	29.02.2008	Umberto Arts	Vice President of the Management Board	....
date	29.02.2008	Krzysztof Kokot	Vice President of the Management Board	....
date	29.02.2008	Michał Oziembło	Vice President of the Management Board	....

Signature of a person responsible for keeping the accounting books

date	29.02.2008	Maria Beata Kucińska	Chief Accountant	....

The Management Board's Report on the Operations of Kredyt Bank S.A. in the Period Covered by the Financial Statements as at 31.12.2007

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1. Factors affecting the results of Kredyt Bank S.A. in 2007

In 2007, Kredyt Bank S.A. generated its record high profit before tax of PLN 512,202 thousand. It was higher by 20,0% than profit before tax generated in the previous year. Net profit amounted to PLN 400,519 thousand. The result allowed for generating ROE of 18.7% and ROA of 1.6%.

The deduction of income tax of PLN 111,683 thousand from the result for 2007 (contrary to the addition of PLN 10,562 thousand to the net result for 2006) was the most vital event which affected the comparability of this year's financial result with the previous year's figures. The absence in 2007 of single transactions comparable to the sale of receivables from Kredyt Bank S.A. portfolio in June 2006 was another significant difference. The profit from the transaction affecting net profit amounted to PLN 108,382 thousand (and PLN 123,026 thousand in the case of profit before tax).

Selected factors and financial figures	31.12.2007	31.12.2006	31.12.2005	31.12.2004
Profit before tax	512 202	426 881	307 806	126 684
Net profit	400 519	437 443	410 488	126 528
ROE	18.7%	23.6%	26.0%	11.9%
ROA	1.6%	2.0%	2.0%	0.6%
CIR	62.5%	67.4%	74.2%	80.9%
Capital adequacy ratio	9.6%	13.5%	16.2%	14.4%
Loans and advances with individual evidence for impairment/total gross loans and advances	7.4%	14.5%	26.4%	28.0%

The most essential factors which affected the financial result for 2007 include:

- An increase in the sale of loan products, particularly mortgages, consumer loans and corporate customer loans. As compared to the end of 2006, net loans and advances to customers increased by 43.0%, i.e. by PLN 5,084.8 million, and by 71.2%, i.e. by PLN 7,025.0 million as compared to the end of 2005.
- Improved acquisition of customers' financial resources. Total amounts due to customers increased as compared to the end of 2006 by 8.2%, and by 17.7% as compared to the end of 2005.
- A significantly higher net profit from banking activities (understood as total operating income less net income from sale of receivables and other operating income) as compared to 2006. The increase by 15.8% was possible due to an increase in net interest income, an increase in net fee and commission income and an increase in net trading income.
- Strict spending discipline regarding the Bank's operating expenses combined with the implementation of the plan regarding the expansion of the network of distribution outlets.
- Restructuring and debt recovery measures which in 2007 allowed the Bank to achieve a positive balance of net impairment losses on financial assets, other assets and provisions of PLN 17,789 thousand. Measures aimed at the reduction of non-performing loans portfolio allowed for further improvement of the quality of the loan portfolio measured with the share of loans and advances with individual evidence for impairment in total gross loan and advances.

At the end of 2007, the ratio amounted to 7.4%, as compared to 14.5% as at the end of 2006 and 26.4% as at the end of 2005.

The year 2007 was a period of the augmentation of positive trends observed for sales in 2006, both in the 'assets' and 'liabilities' parts of the balance sheet. It made it possible to stabilize and, in certain cases, increase the market shares.

Cost/income ratio (CIR) in 2007 was equal to 62.5% - 4.9 p.p. less than in 2006 and 11.7 p.p. less than in 2005. Further improvement of the effectiveness of the Bank's operation will become one of the most crucial financial goals in 2008 and further on.

Organic growth is the basic method of the implementation of the strategic objectives of Kredyt Bank S.A. In this context, the most important factors and events affecting the operation of the Bank in 2007 include:

- Organisational separation and further development of the consumer finance segment, including, particularly, the reorganisation and expansion of the distribution network.
- Closer cooperation within KBC Group in Poland, primarily in the area of bancassurance in collaboration with WARTA S.A., and in the area of the sale of shares in investment funds in cooperation with KBC TFI.
- Further expansion of the sales network of Kredyt Bank S.A. ("Programme 120"). As at the end of 2007, the Bank operated 62 outlets launched under this programme.
- Ensuring the financing of the further development of lending activities through the access to the resources of KBC Bank NV, i.e. the major shareholder of Kredyt Bank S.A.

2. Business conditions in Poland and banking sector in 2007

Overall economic conditions in Poland in 2007

In many respects, we witnessed an extremely good year in Polish economy. In 2007, Polish economy recorded the fastest economic growth in ten years which was driven by increasing, at a record pace, investments and the permanent recovery of consumer demand. The fast growth resulted in stable demand for labour reflected in the fast-growing number of new jobs and ensuing fast-growing employment despite increasing difficulty in recruiting and retaining employees. In this context, one should not be surprised by a record-fast decline in the unemployment rate which, at the end of the year, decreased to 11.2% that was the lowest level since the onset of the economic transformation period, and the fact that the shortage of labour force in the year became one of the most critical problems faced by Polish companies on a daily basis. Nevertheless, following the period of continuous acceleration of an economic growth rate since the beginning of 2005, in the most recent three quarters of the previous year, the growth in the Polish economy slowed down slightly. Available data show that, in the last quarter, the economic growth rate declined to ca. 6.1% y/y and, although it was still higher than the potential level, i.e. which does not generate the inflationary pressures, it was substantially lower than record-breaking 7.2% y/y recorded in the first three months of the year. However, the growth structure remains relatively secure. The increasing share of investments in GDP and only moderate contribution of private consumption to the growth are the main issues we can be satisfied with. At the same time, increased demand for import (both consumer and investment import) results in the situation when, for a year now, we have continued to observe the negative contribution of net exports to the growth. However, in the last months of the year, trade deficit grew slower than expected, mainly due to the sustained and a relatively high growth rate for export. As a result, the negative contribution of net export to the growth was more limited in the last quarter than expected.

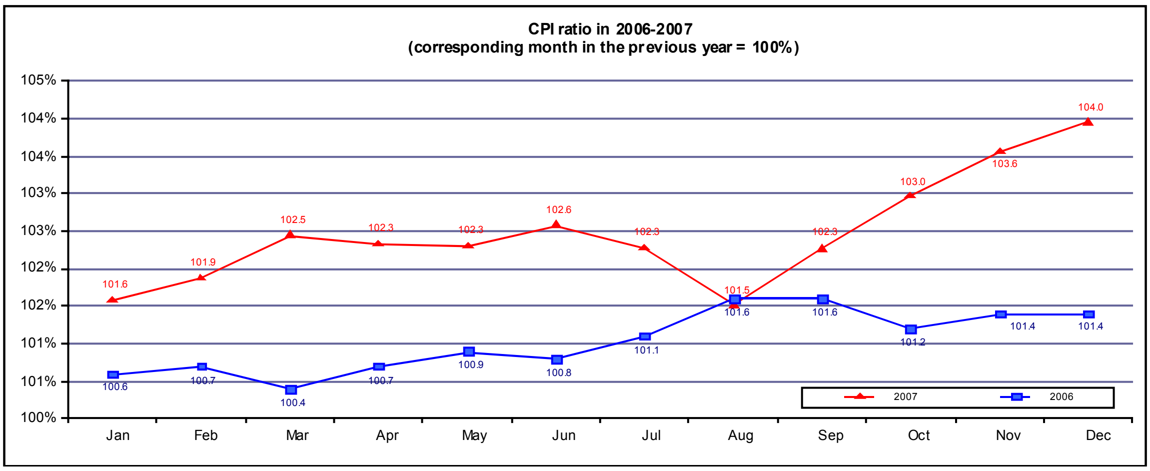
The increase in the GDP annual growth rate in the previous year was affected mainly by a surprisingly strong increase in capital expenditure, supported by ever-increasing aid from the European Union, a relatively non-restrictive monetary policy of the central bank and lenient lending policy of commercial banks. The continued recovery of the investment activities was also positively affected by a high level of the use of the production capacities of Polish companies and the stable and good financial standing of Polish enterprises.

From the point of view of perspectives for inflation and, as a result, in the context of the monetary policy pursued by the NBP, only a moderate increase in domestic consumption was a positive surprise. Throughout the year, its growth was slower than the GDP growth. The decline of the consumption growth rate to 3.6% y/y in the fourth quarter of the previous year proved to be surprisingly serious, however, we believe that a further decrease in the consumption growth rate is not very probable. It is evidenced mainly by an extremely good labour market situation, advantageous changes in personal income tax, the planned indexation of pensions and disability allowances and substantial financial resources coming in, on a regular basis, from Poles working abroad.

The major factors having positive impact upon the macroeconomic environment are as follows:

- a fast increase in internal demand;
- an increasing share of investments in GDP;
- further improvement of the labour market;
- growing absorption of EU funds;
- steady and high financial profitability of enterprises;
- exceptionally successful implementation of the State and local governments' budgets (the deficit on the level almost doubly lower than assumed for 2007 and a significant surplus of resources in the budgets of local government units);
- the continuing and relatively stable international investment position of Poland, achieved due to the substantial growth of export and the inflow of financial aid from the EU as well as the increasing inflow of direct foreign investments and financial resources coming in from Poles working abroad;

Throughout 2007, consumer prices growth was stronger than in previous years (on a year-to-year basis), which resulted directly from the increase in prices on the global fuels market and in food prices. The increase in the inflation rate, although quite substantial towards the end of the year, was a result,



first of all, of all demand-related factors, and the substantial economic growth throughout the year did not result in greater pressure on the price increase. The inflation rate calculated on a year-to-year basis since November is over the upper limit of the approved fluctuations scale around the inflation target determined by the National Bank of Poland (2.5% y/y; +/- 1 p.p.). At the end of 2007, the inflation rate measured with CPI ratio amounted to 4.0% y/y and was the highest within three years.

The following factors are listed among the worrying macroeconomic tendencies and negative phenomena: uncertain fate of the long-promised public finances reform, increasing inflation and possible second-round effects (price/wage spiral), and the risk of worse prospects for the fiscal policy (particularly in the case of local government units).

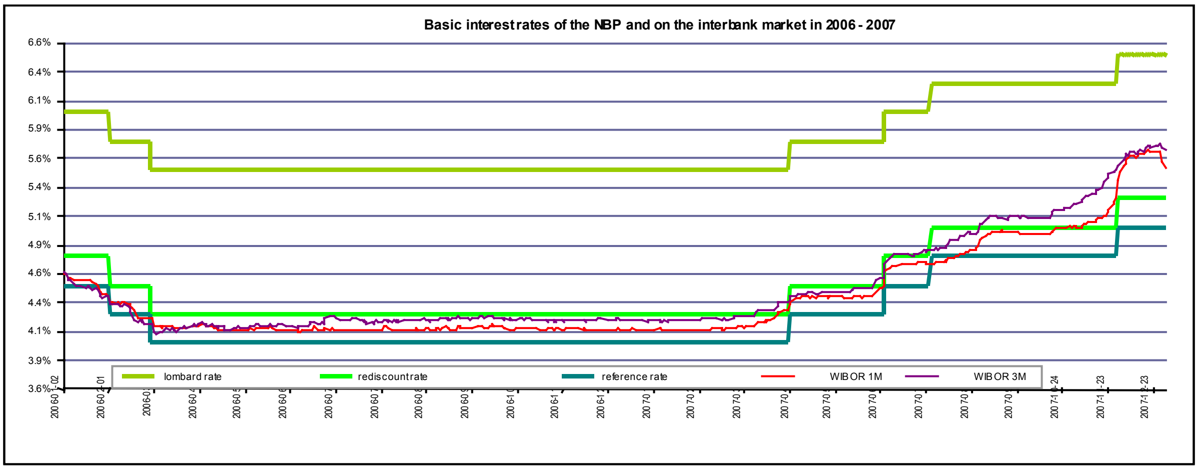
The increased share of investments in GDP is the key problem and, at the same time, the main threat for the fast medium-term economic growth. Effective use of the EU financial aid, both under the already closed allocation for the years 2004-2006 and the new budget perspective for the years 2007-2013, will be of particular importance in this respect. In the context of the deteriorating situation on the labour market, the issue of the persistent record-low level of Poles' working activeness, which has been unsolved for years, seems to be equally vital.

Monetary policy of the National Bank of Poland (NBP) in 2007

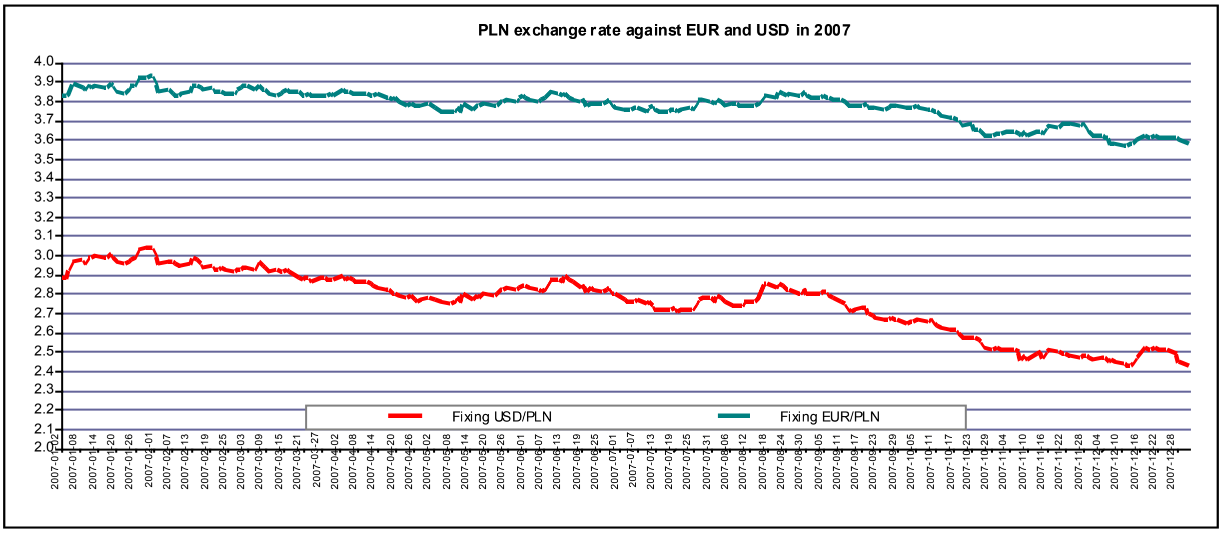
In 2007, the Monetary Policy Council increased basic interest rates four times (by the total of 100 b.p.) and, by doing this, for the first time in almost three years, launched the cycle of tightening monetary policy. This was an anticipating measure and, in its first phase, was a response to the balance of risks for future inflation deteriorating mainly due to the permanent improvement of the situation on the labour market and the ensuing faster growth rate of unit labour costs in the economy. The unexpectedly strong growth of current inflation did not result directly in the continuation of the cycle in recent months, however, in the context of the increasing price pressure and the escalation of wages-related demand (also in the governmental sector), mitigating the risk of second-round effects was the goal of the increases in the last phase of the cycle.

At the end of 2007, the basic interest rates of the central bank were as follows:

- reference rate - 5.0% p.a.;
- lombard rate - 6.5% p.a.;
- rediscount rate - 5.25% p.a.;
- NBP deposit rate - 3.5% p.a.



Despite the confusion on global financial markets resulting from the crisis on the American mortgage market, throughout the major part of the year, the Polish zloty appreciated both against euro and the US dollar which depreciated against major currencies. The fact that the limitation of the global appetite for risk did not result in the greater sale on the internal foreign exchange market implies that Poland is no longer treated by investors as an emerging market, but as a relatively safe place for investments of financial resources. Over the year, the Polish currency was supported by solid macro-economic foundations, including the safe current account deficit and the exceptionally strong and sustainable economic growth as well as increasing interest rates. At the end of December 2007, the exchange rates were as follows: PLN 3.5820 per 1 EUR and PLN 2.4350 per 1 USD.



The outlook for the Polish economy in 2008

The internal demand, both domestic consumption and increasing investments will remain the main drivers of the economic growth in 2008. In this situation and also in view of the risk of more substantial slowdown of the economic growth of Poland's main trading partners, the negative contribution of net export to the growth will gradually increase in the quarters to come.

The solid, although less dynamic than in the record 2007, growth in internal demand will result both from good individual consumption levels and the maintenance of large-scale investment activeness in the economy. Favourable trends on the labour market, including a further (although slower than in 2007) increase in employment and persisting wage pressure, both in the sector of enterprises and in the governmental sector, will be the main drivers for the maintenance of high consumption levels. On the other hand, the sound double-digit investment growth rate should be supported by both solid consumption demand (at home and abroad), a record high level of free financial resources of Polish enterprises and relatively low costs of loans as well as more effective use of the EU's aid pledged by subsequent governments.

The substantial increase in salaries and wages, both in the sector of enterprises and outside of it, has not been accompanied for a long time by a sufficiently strong increase in labour productivity. It seems that the pressure on the growth of salaries and wages on a similar scale will continue also in further quarters, which, having regard for slightly worse economic conditions, will translate into a further increase in inflationary pressures. Assuming the stabilisation of the situation on the food and fuels markets, the inflation rate towards the end of the year should, however, return to the limits of the approved fluctuations scale around the inflation target of the NBP, i.e. 2.5% y/y +/- 1 p.p. The wage pressure will be reflected in the increase in the base inflation.

In 2008, the PLN exchange rate should remain strong due to fundamental factors. The current account deficit, although may increase along with the greater instability of commodities trade, will be more than compensated for by the inflow of direct foreign investments. The increase in GDP will be slightly halted, however the economy will continue to grow at a solid rate, and the inflation rate, despite the periodical increase in the first half of the year, will remain under control. Furthermore, the external environment will positively affect the stable, although less rapid, appreciation of the Polish zloty. Further expected decreases in interest rates in the USA and probable cuts in the cost of money in the Eurozone will result not only in increased spread between interest rates in Poland and on the underlying markets, but also, on a long-term basis, should translate into a gradual return of risk appetite to global markets, which will positively affect the inflow of foreign speculative capital to Poland.

Banking sector in 2007

In terms of generated financial results[1], the year 2007 was a record period for the banking market. Upward trends shaped by the strong internal demand (both consumption and investment demand) and positive changes on the labour market (increased employment and greater purchasing power of wages) affected the fast increase in total money resources[2], deposits and receivables. At the same time, they made it possible to generate results which placed the banking sector among the most profitable industries of the Polish economy. Unfavourable trends have also been disclosed in banks' results, which are visible on a quarter-by-quarter basis. Data for the fourth quarter clearly demonstrated a slowdown in net operating income (especially of the flow of commissions depending on the exposure to equity markets) combined with the increase in operating expenses which rose faster than income[3].

As in the previous year, the expansion to the household loans market was the main sign of very good business conditions. In the first half of 2007, an average monthly increase in volumes of receivables amounted to 2.8% (against 2.3% in the previous year). It was generated mainly due to record-high

[1] According to the preliminary data of the Polish Financial Supervision Authority (KNF), in 2007, the commercial banks sector generated net profit of PLN 13.1 billion. It was higher than net profit in the previous year by 28.1%. ROE at the end of 2007 amounted to 25.7% against 23.1% recorded in the previous year. The share of non-performing loans in the loans portfolio decreased to 5.4% from 7.6% recorded in December 2006.

[2] M3 money supply at the end of 2007 was higher by 13.1% than the level recorded at the end of 2006. Receivables from households and business entities increased in this period by nearly 30%.

[3] As a result, in 2007, the cost/income ratio improved on a year-to-year basis (CIR '07 = 54.6% vs CIR '06 = 57.4%), but deteriorated on a quarter-to-quarter basis.

results of the sale of mortgages (152 thousand loan agreements for the total amount of ca. PLN 27 billion). In the second half of the year, loan volumes continued to grow, yet this growth rate was slower[4]. An average monthly increase in receivables volumes added up to 2.6%. At the end of the year, mortgages accounted for over 45% of household debts in banks. In 2007, the banks also recorded a strong increase in the activeness on the consumer finance market which depends on steady demand for durable goods and improved economic situation of customers. At the end of 2007, the annual growth rate for consumer loans exceeded 29%.

Favourable conditions in the real-term area affected the development of the market of loans for institutional customers. In 2007, companies' demand for the financing of operations increased substantially. As compared to the end of 2006, the debt of business entities in the banking sector increased by 24%. The more lenient lending policy towards enterprises contributed to the increase in the value of loans extended by banks.

