Annual Report of Kredyt Bank S.A. prepared for the year ended December 31, 2005

(Submitted to the Polish Securities and Exchange Commission on February 28, 2006
translated from Polish language)

THE SECURITIES AND EXCHANGE COMMISSION

Annual report R 2005

(pursuant to & 86, item 1 pt. 3 of the Decree of the Council of Ministers dated October 19, 2005 – Journal of Laws No. 209, item 1744)

(for banks)

For the financial year 2005 comprising the period from 2005-01-01 to 2005-12-31
containing the abbreviated financial statement according to the International Standards of Financial Reporting
Currency: PLN

Date of submitting: 2006-02-28

KREDYT BANK S.A.
(Full name of the issuer)

KREDYTB
(abbreviated issuer's name)

Finance, Banks
(sector according to the classification of the Warsaw Stock Exchange)

01-211 (postal code) Warszawa (city or town)

Kasprzaka 2/8
(street) (number)

022 634-50-10 (telephone)
022 634-56-77 (fax)
ir@kredytbank.pl (e-mail)

527-020-40-57 (Tax identification number)
006228968 (Statistical identification number)
www.kredytbank.pl (www)

SELECTED FINANCIAL DATA	PLN thousand		EURO thousand	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
I. Net interest	695 678	567 012	172 912	125 495
II. Net commissions and fees	236 216	334 685	58 712	74 075
III. Result on operating activity	307 806	126 684	76 506	28 039
IV. Gross profit (or loss)	307 806	126 684	76 506	28 039
V. Net profit (or loss)	410 488	126 528	102 028	28 004
VI. Net total cash flows	-1 673 258	1 915 164	-415 892	423 878
VII. Total assets	20 981 768	21 043 970	5 435 973	5 159 100
VIII. Liabilities due to banks	2 562 167	1 125 115	663 808	275 831
IX. Liabilities due to customers	14 592 699	16 021 358	3 780 688	3 927 766
X. Equity	1 659 718	1 497 042	430 001	367 012
XI. Share capital	1 358 294	1 358 294	351 908	332 997
XII. Number of shares	271 658 880	271 658 880		
XIII. Book value per 1 share (in PLN/ EURO)	6,11	5,51	1,58	1,35
XIV. Capital adequacy ratio	16,21	14,40		
XV. Profit (loss) per 1 ordinary share (in PLN/ EURO)	1,51	0,52	0,38	0,11

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

To Shareholders, Customers and Employees,

In 2005, Kredyt Bank S.A. generated a historically high financial result amounting to PLN 410.5 million.

Launched in 2003 the process of thorough review of the credit risk management and non-performing loans portfolio recovery, combined with the implementation of new credit policies, enabled us to minimize the cost of risk impact upon the Bank's financial performance.

Reorganized in 2004 the support and cost management functions allowed us to reduce the operating costs and generate substantial savings.

The restructuring of sales, completed in 2005, was the third step and key element allowing for an improvement in revenue generation and having impact on net result. It has enabled us to consolidate positive trends, particularly visible through the results on selected strategic products, such as investment funds and insurance policies distribution or the sale of mortgage and retail loans.

All the above allowed for an ROE improvement, which if compared to 2004 figures, increased by 14.2%, up to 26%. Also, the cost/income ratio decreased by 6.7% and at the end of 2005 amounted to 74.2%. The high, clearly unsatisfactory level of the latter ratio illustrates the magnitude of effort in efficiency improvement, which is still ahead of us.

The change of the Kredyt Bank corporate visualization, which together with the other companies of KBC Group operating in Poland was launched in September 2005, was a very crucial moment, both in business and symbolic terms. The launch marked the first phase of the new Kredyt Bank strategy implementation, which builds on establishing, in cooperation with WARTA an insurance group, assuring the maximum advantage of the synergy effect resulting from the cooperation of all KBC Group companies in Poland.

The objective of Kredyt Bank in the year 2006 is to fully implement opportunities resulting from the cooperation with WARTA S.A., Żagiel S.A. and Kredyt Lease S.A. Expansion of the Bank's network by 120 new units planned for the next three-year period will improve the access to products offered by the Bank and its partners.

I am convinced that the implementation of this strategy will enable us to increase our share in the Polish financial services market and develop our potential to a greater extent. We plan to achieve it with respect of our values being a partnership, understanding and responsibility.

I would like to thank all our employees for their commitment and contribution to our performance in 2005. They were essential for the achievement of our business objectives.

Ronnie Richardson

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

In accordance with the Principle no. 18 of "The corporate governance principles" the Supervisory Board of Kredyt Bank S.A. makes publicly known a brief assessment of financial situation of Kredyt Bank S.A.

2005 was the second year in a row, when Kredyt Bank S.A. generated the best result in its history since the Bank's net result amounted to PLN 410.5 million. The measurable effects were brought by a process of restructuring of the Bank's basic areas of activity that started in 2004. It primarily comprised the following areas: credit risk, the functioning costs management and organization of sales. It proceeded in close co-operation with and using the experience of KBC Group – the Bank's major shareholder.

The implementation of a new credit policy and a reorganization of credit process as well as credit risk management process allowed to minimize the impact of the risk cost on the Bank's results. The net write-offs by the reason of financial assets impairment and other assets as well as provisions were positive and amounted to PLN 29,623 thousand in 2005. The intensification and improvement in efficiency of vindication and restructuring activities conducted by the separate Irregular Loans Portfolio Management Division isolated from the business area, had a positive impact on the overall Bank's activity. The basic ratios that describe this area, had improved: the share of credits (for which individual circumstances of impairment were identified) in total customers' receivables dropped from 28.0% to 26.0%, the coverage ratio of these receivables by provisions increased from 60.8% to 70.8%.