A very good business situation and highly optimistic forecasts stimulated consumer demand and tendency to take risks. The bull market at the Warsaw Stock Exchange in the first half of the year attracted capitals to investment funds. As a result, it contributed to the material increase in financial assets of households. Despite the crash of the upward trend in the fourth quarter, the significance of investment funds societies for the process of determining the level and structure of customers' savings is on the rise. Net assets in funds increased during the year by almost 35%, while the value of financial resources deposited in bank accounts by only 14%. However, the situation in the last months of the year remembered both customers and banks about negative aspects of the disparity of both dynamics, continuing for yet another year. The first of them is the growing sensitivity of financial assets of households to the fluctuations of prices on financial markets. The other one, important for banks, is their assets financing structure. The fast increase in loans made it possible to improve current net profit from core business and the quality of loan portfolios. At the same time, an increase in the exposure to credit risk combined with the growth rate of lending activities exceeding the growth rate for equity and deposits, contributed to the decrease in capital adequacy ratios and liquidity ratios. Due to the good financial situation of banks, no systemic risk of disturbing the financial stability of the sector was recorded in the period.

Despite the growing demand for the financing of companies' investments, deposits of corporate customers were an important source of external funds for the banking sector in 2007. At the end of the year, the growth rate for amounts due from banks to business entities reached 16% (y/y). It was a derivative of very good business conditions and of very good results of the sector of enterprises.

[4] The effects of the disturbances on the global financial markets were visible in Poland in 2007 only as price declines at the Warsaw Stock Exchange. Declining indices and banks' valuations did not result from the loss of trust towards the banking sector in Poland, but from the fear of depreciation of equity invested in shares and investment funds.

The favourable macro-economic situation in 2007 positively affected the banks' strategies of proactive customer canvassing processes (mainly from the retail sector) as well as the diversification of income sources through the intermediation in the sale of non-banking financial services. Apart from products of investment funds societies, the scale of and return on sale of insurance products through banking distribution channels grew. Mortgage loans insurance was the main growth-driving factor.

In response to the growing demand in the context of advantageous business conditions, the leading banks in the sector proceeded to further expand their distribution networks. First of all, the banks expanded the networks of own branches, but, in a few cases, they also developed networks of partner outlets (franchises). The network of external financial intermediaries specializing in the sale of consumer finance products was another fast-growing distribution channel. The increase in the significance of financial intermediaries was mainly recorded for the loan market[5].

The business conditions on the market of financial services in 2007 had a positive impact on the operations of Kredyt Bank S.A. Capital Group. Advantageous conditions were created to implement bancassurance development plans and network expansion programmes. As a result, the selling potential of the Bank and the opportunities of reconstructing its market shares increased. The successive increase in business volumes and the improvement of the quality of the loans portfolio were reflected in increased recurrent income generated in successive quarters.

3. The strategy of Kredyt Bank S.A.

The Bank's main strategic objective is to increase the number of its customers and the share in the banking services market in Poland. The chief assumption is to improve the effectiveness of operations and generated returns without an increase in the operating risk. Having regard for the high cost of the external growth in Poland, Kredyt Bank S.A. prefers the business model which involves organic growth. However, it does not mean that the internal growth will not be supplemented by acquisitions of entities from the financial sector.

The Bank's strategic goals:

In Retail Segment:

- cross-sale of banking and insurance products addressed to the present customers of Kredyt Bank S.A. and WARTA S.A. Group;
- focusing on mass customer and upper mass customers;
- increased share in the market, including consumer loans market.

In Corporate Segment:

5 According to the Gdańsk Institute for Market Economics (IBnGR), financial brokers intermediate in the sale of 30-35% of loans.

- focus on services to medium-sized companies, including customers of other KBC Group members operating in Poland;
- focus on the increase in customer relations efficiency.

In terms of financial standing (objectives for the whole KBC Group):

- a medium-term goal entails the achievement of ROE at the level of 18.5%;
- a medium-term goal entails the achievement of cost/income ratio at the level of 55%.

Methods of the goals accomplishment:

- close cooperation with entities of KBC Group in Poland to provide the customers with a complete, professional and modern offer of financial services with limited costs of its development;
- further implementation of the bancassurance model in cooperation with WARTA S.A. Group on the basis of the major shareholder's experience, and cooperation regarding the distribution of banking and insurance products;
- in terms of retail loan products, focusing on the sale of mortgages, consumer loans and credit cards;
- in terms of the acquisition of financial resources of retail customers, a change from the product-oriented approach to the portfolio-oriented approach which will facilitate easy and flexible customers' access to various investment options;
- separation and development of the business line dedicated to lower-income customers;
- in the corporate segment, focusing on the development of the sale of products supplementing the traditional loan and deposit offer, such as: cash management, trade financing, market risk management instruments and leasing;
- increasing network effectiveness and its expansion (the final implementation of the plan to create 120 new outlets that was launched in 2006), opening alternative distribution channels, high quality of services and customer satisfaction;
- improving the effectiveness of the main customer service processes and the implementation of integrated IT solutions in this area.

4. The organisation and capital relations of Kredyt Bank S.A.

4.1 Shareholding structure

As at 31.12.2007, the Bank's share capital totalled PLN 1,358,294,400 and was divided into 271,658,880 shares with the nominal value of PLN 5.00 each. The Bank's shares are registered shares and bearer shares; they are not preference shares and each share entitles its holder to one vote at the Bank's General Meeting of Shareholders. All the Bank's shares are admitted to public trading. In comparison with share capital as at 31.12.2006, the Bank's share capital did not change.

The Bank's Management Board is not aware of any contracts under which the proportion of shares held by existing shareholders and bondholders may change in the future.

The table below presents Shareholders of Kredyt Bank S.A. holding over 5% of total votes at the General Meeting of Shareholders of Kredyt Bank S.A. as at 31.12.2007.

Shareholder	Line of business	Number of shares and votes at GMS	Share in votes and in share capital (in %)
KBC Bank N.V.	Banking	217 327 103	80.00
Sofina S.A.	Investment company	15 014 772	5.53

The shareholding structure has changed as compared to the structure as at 31.12.2006 presented in the annual financial report for 2006.

On 27.04.2007, Kredyt Bank S.A. was informed by KBC Bank NV that, on 24.04.2007, KBC Securities NV, a wholly-owned subsidiary of KBC Bank NV, had purchased 7,690,966 shares of Kredyt Bank S.A. in a block transaction.

As informed by KBC Bank NV, both companies jointly, i.e. KBC Bank NV and KBC Securities NV, are entitled to exercise up to 75% of votes at the General Meeting of Shareholders of Kredyt Bank S.A., i.e. KBC Bank NV and KBC Securities NV jointly may exercise 203,744,160 votes at the General Meeting of Shareholders of Kredyt Bank S.A.

On 18 December 2007, the Management Board of Kredyt Bank S.A. was informed by Pioneer Pekao Investment Management S.A. ('PPIM' based in Warsaw) that, on 17 December 2007, PPIM held over 5% of total votes at the General Meeting of Shareholders of Kredyt Bank S.A. concerning the financial instruments included in the portfolios managed within the services of managing broker-traded financial instruments upon order provided by PPIM and in performance of the agreement on the management of broker-traded financial instruments upon order, concluded between Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych SA and PPIM.

PPIM notified, on behalf of the funds it managed, of the increase in the share of the said funds to 5.001% of total votes at the General Meeting of Shareholders of Kredyt Bank S.A. (the said investment funds are shareholders who jointly hold the above-mentioned number of votes at the General Meeting of Shareholders. Portfolios of investment funds are a sub-group of all portfolios of PPIM's Customers.)

Total share of PPIM amounts to 13,674,064 shares of Kredyt Bank S.A. which account for 5.03% of total votes and share capital of Kredyt Bank S.A. (All Customers of Pioneer Pekao Investment Management S.A., related to portfolios managed by PPIM, are shareholders who jointly hold the above-mentioned number of votes at the General Meeting of Shareholders).

Share prices of Kredyt Bank S.A. at the Warsaw Stock Exchange

In 2007, the share price of KB S.A. increased by 17%. The securities were valued relatively higher than the market price. WIG annual change amounted to +10.4%, +5.2% for WIG-20, and +12.2% for WIG-Banks industrial index.

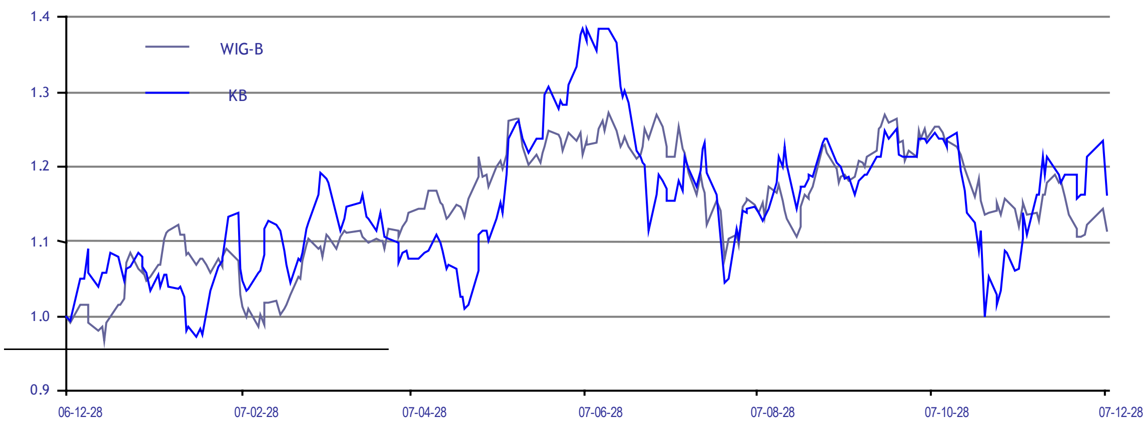
From the perspective of 2007, it can be noticed that, apart from the improved financial standing of Kredyt Bank S.A. and an overall increase in the interest in the financial services industry, the business conditions and trends affecting investment decisions were key factors for the valuation of KB S.A.'s shares. Last year, we witnessed a crisis following a few-years' period of excellent business conditions. In the first half of the year, we faced fast growth of share prices driven by the good situation on emerging markets and the inflow of resources to investment funds societies. High demand resulted in a significant revaluation of securities. In the second half of the year, a downward trend for all stock exchange indices was predominant. The crisis on the US sub-prime mortgages market which resulted in decreased credit ratings and liquidity of multiple global financial institutions was a hint to reduce prices at the Warsaw Stock Exchange.

The Bank's market value at the closing price of the last stock exchange session in 2007 amounted to PLN 6,383.98 million (3% of the market value of the Banks sector[6]), and P/BV ratio was at the level of 2.80. For comparison purposes, at the first session in 2007, the Bank's shares were valued at the total of PLN 5,759.17 million, at P/BV of 2.75. The annual maximum for 2007 for the closing price amounted to PLN 28, and the annual minimum – to PLN 19.65.

	29.12.2006	28.12.2007	Change (%)
KB S.A. share price (PLN)	20.09	23.50	17%
Dividend rate	1.1%	1.6%	0.5 p.p.
WIG 20	3 285	3 456	5.2%
WIG	50 412	55 649	10.4%
Earnings per share* (in PLN)	1.72	1.44	-16.3%
Book value per share* (in PLN)	7.70	8.38	8.8%

* computed on the basis of consolidated figures

KB's quotations against WIG-Banks index in 2007



[6] Excluding the market value of shares of 2 foreign banks – BACA and Unicredit – listed on the Warsaw Stock Exchange, which do not operate directly on the Polish market.

4.2 The Bank's authorities

The Bank's Management Board manages the Bank's affairs and represents it vis-a-vis third parties. The Management Board's President is appointed and dismissed by the Supervisory Board. The Management Board's Vice Presidents and Members are appointed and dismissed by the Supervisory Board upon the request or with the consent of the Management Board's President, having regard for the requirements stipulated in the Banking Law.

On 6 April 2007, Mr. Konrad Kozik, the Vice President of the Management Board of Kredyt Bank S.A., resigned from his position of the Vice President of the Management Board of Kredyt Bank S.A. and from the membership in the Management Board of Kredyt Bank S.A. as of 27 April 2007.

On 18 April 2007, at the session of the Bank's Supervisory Board, Mr. Bohdan Mierzwiński, the Vice President of the Management Board of Kredyt Bank S.A., was dismissed from his position of the Vice President of the Management Board of Kredyt Bank S.A. and from the membership in the Management Board of Kredyt Bank S.A. as of 18 April 2007.

At the meeting on 5 June 2007, the Supervisory Board of Kredyt Bank S.A. appointed, as of 1 July 2007, Mr. Andrzej Witkowski, the Chairman of the Supervisory Board, to be a temporary member of the Management Board of Kredyt Bank S.A.

The period for which Mr. Andrzej Witkowski, the Chairman of the Supervisory Board of Kredyt Bank S.A. was delegated to perform the function of a Member of the Management Board of Kredyt Bank S.A. expired on 30 September 2007. As a result, the Supervisory Board of Kredyt Bank S.A., during its session on 26 September 2007, pursuant to its powers under § 25 item 2 of the Articles of Association of Kredyt Bank S.A., decided that, since 1 October 2007, the Management Board of Kredyt Bank, by the time of the appointment of a new Member of the Bank's Management Board, would be composed of 4 members.

As at 31.12.2007, the Management Board of Kredyt Bank S.A. was composed of:

Mr. Ronald Richardson	- President of the Management Board
Mr. Umberto Arts	- Vice-President of the Management Board
Mr. Krzysztof Kokot	- Vice-President of the Management Board
Mr. Michał Oziembło	- Vice-President of the Management Board

On 18 December 2007, Mr. Ronald Richardson, the President of the Bank's Management Board, resigned from his position of the President of the Bank's Management Board, and from the membership in the Bank's Management Board as of 29 February 2008. On 18 December 2007, at the session of the Bank's Supervisory Board, Mr. Maciej Bardan was appointed the President of the Management Board of Kredyt Bank S.A. as of 1 March 2008.

The Supervisory Board supervises the Bank's operations in all areas of its business on an ongoing basis. The particular duties of the Supervisory Board include the examination of all requests and matters which must be approved by virtue of a resolution of the General Meeting of Shareholders; selection, upon the request of the Management Board, of an independent auditor; supervising the implementation of the internal audit system; determining the policy of borrowing and extending loans; and approving Bank's long-term development plans and annual financial plans. The Supervisory Board is elected by the General Meeting of Shareholders.

On 27 March 2007, Mr. Józef Toczek, a Member of the Supervisory Board of Kredyt Bank S.A. resigned from his position of a Member of the Supervisory Board of Kredyt Bank S.A. as of 27 March 2007.

At the session on 18 April 2007, the Supervisory Board appointed Mr. Krzysztof Trębaczkiewicz as a Member of the Supervisory Board as of 18 April 2007.

On 5 June 2007, the General Meeting of Shareholders of Kredyt Bank S.A., under its Resolution No. 27/2007 concerning the approval of Members of the Bank's Supervisory Board, appointed, during the term of office, and approved the following newly appointed Members of the Supervisory Board: Mr. Francois Gillet and Mr. Krzysztof Trębaczkiewicz.

As at 31.12.2007, the Supervisory Board of Kredyt Bank S.A. was composed of:

Mr. Andrzej Witkowski	- Chairman of the Supervisory Board
Mr. Adam Noga	- Vice Chairman of the Supervisory Board
Mr. Jan Vanhevel	- Member of the Supervisory Board
Mr. John Hollows	- Member of the Supervisory Board
Mr. Philips Luc	- Member of the Supervisory Board
Mr. Francois Gillet	- Member of the Supervisory Board
Mr. Feliks Kulikowski	- Member of the Supervisory Board
Mr. Marek Michałowski	- Member of the Supervisory Board
Mr. Krzysztof Trębaczkiewicz	- Member of the Supervisory Board

The Bank's shares and the shares in the Group's subsidiaries held by the Management Board and the Supervisory Board Members

As at the date of the publication of this report, i.e. 29.02.2008, as compared to the situation as at the publication date of the annual financial report for 2006, the number of the Bank's shares held by Members of the Bank's Management Board and Members of the Bank's Supervisory Board did not change.

The number and nominal value of shares in the Bank and shares in subsidiaries and associates held by Members of the Management Board and Members of the Supervisory Board of Kredyt Bank S.A. is presented below.

	Shares of Kredyt Bank S.A.		Shares of subsidiaries and associates	
	Number of shares	**Nominal value (in PLN '000')**	**Number of shares**	**Nominal value (in PLN '000')**
Management Board Members	5 000	25	0	0
Ronald Richardson	5 000	25	0	0
Supervisory Board Members	1 000	5	0	0
Marek Michałowski	1 000	5	0	0

Remunerations of persons managing and supervising the Group's parent company

Detailed information on the remunerations of persons managing and supervising the parent company are presented in Note 55 to the Bank's financial statements for 2007.

The contract of employment entered into with one of the Members of the Bank's Management Board provides for the payment of a compensation in the case of termination of the contract of employment due to the dismissal from the Management Board which will amount to:

- 24 times the average monthly remuneration, if the time by the end of the term of office of the Bank's Management Board is 24 months and more;
- the product of average monthly remuneration and of the number of months remaining by the termination of the term of office of the Bank's Management Board, however not less than 12 times the average monthly remuneration, if the time by the end of the term of office of the Bank's Management Board is less than 24 months.

The above-mentioned contract contains a clause stipulating that the compensation shall not be paid if the cause of dismissal from the Management Board is as follows:

- acting to the Bank's detriment;
- committing a felony which is obvious or is confirmed by a valid court judgment;
- causing a material damage to the Bank's assets;
- infringing the non-competition agreement;
- disclosing a business secret;
- serious violation of the Bank's internal regulations or resolutions of the Bank's authorities.

In addition, in the case of not entering into a new agreement due to the failure to appoint a new Employee as a Member of the Management Board for the next term of office, he will be entitled to obtain 12 times the average monthly remuneration.

Furthermore, it should be noted that according to § 27 of the Bank's Articles of Association, a Member of the Bank's Management Board may only be dismissed for important reasons.

4.3 Related party transactions

On 05.09.2007 and 28.09.2007, Kredyt Bank S.A. entered into two multicurrency loan agreements with KBC Bank NV Dublin Branch, up to the amount equivalent to EUR 250 million each. Both loan agreements were concluded on market terms with the 5-year repayment time limit. In 2007, no other significant transactions had place with related parties whose total value, in the period from the beginning of the financial year, would be equal to or exceed PLN equivalent of EUR 500 thousand, and whose nature and terms were not related to current operations.

Related parties with which Kredyt Bank S.A. concludes transactions are the associates and the companies of KBC Group, persons managing the Group and other related parties.

Transactions with related parties are standard banking operations, provided at arm's length: granting loans, issuing bank guarantees, issuing own securities, accepting deposits, borrowing loans, currency transactions, transactions made in derivatives. Transactions volumes and related income and expenses are presented in Note 54 to the financial statements of Kredyt Bank for 2007.

4.4 Investment plans, including equity investments

One of the basic objectives of the Bank's strategy is to increase its share in the Polish financial services market. Equity investments in entities of the financial sector create hypothetical opportunities for the accomplishment of such goals. In each such potential case, undertaken measures are lawful and analysed in terms of economic and organizational conditions. According to KB S.A. Group's development strategy which provides for the development of a universal banking and insurance group, the Bank will focus on operations other than investment banking.

As at 31.12.2007, equity investments made outside the Group were mainly investments in shares of such companies as KIR S.A., BIK S.A., G.P.W. S.A., SWIFT and of companies acquired in the course of debt recovery and restructuring processes. As at 31.12.2007, their share in the Bank's balance sheet was immaterial. A detailed list of equity investments in subsidiaries and associates is presented in item 6 and Note 37 to the consolidated financial statements of Kredyt Bank Capital Group for 2007.

4.5 Events and contracts material for the Bank's activity in 2007

The following events and contracts were material for the Bank's operations in 2007:

- On 23.02.2007, due to the implementation of a new ratings calculation methodology, Moody's Investors Service changed the financial strength rating of Kredyt Bank S.A. from 'D-' to 'D'.
- On 28.02.2007, Fitch Ratings published the following ratings for Kredyt Bank S.A.: rating for the business - "A+", short-term rating - "F1", individual rating - "D", support rating - "1". The outlook for the above rating remains stable.
- On 18 April 2007, the Supervisory Board of Kredyt Bank S.A., under § 24 Clause 1 item 3 of the Bank's Memorandum and Articles of Association, upon the request of the Bank's Management Board, appointed the certified auditor, Ernst & Young Audit Sp. z o.o., to perform an independent review and audit of financial statements of Kredyt Bank S.A. and of consolidated financial statements of Kredyt Bank S.A. Capital Group as of 30.06.2007 and 31.12.2007. Kredyt Bank S.A. used services of Ernst & Young Audit Sp. z o.o. related to the audit and review of the Bank's financial statement for 2002, 2003, 2004, 2005 and 2006.
- On 27.04.2007, Kredyt Bank S.A. was informed by KBC Bank NV that, on 24.04.2007, KBC Securities NV, a wholly-owned subsidiary of KBC Bank NV, had purchased 7,690,966 shares of Kredyt Bank S.A. in a block transaction. As we were informed by KBC Bank NV, prior to the purchase, KBC Bank NV had held 217,327,103 shares of Kredyt Bank S.A., i.e. 80.00% of share capital of Kredyt Bank S.A. Following the transaction, KBC Bank NV holds 217,327,103 shares in their investment portfolio, i.e. 80-percent share in the share capital of Kredyt Bank S.A., and KBC Securities NV holds 7,690,966 shares of Kredyt Bank S.A. in their trading portfolio, i.e. 2.83-percent share in the share capital of Kredyt Bank S.A. As we were informed by KBC Bank NV, both companies jointly, i.e. KBC Bank NV and KBC Securities NV, were entitled to exercise up to 75% of votes at the General Meeting of Shareholders of Kredyt Bank S.A., i.e. 203,744,160 votes.
- On 05.06.2007, the General Meeting of the Shareholders of Kredyt Bank S.A. adopted a resolution on the payment of gross dividend for the financial year 2006 amounting to PLN 0.37 per share, i.e. the total amount of PLN 100,513,785.60. Holders of 271,658,880 Bank's series A to W

shares are entitled to dividend from such stocks. The right to dividend was established on 02.07.2007. The payment of dividend was effected on 18.07.2007.

- On 15.06.2007, a company named "Kredyt Bank Spółka Akcyjna i Towarzystwo Ubezpieczeń i Reasekuracji Warta Spółka Akcyjna" Spółka Jawna was entered into the National Court Register - Register of Entrepreneurs in the District Court for the capital city of Warsaw in Warsaw, 12th Economic Division of the National Court Register. The company was established by Kredyt Bank S.A. and TUiR Warta S.A., which, at the end of 2007, held equal contributions of PLN 50,000.00. The main objective of the company is to perform activities auxiliary to banking and insurance business, including financial intermediation and back office services.
- On 03.08.2007, Kredyt Bank S.A. concluded a revolving loan agreement with a borrower amounting to PLN 300,000,000 thousand to finance the borrower's current operations. The loan interest rate was WIBOR O/N plus the Bank's margin. The loan drawing period is 36 months since the execution of the loan agreement. The receivable under the above-mentioned agreement is secured with blank promissory note issued by the borrower.
- On 20.08.2007, Kredyt Bank S.A. signed loan agreements with a company from the electro-machines industry for the total amount of PLN 475,000,000. The above-mentioned amount comprises a syndicated loan with Kredyt Bank S.A.'s share of PLN 435,000,000 and a bilateral loan of PLN 40,000,000. The syndicated loan was extended in PLN and the loan drawing period is 7 years. The interest rate of the syndicated loan is based on WIBOR plus the Bank's margin which, as agreed by the parties, depends on the Borrower's selected financial ratios. The loan amount was secured by the Borrower.
- On 05.09.2007 and 28.09.2007, Kredyt Bank S.A. entered into two multicurrency loan agreements with KBC Bank NV Dublin Branch, up to the amount equivalent to EUR 250 million each. Both loan agreements were concluded on market terms with the 5-year repayment time limit. The loan can be drawn in EUR, CHF or PLN. The interest rate is based on EURIBOR/LIBOR/WIBOR rates + margin. Cash obtained under the above loans is used to finance the Bank's current operations.
- On 30.09.2007, Kredyt Bank S.A. executed, with a client being a non-banking financial institution, an annex to the loan agreement which provides for the increase of the permitted revolving loan limit to PLN 460,000,000. The agreement terms are standard for such a type of transactions concluded by Kredyt Bank S.A. The interest rate of the above-mentioned revolving loan is based, depending on the financing period, on WIBOR O/N, 1M, 3M and 6M rates plus the margin. The receivable under the said loan is not secured.
- On 05.10.2007, Kredyt Bank S.A. signed, with a customer from the ship-building industry, an annex to the guarantee line agreement of 24 September 2004, increasing the amount of guarantee facilities by PLN 156,000,000 to PLN 290,500,000, with the validity period by 30 April 2011. Furthermore, the Bank entered into an agreement with the same customer concerning the line to open import letters of credit without financing of EUR 12,660,000, with the validity period of opened letters of credit by 30 August 2010. Under the above-mentioned agreements, the Bank collects commissions at market rates for similar types of transactions. The receivable under the said loans is secured by the global transfer of receivables under contracts concluded by the principal in the validity period of the agreements, a power of attorney to use the principal's bank accounts managed in Kredyt Bank S.A. and the alienation of the objects of financing.

In 2007, the Bank did not enter into any material agreements with the central bank or the regulatory authorities.

Major post-balance sheet events

On 07.02.2008, Kredyt Bank S.A. executed, with Kredietbank S.A. Luxembourgeoise, a multicurrency loan agreement up to the amount equivalent to EUR 200 million (i.e. PLN 719,580,000 at the average exchange rate of the NBP of 7 February 2008). The agreement was concluded on market terms with the repayment date of 2 years and one day. The loan can be drawn in CHF or PLN. The interest rate is based on LIBOR/WIBOR rates + margin. The amount of cash received under the above-mentioned agreement exceeds 10% of the Bank's equity. Cash obtained under the above-mentioned loan will be used to finance the Bank's current operations.

Contracts entered into by the Issuer with an entity authorized to audit financial statements

On 10.05.2007, the Bank entered into an agreement with an entity authorized to audit financial statements, Ernst&Young Audit Sp. z o.o. in Warsaw, on the review of the half-year standalone individual and consolidated financial statements of the Bank and of the Group for the first half of 2007 and the audit of the individual and consolidated financial statements of the Bank and of the Group for 2007. The total net remuneration under this agreement amounted to PLN 1,416 thousand (as compared to PLN 1,416 thousand in 2006 under the agreement of 27.04.2006). Furthermore, the Bank entered into an agreement with an entity authorized to audit financial statements concerning the performance of agreed procedures related to the quarterly consolidated financial statements for the first and the third quarters of 2007 with net remuneration under this agreement amounting to PLN 520 thousand (cf. PLN 520 thousand in 2006) and an agreement concerning the performance of agreed procedures related to the financial result and net assets of the Bank's subsidiary, Reliz Sp.z o.o., whose value amounted to PLN 75 thousand (cf. PLN 61 thousand in 2006).

5. Kredyt Bank S.A.'s products, services and areas of operation

5.1 Retail banking

5.1.1 Business area, distribution channels and results of the retail banking segment

The Retail Segment in Kredyt Bank S.A. provides services to individual customers as well as Small and Medium-size Enterprises (SME) with annual income not exceeding PLN 16 million.

The traditional network of the Bank's branches is the main channel of distribution. As at 31.12.2007, it comprised 380 branches, sub-branches, banking outlets and agencies located all over Poland. KB24 network is yet another primary distribution channel for products targeted at retail customers.

Due to their specific nature, services for the Private Banking customers are provided separately within the retail banking segment, by 11 branches reporting directly to the Private Banking Department in the Bank's Head Office.

Small and Medium-sized Enterprises (SMEs) are served by mobile customer service teams. It allows for a direct and fast contact with customers, particularly as regards loan products. A chain of retail branches provides cash payment service.

The Bank's network is supplemented by the distribution network of Żagiel S.A. composed of two distribution channels. The first channel utilized to sell instalment loans, is composed of affiliates, representatives and cooperating shops. The second channel dedicated to the sale of cash loans, credit cards and selected services from the Bank's and WARTA S.A.'s offers is composed of a network of small outlets called "Kredyt Punkt" ('Credit Point') and a network of multiagents.

Measures aimed at enabling the sale of banking facilities through the distribution network of WARTA S.A. Group are continued. This project is a pivotal measure concerning the implementation of the cross-sale of banking and insurance products.

As at the end of December 2007, Kredyt Bank S.A. provided services to 951,000 individual customers and SMEs.

in '000'	As at 31.12.2007	As at 30.09.2007	As at 30.06.2007	As at 31.03.2007	As at 31.12.2006
Individual customers	869	863	849	856	849
SMEs	82	82	81	85	87
Total customers	951	945	930	941	936

At the end of 2007, the number of KB 24 users amounted to 278,000 as compared to 228,000 at the end of 2006 (an increase by 21.9%).

in '000'	As at 31.12.2007	As at 30.09.2007	As at 30.06.2007	As at 31.03.2007	As at 31.12.2006
Number of KB24 users	278	265	252	240	228
Number of transfers via KB24 in the quarter	3 340	2 994	2 892	2 774	2 614

The retail segment's profit before tax in 2007 amounted to PLN 158,966 thousand as compared to PLN 40,284 thousand in 2006. The result comprises respectively: – PLN 36,616 thousand and – PLN 53,130 thousand of net impairment losses on financial assets, other assets and provisions.

5.1.2 Product strategy in retail banking area

Kredyt Bank S.A. offers a full range of financial services, due to close cooperation of the Bank, the Group's companies and entities of KBC Group in Poland. The offer entails:

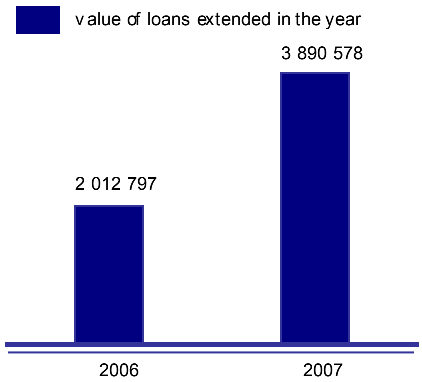
- traditional banking facilities;
- consumer finance products developed and distributed in cooperation with Żagiel S.A.;
- insurance products offered in cooperation with WARTA S.A. Group;
- KBC TFI products (shares in investment funds);
- leasing products of Kredyt Lease company.

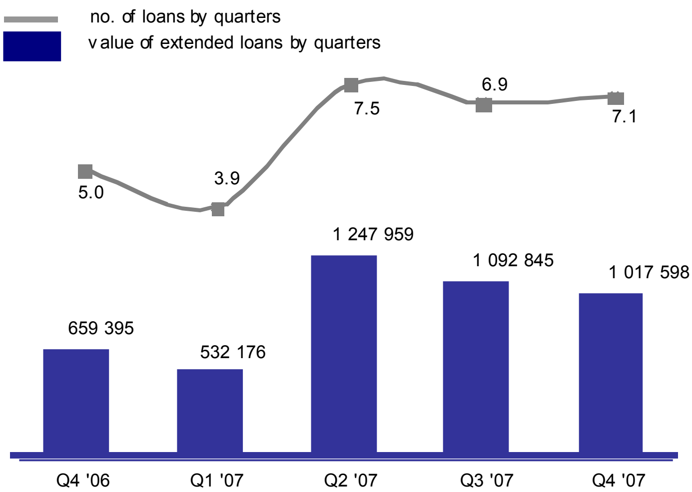
In 2007, Kredyt Bank continued its action aiming at the development of the retail banking, pursuant to the strategy adopted in autumn 2005. The basic elements of the product strategy are as follows:

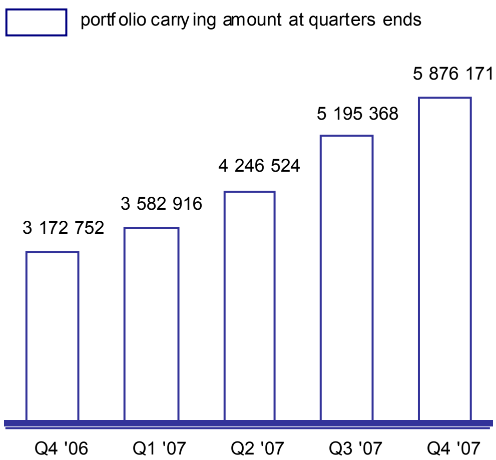
- the sale of mortgages;
- the sale of instalment loans and cash loans;
- credit cards;
- traditional deposit products - personal accounts and savings accounts,
- products dedicated to SMEs;
- the launch of new bancassurance products in cooperation with WARTA Group and the development of cross-selling banking and insurance products;
- the sale of shares in KBC TFI investment funds, mainly capital guaranteed funds.

Mortgages

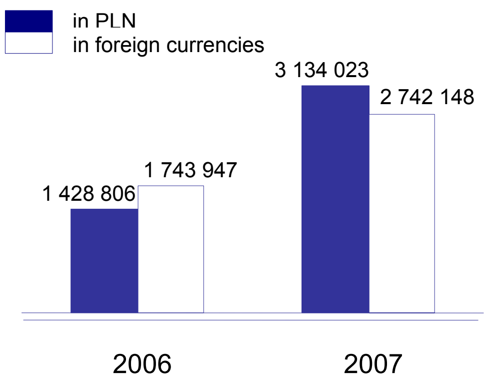
In 2007, the Bank granted over 25.4 thousand mortgages for the total amount of PLN 3,890.6 million. As compared to 2006, the sale of loans increased, in value terms, by 93.3%. The debt resulting from mortgages amounted to PLN 5,876.2 million (an increase by 85.2% as compared to last year's figures). The figures below present mortgages portfolio volume and sale in PLN '000 and in thousands of facilities.

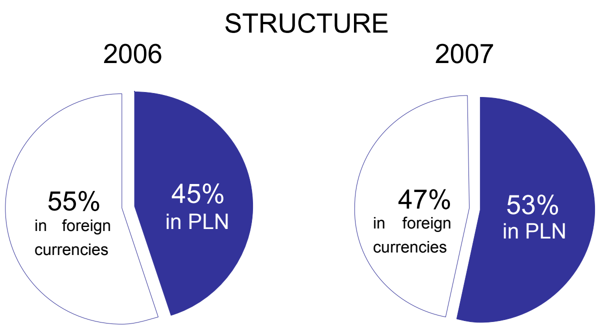






The figures below present the value of the mortgages portfolio in breakdown into PLN loans and foreign currency loans in PLN '000' and the portfolio structure as at the end of 2006 and 2007.



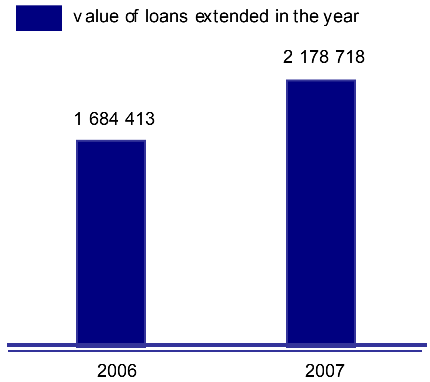


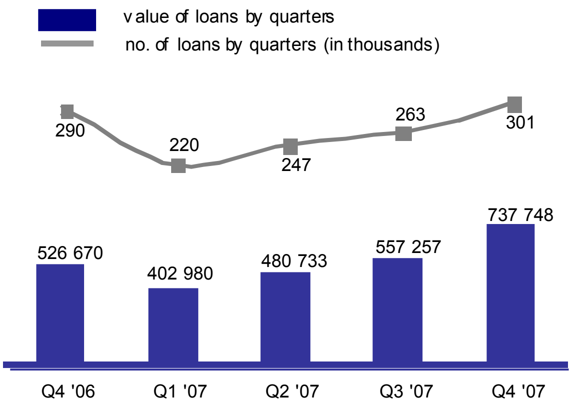
Retail and cash loans – cooperation with Żagiel S.A.

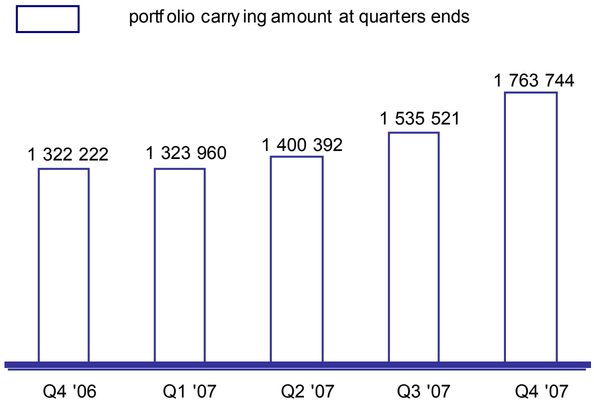
In 2007, Kredyt Bank S.A. undertook measures to create a separate Consumer Finance business line. The measures aimed at the reorganisation of the management model to accelerate the development of the distribution network and the product offer and to create a dedicated IT platform. The works were carried out on the basis of Żagiel S.A. and the organisational structure of Kredyt Bank S.A. In otder to optimise the effects, the nationwide level management was centralized by appointing the same person as the President of the Management Board of Żagiel S.A. and as the Vice-President of the Management Board of Kredyt Bank S.A.

The sales network in Żagiel S.A. was reorganised by separating two independent distribution channels dedicated to the sale of instalment loans as well as cash loans, credit cards and selected products of Kredyt Bank S.A. Capital Group and of Warta S.A.

In 2007, total sales of loan products via Żagiel S.A. amounted to PLN 2,178.7 million, i.e. it increased by 29.3% as compared to 2006. The figures below present loans portfolio volume and sales in 2007 in PLN '000 and in thousands of facilities.



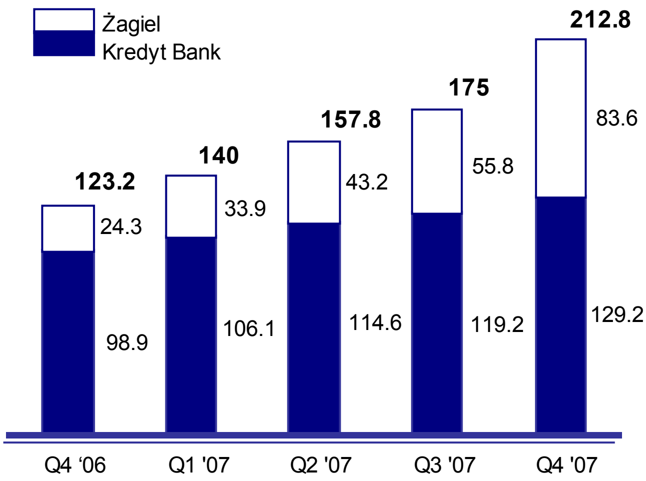




Cash loans are also sold via the network of outlets of Kredyt Bank S.A. In 2007, the sales amounted to PLN 368.8 million, i.e. over six times as much as in 2006. As at 31.12.2007, the portfolio of cash loans sold by the Bank's branches amounted to PLN 392.6 million (an increase by 84%).

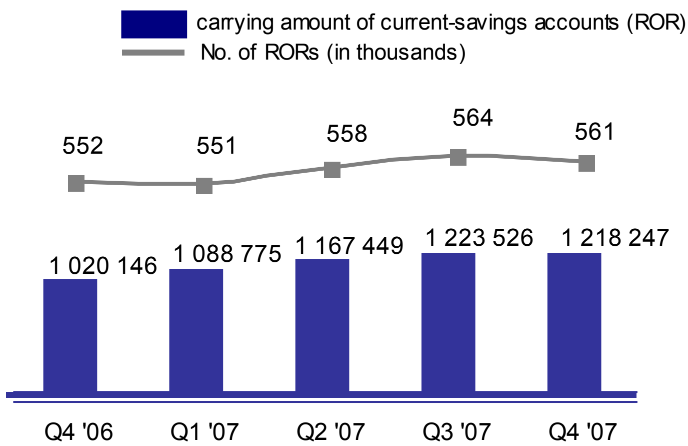
Credit cards

At the end of 2007, the number of active credit cards sold by Kredyt Bank S.A. Group amounted to 213 thousand (an increase by 72.7% as compared to figures recorded at the end of 2006). Over 39% of all those credit cards were sold by Żagiel. The figure below presents active credit cards at the end of the period in thousands of cards.

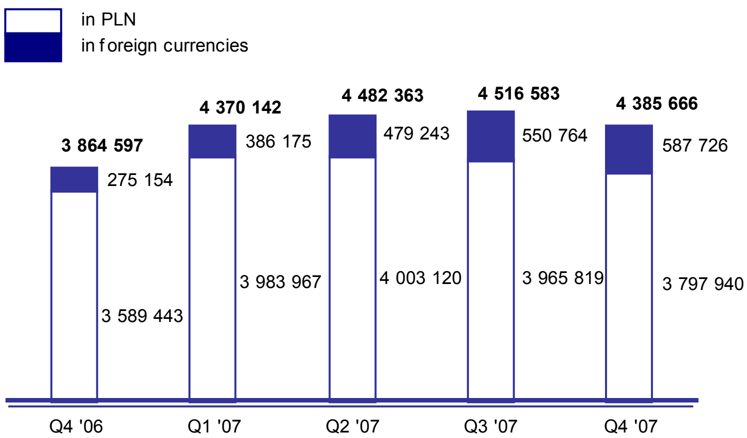


Traditional deposit products

As at 31.12.2007, the number of current accounts was higher by 1.6% as compared to figures at 31.12.2006. The value of deposits on these accounts was higher by 19.4% as compared to the end of 2006 (see the figure, period end values, in PLN '000)



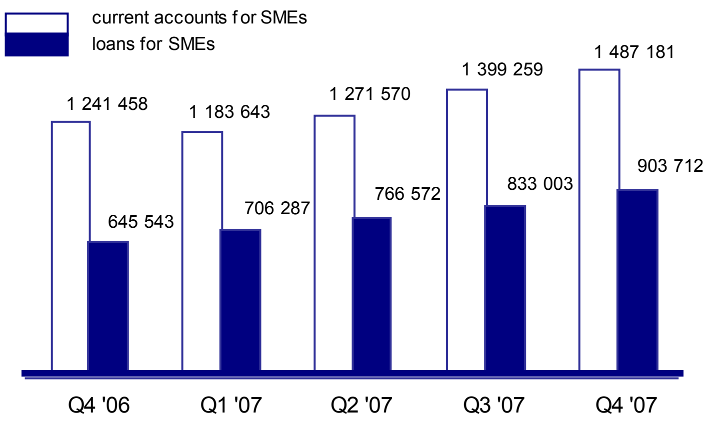
The volumes on the Savings Account, which is one of the basic depositary products, are growing on a continuous basis; at the end of 2007, the value of deposited cash was almost PLN 4.4 billion, i.e. increased by 13.5% as compared to figures at the end of 2006. The figure below presents cash deposited on saving accounts in PLN and foreign currencies at the end of period in PLN '000.