The control of costs was the second basic factor conditioning the improvement of the results generated. The reorganization and centralization of costs management function carried out in 2004, implementation of new principles of making procurement decisions and investments as well as the re-negotiation of the significant contracts allowed to substantially decrease the costs of the Bank's functioning for the second time in a row. This item (i.e. costs of functioning) decreased by 7.5% as compared with the year of 2004. As a result the cost/income ratio further improved, falling from 80.9% to 74.2%.

On April 25, 2005 the General Assembly of Kredyt Bank S.A. decided to cover a last portion of the loss incurred over the years 2002 – 2003 disclosed in 2004 financial statement and amounting to PLN 588.9 million, which was a significant event of 2005. The positive tendencies with respect to operating results generated by the Bank affirm a high probability of settlement of the tax losses that have cumulated over the previous years. Due to that reason, as of December 31, 2005, the Bank recognized a surplus of assets over the provision by the reason of deferred income tax amounting to PLN 102.2 million, which had a material impact on the Bank's 2005 net result. High values of capital adequacy ratio, which over the quarters from I to IV were equal to 13.3%, 14.4%, 16.2% and 16.2%, respectively, affirm the Bank's stable situation as well as the existence of a solid base for the further development of activity.

The restructuring activities in the years of 2004 and 2005 conducted in the area of sales organization, consisting in the separation of administration functions from business functions as well as the implementation of segmentation, brought positive results in the area of attracting customers' funds in 2005. In comparison with 2004 a significant growth was observed in the sale of the selected, strategic deposit products. Attention should be also drawn to a very dynamic growth of investment funds assets offered jointly with KBC TFI and WARTA, being an alternative for the customers' traditional deposits.

A summary of processes that were taking place in 2005 is a formulation of the Bank's new strategy. Its main assumption is the development of bancassurance and the establishment of the banking and insurance group in co-operation with WARTA S.A., applying the knowledge and experience of their major shareholder, i.e. KBC Group. The first step was a process of visualization of the Bank's logo that started in September 2005. Kredyt Bank S.A., WARTA S.A. and other entities from KBC Group in Poland introduced similar logotypes with the colouring and graphics similar to those of KBC logo. At the same time a process has been started to make uniform the décor of units and changes in the product offer aimed at the improvement of logo identification and securing for the customers an access "under one roof" to all products offered by the companies from KBC Group operating in Poland.

The improvement of the Bank's condition was affirmed by upgrading the ratings assigned by the rating agencies – Moody's Investors Service and Fitch Ratings. The changes in the basic ratios and financial figures obtained in 2005 justify a positive assessment of the Bank's financial situation as well as the activities conducted in order to assure the stable and safe foundations to generate profits and stimulate a further growth.

The Supervisory Board

Independent Auditor's Opinion

To the Supervisory Board of Kredyt Bank S.A.

1. We have audited the attached consolidated financial statements for the year ended 31 December 2005 of Kredyt Bank S.A. Capital Group ("Group"), for which the holding company is Kredyt Bank S.A. located at Warsaw, Kasprzaka 2/8 street, including:
   - the consolidated profit and loss account for the period from 1 January 2005 to 31 December 2005 with a net profit amounting to 415,878 thousand zlotys,
   - the consolidated balance sheet as at 31 December 2005 with total assets amounting to 20,841,344 thousand zlotys,
   - the consolidated statement of changes in shareholders' equity for the period from 1 January 2005 to 31 December 2005 with a net increase in shareholders' equity amounting to 423,395 thousand zlotys,
   - the consolidated cash flow statement for the period from 1 January 2005 to 31 December 2005 with a net cash outflow amounting to 1,673,252 thousand zlotys, and
   - the additional notes and explanations ("the attached consolidated financial statements").
2. The truth and fairness[1] of the attached consolidated financial statements and the proper maintenance of the consolidation documentation are the responsibility of the Bank's Management Board. Our responsibility was to audit the consolidated financial statements and to express an opinion whether, based on our audit, these consolidated financial statements are, in all material respects, true and fair[2].
3. We conducted our audit of the attached consolidated financial statements in accordance with the following regulations 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 consolidated 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 consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated 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: *''prawidłowe, rzetelne i jasne''*

4. In our opinion, the attached consolidated financial statements, in all material respects:
    - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2005 to 31 December 2005, as well as its financial position[3] as at 31 December 2005;
    - have been prepared, in all material aspects, in accordance with International Financial Reporting Standards approved by the European Union;
    - are in accordance with the provisions of laws affecting the content of the attached financial statements.
5. We have read the Directors' Report for the period from 1 January 2005 to 31 December 2005 and the rules of preparation of consolidated annual statements ('the Directors' Report') and concluded that the information derived from the attached consolidated 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 as at 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744 – "The Decree on current and periodic information").

on behalf of
Ernst & Young Audit Sp. z o.o.
ul. Emilii Plater 53
00-113 Warszawa
License no. 130

Dorota Snarska-Kuman
Certified Auditor No. 9667/7232

Dominik Januszewski
Certified Auditor No. 9707/7255

Warsaw, 28 February 2006

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

KREDYT BANK S.A.