SMEs

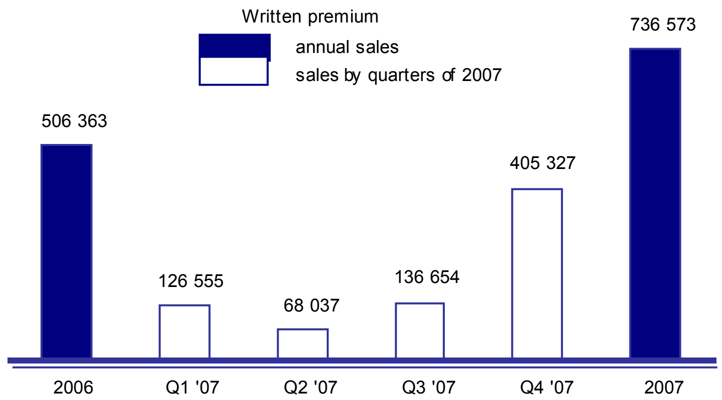
At the end of 2007, the value of loans granted to small and medium-sized enterprises increased by almost 40% as compared to figures at the end of 2006. The cash on current accounts of SME customers after four quarters of 2007 was higher than the cash at the end of 2006 by 19.8%.

Cash deposited in current accounts of SMEs and indebtedness related to loans, in PLN '000', at the end of the period are presented on the diagram below.



Bancassurance – cooperation with TUiR WARTA Group

The extension of bancassurance products offer and of the sale of insurance products through the Bank's network are the basic assumptions of Kredyt Bank S.A.'s strategy. In 2007, the value of gross written premium under life and property insurance agreements of WARTA S.A. Group sold by Kredyt Bank S.A. and the entities of the Bank's Capital Group increased, as compared to 2006, by 45.5% and amounted to PLN 736,573 thousand (diagram in PLN '000).



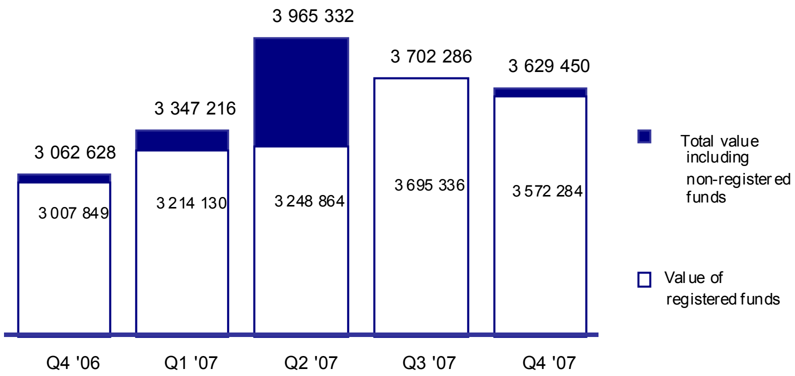
Basic groups of products sold through the network of Kredyt Bank S.A. and entities of the Bank's Group are as follows:

- investment and insurance products – deposit products connected with life insurance, open-end and close-end investment funds with life insurance;
- insurance agreements connected with loans – insurance agreements for borrowers of Żagiel loans,
- embedded insurance – life insurance within mortgages and cash loans, insurance for credit cards holders, owners of personal accounts and current accounts for SMEs;

- insurance – standalone products (house or car insurance, personal insurance, property insurance for SMEs).

Investment funds – cooperation with KBC TFI

As at 31.12.2007, the total value of net assets of investment funds and insurance and capital funds sold via the Bank's distribution network and managed by KBC TFI S.A. amounted to PLN 3,629.5 million (including non-registered funds). As compared to figures at 31.12.2006, net assets rose by 18.5%. The figure below demonstrates funds' net assets as at the end of of the period in PLN '000'.



At the end of 2007, KBC TFI managed assets of the total value of PLN 8.1 billion. The value of assets in investment funds managed by KBC TFI amounted to PLN 4.7 billion, which, as at the end of 2007, accounted for the Society's market share of 3.5%. The Society was ranked ninth among all investment funds societies in Poland. At the end of 2007, KBC TFI S.A. managed the total of 30 investment funds.

5.2 Corporate banking

5.2.1 Business area, distribution channels and results of the corporate banking segment

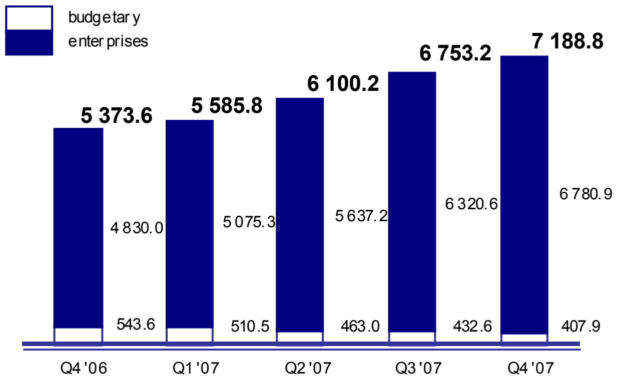
The Corporate Segment entails transactions with large companies (with annual income exceeding PLN 16 million) as well as state budgetary units at central and local levels.

Corporate customers are served (except for payments) in 12 Corporate Banking Centres located in Białystok, Bydgoszcz, Gdańsk, Katowice, Kraków, Lublin, Łódź, Poznań, Rzeszów, Szczecin, Warsaw and Wrocław. An additional centre in Warsaw was established for the strategic customers sub-segment. There are 10 additional agencies reporting to the Corporate Banking Centres covering the largest operating area. Account Managers maintain direct customer relations. In the case of specialised products, they are supported by the employees of organizational units of the Head Office.

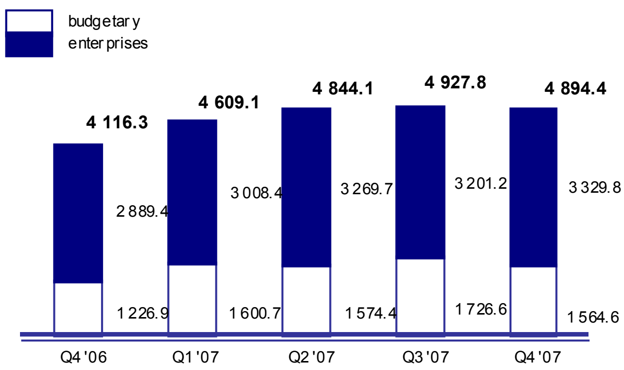
As far as leasing products are concerned, customers are served by units and employees of Kredyt Lease, which offers a complete range of services for companies in respect of the leasing of fixed assets and real estates. In the case of corporate finance, customers are served in cooperation with KBC Securities.

In 2007, Kredyt Bank S.A. focused on the development of the leasing, cash management, trade finance and risk management instruments offer. The undertaken measures aimed at the improvement of the Bank's reputation as an institution offering the highest level of services, which provides all-inclusive services to large companies. As a result, the Bank increased sales which enabled it to increase the loans and deposits portfolio. The figures below present deposits and corporate customers' loans at period end in PLN millions, according to the segmentation applied by the Bank for management purposes.

Customers' loans



Customers' deposits



The corporate segment's profit before tax in 2007 amounted to PLN 221,635 thousand as compared to PLN 254,258 thousand in 2006. The result comprises the net impairment losses on financial assets and other assets, and provisions, which amounted to, respectively: + PLN 59,108 thousand and + PLN 114,022 thousand.

5.2.2 Product strategy in corporate banking segment

In 2007, Kredyt Bank S.A. took measures to better align the existing offer to customers' needs and improve sales organization and customer service quality. The basic assumptions of the product strategy are as follows:

- developing a complete cash and payment management offer;
- developing products and Trade Finance services applying best practices and experiences of the main shareholder, i.e. KBC Group;
- providing financial risk hedging solutions;
- developing leasing services in cooperation with Kredyt Lease in KB S.A. network.

The Bank offers a complete range of services for corporate customers, both traditional banking products and treasury products, trade finance and corporate finance products. The offer is tailored both to the specific character resulting from the customer's size and the nature of its operations: large corporations, medium-sized enterprises, state-owned entities, social associations and organizations.

The Bank offers a complete range of traditional loan facilities, e.g. investment loans, working capital loans in credit or current account, revolving and non-revolving loans, payment and foreign currency facilities. At the same time, customers may also take advantage of other credit-related services, such as factoring, leasing, bank guarantees and sureties, organization of and services related to the issue of debt securities.

Traditional deposit products, such as term deposits, current accounts, paying cards, consolidated current accounts (which make it possible to serve multi-branch companies and adjust liquidity management strategy to the specific nature of a company) are supplemented by transaction banking products, such as Bulk Payment System (which makes it possible to identify details of payments, their assignment and settlement against respective settlement accounts of debtors in the customer's accounting system) and cash management products, such as closed payments, disbursements in Bank's Branches, other payments to accounts.

All-inclusive services for foreign trade companies form a separate group of services. The Bank offers, e.g. export financing loans, payments under own letters of credits, guarantees in foreign trade, encashment and documentary letters of credit, transfers and cheques in foreign trade, purchase and sale of foreign currencies and forfeiting.

The Bank offers risk insurance products, including products related to the strategy for options hedging currency risk.

In addition, via KBC Securities, the Group's customers have access to corporate finance products, such as consulting on mergers and acquisitions, privatisation of state-owned enterprises, capital restructuring and seeking new investors for companies.

5.3 Treasury Segment and cooperation with international financial institutions

The Bank performs transactions on the inter-bank market, both domestic and international, on own account and on behalf of customers. Active participation in the inter-bank market makes it possible to obtain competitive quotations, which is the basis of stabilization and development of existing corporate customers base. The Bank is the Treasury Securities Dealer and Money Market Dealer.

The treasury products offer is being expanded and ensures appropriate services both to Private Banking customers and medium-sized and large companies. In 2007, further growth in the number of options hedging the market risk for customers was recorded.

Kredyt Bank S.A. established active relations with domestic and foreign banks providing FX/MM, Custody, Trade Finance and payments services. They are supplemented by cooperation agreements with global foreign institutions, e.g. European Investment Bank, European Reconstruction and Development Bank, Visa International. Due to the base of 35,000 SWIFT keys exchanged with other institutions, the Bank is able to exchange correspondence with banks and serve foreign trade in the majority of countries worldwide.

As at 31.12.2007, Kredyt Bank managed 8 LORO accounts in foreign currencies and 34 LORO accounts in PLN for 36 correspondent banks (33 foreign banks and 3 national banks). The network of NOSTRO accounts included 19 accounts in 17 banks and it fully satisfied the clearing needs of Kredyt Bank.

5.4 Custodian services and investments

Kredyt Bank S.A. holds an authorization of the Polish Securities and Exchange Commission to manage securities accounts; it is also a direct participant of the National Depository for Securities (KDPW) as a Custodian Bank and the participant of the Securities Register (RPW) managed by the National Bank of Poland (NBP).

The Bank's custodian services entail managing accounts of securities, kept in National Depository for Securities (KDPW) or the Securities Register (RPW), for domestic and foreign, both institutional and private customers. For the special group of customers, i.e. investment funds, the Bank also plays a role of a custodian bank, transfer agent and issue sponsor.

The Bank also deposits securities not traded on organized market, registered in securities registers and on sub-fiduciary accounts in domestic and foreign financial institutions.

6. Financial results of Kredyt Bank S.A. in 2007

6.1 Income statement structure

The Bank's profit before tax in 2007 amounted to PLN 512,202 thousand as compared to PLN 426,881 thousand in 2006 (an increase by 20.0%). The Bank's net profit in 2007 amounted to PLN 400,519 thousand and was lower by 8.4% in comparison with 2006. The most important factors which affected the differences in financial results for 2007 and 2006:

- income tax expense of PLN 111,683 thousand deducted from profit for 2007 (contrary to the addition of PLN 10,562 thousand to net profit for 2006);
- a material single transaction completed in the first half of 2006, which involved the sale of a portion of the non-performing loans portfolio; its impact upon the Bank's profit before tax amounted to PLN 123,026 thousand and PLN 108,382 thousand upon net profit.

Despite the absence in 2007 of a single transaction comparable to the above-mentioned sale of receivables, profit before tax was higher than in 2006. The result on core business improved mainly due to:

- a substantial increase in the scale of the sale of mortgage loans and consumer loans in 2007, which enabled the Bank to significantly expand the retail loans portfolio;
- an increase in the scale of the sale and in corporate customers' loans portfolio;
- effective restructuring and debt recovery measures alongside strict control and a low level of credit risk;
- effective management of the Group' functioning costs;
- an increase in the sale of shares of investment funds in the first half of 2007.

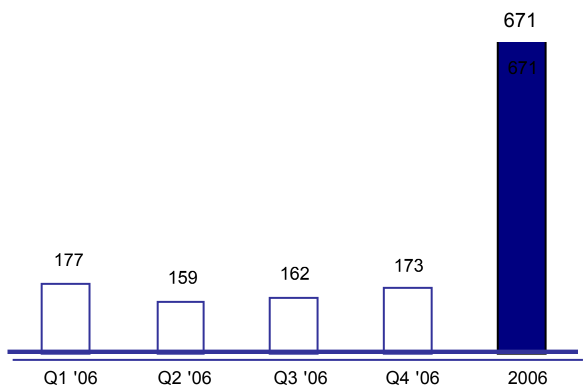
The main items of the Bank's income statement are presented below.

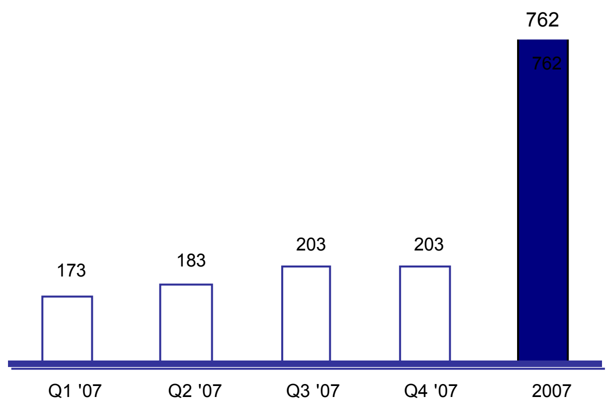
in PLN '000'	**01.01.2007 - 31.12.2007**	**01.01.2006 - 31.12.2006**	**Change**
Net interest income	762 290	671 107	13.6%
Net fee and commission income	308 015	268 122	14.9%
Net trading income and investments (including dividend income and net result on derivatives used as hedging instruments and hedged items)	187 870	147 279	27.6%
Net income from sale of receivables	52 506	123 026	-57.3%
Net income from other operating income/expenses	6 900	-191	
Total income	**1 317 581**	**1 209 343**	**8.9 %**
General and administrative expenses, and depreciation	-823 168	-814 643	1.0%
Net impairment losses on financial assets, other assets and provisions	17 789	32 181	-44.7%
Share of profit (loss) of subordinated companies	0	0	
Profit before tax	**512 202**	**426 881**	**20.0%**
Income tax expense	-111 683	10 562	
Net profit (attributable to the shareholders of the Bank)	**400 519**	**437 443**	**-8.4%**

<u>Net interest income and net fee and commission income</u> generated by the Bank in 2007 amounted to PLN 1,070,305 thousand and was higher by 14.0% than the figure for 2006 (PLN 939,229 thousand). The increase resulted from an expanded scale of transactions with customers, including the sale of products strategic for the Group, such as mortgages, the sale of shares in investment funds and insurance products offered in cooperation with TUiR WARTA S.A.

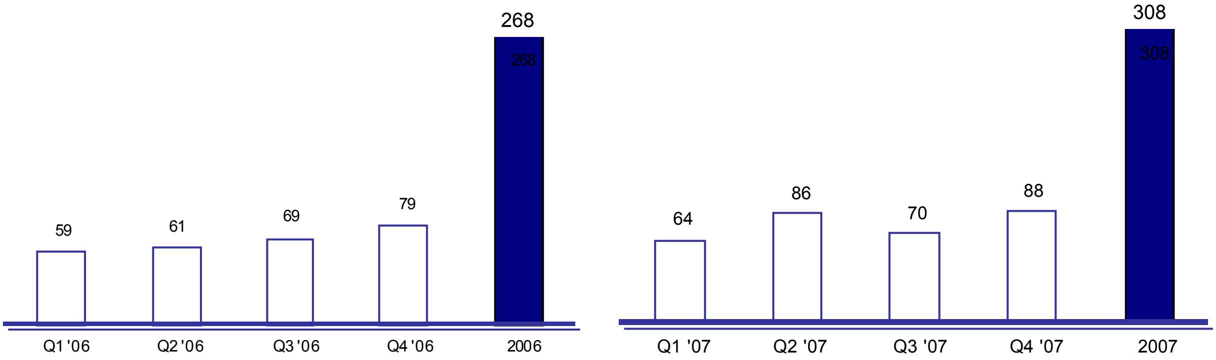
Net interest income was higher as compared to figures recorded 2006 by 13.6%. The main reason for the improvement of net interest income was an increase in the sale of loans and the expansion of loans portfolio. The process entailed mainly mortgages, consumer loans and loans for corporate customers. An increase in deposit margin in the second half of 2007 also positively affected net interest income.

Net interest income in 2006-2007 is presented in the figures below (in millions of PLN):



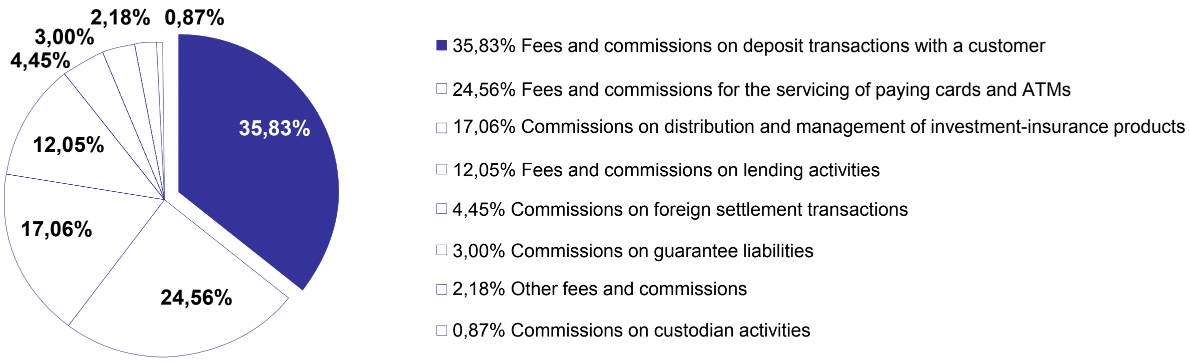


Net fee and commission income was higher as compared to figures recorded in 2006 by 14.9%. Net commission income in 2006-2007 is presented in the figures below (in millions of PLN):

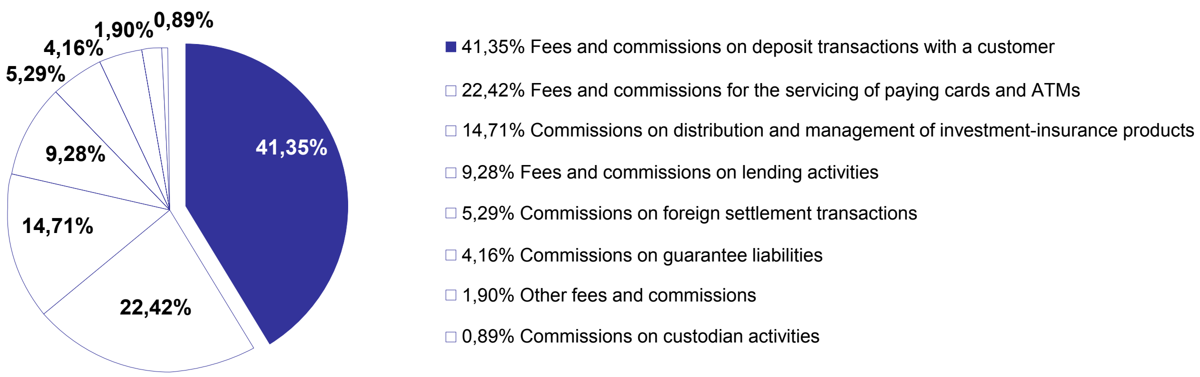


The highest increase was recorded for income from commission on the sale of combined investment and insurance products resulting from high demand for shares in investment funds related to the bull market on the Warsaw Stock Exchange in the first half of 2007 and an ensuing increase in the sale of insurance products of WARTA S.A. Group. Commission income on loans soared as a result of a material increase in the sale of loan products, including loans for corporate customers. Also, commission income related to the servicing of payment and credit cards and deposit transactions with customers increased substantially. As a result, the increase in the share of above-mentioned categories in total commission income was noticeable, which is presented in the diagrams below.

The structure of commission income in 2007:



The structure of commission income in 2006:

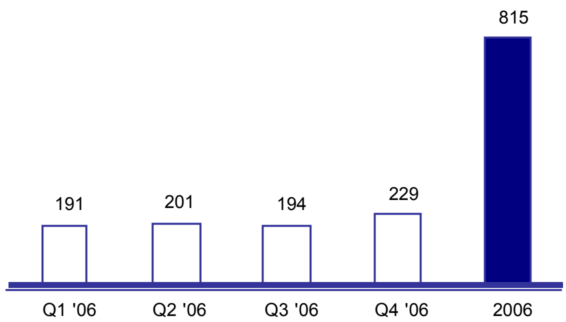


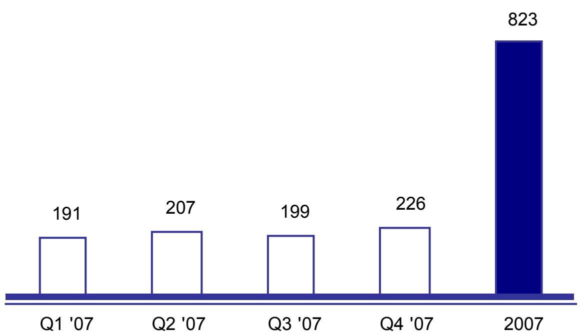
Net trading income and investments (including dividend income and net result on derivatives used as hedging instruments and hedged items) in 2007 amounted to PLN 187,870 thousand, i.e. was higher by 27.6% than in 2006. Net trading income of PLN 178,979 thousand was higher than net trading income in 2006 of PLN 134,536 thousand (an increase by 33.0%). The result comprises the results from the valuation and sale of held-for-trading assets carried at fair value through profit or loss, the result for derivatives and result on foreign exchange transactions. Improvement of the result, as compared to 2006, was recorded particularly for the foreign exchange item.

Net income from sale of receivables in 2007 amounted to PLN 52,506 thousand and was lower by 57.3% in comparison with 2006. A large sale of a portion of the non-performing receivables portfolio was completed in the second quarter of 2006. The impact of the transaction upon profit before tax amounted to PLN 123,026 thousand. The transaction, due to its scale, was a one-off event. In 2007, the Bank concluded smaller transactions in the ordinary course of business of the debt recovery and restructuring function. The largest one of the above-mentioned transactions was performed in the fourth quarter and involved the sale of receivables related to consumer loans. The income from the transaction of PLN 24,069 thousand was charged to profit before tax.

In 2007, the Bank's general expenses amounted to PLN 823,168 thousand and were up by 1.0% in comparison with 2006. The increase was the highest for staff costs (by 8.8%). It was, to a large extent, related to the so called 'variable' portion of the salaries fund, i.e. the systems of bonuses associated with sales performance, awards for the accomplishment of sales targets and the costs of employee trainings.

The increase in staff costs was compensated for by a decrease in material costs (by 5.1%) and in depreciation costs (by 8.3%). The following items decreased in the first place: taxes and fees, promotion and advertising costs, materials costs and property protection costs. Closer cooperation with WARTA S.A. Group and other companies of KBC Group was of importance. General and administrative expenses, and depreciation costs, in particular quarters of 2006 and 2007, are presented in the figures below (in millions of PLN):





Cost/income ratio (CIR) in 2007 was equal to 62.5%, which denotes improvement as compared to 2006 level by 4.9 p.p. It should be noted here that the improvement resulted from the increase in realised recurrent income and was possible despite the absence of single transactions comparable to those effected in 2006.

In 2007, net result on net impairment losses on financial assets, other assets and provisions was positive and amounted to PLN 17,789 thousand as compared to the positive impact upon the result in 2006 of PLN 32,181 thousand.

Contrary to 2006, in 2007, income tax expense deducted from the Bank's result amounted to – PLN 111,683 thousand. In 2006, total income tax was positive and amounted to PLN 10,562 thousand. It resulted from the recognition by the Bank of the surplus of deferred tax assets over deferred tax liability in the income statement.

6.2 Assets structure

Kredyt Bank S.A.'s total assets as at 31.12.2007 amounted to PLN 27,068,504 thousand against PLN 22,203,795 thousand as at 31.12.2006 and were up by 21.9%.

Net loans and advances to customers and investment securities generated the greatest shares in assets structure; they accounted for 82.7% of total assets as at the end of 2007.

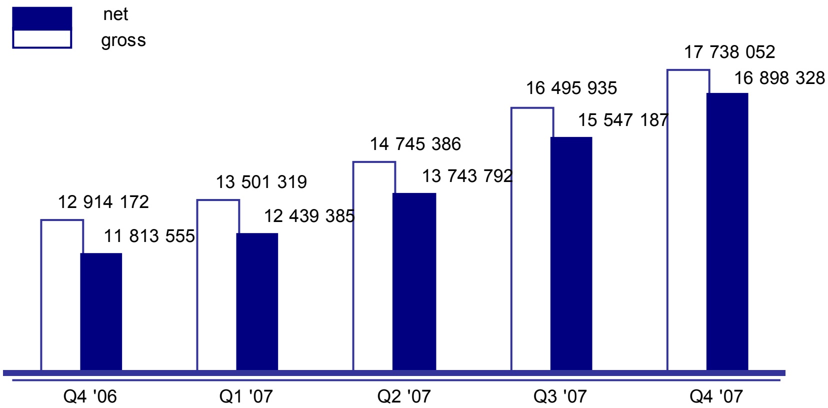
The major changes in assets structure as compared to figures as of the end of 2006 are as follows:

- an increase in the share of net loans and advances to customers from 53.2% to 62.4%; it results from a significant increase in lending activities, mainly in the case of the mortgages portfolio and corporate customer loans, which enabled Kredyt Bank S.A. to enhance its market position;
- a decreased share of investment securities in total assets from 26.6% to 20.2%.

The value of particular assets is presented in the table below (in PLN '000'):

	31.12.2007	31.12.2006	Change
Cash and balances with Central Bank	611 672	640 722	-4.5%
Gross loans and advances to banks	2 456 349	2 205 291	11.4%
Impairment losses on loans and advances to banks	-2 260	-2 753	-17.9%
Financial assets at fair value through profit or loss, including financial assets held for trading	448 499	612 912	-26.8%
Derivatives, including:	495 095	297 427	66.5%
- derivatives used as hedging instruments	34 025	3 403	899.9%
Gross loans and advances to customers	17 738 052	12 914 172	37.4%
Impairment losses on loans and advances to customers	-839 724	-1 100 617	-23.7%
Investment securities	5 478 269	5 902 663	-7.2%
- available-for-sale	3 433 103	3 453 890	-0.6%
- held-to-maturity	2 045 166	2 448 773	-16.5%
Investments in subsidiaries, associates and jointly controlled entities	73 876	73 831	0.1%
Property, plant and equipment	343 438	325 050	5.7%
Intangible assets	65 425	84 394	-22.5%
Deferred tax asset	124 062	137 123	-9.5%
Current tax receivable		15 393	-100.0%
Non-current assets classified as held for sale	767	10 571	-92.7%
Other assets	74 984	87 616	-14.4%
Total assets	**27 068 504**	**22 203 795**	**21.9%**

The increase in the balance sheet total of Kredyt Bank S.A. in 2007 resulted chiefly from increased lending activities. At the end of 2007, net loans and advances to customers amounted to PLN 16,898,328 thousand as compared to PLN 11,813,555 thousand at the end of 2006 (an increase by 43.0%). The increase resulted mainly from good results on the sale of mortgages, consumer loans and corporate customer loans. The figure below presents loan and advances to customers at period end in PLN '000'.



Credit portfolio quality

In 2007, Kredyt Bank S.A. continued the process of reducing non-performing loans portfolio though restructuring and debt recovery measures as well as the sale of receivables.

As a result of the said transaction and the improvement of retail and corporate loans sale, the share of loans and advances with individual evidence for impairment in total gross loans and advances to customers decreased almost twice. At the end of 2007, the ratio was at the level of 7.4% against 14.5% at the end of 2006. As compared to the end of 2006, the value of non-performing receivables for which evidence for impairment was identified decreased by 29.6%.

Kredyt Bank S.A., when estimating credit risk for individual credit exposures and loan portfolios, follows the overriding prudence concept. As at 31.12.2007, the ratio of covering loans and advances for which individual evidence for impairment was identified with impairment losses was 60.8%.

in PLN '000'	**31.12.2007**	**31.12.2006**	**Change**
Loans and advances with no individual evidence for impairment, including interest	16 423 627	11 047 080	48.7%
Loans and advances with individual evidence for impairment, including interest	1 314 425	1 867 092	-29.6%
Total gross loan and advances to customers (including	**17 738 052**	**12 914 172**	**37.4%**
Impairment losses on loans and advances to customers	839 724	1 100 617	-23.7%
including: impairment losses on doubtful loans and advances with individual evidence for impairment	799 361	1 046 335	-23.6%

Total net loans and advances to customers	**16 898 328**	**11 813 555**	**43.0%**
The share of loans and advances with individual evidence for impairment in total gross loans and advances	7.4%	14.5%	-49.0%
Coverage of loans and advances with individual evidence for impairment with impairment losses	60.8%	56.0%	8.6%

Number and value of executory titles and the value of collateral established on customers' accounts and assets.

In 2007, in the course of debt collection measures aimed at recovering debts from non-paying customers, the Bank issued 37,234 banking executory titles for the total amount of PLN 161.1 million. In 2006, there were issued 24,194 banking executory titles for the total amount of PLN 97.5 million.

In the case of receivables for which impairment was identified, as at 31.12.2007, the total value of collateral approved by the Bank included in the calculations of estimated future cash flows amounted to PLN 423,921 thousand. As at 31.12.2006, this value was equal to PLN 682,969 thousand.

Gross loans and advances to customers – item-by-item structure

The further increase in the share of loans and advances to natural persons in total loans and advances to customer is, as assumed in the strategy, the most important change in the structure of the Group's loan portfolio. As of 31.12.2007, it was at the level of 54.8% (an increase by 6.5 p.p.).

	31.12.2007	31.12.2006	Change in p.p.
Natural persons *	**54.8%**	**48.3%**	**6.5%**
- overdraft facilities	6.1%	8.4%	-2.3%
- purchased debt	0.1%	0.1%	0.0%
- term loans	11.0%	15.8%	-4.8%
- cash and instalment loans	22.3%	24.8%	-2.5%
- mortgages	60.4%	50.8%	9.6%
- realised guarantees	0.0%	0.0%	0.0%
- other receivables	0.1%	0.1%	0.0%
Corporate customers	**42.9%**	**47.3%**	**-4.4%**
- overdraft facilities	21.1%	17.6%	3.5%
- term loans	78.3%	81.5%	-3.2%
- purchased debt	0.4%	0.4%	0.0%
- realised guarantees	0.1%	0.5%	-0.4%
- other receivables	0.1%	0.0%	0.1%
Budget	**2.3%**	**4.4%**	**-2.1%**
- overdraft facilities	0.2%	0.6%	-0.4%
- term loans	99.8%	99.4%	0.4%
- purchased debt	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**0.0%**

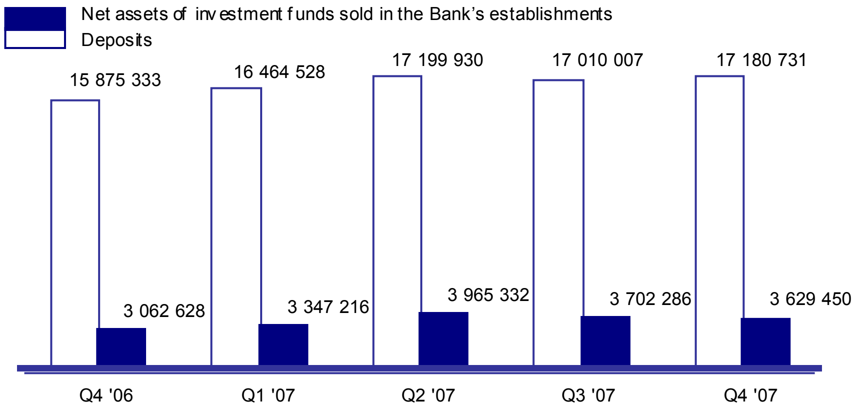
* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services for households

6.3 The structure of liabilities and equity

At the end of 2007, as in the previous year, amounts due to customers were the main category of liabilities. Over 12 months of 2007, their value increased by 8.2%. At the end of 2007, the share of amounts due to customers in total liabilities and equity amounted to 63.5% (a decrease by 8.0 p.p.).

The share of amounts due to banks (including the central bank) in total liabilities rose substantially. At the end of 2007, it was at the level of 23.5% against 9.8% at the end of 2006. It was a result, to a large extent, of borrowing by Kredyt Bank S.A. two loans from the main shareholder - KBC Bank NV – totalling the equivalent of EUR 500 million. The resources obtained from these loans are to be spent on the development of lending activities, including mainly mortgages.

The sale of shares in investment funds managed by KBC TFI increased significantly in the first half of 2007. The value of investment funds assets sold via the Group increased in 2007 by 18.5% to PLN 3,629.5 million. Taking into account the funds' assets and traditional deposits jointly, an increase in the value of customers' resources obtained by the Group in 2007 amounted to 9.9%. The diagram below illustrates values in PLN '000, at period end.



The value of particular liabilities and equity items is presented in the table below (in PLN '000):

	31.12.2007	31.12.2006	Change
Amounts due to Central Bank	1 101 661	1 990	55259.85%
Amounts due to banks	5 271 449	2 164 826	143.50%
Derivatives, including:	474 370	296 474	60.00%
- derivatives used as hedging instruments	44 178	554	7874.37%
Amounts due to customers	17 180 731	15 875 333	8.22%
Securities sold under repurchase agreements	50 126	1 053 928	-95.24%
Current tax liability	7 136	0	
Provisions	105 724	98 775	7.04%
Deferred tax liability			
Other liabilities	249 217	251 107	-0.75%
Subordinated liabilities	394 235	421 619	-6.49%
Total equity	2 233 855	2 039 743	9.5%
Total liabilities and equity	**27 068 504**	**22 203 795**	**21.9%**

Amounts due to customers – structure by items and types

No major changes had place in the structure of the Bank's customers' deposits at the end of 2007. The share of current deposits of natural persons continued to increase.

Amounts due to the Bank's customers	31.12.2007	31.12.2006	Change in p.p.
Natural persons *	**59.9%**	**61.8%**	**-1.9%**
- in current account	68.3%	62.2%	6.2%
- term deposits	30.6%	37.5%	-6.8%
- other	1.0%	0.4%	0.7%
Corporate customers	**28.1%**	**26.8%**	**1.3%**
- in current account	51.6%	47.9%	3.7%
- term deposits	48.3%	46.9%	1.4%
- other	0.2%	5.2%	-5.0%
Budget	**12.0%**	**11.4%**	**0.6%**
- in current account	65.0%	76.6%	-11.5%
- term deposits	35.0%	23.4%	11.6%
- other	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**0.0**

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services for households

Loans and advances borrowed by the Bank

On 05.09.2007 and 28.09.2007, Kredyt Bank S.A. entered into two multicurrency loan agreements with KBC Bank NV, branch in Dublin, up to the amount equivalent to EUR 250 million each. Both loan agreements were concluded on market terms with the 5-year repayment time limit.

6.4 Off-balance sheet items

The value of particular off-balance sheet items is presented in the table below (in PLN '000'):

	31.12.2007	31.12.2006	Change
Contingent liabilities, granted and received	8 254 147	5 207 977	58.5%
1. Liabilities granted, including:	6 030 093	4 706 170	28.1%
a) financial	4 410 804	3 497 903	26.1%
b) guarantees	1 619 289	1 208 267	34.0%
2. Liabilities received	2 224 054	501 807	343.2%
a) financial	902 441	205 139	339.9%
b) guarantees	1 321 613	296 668	345.5%
Liabilities related to sale/purchase transactions	218 165 219	138 370 817	57.7%
Other	3 300 837	3 153 678	4.7%
- guarantees received	3 300 837	3 153 178	4.7%
- other	0	500	

A noticeable increase in the value of off-balance sheet items, mainly amounts due received and related to sale/purchase transactions, is an effect of an increase in the business activity and larger numbers of transactions with customers.

Guarantees and sureties issued, including those granted to the Issuer's related parties

As at 31.12.2007, the Bank issued guarantees with the total value of at least 10% of the Bank's equity to one company and its subsidiaries. The guarantees were issued for the total amount of PLN 278,228 thousand. As at 31.12.2006, the Bank issued guarantees with the total value of at least 10% of the Bank's equity to one company and its subsidiaries. The guarantees were issued for the total amount of PLN 216,261 thousand.

The above guarantees were granted on market terms. The Bank's fee for issuing the guarantees was also determined on market terms.

7. Business risks

The Bank's chief authorities, explicitly the Management Board and the Supervisory Board, play the most important role in the risk management process. The Bank's Supervisory Board, through the Audit Committee, is informed about the most vital decisions and gives opinions about the actions of the Management Board in this respect. Particular risks are dealt with directly by specialised Committees:

- Assets and Liabilities Management Committee – responsible for management of the risk in the banking portfolio as well as management of the Bank's structural liquidity;
- Operating Risk Committee – supervising the management of the operating risk;
- Credit Risk Committee – supervising the credit risk management process.

Members of the Management Board supervise works of the above committees; there are at least two Board Members in each committee.

The Risk Management Department deals with measurement and monitoring of all types of risks in Kredyt Bank. This is the only unit reporting all issues regarding risk, fully independent of business units. In the process of the identification, measurement and risk management, the Bank applies techniques relevant to a given type of risk.

In the previous year, the main risk management objectives, policy and processes did not change. The Bank's exposure to credit risk, market risk and operating risk did not change as well. The overriding objectives of the risk management policy concerning mainly the observance of internal and external limits and optimising and mitigating risk in the process of ongoing monitoring are being systematically implemented. The risk management process is strictly related to the capital management process. The main objective of capital management in the Bank is to optimise it and, at the same time, to meet external capital requirements. To achieve this goal, since 2007, the Bank has been implementing ICAAP (Internal Capital Adequacy Assessment Process). With regard to the Bank's application of the approach referred to in paragraph 14 of the Resolution of the Commission for Banking Supervision No. 1/2007 dated 13 March 2007, since 31.12.2007, the Bank has not been obliged to apply the regulations concerning the estimation and maintenance of the internal capital.

7.1 Credit risk

Credit policy

Kredyt Bank S.A. follows a prudent credit risk policy. The main objective is to prevent impairment of loans portfolio and minimize the share of receivables for which individual premises of impairment were identified in total gross loan receivables. The primary assumptions of the credit policy are as follows:

- clear-cut division between sale and credit risk management functions;
- ongoing monitoring and early identification of hazards;
- centralization of decision-making powers in the credit process and in the process of the management of impaired loans portfolio;
- risk diversification;
- limited financing of higher-risk business activities.

Credit risk management

The Bank's credit risk is defined as the risk of non-payment of amounts due if a borrower, guarantors, reassurer, contractor or an issuer loses its creditworthiness.

Credit risk is managed taking into account the credit risk aspect corresponding to individual transactions and from the portfolio perspective.

The process of risk management for individual transactions entails risk assessment for such a transaction and, depending on its level, application of an appropriate decision-making process.

The portfolio risk management is the responsibility of the Credit Risk Committee. In particular, the Credit Risk Committee is responsible for the following:

- acceptance and substantial supervision over the methods of credit risk measurement;
- recommending to the Bank's Management Board and the Supervisory Board an admissible level of credit risk in the Bank and subsidiaries;
- expressing opinions on the Bank's credit policy;
- expressing opinions on creation of write-downs and valuation of collateral;
- expressing opinions on internal credit limits;
- changing risk limits and approval of limit exceeds within the powers of the Bank's Management Board;
- substantial supervision over the program of the Bank's adjustment to the requirements of the New Capital Accord related to credit risk;
- approval of the new products in terms of credit risk.

The Bank manages the credit risk, applying different tools. Monitoring of the Bank's exposure concentration in customers or groups of related customers (in accordance with the applicable banking law), and also monitoring of the utilization of the industry exposure concentration limits are among the basic ones.