**LONG-FORM AUDITORS' REPORT
SUPPLEMENTING THE OPINION
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

I. GENERAL NOTES

1. Background

Kredyt Bank S.A. (hereinafter 'the Company', 'the Bank') was incorporated on the basis of a Notarial Deed dated on 4 September 1990. The Bank's registered office is located in Warsaw at Kasprzaka 2/8 Street.

The Bank was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000019597 on 12^{th} June 2001.

The Bank was issued with tax identification number (NIP) 527-02-04-057 on 14^{th} June 1993 and statistical number (REGON) 006228968 on 15^{th} 1999.

The Bank is the holding company of the Capital Group Kredyt Bank S.A. Details of 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 29 and 48 of the Additional Notes and Explanations to the audited financial statements ended 31 December 2005.

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 bank guarantees and sureties,
- issuing bank securities,
- performing bank settlements in the form recognized in both domestic and foreign banking environment,
- operations including cheques and bills of exchange,
- issuing payment cards and performing operations using such cards,
- performing term financial operations,
- purchase and disposal of debt,
- storing valuable items and securities and renting safe deposit box,
- purchase and sale of foreign exchange,
- intermediation in money transfers and settlements in foreign exchange trade,
- taking over or purchasing shares and rights arising form banks' shares and other rights from shares from other legal entities or participation units investment funds,
- purchasing securities on own account or third parties, dealing with those securities and keeping securities accounts,
- performing brokerage activities,
- raising liabilities relating to the issue of securities,
- acting as a trustee in dealing with securities, exercising rights arising from these papers on behalf of Banks' clients,
- performing lease operations, factoring, underwriting, fortfaiting,
- managing investments and pension funds, acting as depositary for investment and pension funds, keeping accounting books and members registers for funds,
- insurance agency activities for individuals and corporations
- acquisition for open pension funds,
- performing ,with compliance to an agreement made with debtor, conversion liabilities to parts of debtor assets taking into account Banking Law,

(in thousand zlotys)

- acquire and dispose of real property,
- financial consulting and advisory services,
- issuing electronic money instruments.

As at 31 December 2005, the Bank's issued share capital amounted to 1.358.294 thousand zlotys. Equity as at that date amounted to 1.659.718 thousand zlotys.

In accordance with Bank's Share Book as at 28th February 2006, the ownership structure of the Bank's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
KBC Bank N.V. (Brussels)	232.341.875	232.341.875	1.161.709.375	85,53%
Others	39.317.005	39.317.005	196.585.025	14,47%
Total	271.658.880	271.658.880	1.358.294.400	100,00%

According to Banking Supervisory Commission resolution No. 81/KNB/01 taken on 17 September 2001 KBC Bank N.V. has a right to execute not more than 75% of votes during the General Meeting of Shareholders of Kredyt Bank S.A.

There were no movements in the share capital in the reporting period.

As of 28 February 2006, the Bank's Management Board was composed of:

Ronald Richardson	- President
Krzysztof Kokot	- Vice-president
Małgorzata Kroker-Jachiewicz	- Vice-president
Guy Libot	- Vice-president
Bohdan Mierzwiński	- Vice-president

On 9 February 2005 the Supervisory Board appointed from 1 March 2005 Mr. Ronald Richardson as a Member of the Management Board and then as the President of the Board after Banking Supervisory Commission agreed with this decision on 8 June 2005. Mrs. Małgorzata Kroker-Jachiewicz who was the President of the Board till 8 June 2005 stayed in the Board as a Vice-president.

On 9 February 2005 the Supervisory Board appointed Mr. Krzysztof Kokot as Vice President of the Management Board from 1 March 2005.

On 31 March 2005 the Supervisory Board accepted Mr. Fedele Di Maggio resignation who was a Member of the Management Board.

2. Financial Statement

On 25 April 2005 the General Shareholders' Meeting decided to prepare financial statement of the Bank beginning from 2005 according with International Financial Reporting Standards which were approved by 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 11 May 2005 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 26 July 2005 with the Bank's Management Board, we have audited the financial statements for the year ended 31 December 2005.

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' opinion without qualification dated 28 February 2006, 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 2005 of Kredyt Bank S.A. (the "Bank") located at Warsaw, Kasprzaka 2/8 street, including:
   - the profit and loss account for the period from 1 January 2005 to 31 December 2005 with a net profit amounting to 410,488 thousand zlotys,
   - the balance sheet as at 31 December 2005 with total assets amounting to 20,911,895 thousand zlotys,
   - the statement of changes in shareholders' equity for the period from 1 January 2005 to 31 December 2005 with a net increase in shareholders' equity amounting to 418,357 thousand zlotys,
   - the cash flow statement for the period from 1 January 2005 to 31 December 2005 with a net cash outflow amounting to 1,673,258 thousand zlotys, and
   - the additional notes and explanations ("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 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 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,

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

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 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 Bank's operations for the period from 1 January 2005 to 31 December 2005, as well as its financial position[3] as at 31 December 2005;
    - have been prepared, in all material aspects, in accordance with International Financial Reporting Standards approved by the European Union and based on properly maintained accounting records;
    - are in accordance with the provisions of laws and provisions of the Banks's statute that affect the content of the attached financial statements.
5. We have read the Directors' Report for the period from 1 January 2005 to 31 December 2005 and the rules of preparation of annual 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 as at 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744 – "The Decree on current and periodic information") "

We conducted the audit of the financial statements during the period from 7 November 2005 to 28 February 2006. We were present at the Bank's head office from 7 November 2005 to 22 November 2005 and from 4 January 2006 to 28 February 2006.