Exposure towards 10 major corporate customers

As at 31.12.2007

Company	Share (%) in the portfolio
Customer 1	3.5
Customer 2	3.3
Customer 3	2.9
Customer 4	2.8
Customer 5	2.6
Customer 6	2.5
Customer 7	2.4
Customer 8	2.4
Customer 9	2.3
Customer 10	2.2
Total	**26.9**

As at 31.12.2006

Company	Share (%) in the portfolio
Customer 1	4.2
Customer 2	2.8
Customer 3	2.4
Customer 4	2.1
Customer 5	2.0
Customer 6	1.9
Customer 7	1.7
Customer 8	1.5
Customer 9	1.4
Customer 10	1.2
Total	**21.2**

Exposure in industrial segments

Industry	Exposure % 31.12.2007	Comparable data Exposure % 31.12.2006
Production activities	33.5	29.8
Retail and wholesale; repairs of motor vehicles and articles for personal and home use	20.8	20.6
Financial intermediation	17.8	10.4
Real estate administration and lease	9.0	14.2

Construction	4.1	4.3
Public administration and national defence, legally guaranteed social care	4.0	7.0
Transport, storing and communication	3.9	3.6
Agriculture, hunting and forestry	1.9	2.0
Other services for municipalities, social and individual services	1.0	1.1
Mining	1.0	0.1
Health care and social care	1.0	1.0
Hotels and restaurants	0.9	1.3
Supplies of electricity, gas and water	0.8	4.1
Education	0.3	0.5
Total	**100.0**	**100.0**

Geographical exposure

Province	Gross loans structure (%) 31.12.2007	Comparable data Gross loans structure (%) 31.12.2006
Mazowieckie	23.9	20.8
Lubelskie	13.6	14.6
Dolnośląskie	10.6	10.5
Wielkopolskie	9.1	10.1
Małopolskie	7.8	7.8
Pomorskie	6.9	7.4
Śląskie	6.8	8.1
Zachodniopomorskie	4.3	3.8
Łódzkie	3.8	3.5
Podlaskie	3.1	3.3
Kujawsko-pomorskie	2.5	2.1
Podkarpackie	2.3	2.5
Warmińsko-mazurskie	2.3	2.5
Świętokrzyskie	1.2	1.3
Lubuskie	1.1	1
Opolskie	0.6	0.6
Non-resident	0.1	0.1
Total	**100**	**100**

To limit the risk of exposure concentration, the Bank tries to expand loan extending activities for SMEs and individual customers.

Except for standard loan collateral included in loan agreements which are in line with the practices in the industry (mortgages, transfers of ownership to secure a loan, registered pledges, sureties, guarantees and assignment of receivables), the Bank does not apply any other loan collateral, e.g. credit derivatives.

The Bank monitors established legal securities of loan transactions by evaluation of the value of approved collateral on the basis of documents lodged by the borrower and internal databases including historic data about the recoverability of collateral.

With regard to the Bank's application of the approach referred to in paragraph 14 of the Resolution of the Commission for Banking Supervision No. 1/2007 dated 13 March 2007, since 1 January 2008, the Bank will apply the standardized method to calculate risk weighted assets. The Bank deployed IT tools to calculate capital requirements according to the standardized method, and developed and implemented models which make it possible to determine the parameters necessary to calculate capital requirements according to the Foundation Internal Ratings Based (FIRB) approach. At the beginning of 2008, the Bank intends to submit a request to the Belgian and Polish banking supervision authorities for the consent to apply the FIRB approach.

The coverage of balance sheet and off-balance sheet receivables with internal ratings as at 31.12.2007 (the table below contains data for rated receivables, i.e. 91.5% of total receivables):

Internal PD rating	Standard & Poors	Total
PD 1	AAA - A-	7%
PD 2	BBB+	8%
PD 3	BBB	22%
PD 4	BBB-/BB+	17%
PD 5	BB	18%
PD 6	BB-	8%
PD 7	B+/B	7%
PD 8	B-	4%
PD 9	CCC+ lower	2%
PD 10		1%
PD 11		2%
PD 12		4%
Total		**100%**

7.2 Liquidity risk

The liquidity risk is strictly associated with activities of any bank. It results, among other things, from the mismatch of assets and liabilities in terms of maturity dates what is a natural effect of varied customers' requirements as regards deposits- and loans-related services. Maintenance of financial liquidity, understood as the ability to timely meet financial liabilities, is the crucial element of the policy on assets and liabilities management applied by the Bank. The current liquidity is maintained through correcting the surplus or shortage of liquid cash by operations conducted on the interbank money market. The Bank's safety calls for the maintenance of liquid reserves as well as the term and quality structure of the whole balance sheet. Decisions related to liquidity risk management are made by the Bank's Assets and Liabilities Management Committee. The Risk Management Department measures and monitors strategic (long-term) liquidity.

The Bank hedges the liquidity risk by:

- maintenance of an appropriate level of cash, taking into account the volume of statutory provisions;
- possession of a proper volume of portfolios of liquid securities (governmental bonds);
- performing transactions on derivatives;
- maintenance of a diversified portfolio of deposits as regards terms and customers;
- access to the interbank market and open market transactions;
- access to the lombard loan.

Support of KBC Group, the strategic investor, is a crucial factor affecting the safety of the Bank operations.

An analysis of the Bank's liquidity is performed mainly on the basis of the liquidity gap report and the assessment of the deposit base stability by, among others, monitoring the mismatch of the maturity dates of assets and liabilities, what makes it possible to forecast the demand for liquid assets and avoid excessive concentration of cash disbursements on a close date.

To facilitate the liquidity monitoring risk, the Bank applies the following liquidity limits:

- Stock Liquidity Ratio (SLR) – short-term liquidity ratio (up to 5 working days);
- Liquidity Mismatch Ratio (LMR) – liquidity ratio (up to 1 month);
- Coverage Ratio (CR) – strategic liquidity ratio which informs about a degree of financing long-term assets with long-term liabilities (2, 3 and 5 years).

The Bank continues works on the methodology of making a liquidity gap report real. The process of making the gap real is aimed at presenting a more realistic picture of liquidity; the Bank models customers' behaviour (the quantity of revolving term deposits, amounts of extended but still undrawn loans) and takes into account results of those analyses in the picture of the Bank's liquidity.

The stability of the deposits base

A stable deposit base, not affected by seasonal phenomena, is the basic source of the Bank's financing. The diversification of the deposit base allows for the Bank's independence of any specific market segment, customer group or a specific deposit type. Except for Mazowieckie Province, the deposits base is also not concentrated in one specific region.

Amounts due from the Group to customers by provinces are as follows:

Province	Deposits structure in % 31.12.2007	Deposits structure in % 31.12.2006
Mazowieckie	31.4	29.4
Dolnośląskie	8.3	8.8
Małopolskie	7.2	7.1
Pomorskie	6.8	6.7
Łódzkie	6.4	6.2
Wielkopolskie	6.3	6.8

Podlaskie	5.9	5.8
Ślaskie	5.8	7.1
Podkarpackie	4.1	4.5
Zachodniopomorskie	3.6	3.5
Kujawsko-pomorskie	2.6	2.9
Warmińsko-mazurskie	2.1	2.1
Świetokrzyskie	1.6	1.6
Lubuskie	1.2	1.1
Opolskie	0.8	0.8
Total	**100**	**100**

The structure of the deposit base by customer types and deposit types:

	31.12.2007	Comparable data 31.12.2006
Individual customers	51.5%	55.1%
- financial institutions	8.5%	5.0%
- business entities	28.2%	28.6%
- budgetary sector	11.8%	11.3%
	31.12.2007	**Comparable data 31.12.2006**
- current deposits	27.4%	26.4%
- negotiable term deposits	34.4%	30.6%
- term deposits	10.1%	16.3%
- savings accounts	28.1%	26.7%

The structure of the deposit base is advantageous also due to the original maturity date. As at 31.12.2007 and 31.12.2006, it was as follows:

Amounts due to customers (by maturity dates)

	31.12.2007	31.12.2006	Change
- up to 1 month	14 677 673	13 323 179	10.2%
- 1-3 months	1 229 987	1 247 182	-1.4%
- 3 - 6 years	541 260	776 939	-30.3%
- 6 months to 1 year	417 963	381 076	9.7%
- 1 - 3 years	21 806	24 973	-12.7%
- 3 - 5 years	262 602	78 762	233.4%
- 5 - 10 years	28 597	42 061	-32.0%
- 10 - 20 years	843	988	-14.7%
- over 20 years	0	173	
- past due	0	0	
Total	**17 180 731**	**15 875 333**	8.2%

Gross loans and advances to customers by maturities

	31.12.2007	31.12.2006	Change
- up to 1 month	2 608 723	418 775	522.9%
- 1-3 months	539 638	575 958	-6.3%
- 3 - 6 years	488 146	699 006	-30.2%
- 6 months to 1 year	2 644 646	2 805 464	-5.7%
- 1 - 3 years	2 435 887	1 993 800	22.2%
- 3 - 5 years	1 982 251	1 435 936	38.0%
- 5 - 10 years	2 382 547	1 843 582	29.2%
- 10 - 20 years	2 186 040	1 496 784	46.0%
- over 20 years	1 633 074	664 365	145.8%
- past due	837 100	980 502	-14.6%
Total	**17 738 052**	**12 914 172**	**37.4%**

7.3 Market risk

Market risk is defined as a degree of a hazard to the Bank's financial standing resulting from adverse changes in interest rates, exchange rates and prices of shares and their market volatility.

The Bank does not trade on the stock market (investments in shares are long-term investments or strategic investments in subsidiaries). The Bank does not trade on commodity markets. In the Bank, among all types of market risks, we deal with interest rate risk and currency risk. .

The Bank's activity is divided into two parts: Trading Book and Banking Book. Due to different nature of opened positions, the risk is monitored in each book separately.

Trading Book

The Trading Book is a separated part of the Bank's portfolio, where the Bank intends to generate income resulting from short-term changes of prices, interest rates, exchange rates or other market parameters. The main activity of the Trading Book is associated with financial instruments in PLN, and, to a lesser extent, also in USD and EUR.

Value at Risk (VaR) is the basic metric of risk in the trading portfolio. Value at Risk means such a value that the probability of the Bank's loss exceeding this value amounts to 1% (with assumed 99% level of significance – such a level was assumed by the Bank). Value at Risk (VaR) in the Bank is calculated by historical method in the time horizon of 10 days, taking into account market figures for the previous 500 days. VaR limit for the Trading Book overlaps Global VaR, which includes both the currency risk and the interest rate risk.

VaR (for the whole Trading Book, entails both interest rate risk and currency risk) – data in EUR '000'

	Limit	31.12.2007	Data for 2007		
			Average	Minimum	Maximum
VaR	3000,0	1100.42	641.69	218.89	1195.68

Comparable data as at 29.12.2006

VaR (for the whole Trading Book, entails both interest rate risk and currency risk) – data in EUR '000'

	Limit	29.12.2006	Data for 2006		
			Average	Minimum	Maximum
VaR	3000,0	237.78	294.66	135.53	673.13

Trading Book – interest rate risk

The interest rate risk reflects a degree of a hazard to the Bank's financial standing arising from adverse changes in market interest rates.

Additionally, the level of interest rate risk is monitored and limited (by establishment of limits) against BPV (basis point value – price sensitivity to parallel shifts in interest rates on the yield curve).

All above-mentioned limits concern the total Trading Book. The Trading Book Unit in the Cash Management Department managing the Trading Book is divided into two sections (with the primary term of instruments/transactions made at the interbank market as the basic division criterion): Short Term Desk and Long Term Desk. Internal VaR limits and stop-loss (maximum acceptable loss) restrict the activities of particular sections.

In addition, the analysis of the sensitivity of the total Trading Book position to interest rate risk is performed through the calculation of interest rate risk VaR (with the same parameters as Global VaR, i.e. the significance range of 99%, 10-day time horizon and 500-day observation horizon).

The interest rate risk analysis is supplemented by stress-testing which is the amount of possible loss due to extremely adverse (critical) changes in interest rates.

Interest rate options

The Bank also offers interest rate options. The Bank does not maintain options portfolio for its own account, i.e. it does not pursue speculative activities. Options on the inter-bank market are the options hedging the position resulting from transactions with customers. Therefore, the market risk in the portfolio of interest rate options does not exist.

Trading Book – currency risk

The exchange rate risk is a degree of the risk for the Bank's financial standing resulting from adverse changes in exchange rates on the market. This risk covers income on currency exchange operations and measurement of open foreign exchange items resulting from the difference between the value of assets and liabilities in a given currency. The Bank's foreign exchange item is managed for the Trading Book and the Banking Book jointly. The Bank's foreign exchange item is managed in the Trading Book.

The daily analysis of the sensitivity of the total Trading Book position to currency risk is performed through the calculation of currency risk VaR (with the same parameters as Global VaR, i.e. the significance range of 99%, 10-day time horizon and 500-day observation horizon).

In the event of currency risk, the 'value at risk' method is supplemented daily by stress-testing which is the amount of a possible loss due to extremely adverse (critical) changes in exchange rates. The Bank also offers foreign exchange options. The Bank does not maintain options portfolio for its own account, i.e. it does not pursue speculative activities. Options on the inter-bank market are the options hedging the position resulting from transactions with customers. Therefore, the market risk in the portfolio of foreign exchange option transactions does not exist.

Banking Book

The Banking Book covers operations not covered by the trading portfolio, i.e. commercial activities of branches, credit intermediaries and the portfolios of securities hedging the liquidity and constant interest income.

Banking Book – interest rate risk

The Bank actively manages the interest rate risk for 5 main currencies of the balance sheet: PLN, EUR, USD, CHF, GBP. An interest rate gap prepared separately for each currency is the basic measurement and risk-limiting tool in the banking portfolio. The following risk metrics are calculated on that basis:

- sensitivity of the measurement of assets and liabilities (BPV);
- duration;
- accumulated gap ratios.

An analysis of the interest rate gap applied in the interest rate risk management of the Banking Book is based on information on particular items of the Bank's balance sheet as well as off-balance items sensitive to changes of interest rates. In the case of financial instruments without a defined maturity date (according to a stability analysis for each type of product), the Bank implemented the model of periodic deposits rollover. This approach towards products allows for effective management of risk associated with this type of instruments and for the generation of constant income from investments of these assets.

Stress-testing and VaR calculations are additional interest rate risk monitoring tools in the Banking Book.

Hedge accounting

As at 31.12.2007, the Bank continued to apply hedge accounting for fair value hedge for asset swaps. The purpose of hedge accounting is to hedge fixed interest rate bonds with IRS, on which the Bank pays a fixed interest rate and receives a floating interest rate.

As at 31.12.2007, the Bank continued to apply hedge accounting of cash flows for asset swaps which consists in the hedging of cash flows resulting from floating interest rate bonds (which involved the conclusion of IRS transaction in which the Bank receives fixed and pays floating interest cash flows).

As at 31.12.2007, the Bank continued to apply hedge accounting also as regards the part of the loans portfolio based on O/N rate. The hedge consists in creating a swap structure composed of a revolving OIS (the Bank pays cash flow based on O/N rate) and a standard IRS transaction in which the Bank pays cash flow based on a floating interest rate adjusted to OIS maturity date and receives fixed interest flows. The hedged risk in this case is an interest rate risk resulting from a change of short-term interest rates.

In the second half of 2007, the Bank began to apply hedge accounting for the portion of mortgage loans based on 3M WIBOR, which involves the conclusion of IRS in which the Bank receives fixed and pays floating interest flows. The hedged risk in this case is the interest rate risk resulting from a change of 3-month interest rate.

Banking Book – currency risk

As mentioned above, the foreign exchange item is managed in the Trading Book. The positions related to the Bank's customers' transactions arising during the day are transferred, via internal transactions, to the Trading Book.

It should be noted here that the currency risk at Kredyt Bank is perceived not only as the risk occurring for an open foreign exchange item, but also as the risk of a change in the value of certain products as a result of changes in exchange rates. In particular, this risk occurs in the case of loans extended in foreign currencies. In order to mitigate credit risk, increasing in the case of the growth in the exchange rate of the loan currency (this also refers to loans granted in PLN, with their value indexed to the foreign currency exchange rate), the loans agreements for institutional customers contain clauses on the establishment of additional collateral or permit to translate the loan, when the customer does not generate income in the loan currency. Additionally, in order to hedge the exchange rate risk the customer is exposed to, derivatives (forwards, options) are offered to him.

In order to mitigate the currency risk on granting mortgages in a foreign currency to individual customers, the Bank, analysing the creditworthiness:

- determines the value of the highest monthly interest and principal repayment instalment for the applied loan with the assumption that the principal of the applied loan is 20% higher,
- the Bank calculates the maximum level of LtV (Loan To Value) ratio on a lower level than for loans in PLN (LtV ratio should be understood as the loan value/collateral value ratio);
- additionally, the applicant is informed about the foreign exchange risk.

Average interest rates in Kredyt Bank S.A. in 2007

Average interest rates of customer deposits calculated as the ratio of interest expense to average annual deposits volume, for the main currencies, were as follows:

	31.12.2007	31.12.2006
PLN	2.9	2.8
EUR	2.3	1.6
USD	3.4	2.6
CHF	0.4	0.2

Average interest rates of customer loans calculated as the ratio of interest income from working loans to average annual loan receivables volume, for the main currencies, were as follows:

	31.12.2007	31.12.2006
PLN	6.5	6.2
EUR	5.5	4.6
USD	6.7	6.8
CHF	4.2	3.8

7.4 Operating risk

The Bank defines the operating risk as a possibility of an unexpected influence upon the financial result, as a consequence of maladjustment or unreliability of internal processes, people, technical systems as well as a consequence of external incidents.

With regard to the Bank's application of the approach referred to in paragraph 14 of the Resolution of the Commission for Banking Supervision No. 1/2007 dated 13 March 2007, since 01.01.2008, the Bank intends to apply the standardized method to calculate the capital requirement related to the operating risk. As a result, the Bank:

- has implemented a documented operating risk assessment and management system closely related to the Bank's risk management process, and the result of the assessment forms an integral part of the operating risk profile monitoring and control process in Kredyt Bank;
- has specified roles and responsibilities of employees within this system;
- keeps a record of operating events and losses resulting from the operating risk;
- has its operating risk assessment and management system regularly reviewed by independent auditors.

Operating risk coordinators, directly supporting the management staff of business units, play a crucial role in applying operating risk management tools and techniques.

The infrastructure of management and methodology are coherent within the Bank and its subsidiaries. Identification and operating risk rating tools are identical. The whole process is supervised by the Operating Risk Committee which is managed by the President of the Management Board.

8. Financial ratings for Kredyt Bank S.A.

As at 31.12.2007, Kredyt Bank S.A. obtained the following financial ratings:

Moody`s Investors Service

Long-term deposits rating	**A2**
Short-term deposits rating	**P1**
Financial strength	**D**
Outlook rating	**Stable**

On 23 February 2007, due to the implementation of a new ratings calculations methodology, Moody's Investors Service changed the financial strength rating of Kredyt Bank S.A. from 'D-' to 'D'. Long- and short-term ratings for deposits remained unchanged at the level of A2/P-1 respectively with stable outlook.

A2 rating denotes good capacity to pay liabilities and P-1 rating means perfect ability to pay current liabilities.

Fitch Ratings

Long-term ranking	**A+**
Short-term ranking	**F1**
Support ranking	**1**
Individual ranking	**D**
Outlook for long-term ranking	**Stable**

On 28.02.2007, Fitch Ratings confirmed the above ratings for Kredyt Bank S.A. The outlook for the above rating remains stable.

Fitch Ratings underlined that company rating (scale: AAA to D) and short-term rating (scale: F1 to D) indicated high creditworthiness of the Bank, entailed the support from the strategic investor, i.e. KBC Bank NV, which is rated by Fitch Ratings at 'AA-' with a stable outlook.

The individual rating 'D' (scale: A to D) signifies a potential possibility of the occurrence of such a situation in the future which might require the external support for the Bank. And the support rating '1' (scale: 1 to 5) denotes a very high probability of obtaining external support by the Bank.

Fitch Ratings stressed that the Bank's focus on the increase in sales was reflected in slowing down the decrease in the market share, while the Bank's demand for risk remained at a conservative level.

9. Corporate governance

The Management Board of Kredyt Bank S.A. treats the application of Corporate Governance rules in the management process as important. Corporate Governance is to be as a set of regulations necessary to maintain proper relations between interests of all entities and natural persons involved in running the company's operation.

According to the Management Board, a proper distribution of proportions between executives, shareholders, customers and employees is an essential factor leading to stable development of the Bank in the long term and, accordingly, to an increase in its value as a stable and effective partner.

Corporate Governance rules

In 2007, Kredyt Bank S.A. applied corporate governance rules, developed by the Good Practices Committee and recommended by the Warsaw Stock Exchange, concerning joint stock companies admitted to stock exchange trading set forth in the document "The 2005 Best Practices in Public

Companies". On 27.06.2007, the Management Board of Kredyt Bank S.A submitted, in the form of a current report, a statement on the application of corporate governance rules in Kredyt Bank S.A., set forth in the Resolution of the General Meeting of Shareholders of Kredyt Bank S.A. of 25 April 2005, having regard for amendments in the application of Rules 42 and 43. The Bank pledged to fully observe 47 out of 48 Rules. In the case of Rule No. 20 which specifies the role of independent members of the Supervisory Board, the Bank respects provisions with reference to the number of independent members in the Supervisory Board. As many as five of nine members of the Supervisory Board are not connected with the Bank's strategic shareholder, with the Bank or with its employees. The Bank, in its statement, informed about the present works on the definition of detailed independence criteria.

Since 1 January 2008, the Warsaw Stock Exchange has introduced new corporate governance rules in the document entitled "Good Practices of Companies Listed on the Warsaw Stock Exchange". The document was approved on 4 July 2007 by virtue of Resolution No. 12/1170/2007 of the Supervisory Board of the Warsaw Stock Exchange. In the „Good Practices", the independence criterion is defined according to Annex II to the European Commission Recommendation of 15 February 2005. According to this definition, as at 01.01.2008, the Bank observes Rule No. 20.

Under the corporate governance rules, the Bank adopted the By-laws of the Management Board, of the Supervisory Board and of the General Meeting of Shareholders.

The Supervisory Board function comprises the Audit Committee and the Remunerations Committee. If needed, the Supervisory Board can also appoint other Committees, determine their powers and procedures. The Audit Committee supervises the activities of the Bank's organizational units responsible for internal audit, risk management and compliance function. The Remunerations Committee supervises employees issues and salaries, especially salaries of the Bank's Managements Board Members.

The By-laws of the Bank's General Meeting of Shareholders determine detailed rules of conducting the meeting and adopting the resolutions. The By-laws determine, among other things, rules of shareholders' participation in the General Meeting and detailed regulations concerning the appointment of the Supervisory Board by voting in separate groups.

The Bank, observing the corporate governance rules, also presents on its website, in investor relations section, periodical and current stock exchange reports, current reports, basic internal regulations and other information which make it possible to reliably evaluate the company's operations.

Compliance function

The Bank, as a public trust institution, is specially obligated to run business in ethical way and to comply with applicable laws and social standards.

The compliance function in Kredyt Bank S.A. involves the control of the compliance of the Bank's operations with the present law and internal regulations. The Compliance Department established in November 2003 supports the Bank's Management Board in the process of implementing new standards and procedures stipulated in the EU and Polish law (the Banking Law and Resolutions of the Commission for Banking Supervision) as well as the assumptions of the policy of KBC – the Belgian banking and insurance group which comprises Kredyt Bank S.A.

The Compliance Department runs activities aimed at monitoring and promotion of the Bank's observance of regulations governing fair and ethical banking activities. The main document for employees is titled "The Ethical Code for Kredyt Bank's Employees" which contains ethical principles arising from generally accepted moral norms and specifying integrity, loyalty, professionalism, reliability and care as the basic principles for the Bank's employees, regardless of their positions or functions.

The Bank implements the compliance function by managing the risk of non-compliance in the following areas:

- counteracting money laundering and terrorism financing;
- professional ethics;
- banking-related offences;
- the protection of banking and professional secrets;
- personal data protection;
- employees' own transactions;
- market abuse, i.e. insider trading and price manipulation;
- tax-related fraud;
- performing functions in authorities of third party companies (incompatibility of mandates).

The management of the non-compliance risk in the above areas is ongoing and covers the whole operations of the Bank and its subsidiaries.

Corporate Social Responsibility

Sponsoring and charitable campaigns play a major role in the communication strategy of Kredyt Bank Group and Warta Group. Both companies approved and have implemented a common policy in this area.

Social measures are implemented in the areas recognised by the society as important, consistent with the values represented by Kredyt Bank and Warta brands and the profiles of the business carried by both companies.

The campaigns are realised independently or jointly within "Razem możemy więcej" ("Together we can more") Foundation of Kredyt Bank and Warta. The foundation is a NGO involved in public interest activities in the area of education, culture, charity and other similar purposes. The foundation, established in 1999 by Towarzystwo Ubezpieczeń i Reasekuracji WARTA, was transformed in January 2007 into a joint corporate foundation of Warta and Kredyt Bank.

In 2007, Kredyt Bank and Warta were involved in sponsoring a concert of Genesis, a legendary rock group. Disabled persons were invited to participate in the event; a special sector and platform were assigned to them. The project was supplemented by the publication of a collection of Genesis' albums. With the support of the companies, we also organized two concerts of the New Chamber Orchestra conducted by Christopher Hogwood.

In 2007, the companies initiated an employee voluntary programme under which employees' ideas and initiatives in this area are supported financially. It was created to support projects of local institutions and organisations in which the Bank's employees are engaged.

To support talented students and PhD students as well as the development of scientific research in the field of banking and insurance, we organise an annual nationwide contest for the best MA and PhD thesis concerning insurance, banking and bancassurance.

Campaigns for children are of special interest within the social activities of Kredyt Bank and Warta Group. In 2007, in cooperation with Stowarzyszenie Laboratorium Troski, the companies implemented a social and educational project for pupils from grades 1-3 of primary schools with a view to prevent accidents involving children and to protect children's health. The campaign called "Akademia Misia Ratownika" ("The Academy of Teddy Bear-Rescuer") engaged over 6,000 children from Małopolskie Province.

For a few years now, KB and Warta have been organising, under the motto "Moje wymarzone Boże Narodzenie" ("My perfect Christmas"), a contest for children from 25 children's homes from Poland to design a Christmas card, which is supported, to a great extent, by employees of both companies. The best postcard becomes the official Christmas postcard of Kredyt Bank and Warta Group. Both companies backed the campaign of *Dziennik* daily called "Listy do Św. Mikołaja" ("Letters to Santa Clause"). For many years now, Kredyt Bank S.A., in cooperation with ZET Radio, has also been organising a Christmas contest – "Wymarzony prezent" ("A Present of your Dreams").

Kredyt Bank is also involved in the promotion of Belgian culture. The Bank has been a member of the Belgian Business Chamber for years now and sponsors "Belgian Days". Our company has also been supporting the organisation of the Polish Ball in Brussels.

10. The outlook and growth drivers for Kredyt Bank S.A.

External drivers

In 2007, the banking sector recorded a high growth rate due to household loans. In 2008 and further years, it will depend more on corporate loans[7].

The present good situation of banks is a natural effect of the high economic growth rate and may deteriorate in the case of less advantageous macro-economic conditions. In the past 2 years, the financial sector has developed in the context of stable risk resulting from a decrease in unemployment, low interest rates and high liquidity. The present crisis of trust towards global institutions will result in the situation in Poland when banks, although their financial standing was not damaged, will operate in the context of greater uncertainty. Changing presumptions concerning the direction in which interest rates are going to change are a sign of such uncertainty, which will limit the possibility of valuing

[7] The inflow of financial resources of over EUR 80 million from the European Union will be a vital structural driver.

assets to a great extent. A strong flow of negative signs on an international level should be highlighted here.

An increase in income of households and very good conditions on stock markets in the first half of 2007 resulted in the shift of household savings to higher-risk investments: shares, investment funds and unit funds in unit-linked insurance plans. The downturn of stock exchange vibes in response to the disturbances of global financial markets made the banks face a new situation, i.e. the slowdown of commissions growth rates and price-based competition to take over and manage cash flows withdrawn by customers from the equity market. This trends will probably persist throughout 2008.

In the next year, the trend of increasing income from core business should continue, mainly due to customers' interest in retail loans still being observed now. The present situation on the loans market shows that, in view of the expected decrease in the effective demand on the housing market (as a result of a more limited loan availability of houses and flats for households), banks forecast a decrease in demand for such loans. Consumer loans, along with mortgages, are a priority for the development of the majority of banks in Poland. The banks forecast a further strong increase in the demand in this market segment. We should presume that lending institutions will more often offer their products to less wealthy customers. In a longer-term period of price-related competition, it means that customer bases will also expand to include higher-risk groups. Banks will have to take account of this risk in their operations.

The banks' liquidity ratios, which measure the capability of paying short-term liabilities and medium-term conditions of business financing, deteriorated in 2007. The loans/deposits ratio for the non-financial sector exceeded 100%. The fast growth rate of the lending activities will probably contribute to the continuation of the observed trends in the future. It seems that the banks' growing demand for external financing and the growing cost of such financing will become structural features of the development of the banking market in the years to come.

Internal drivers

Internal drivers material for the development of Kredyt Bank S.A. include more wide-spread and in-depth cooperation with WARTA S.A., aimed to develop bancassurance services, establish a banking and insurance group and optimise the synergy effect. Apart from the cooperation in terms of sales and customer service, the Bank continues organizational changes in Kredyt Bank S.A. and WARTA S.A. Group to better adjust the management model to the needs resulting from the implemented bancassurance business model. The changes aim at the maximum use of synergy effects both in the sales network and support function.

Reorganization of consumer finance function in cooperation with Żagiel and on the basis of the experience and know-how of KBC Group, the main shareholder of Kredyt Bank S.A., that was implemented in 2007 is another key growth driver for Kredyt Bank S.A.

One of the financial objectives of Kredyt Bank S.A. is to accomplish better effectiveness as measured with the costs/income ratio. The implementation of the adopted strategy of income growth depends, among other factors, on termination of the outlets chain development programme. The following issues will affect strategic objectives: the continuation of effective credit risk management and ongoing control and adjustment of operating costs to the scale of operations.

11. Statements of the Management Board

Under art. 96.1.5 and art. 96.1.6 of the Ordinance by the Minister of Finance of 19 October 2005 on current and interim information provided by issuers of securities (Journal of Laws of No. 209, item 1744), the Management Board of Kredyt Bank S.A. hereby makes the following statements:

11.1 True and fair view presented in the financial statements

According to the best knowledge of the Management Board of Kredyt Bank S.A., the annual financial statements of Kredyt Bank S.A. for the period 01.01.2007-31.12.2007 along with the comparable data, were prepared according to the accounting principles effective in the Bank and present a true and fair view of the financial standing and assets of Kredyt Bank S.A. as well as of its financial result. In addition, the Management Board of Kredyt Bank S.A. hereby declares that the annual Management Board's report presents a true picture of the development and accomplishments, as well as the situation (including the description of basic risks and threats) of Kredyt Bank S.A. in 2007.

11.2 Appointment of the certified auditor for financial statements

The Management Board of Kredyt Bank S.A. hereby declares that the certified auditor to audit the annual financial statements of Kredyt Bank S.A. as at 31.12.2007 was appointed as required by law. This entity and certified auditors performing the audit complied with the conditions on the issue of impartial and independent audit report, as required by the Polish law.

Signatures of all Management Board Members

date	29.02.2008	Ronald Richardson	President of the Management Board	....
date	29.02.2008	Umberto Arts	Vice-President of the Management Board	....
date	29.02.2008	Krzysztof Kokot	Vice-President of the Management Board	....
date	29.02.2008	Michał Oziembło	Vice-President of the Management Board	....

KREDYT BANK S.A.

LONG-FORM AUDITORS' REPORT
SUPPLEMENTING THE INDEPENDENT AUDITORS' OPINION
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

I. GENERAL NOTES

1. Background

Kredyt Bank S.A. (hereinafter 'the Company' or 'the Bank') was incorporated on the basis of a Notarial Deed dated 4 September 1990. The Bank's registered office is located in Warsaw, Kasprzaka 2/8 Street.

The Bank was entered in the Register of Entrepreneurs of the National Court Register under No KRS 0000019597 on 12 June 2001.

The Company was issued with tax identification number (NIP) 527-02-04-057 on 14 June 1993 and statistical number (REGON) 006228968 on 15 December 1999.

The Company is the holding company of the Kredyt Bank S.A. Capital Group. Details of the transactions with affiliated entities and the list of companies in which the Bank holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 35 and 54 of the summary of significant accounting policies and other explanatory notes ('the additional notes and explanations') to the audited financial statements for the year ended 31 December 2007.

The principal activities of the Bank are as follows:

- accepting call (demand) or term deposits and keeping deposit accounts,
- keeping other types of bank accounts,
- extending loans,
- extending and confirming bank guaranties, letters of credit and sureties,
- issuing bank securities, including in non material form,
- performing bank settlements,
- operations including cheques and bills of exchange, as well as operations with warrants,
- issuing payment cards and performing operations using such cards,
- performing forward financial operations,
- purchasing and disposing of debt,
- storing valuable items and securities and renting safe deposit box,
- purchasing and selling of foreign exchange,
- intermediation in money transfers and settlements in foreign exchange trade,
- performing commissioned services relating to issuance of securities,
- extending cash loans,
- issuing electronic money instruments,
- acting as a bank - representative of bond holders,
- taking over or purchasing shares and rights arising from banks' shares and other rights from shares from other legal entities or participation units in investment funds,
- purchasing securities on own account or third parties, dealing with those securities, keeping securities accounts and intermediation in the conclusion and execution of securities accounts agreements.
- performing brokerage activities,

(in thousand zlotys)

- incurring liabilities relating to the issuance of securities,
- acting as a trustee in dealing with securities, realizing commissioned services relating to the management of securities and other financial instruments, exercising rights arising from these securities on behalf of Banks' clients and on their request,
- performing lease operations, factoring, underwriting and forfaiting, as well as acting as an intermediary in this areas,
- managing investments and pension funds, serving as intermediary for investment funds, acting as depositary for investment and pension funds, keeping accounting books and members registers for funds, serving as payment agent for foreign investment funds,
- insurance agency activities for individuals and corporations,
- acquisition for open pension funds,
- performing, in accordance with the agreement with debtors, conversion of liabilities to parts of debtor assets in line with the Banking Law,
- acquiring and disposing of real estate,
- financial consulting and advisory services,
- intermediation in performing banking services for other banks and financial services for other banks, credit and financial institutions.

As at 31 December 2007, the Bank's issued share capital amounted to 1,358,294 thousand zlotys and it comprised of 271,658,880 shares with a nominal amount of 5 zlotys each. The Bank's equity as at that date amounted to 2,233,856 thousand zlotys. The Bank's share capital has not changed between 1 January 2007 and 31 December 2007.

In accordance with the excerpt from the Shares Register of 12 February 2008, the ownership structure of the Bank's issued share capital, as at 31 December 2007, was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
KBC Bank N.V. (Brussels)	217,327,103	217,327,103	1,086,635,515	80.00%
Sofina S.A.	15,014,772	15,014,772	75,073,860	5.53%
Other	39,317,005	39,317,005	196,585,025	14.47%
	--------	--------	--------	--------
Total	271,658,880	271,658,880	1,358,294,400	100.00%
	=====	=====	=====	=====

On 18 December 2007 the Management Board of Kredyt Bank S.A. was informed by Pioneer Pekao Investment Management S.A. ('PPIM' located in Warsaw) that on 17 December 2007 PPIM exceeded the 5% level of votes at the General Shareholders' Meeting of Kredyt Bank S.A. relating to financial instruments in comprising the portfolios managed by PPIM in relation to the brokerage commissioned services performed by PPIM, or services performed on the base of the agreement between Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A. and PIMM concerning the performance of brokerage services.

(in thousand zlotys)

On behalf of funds managed by Pioneer Pekao Investment Management S.A., PPIM reported an increase of the engagement above 5.001% of votes at the General Shareholders' Meeting of Kredyt Bank S.A. The total of these votes belongs to the above mentioned investment funds, which portfolios are sub-group of all portfolios of PPIM Clients.

The total involvement amounts to 13,674,064 shares of Kredyt Bank S.A. and equals to 5.03% of votes at the General Shareholders' Meeting and share capital of Kredyt Bank S.A. The above mentioned number of votes belongs to all Clients of Pioneer Pekao Investment Management S.A – in relation to the portfolios managed by PPIM.

As at 29 February 2008, Bank's Management Board was composed of:

Ronald Richardson	- President
Umberto Arts	- Vice-President
Krzysztof Kokot	- Vice-President
Michał Oziembło	- Vice-President

On 6 April 2007 Mr Konrad Kozik resigned from the position of Vice-President of the Management Board of Kredyt Bank S.A. as well as from the membership in the Bank's Management Board effective from 27 April 2007.

During the meeting held on 18 April 2007 the Bank's Supervisory Board dismissed Mr Bohdan Mierzwiński from the position of Vice-President of the Management Board of Kredyt Bank S.A. as well as from the membership in the Bank's Management Board effective from 18 April 2007.

On 5 June 2007 the Supervisory Board of Kredyt Bank S.A. temporary delegated Mr Andrzej Witkowski, the President of Supervisory Board to the function of the member of the Management Board of Kredyt Bank S.A. starting from 1 July 2007. 30 September 2007 was the last day of the temporary delegation of Mr Andrzej Witkowski to the function of the member of the Management Board of Kredyt Bank S.A. Due to the above, during the meeting of 26 September 2007 the Bank's Supervisory Board, in accordance with its rights resulting from § 25 point 2 of the Bank's Statutes, decided that from 1st of October 2007 the Management Board of Kredyt Bank S.A. would consist of four members till the appointment of a new member of the Bank's Management Board.

On 18 December 2007, during the Supervisory Board meeting Mr Ronald Richardson resigned from the function of President of the Bank's Management Board as well as from the membership in the Bank's Management Board effective from 29 February 2008.

During the meeting of 18 December 2007 the Bank's Supervisory Board appointed Mr Maciej Bardan for the position of the Management Board's President starting from 1 March 2008. At the same time the Supervisory Board applied to the Commission for Banking Supervision for the approval of taking the position of Management Board's President by Mr Maciej Bardan.

2. Financial statements

On April 2005 the General Shareholders' Meeting passed a resolution concerning preparation od financial statements, starting from 2005, in accordance with International Financial Standards as adopted by the EU.

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under No 130.

Ernst & Young Audit sp. z o.o. was appointed by the Supervisory Board on 18 April 2007 to audit the Bank's financial statements.

Ernst & Young Audit sp. z o.o. and the certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 66, clause 2 and 3 of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No 76 with subsequent amendments – 'the Accounting Act').

Under the contract executed on 10 May 2007 with the Bank's Management Board, we have audited the financial statements for the year ended 31 December 2007.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an auditors' unqualified opinion dated 29 February 2008, stating the following:

"To the Supervisory Board of Kredyt Bank S.A.

1. We have audited the attached financial statements for the year ended 31 December 2007 of Kredyt Bank S.A. ('the Bank') located in Warsaw, Kasprzaka 2/8 Street, for the year ended 31 December 2007 containing:
   - the income statement for the period from 1 January 2007 to 31 December 2007 with a net profit amounting to 400,519 thousand zlotys,
   - the balance sheet as at 31 December 2007 with total assets amounting to 27,068,504 thousand zlotys,
   - the statement of changes in equity for the period from 1 January 2007 to 31 December 2007 with a net increase in equity amounting to 194,113 thousand zlotys,
   - the cash flow statement for the period from 1 January 2007 to 31 December 2007 with a net cash inflow amounting to 421,156 thousand zlotys and
   - the summary of significant accounting policies and other explanatory notes

('the attached financial statements').

2. The truth and fairness[1] of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2] and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.

3. We conducted our audit of the attached financial statements in accordance with the following regulations being in force in Poland:
   - chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the audited Bank's operations for the period from 1 January 2007 to 31 December 2007, as well as its financial position[3] as at 31 December 2007;
   - have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the European Union and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Bank's Statutes.

5. We have read the Directors' Report on the Bank's operations for the period from 1 January 2007 to 31 December 2007 and the rules of preparation of annual financial statements ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No 209, item 1744)."

We conducted the audit of the Bank's financial statements during the period from 5 November 2007 to 29 February 2008. We were present at the Bank's head office from 12 November 2007 to 7 December 2007 and from 2 January 2008 to 29 January 2008.

[1] Translation of the following expression in Polish: '*rzetelność, prawidłowość i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne, prawidłowe i jasne*'
[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

(in thousand zlotys)

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness[4] of the financial statements and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. We also obtained a written representation dated 29 February 2008, from the Management Board of the Bank confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Bank's Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

2.3 Financial statements for prior financial year

The Bank's financial statements for the year ended 31 December 2006 were audited by Dorota Snarska-Kuman, Certified Auditor No 9667/7232, acting on behalf of Ernst & Young sp. z o.o. with its registered office in Warsaw at Rondo ONZ 1 and registered on the list of entities authorised to audit financial statements under No 130. The certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2006. The Company's financial statements for the year ended 31 December 2006 were approved by the General Shareholders' Meeting on 5 June 2007, and the shareholders resolved to appropriate the 2006 net profit as follows:

Appropriation of the net profit for 2006	
Dividends for the shareholders	100,513,785.60 PLN
Reserve capital	276,929,147.69 PLN
Other: General Risk Fund	60,000,000.00 PLN

	437,442,933.29 PLN
	========

The financial statements for the financial year ended 31 December 2006, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were submitted on 15 June 2007 to the National Court Register.

The introduction to the financial statements, the balance sheet as at 31 December 2006, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2006, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B No 1602 on 2 October 2007.

[4] Translation of the following expression in Polish: "*rzetelność, prawidłowość i jasność*"

(in thousand zlotys)

The closing balances as at 31 December 2006 were correctly brought forward in the accounts as the opening balances at 1 January 2007.

3 Analytical review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Bank for the years 2005 – 2007. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2006 and 31 December 2007.