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. The Management Board also provided a letter of representations dated 28 February 2006, 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 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

[3] Translation of the following expression in Polish: *''sytuacja majątkowa i finansowa''*
[4] Translation of the following expression in Polish: "*prawidłowość, rzetelność, i jasność*"

The Bank's financial statements prepared in accordance with Polish Accounting Standards for the year ended 31 December 2004 were audited by Dominik Januszewski, Certified Auditor No. 9707/7255, acting on behalf of Ernst & Young Audit Sp. z o.o., with a register office at Emilii Plater 53 Street in Warsaw No. 130.

The certified auditor issued an opinion without qualification with emphasis of matter on the financial statements for the year ended 31 December 2004. Emphasis of matter related to verification of estimations conducted in 2003 regarding to amounts recoverable from collaterals associated with its corporate loan portfolio. In the second half of 2004, the Bank updated its analysis of collaterals discount factors taking into account additional vindication results arising in 2004. In financial statement as of 31 December 2004 these analysis were taken into account. Moreover emphasis of matter defines that the above estimates of the recoverable value may be subject to change in the future, and also the vindication results may significantly differ from the above estimates due to possible changes in the vindication process and obtaining by the Bank data from the completed vindication processes in the future. The above issue has no influence on financial statement as of 31 December 2005 prepared in accordance with International Financial Report Standards approved by EU.

Financial statement as of 31 December 2004 was approved at the General Shareholders' Meeting of on 25 April 2005 at which shareholders made a resolution that net profit for the year 2004 amounting to 185.176 thousand zloty will be assigned in full amount to cover the loss from the previous years.

The financial statements for the financial year ended 31 December 2004, 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 filed on 25th May 2005 with the National Court Register.

The introduction to the financial statements, the balance sheet as at 31 December 2004, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2004 together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of coverage of loss were published in Monitor Polski B No.1237 on 10th August 2005.

The closing balances as at 31 December 2004 were correctly brought forward in the accounts as the opening balances at 1 January 2005. Additionally Bank correctly took into account in opening balance changes resulting from application of International Financial Reporting Standards for the first time, as described in the Note 60 and 61 additional information to audited financial statement.

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 2004 - 2005. The ratios for the years 2004 and 2005 were calculated on the basis of financial information included in the financial statements for the year ended 31 December 2005. The selected financial information and data for 2003 were not presented as the Company has changed in 2005 the accounting policies to

(in thousand zlotys)

International Reporting Standards as adopted by the EU and the comparable data for earlier periods are not available.

	2005	2004*
Total assets	20.911.895	20.976.696
Shareholders' equity	1.659.718	1.497.042
Gross profit	307.806	126.684
Net profit	410.488	126.528
Solvency ratio	16,21%	14,40%**
Profitability ratio gross profit / overheads	38,43%	14,63%
Cost income ratio overheads / Income from banking activities	74,22%	80,93%
Return on capital net profit / shareholders' equity	26,01%	11,28%
Return on assets (%) net profit / average assets	1,96%	0,57%***

* Comparable data
** Solvency ratio as of 31 December 2004 was based on the financial statement as of 31 December 2004
***Average assets as of 2004 was calculated on the basis of the sum of assets as of 31 December 2003 presented in financial statement for the year ended 31 December 2004 prepared in accordance with Polish Accounting Standards

Rate of inflation:		
Yearly average	2.1%	3.5%
December to December	0.7%	4.4%

3.2. Comments

The following trends may be observed based on the above financial ratios:

- In the year 2005 Bank generated a net profit amounting to 410.488 thousand zloty in comparison with the net profit amounting to 126.528 thousand zloty in the previous year (according to comparable data presented in Bank's financial statement as of 31 December 2005).

- In 2005 in comparison with 2004 total assets decreased and as of 31 December amounts to 20.911.985 thousand zloty.
- Profitability ratio increased from the level of 14,63% in 2004 to 38,43% in 2005.
- Cost income ratio decreased from 80,93% in 2004 to 74,22% in 2005.
- Return on capital increased from 11,28% in 2004 to the level of 26,01% in 2005.
- Return on assets increased from 0,57% in 2004 to 1,96% in 2005.
- As of 31 December 2005 solvency ratio caclulated in compliance with NBP methodology was amounted for 16,21% in comparison with 14,40% in 2004.

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 2005 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

The audited financial statements for the year ended 31 December 2005 were prepared by the Management Board on the assumption that the Bank will continue as a going concern for a period of at least twelve months subsequent to 31 December 2005 and the Management Board has not indicated any circumstances that would indicate a threat to the Bank's continued activity.

3.4 APPLICATION OF REGULATIONS MITIGATING BANKING RISK

As at 31 December 2005 the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland Management Board and Resolutions of the Banking Supervisory Board envisaged following banking regulatory norms:

- level of currency positions,
- concentration of credit risk,
- concentration of investment in shares,
- loans, issued guarantees and collaterals classification to risk categories, level of provisions related to banking operations,
- solvency ratio,
- level of obligatory reserve,
- capital adequacy.

During our audit we have not identified any facts indicating that during the period from 1 January 2005 to 31 December 2005 the parent company did not comply with these regulations. We have received written representation from the Management Board that during the year the banking regulatory norms were not breached.

3.5 CORRECTNESS OF THE CALCULATION OF THE CAPITAL ADEQUACY RATIO

During our audit we have not identified any irregularities in relation to the calculation of the capital adequacy ratio as of December 31, 2005 in accordance with Resolution no 4/2004 of the Banking Supervisory Board dated September 8, 2004 *„Zakres i szczegółowe zasady wyznaczania wymogów kapitałowych z tytułu poszczególnych rodzajów ryzyka, w tym z tytułu przekroczenia limitów koncentracji wierzytelności, sposobu i szczegółowych* *zasad obliczania współczynnika wypłacalności banku, z uwzględnieniem powiązań banków z innymi podmiotami zależnymi lub działającymi w tym samym holdingu oraz określenie dodatkowych pozycji bilansu banku ujmowanych łącznie z funduszami własnymi w rachunku adekwatności kapitałowej oraz zakres i sposób ich wyznaczania." (Dz.Urz. NBP as of 5 October 2004).*

II. DETAILED REPORT

1. Accounting System

The Bank's accounts are kept using the Profile, Oracle Financials, FlexCube and Bankier computer system at the Bank's head office. The Bank has up-to-date documentation, as required under 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 2005.

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 2005.

3. Additional information

The additional notes and explanations to the financial statements for the year ended 31 December 2005 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 for the period from 1 January 2005 to 31 December 2005 ('the 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 regulations of the Decree of 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. 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.

6. Work of Experts

During our audit we have taken into account the results of the work of the following independent experts:

- property appraisers – in the calculation regarding the level of impairment for loan receivables we took into consideration the value of collaterals established in valuations performed by property appraisers engaged by the Bank;

- actuary – actuarial calculation of provision for retirement benefits.

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

Dorota Snarska-Kuman
Certified Auditor No. 9667/7232

Dominik Januszewski
Certified Auditor No. 9707/7255

Warsaw, 28 February 2006.

Financial statement

of Kredyt Bank S.A.

for the year ended

31 December 2005

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1. Income statement

in '000' PLN	Note	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Interest income	9	1 376 380	1 250 626
Interest expense	10	-680 702	-683 614
Net interest income		**695 678**	**567 012**
Fee and commission income	11	257 170	362 916
Fee and commission expense	12	-20 954	-28 231
Net fee and commission income		**236 216**	**334 685**
Dividend income	13	780	360
Net trading income	14	141 974	112 102
Profit/(loss) from investment activities	15	-4 406	40 680
Other operating income	16	58 836	60 398
Total operating income		**1 129 078**	**1 115 237**
General and administrative expenses	17	-800 986	-865 923
Net impairment charges for financial assets, other assets and provisions	18	29 623	-77 400
Other operating expenses	19	-49 909	-45 230
Total operating expenses		**-821 272**	**-988 553**
Profit before tax		**307 806**	**126 684**
Income tax expense	20	101 708	-156
Net profit from business activities		**409 514**	**126 528**
Net profit (loss) from discontinued operations		974	0
Net profit		**410 488**	**126 528**
Including:			
Per the Bank's shareholders		**410 488**	**126 528**
Earnings per share per the Bank's shareholders (in PLN per share)			
- basic	21	1.51	0.52

Income statement should be analyzed together with the notes which constitute an integral part of this financial statements

2. Balance sheet

in '000' PLN	Note	31.12.2005	31.12.2004
Assets			
Cash and balances with Central Banks	22	607 069	1 512 560
Amounts due from banks	23	2 229 548	2 699 801
Allowances for impairment losses for receivables due from banks	24	-2 894	-3 194
Financial assets at fair value through profit and loss, including held-for-trading assets	25	703 888	527 835
Loans and advances to customers	26	12 192 581	14 004 213
Allowances for impairment losses for loans and advances to customers	27	-2 319 248	-2 487 498
Investments in securities	28	6 709 651	3 912 669
- available-for-sale		4 417 819	2 449 998
- held-to- maturity		2 291 832	1 462 671
Equity investments available-for-sale	29	91 375	125 745
Tangible fixed assets	30, 31	341 065	360 873
Intangible assets	32, 33	110 557	138 720
Deferred tax assets	34	98 748	0
Current tax receivables		13 412	5 107
Other assets	35	136 143	179 865
Total assets		**20 911 895**	**20 976 696**

Liabilities			
Amounts due to banks	36	2 562 167	1 125 115
Held-for-trading financial liabilities	25	220 155	233 932
Amounts due to customers	37	14 592 699	16 021 358
Debt securities issued	38	402 435	418 150
Securities sold under repurchase agreements	39	368 701	718 772
Provisions	40	77 072	36 538
Other liabilities	42	439 367	326 503
Subordinated liabilities	43	589 581	599 286
Total liabilities		**19 252 177**	**19 479 654**

Balance sheet (cont.)