	2007	**2006**	**2005**
Total assets	27,068,504	22,203,795	20,911,895
Shareholders' equity	2,233,856	2,039,743	1,659,718
Net profit	400,519	437,443	410,488
Capital adequacy ratio according to NBP methodology	9.63%	13,45%	16,21%
Profitability ratio	62.22%	52.40%	38.43%
Profit before taxation / Total costs			
Costs to income ratio	62.48%	67.36%	74.22%
Total costs / Operating income			
Return on equity (ROE)	18.74%	23.65%	26.01%
Net profit / Average shareholders' equity			
Return on assets (ROA)	1.63%	2.03%	1.96%*
Net profit / Average assets			
Rate of inflation			
Yearly average	2.5%	1.0%	2.1%
December to December	4.0%	1.4%	0.7%

*Average assets for 2005 were calculated on basis of total assets as at 31 December 2004 presented in the financial statement for the year ended 31 December 2005 prepared in accordance with International Accounting Standards.

3.2 Comments

The following trends may be observed based on the above financial ratios:

- Net profit for 2007 amounted to 400,519 thousand zlotys in comparison to the net profit of 437,443 thousand zlotys in 2006 and 410,488 thousand zlotys in 2005.
- Compared to 2006 and 2005, there was an increase in total assets in 2007. The total assets as at 31 December 2007 amounted to 27,068,504 thousand zlotys.
- The profitability ratio increased from 38.43% in 2005 to 52.40% in 2006 and 62.22% in 2007.
- Cost to income ratio decreased to 62.48% in 2007 as compared with 67.36% in 2006 and 74.22% in 2005.
- In 2007 return on equity ratio decreased to 18.74% as compared with 23.65% in 2006 and 26.01% in 2005.
- Return on asset ratio increased from 1.96% in 2005 to 2.03% in 2006 and decreased to 1.63% in 2007.
- The Bank's solvency ratio calculated in accordance with NBP methodology amounted to 9.63% as at 31 December 2007 as compared with 13.45% at the end of 2006 and 16.21% at the end of 2005.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Bank is unable to continue as a going concern for at least twelve months subsequent to 31 December 2007 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 7.2 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2007, the Management Board has stated that the financial statements were prepared on the assumption that the Bank will continue as a going concern for a period of at least twelve months subsequent to 31 December 2007 and that there are no circumstances that would indicate a threat to its continued activity.

3.4 Application of regulations mitigating banking risk

As at 31 December 2007, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolutions of the Commission for Banking Supervision envisaged banking regulatory norms in relation to the following items:

- level of currency positions,
- concentration of credit risk,
- concentration of investments in shares,
- classification of loans and issued guarantees and suretyships to risk categories, recognition of provisions related to banking operations,
- solvency,
- level of obligatory reserve,

- capital adequacy.

During our audit we have not identified any facts indicating that during the period from 1 January to 31 December 2007 the Bank did not comply with the above regulations. In addition, we have received written representation from the Bank's Management Board that during the year the banking regulatory norms were not breached.

3.5 Correctness of calculation of solvency ratio

During our audit we have not identified any irregularities in relation to the calculation of the capital adequacy ratio as at 31 December 2007 in accordance with Resolution no 1/2007 of the Commission for Banking Supervision dated 13 March 2007 on the scope of the capital requirements against particular risks and the detailed principles to be applied in determining those requirements, including but not limited to the scope and conditions of applying statistical methods and the scope of information attached to an application for authorization to apply them, principles and conditions of taking account of contracts on debt assignment, subparticipation, credit derivative and contracts other than those on debt assignment, subparticipation, in calculating the capital requirements, terms and conditions, scope and manner of making use of the ratings assigned by external credit assessment institutions and the export credit agencies, manner and specific principles of calculating the solvency ratio of a bank, the scope and manner of taking account of banks conducting their activities in groups in calculating their capital requirements as well as establishing additional items of bank balance sheets presented jointly with bank regulatory own funds in the calculation of capital adequacy, the amount thereof and the conditions of setting them (Official Journal of the National Bank of Poland No 2, item 3, dated 30 March 2007).

II. DETAILED REPORT

1. Accounting system

The Bank's accounts are kept using Profile, Oracle Financials and Murex computer systems at the Bank's head office. The Bank has up-to-date documentation, as required by Article 10 of the Accounting Act, including a chart of accounts approved by the Bank's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;

- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, liabilities and equity, profit and loss account

Details of the Bank's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2007.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2007.

3. Additional notes and explanations to the financial statements

The additional notes and explanations to the financial statements for the year ended 31 December 2007 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' report

We have read the Directors' report on the Bank's activities in the period from 1 January 2007 to 31 December 2007 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No 209, item 1744).

5. Materiality level

When determining the materiality level, professional judgement was applied taking into account the specific characteristic relating to the Bank. This included consideration of quantitative and qualitative aspects.

6. Conformity with law and regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Bank's Statutes were breached during the financial year.

7. Work of experts

During our audit we have taken into account the results of the work of the following independent experts:

- real estate experts – in calculations regarding the level of loan impairment we took into consideration the valuations of collateral, prepared by property appraisers, that were engaged by the Bank;
- actuary – actuarial calculation of provision for retirement benefits performed on the Bank's request.

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Registration No 130

(–)	(–)
Dorota Snarska-Kuman Certified Auditor No 9667/7232	Jacek Hryniuk Certified Auditor No 9262/6958

Warsaw, 29 February 2008

Corporate Governance Report - 2007

1. Corporate governance principles

The Management Board of Kredyt Bank S.A. attaches a great importance to the application of Corporate Governance principles in the management process, understood as a set of regulations indispensable in maintaining proper relations between the interests of all entities and individuals involved in the functioning of a company.

The Management Board is of the view that proper proportions between executives, shareholders, customers and employees constitute an essential factor leading to stable development of the Bank in the long term, and, accordingly, to an increase in its value as a stable and effective partner.

In 2007 the corporate governance principles concerning the joint stock companies admitted to WSE-trading, elaborated by the Committee of Good Practices and recommended by the Warsaw Stock Exchange, included in the document "Best practices in the public companies 2005", were in force at Kredyt Bank S.A.

On June 27, 2007 the Management Board of Kredyt Bank S.A. submitted a statement in a form of a current report on application of corporate governance principles in Kredyt Bank S.A. defined in the resolution of the General Assembly of Kredyt Bank S.A. of April 25, 2005 with the changes introduced to principles 42 and 43.

The Bank declared its full compliance with 47 out of 48 Principles. In the case of Principle no. 20 specifying the role of independent supervisory board members the Bank respects the regulations regarding a number of independent members of the Supervisory Board. Five out of nine members of the Supervisory Board are not related to the Bank's strategic shareholder, the Bank or its employees. The Bank informed in its statement about the work underway aimed to define the detailed criteria of independence.

Starting January 1, 2008 the Warsaw Stock Exchange introduced new corporate governance principles set out in the document titled "Good Practices of the Companies Listed at the WSE". This document was approved on July 4, 2007 by the Resolution 12/1170/2007 of the Warsaw Stock Exchange Supervisory Board.

Independence criteria are defined by "New practices" in the Attachment II to the European Commission Recommendation of February 15, 2005. In accordance with this definition the Bank observes the Principle no. 20 as of January 1, 2008.

Pursuant to the corporate governance principles the Supervisory Board and the Management Board Regulations are in force at the Bank as well as the Bank's General Assembly Regulations.

The Audit Committee as well as the Remuneration Committee function in the Supervisory Board structure. In the case of a need the Supervisory Board may also establish other Committees, specifying their responsibilities and the manner of functioning. The Audit Committee supervises the activity of the Bank's organization units responsible for the internal audit, risk management and compliance. The responsibilities of the Remuneration Committee include the supervision over the employees' affairs as well as remunerations, in particular those of the Management Board members.

2. Activity of the General Assembly

The General Assembly of Kredyt Bank S.A. acts pursuant to:

- The Regulations of the General Assembly – Resolution No. 3/2003 of the Extraordinary General Assembly of Kredyt Bank S.A. of April 25, 2003;

The Regulations of the Bank's General Assembly meeting determine the detailed principles of conducting the meeting and passing the resolutions. Among other things, the Regulations determine the principles of shareholders' participation in the General Assembly and detailed regulations providing for the Supervisory Board elections by separate groups voting.

The text of the Regulations is available at the website of Kredyt Bank S.A. in the Corporate Governance folder.

3. Composition of the Governing and Supervisory Bodies

3.1. The composition and principles of activity of Kredyt Bank S.A. managing bodies in 2007

The Management Board of Kredyt Bank acts pursuant to:

- The Statutes of Kredyt Bank S.A. – a uniform wording, November 2006, comprising the amendments resolved by the Ordinary General Assembly of Kredyt Bank S.A. on May 31, 2006 and adopted by the Bank's Supervisory Board resolution on July 19, 2006, registered by the court on October 26, 2006 pursuant to the ruling of October 25, 2006;
- The Regulations of Kredyt Bank S.A. Management Board – the Supervisory Board resolution of December 21, 2006;

As of January 1, 2007 the Management Board of Kredyt Bank was composed of six persons:

Mr Ronald Richardson	- President of the Management Board, General Director of the Bank,
Mr Umberto Arts	- Deputy President of the Management Board, Deputy General Director of the Bank
Mr Krzysztof Kokot	- Deputy President of the Management Board, Deputy General Director of the Bank
Mr Konrad Kozik	- Deputy President of the Management Board, Deputy General Director of the Bank
Mr Bohdan Mierzwiński	- Deputy President of the Management Board, Deputy General Director of the Bank
Mr Michał Oziembło	- Deputy President of the Management Board, Deputy General Director of the Bank.

On April 6, 2007 Mr Konrad Kozik, Deputy President of Kredyt Bank S.A. Management Board submitted is resignation from the function of the Deputy President of Kredyt Bank S.A. Management Board and the membership on the Management Board of Kredyt Bank SA as of April 27, 2007.
On April 18, 2007, at the meeting of the Bank's Supervisory Board, Mr Bohdan Mierzwiński, Deputy President of Kredyt Bank S.A. Management Board was dismissed from the function of Deputy President of Kredyt Bank SA Management Board and the membership on Kredyt Bank S.A. Management Board as of April 18, 2007.
Starting April 18, 2007 the Management Board of Kredyt Bank S.A. has been acting as a body composed of 5 members in accordance with the decision of the Supervisory Board of April 18, 2007.
On June 5, 2007 the Supervisory Board of Kredyt Bank SA delegated Mr Andrzej Witkowski, the Chairman of the Supervisory Board, to temporarily perform the duties of the Management Board member of Kredyt Bank SA. September 30, 2007 was the last day of performing the duties of the Management Board member.
The Supervisory Board resolved at the meeting of September 26, 2007 that starting October 1, 2007 the Management Board of Kredyt Bank S.A. shall act as a body composed of 4 members until a new member of the Bank's Management Board is appointed.

As of December 31, 2007 the composition of the Management Board of Kredyt Bank S.A. was as follows:

Mr Ronald Richardson	- President of the Management Board, General Director of the Bank,
Mr Umberto Arts	- Deputy President of the Management Board, Deputy General Director of the Bank
Mr Krzysztof Kokot	- Deputy President of the Management Board, Deputy General Director of the Bank
Mr Michał Oziembło	- Deputy President of the Management Board, Deputy General Director of the Bank.

On December 18, 2007, Mr Ronald Richardson, President of the Bank's Management Board submitted his resignation from the function of President of the Bank's Management Board and the membership on the Bank's Management Board as of February 29, 2008.
On December 18, 2007 the Supervisory Board appointed Mr Maciej Bardan the President of the Management Board of Kredyt Bank S.A. Mr Bardan will take up the position on March 1, 2008.

3.2. Composition and activity principles of Kredyt Bank S.A. supervising bodies of in 2007

The Supervisory Board of Kredyt Bank S.A. act on the basis of :

› The Statutes of Kredyt Bank S.A. – uniform wording, Warsaw, November 2006 including changes passed by the General Assembly of Kredyt Bank S.A. on 31.05.2006 and approved by the resolution of the Bank's Supervisory Board on 19.07.2006, registered by the Court on 25.10.2006 basing on the ruling dated 25.10.2006;

› Supervisory Board Regulations of Kredyt Bank S.A. – Resolution No. 24/2006 of the General Assembly of Kredyt Bank S.A. of 31.05.2006;

Appropriately to the Resolution No 4/2004 of the Kredyt Bank S.A. Extraordinary General Assembly of December 6, 2004 the Bank's Supervisory acts in a nine-man composition.

As of January 1, 2007 the Supervisory Board of Kredyt Bank S.A. is composed of:

Mr Andrzej Witkowski	- Chairman of the Supervisory Board,
Mr Adam Noga	- Deputy Chairman of the Supervisory Board,
Mr Francois Gillet	- Member of the Supervisory Board,
Mr John Hollows	- Member of the Supervisory Board,
Mr Feliks Kulikowski	- Member of the Supervisory Board,
Mr Marek Michałowski	- Member of the Supervisory Board,
Mr Luc Philips	- Member of the Supervisory Board,
Mr Jan Vanhevel	- Member of the Supervisory Board,
Mr Józef Toczek	- Member of the Supervisory Board,

On 27.03.2007 Mr Józef Toczek, a member of the Supervisory Board of Kredyt Bank S.A. handed in his resignation as a member of the Supervisory Board of Kredyt Bank S.A.

On 05.06.2007 the General Assembly of Kredyt Bank S.A. approved the co-opted the following persons to the Supervisory Board's composition:

- Francois Gillet – co-opted at the Bank's Supervisory Board meeting on November 29, 2006 ;
- Krzysztof Trębaczkiewicz – co-opted at the Bank's Supervisory Board meeting on April 18, 2007;

On June 5. 2007 the Supervisory Board of Kredyt Bank S.A. delegated temporarily Mr Andrzej Witkowski, Chairman of the Supervisory Board, to take on the responsibilities as a member of the Management Board of Kredyt Bank S.A. starting from 01.07.2007. The last day of his temporary work as a member of the Management Board was September 30, 2007.

As of 31.12.2007 the Supervisory Board of Kredyt Bank S.A. was composed of:

Mr Andrzej Witkowski	- Chairman of the Supervisory Board,
Mr Adam Noga	- Deputy Chairman of the Supervisory Board,
Mr Francois Gillet	- Member of the Supervisory Board,
Mr John Hollows	- Member of the Supervisory Board,
Mr Feliks Kulikowski	- Member of the Supervisory Board,
Mr Marek Michałowski	- Member of the Supervisory Board,
Mr Luc Philips	- Member of the Supervisory Board,
Mr Jan Vanhevel	- Member of the Supervisory Board,
Mr Krzysztof Trębaczkiewicz	- Member of the Supervisory Board,

3.2.1 Composition and activity principles of the Audit Committee of Kredyt Bank S.A. in 2007

Kredyt Bank's Audit Committee in 2007 acts on the basis of:

- Management Board Regulations of Kredyt Bank S.A. – Resolution No 24/2006 of the General Assembly of Kredyt Bank S.A. fro May 31,.2006;
- Audit Committee Regulations of Kredyt Bank S.A.;

As of January 1, 2007 Kredyt Bank's Audit Committee acted in the following composition :

Mr John Hollows	- Chairman of the Audit Committee	- Member of the Supervisory Board,
Mr Jan Vanhevel	- Member of the Audit Committee	- Member of the Supervisory Board,
Mr Adam Noga	- Member of the Audit Committee	- Deputy Chairman of the Supervisory Board

As of 31.12.2007 the composition of Kredyt Bank's Audit Committee has not changed as compared to 01.01.2007.

3.2. 2 Composition and activity principles of the Remuneration Committee of Kredyt Bank S.A. in 2007

Kredyt Bank's Remuneration Committee in 2007 acts on the basis of:

- Supervisory Board Regulations of Kredyt Bank S.A – Resolution No 24/2006 of the General Assembly of Kredyt Bank S.A. May 31, 2006 ;
- Remuneration Committee Regulations of Kredyt Bank S.A..;

As of January 1, 2007 Kredyt Bank's Remuneration Committee acted in the following composition :

Mr Andrzej Witkowski	- Chairman of the Remuneration Committee	- Chairman of the Supervisory Board,
Mr John Hollows	- Member of the Remuneration Committee	- Member of the Supervisory Board,
Mr Jan Vanhevel	- Member of the Remuneration Committee	- Member of the Supervisory Board,

As of 31.12.2007 the composition of Kredyt Bank's Remuneration Committee has not changed as compared to 01.01.2007.

Texts: the Statues, the Management and Supervisory Board regulations are available on the Kredyt Bank's website, section *Corporate Governance.*

4. Description of basic characteristics of internal audit and risk management systems applied at the company

The system of internal audit functioning in Kredyt Bank is crucial for the Bank's safe activity and is also an essential element of operating risk management. The Management Board as well as the higher level management supervise individual fields of activity, processes or products; they are responsible for preparing, implementing, acting and monitoring an effective and efficient internal audit system as well as responsible for identification and appropriate control of the born risk. Audit and Inspections Department carries out an independent assessment of the internal audit system as well as informs the Management Board and the Audit Committee about its reliability, effectiveness and efficiency.

5. Access to information

The Bank obeying the guidelines of the corporate governance presents on its website – section *Investor Relations* – current and periodic reports, basic internal regulations as well as other information allowing the reliable assessment of the company's operations.

6. Application of Best Practice

Pursuant to the Preamble of "Code of Best Practice for WSE Listed Companies" in force as of January 1, 2008 the principles comprised in parts from I to IV are a subject of annual reports concerning the activities in the scope of obeying these principles.

Not all principles of "Code of Best Practice for WSE Listed Companies" were included in the document "Best Practice in public companies 2005" which was in force in 2007, and the Bank made its statement on application of these principles basing on this document. Therefore, the Bank submits additional information below:

1. Recommendations on best practice for listed companies

Kredyt Bank S.A. pursues a transparent and honest information policy. The Bank acts with the respect for the law and best practice. In its activity, it is driven by customer's justified interest.

The Bank's information policy is directed to:

- Media through press conferences, press information as well as a contact with the press spokesperson and information on websites,
- Employees via internal magazine and mailing,
- Other Groups through publishing information on the website.

The Bank prepares and announces current and periodical reports to the public information, publishes them on the website, announces its timetable (calendar), ratings, quarterly presentations concerning the Bank's financial results as well as other information on the Bank's activity, both in Polish and English.

The Bank makes every effort to provide all financial market participants with the communication based on equal access to information and to ensure access to the best quality information as well as does its best to guarantee every individual or institution to be treated with equal concern and involvement.

Moreover, the Bank organizes meetings with analysts and investors, works out quarterly presentations on the Bank's financial results ensuring in this way a wide access to the information as well as a possibility of direct meeting for active investors with the Bank's managing staff.

The Bank has implemented the Policy of Physical and Technical Safety, and the Plans of Action Continuity in order to ensure the security as well as an efficient information policy in a critical situation.

2. Best practice applied by Management Boards' members of listed companies

The Bank's corporate website www.kredytbank.pl comprises essential corporate documents, curriculum vitae of the Bank Management Board and Supervisory Board's members, current and periodical reports.

Information concerning the General Meeting of the Bank (including; date of a General Meeting, draft resolutions), corporate events, concluding essential contracts was prepared and published in conformity with information obligations and pursuant to the law regulations in force.

Declarations of the Supervisory Board Members on links with shareholders as well as statements on complying with the Corporate Governance were also made available on the Bank's website.

The guidelines of the scope of activity for the Bank Management Board Members are defined by the Statues of Kredyt Bank S.A and the Management Board Regulations of Kredyt Bank S.A.

Participation of the Management Board Members at the General Meeting is defined by the Regulations of the General Meeting.

3. Best practice applied by the Supervisory Board Members

The Bank's Supervisory Board looks into and gives its opinion on all matters (according to its competences) to be examined by the General Meeting.

The Supervisory Board submits to the Management Board the Declarations on the links with shareholders.

There are also independent members in the Supervisory Board, Audit Committee and the Remuneration Committee.

The guidelines for the Bank Supervisory Board Members' scope of activity are defined by the Statues of Kredyt Bank S.A. and the Supervisory Board Regulations of Kredyt Bank S.A.

Participation of the Supervisory Board Members at the General Meeting is defined by the Regulations of the General Meeting.

4. Best Practice applied by the Shareholders

Media has a possibility to be present at the Bank's General Meetings.

The activity guidelines for the Bank General Meeting are defined by the Regulations of the General Meeting of Kredyt Bank S.A. amendments to the Regulations take effect as of the next General Meeting.

The process of dividend setting and payment as well as setting the rights of shareholders resulting from corporate events takes place on the basis on the law regulations in force, keeping the required time intervals.

The Bank fulfils the rule of shareholders' equal treatment in the scope of transactions and contracts which are concluded with the shareholders or entities linked with them.

The Management Board proposal concerning the selection of an entity authorised to audit the financial statement is examined by the Supervisory Board having the Audit Committee recommendations made.

Ronald Richardson	**Krzysztof Kokot**
President of the Management Board	**Deputy President of the Management Board**