Equity		**31.12.2005**	**31.12.2004**
Share capital	44	1 358 294	1 358 294
Share premium	44	0	350 910
Revaluation reserve	44	15 928	-20 247
Reserve capital	44	120 942	173 779
Retained earnings/(loss)		-245 934	-492 222
Current net profit (loss)		410 488	126 528
Total equity		**1 659 718**	**1 497 042**
Total liabilities and equity		**20 911 895**	**20 976 696**
Capital adequacy ratio	46	**16,21**	**14,40**

Off-balance sheet items		31.12.2005	31.12.2004
Contingent liabilities, granted and received		4 300 859	5 867 635
Liabilities granted, including:		3 788 786	5 349 060
- financial	45	2 660 911	2 178 284
- guarantees	45	1 127 875	3 170 776
Liabilities received, including:		512 073	518 575
- financial		12 699	55 284
- guarantees		499 374	463 291
Liabilities related to sale/purchase transactions		79 905 636	31 099 032
Other:		3 068 907	3 661 768
- received collateral and guarantees		3 068 815	3 661 677
- other		92	91
Total off-balance sheet items		**87 275 402**	**40 628 435**

3. Statement of changes in equity

Changes in the period from 1 January to 31 December 2005

Statement of changes in equity	Share capital	Share premium	Revaluation reserve	Reserve capital	Retained earnings/(loss)	Net profit for the period	Total equity
Equity at period beginning*	**1 358 294**	**350 910**	**8 059**	**173 779**	**-649 681**	0	**1 241 361**
Changes in equity:	**0**	**-350 910**	**7 869**	**-52 837**	**403 747**	0	**7 869**
- covering retained loss	0	-350 910	0	-52 837	403 747	0	**0**
- valuation of financial assets	0	0	11 377	0	0	0	**11 377**
- other changes	0	0	-41	0	0	0	**-41**
- deferred tax	0	0	-3 467	0	0	0	**-3 467**
Net profit/loss for the period	**0**	0	**0**	**0**	**0**	**410 488**	**410 488**
Equity at period end	**1 358 294**	**0**	**15 928**	**120 942**	**-245 934**	**410 488**	**1 659 718**

*Equity reconciliation under PAS and IFRS has been explained in note 60 and 61.

Statement of changes in equity (cont.)

Changes in the period from 1 January to 31 December 2004

Statement of changes in equity	Share capital	Share premium	Revaluation reserve	Currency translation differences from the translation of subordinated companies and foreign branches	Reserve capital	Other reserve capitals	Retained earnings/(loss)	Net profit/(loss) for the period	Total equity
Equity at period beginning*	**1 056 451**	**1 020 023**	**-53 426**	**10 757**	**173 779**	**62 000**	**-1 524 210**	**0**	**745 374**
Changes in equity:	**301 843**	**-669 113**	**33 179**	**-10 757**	**0**	**-62 000**	**1 031 988**	**0**	**625 140**
- issue of series W shares	301 843	0	0	0	0	0	0	0	**301 843**
- share issue above share nominal value	0	301 843	0	0	0	0	0	0	**301 843**
- costs of share issue	0	-989	0	0	0	0	0	0	**-989**
- covering retained loss	0	-969 988	0	0	0	-62 000	1 031 988	0	**0**
- valuation of financial assets	0	0	33 318	0	0	0	0	0	**33 318**
- decrease in currency translation differences	0	0	0	-10 757	0	0	0	0	**-10 757**
- other changes	0	21	-139	0	0	0	0	0	**-118**
Net profit/(loss) for the period								**126 528**	**126 528**
Equity at period end	**1 358 294**	**350 910**	**-20 247**	**0**	**173 779**	**0**	**-492 222**	**126 528**	**1 497 042**

*Equity reconciliation under PAS and IFRS has been explained in note 60 and 61.

4. Cash flow statement

	in '000' PLN	Note	01.01.2005-31.12.2005	01.01.2004-31.12.2004
A	**Net cash flow from operating activities (I+/-II) – indirect method**		**1 739 134**	**1 139 092**
I.	**Net profit (loss)**		**410 488**	**126 528**
II.	**Total adjustments:**		**1 328 646**	**1 012 564**
1	Depreciation		125 694	148 212
2	Gains/(losses) on currency translation differences		-62 090	-192 748
3	Interest		-161 591	-8 808
4	Profit (loss) from investment activity		8 567	-9 845
5	Dividends		-780	-360
6	Net increase/decrease in provisions		40 534	-8 091
7	Net increase/decrease in debt securities	50ł	628 682	186 162
8	Net increase/decrease in amounts due from banks	50b	-297 814	-158 938
9	Net increase/decrease in loans and advances to customers	50c	1 374 621	2 937 076
10	Net increase/decrease in shares, other securities and other financial assets	50l	11 341	128 841
11	Net increase/decrease in amounts due to banks	50d	1 377 741	-871 580
12	Net increase/decrease in amounts due to customers	50e	-1 426 507	-1 619 489
13	Net increase/decrease in liabilities related to securities sold under repurchase agreements	50k	-349 008	716 664
14	Net increase/decrease in other liabilities		109 935	-230 606
15	Net increase/decrease in prepaid expenses and accruals		3 821	-1 750
16	Income tax paid/received		507	-12 080
17	Other adjustments	50h	-55 007	9 904

Cash flow statement (cont.)

	in '000' PLN	Note	01.01-31.12.2005	01.01-31.12.2004
B	**Net cash flow from investing activities (I+/-II) – indirect method**		**-3 407 071**	**554 813**
I.	**Inflows**		**43 642 906**	**10 598 111**
1	Disposal of shares in subsidiaries		0	114 429
2	Disposal of shares in associates		0	270
3	Disposal of shares in other businesses, of other securities and other financial assets		43 600 669	10 328 780
	- including debt securities		43 508 706	10 198 055
4	Disposal of intangible assets and tangible fixed assets		4 617	154 272
5	Dividends received		780	360
6	Other inflows from investments	50i	36 840	0
II.	**Outflows**		**47 049 977**	**10 043 298**
1	Acquisition of shares in subsidiaries		15 000	100
2	Acquisition of shares in other businesses, other securities and other financial assets		46 965 215	10 027 459
	- including debt securities		46 965 120	10 027 239
3	Acquisition of intangible assets and tangible fixed assets		69 762	15 739
C	**Net cash flow from financing activities (I+/-II)**		**-5 321**	**221 259**
I.	**Inflows**		**996 140**	**672 697**
1	Net cash inflows from long-term bank loans		996 140	0
2	Net cash inflows from the issue of shares and additional contributions to share capital		0	602 697
3	Net cash inflows from issued debt securities		0	70 000
II.	**Outflows**		**1 001 461**	**451 438**
1	Repayments of long-term bank loans		886 286	281 390
2	Financial lease rentals payments		27 922	44 571
3	Decrease in subordinated liabilities		0	60 000
4	Other financial outflows	50j	87 253	65 477
D	**Total net cash flow (A.III+/-B.III+/-C.III)**		**-1 673 258**	**1 915 164**
E	BALANCE SHEET CHANGE IN CASH, including:		-1 673 258	1 915 164
F.	CASH AT THE BEGINNING OF THE YEAR		3 922 059	2 006 895
G.	CASH AT THE END OF THE YEAR (F+/-D), including:	50a	2 248 801	3 922 059
	restricted cash		509 457	571 363

The Management Board of Kredyt Bank S.A. approved this financial statement of the Kredyt Bank S.A. for publication on 28 February 2006. The consolidated financial statement of the Capital Group of Kredyt Bank S.A. has been approved for publication at the same date.

This financial statement was audited by Ernst & Young Audit Sp. z o.o., an independent licensed certified auditor. The audit was performed in line with the certified auditors' professional standards issued by the National Council of Auditors in Poland.

5. General information

Kredyt Bank Spółka Akcyjna ('Kredyt Bank S.A.', 'Bank') with its registered office in Warsaw 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, ranked among top 10 Polish banks in terms of total assets. It provides banking services tailored to the needs of all customer groups: business entities, individual customers and local authorities. The Bank provides convenient access to its services via an extended network of outlets and ATMs, e-banking network. In cooperation with TUiR Warta, the Bank started to offer banc assurance services.

KBC Banking and Insurance Capital Group

Kredyt Bank S.A. is a part of the 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. The KBC Group is listed on Euronext Stock Exchange in Brussels.

The KBC Group focuses on banc assurance–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. Moreover, it is one of the leading financial groups in Europe (geographically, its operations are focused in Central Europe which is regarded as the second home market) with market capitalization of EUR 30 billion. Furthermore, the KBC Group is also present in many other countries worldwide.

In Poland KBC Group is the majority shareholder of TUiR Warta.

6. The description of major accounting principles applied for the purpose of preparing this financial statements

6.1. Declaration of compliance with IFRS

In accordance with the article 45 clause 1c of the Act and under the decision of the General Meeting of Shareholders of Kredyt Bank S.A. of 25 April 2005, from 1 January 2005, individual financial statements of Kredyt Bank S.A. have been prepared in accordance with IAS/IFRS.

The financial statement of Kredyt Bank S.A. for the financial year 2005 ended on 31 December 2005 has been prepared in line with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) in force as at 31 December 2005 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).

This financial statement is the first annual financial statement of the Bank prepared in line with IFRS.

As at 31 December 2005, the European Commission adopted, with the same effective date, amendments to certain standards and their interpretations in force, which could have affected this financial statement if the Bank had applied them before their effective date. The most significant amendments, in view of the Bank's financial statement, were introduced to:

- IFRS 7 Financial Instruments: Disclosures - this standard is effective since 1 January 2006 however earlier application is permitted. IFRS 7 replaces binding as at the balance sheet date IAS 30 *Disclosure in the Financial Statements of Banks and Similar Financial Institutions* and disclosure requirements of IAS 32 *Financial Instruments Disclosure and Presentation*. IFRS 7 extends the quantitative and qualitative disclosure requirements for financial instruments risk management: credit risk, liquidity risk and market risk. The bank assess that the disclosures for market risk sensitivity will require additional information and disclosures.

- IAS 1 Presentation of Financial Statements – these amendments to the standard is effective from 1 January 2006 however earlier application is permitted. IAS 1 requires additional disclosures related to shareholders' equity management. The Bank expects that disclosures related to shareholders' equity management would require certain additional information.

- IAS 39 *Financial Instruments: Recognition and Measurement – Fair Value Option* with resulting amendments in IFRS 1. 1 January 2006 is the effective date of these amendments, however earlier application is permitted. However, if the Bank had applied the amendments earlier, i.e. before 31 December 2005, it would not be able to apply the option of measurement at fair value of assets and liabilities other than those measured at fair value on this date.

The explanation of the impact of the transition from Polish Accounting Standards (PAS) applied earlier to IFRS upon the financial standing and results of the Bank presented in previous periods has been described in detail in Note 61.

6.2. Basis of preparing this financial statement

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

This financial statement was prepared according to the historical cost concept, except for financial assets and financial liabilities which are valued at fair value through profit or loss, and available-for-sale securities which are carried at fair value through revaluation reserve and first time adoption of IFRS.

The preparation of financial statements for the first time, and the following ones, in line with IFRS requires a professional judgment of an entity's Management Board on the adopted accounting principles and accounting estimates applied with respect to balance sheet items and income statement items. Estimates are made basing on historical data and a number of assumptions based on the facts available at the time, resulting from internal and external conditions. The actual results of business operations may differ from the current accounting estimates.

Accounting estimates are verified on a regular basis. Changes in estimates are recognized in the financial statement in the period they were made. If such changes are also related to future periods, the assumptions being the basis for the estimates for future periods are also adjusted. The essential accounting estimates, which affect this financial statement, have been presented in Note 7.

As a result of the adoption of IFRS, the Bank applies the methodology of the determination of materiality level in line with the methodology adopted by the Bank's Major Shareholder.

The Bank has adopted IFRS, as at 1 January 2004 i.e. opening balance according to IAS/IFRS has been prepared as at that date.

The accounting principles adopted for preparing financial statements are applied on a continuous basis in all presented periods, starting from the opening balance, except for the exemptions from specific IAS/IFRS, which are permitted under IFRS 1, as described in Note 60. Explanations of the transition to IFRS and the opening balance adjustments have been presented in Note 60 and 61.

6.3. 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, recognized 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 FX differences are recognized in profit and loss account.

Non-monetary assets and liabilities expressed in foreign currencies, recognized at historical cost, are translated into PLN at an exchange rate as at the transaction date, and items measured 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 recognized in gains and losses on the change in fair value. Currency translation differences on non-monetary items, such as available-for-sale financial assets, are presented in revaluation reserve.

As at 31 December 2005, KIF BV, the Bank's subsidiary, is the only foreign entity of the Bank. EUR is the functional currency for this entity.

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

	31.12.2005	**31.12.2004**
EUR	3.8598	4.0790
USD	3.2613	2.9904
CHF	2.4788	2.6421

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

The Bank recognizes 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 recognized in the balance sheet always on the date of transaction. Loans and receivables are accounted for when cash is paid out to a borrower.

Financial assets are excluded from the balance sheet when contractual rights to cash flows from a financial assets expire, or at the time when the Bank assigns contractual rights to receive cash flows.

6.5. Classification and measurement of financial assets and liabilities

6.5.1 Financial assets and liabilities at fair value through profit or loss

This category includes:

(1) held-for-trading assets or liabilities, i.e. those acquired or contracted with the intention of selling or repurchasing them in the nearest future. This category also comprises portions of the financial assets and liabilities portfolios managed jointly in order to generate profits in a short time horizon. This category also includes derivatives;

(2) financial assets and liabilities which, at the time of their initial recognition, were designated by the Bank to be valued at fair value through profit and loss.

Assets and liabilities are recognized at fair value from the date of the transaction. Fair value is determined on the basis of quotations on 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 recognized in the profit/loss on financial operations

Gains/losses from assets disposal are calculated using FIFO method.

Financial derivatives are recognized, from the transaction date, 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. Following the transaction, for the purpose of the balance sheet measurement, fair value is determined on the basis of quotations on active markets, including prices of the latest transactions and generally adopted measurement models based on variables that can be observed in the market environment.

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

Certain embedded derivatives are treated as separate derivatives, if the risks related to them and their features are not closely associated with the economic features and the risk characteristics of the host contract, and the host contract is not carried at fair value through profit or loss. Such types of derivatives are measured at fair value, and changes in fair value are recognized in the profit and loss account.

6.5.2 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.

Held-to-maturity investments are measured at amortized cost based on the effective interest method, taking account of impairment loss. Accrued interest and settled discount or premium is recognized in net interest income.

6.5.3 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 disburse cash to customers for purposes other than generating short-term trading gains This category includes amounts due from banks and customers, including purchased debt and investments in debt financial instruments, if they are not quoted on the active market.

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

Accrued interest with net commission settled over time based on the effective interest method is recognized in interest income; the commission settled on a straight-line basis is recognized in fee and commission income. Impairment charges are recognized in the income statement as impairment charges for financial assets.

6.5.4 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 in the balance sheet. Changes in fair value are recognized in revaluation reserve until the financial asset is derecognized; then accumulated gains/losses included in equity are recognized in the profit and loss account. In the case of debt securities, interest income and discount or premium is settled over time in net interest income based on the effective interest rate method.

If fair value cannot be determined, assets are recognized at cost less impairment charge. Impairment charge is recognized in the profit and loss account.

Dividends from available-for-sale equity instruments are recognized in the profit and loss account at the time when the right to obtain them arises.

Gains/losses from assets disposal are calculated with the FIFO method.

6.5.5 Equity investments

Investments in shares of the Bank's subsidiaries consolidated with the full method in the consolidated financial statement are recognized in individual financial statement at cost less impairment. If the impairment charge is higher than the purchase price, the difference is recognized against other than capital exposure, e.g. credit exposure. If there is no such exposures provision for impairment is recognized as a liability. Impairment charge for equity investments is reversed in the income statement.

6.5.6 Financial liabilities not held for trading

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

Financial liabilities not held for trading are recognized in the balance sheet in amounts to be paid valued at amortized cost with the application of the effective interest rate method.

6.5.7 Hedge accounting

Hedge accounting recognises the effects of compensating for changes in fair value of the hedging instrument and the hedged items, which exert impact on the income statement. According to adopted hedge accounting principles, the Bank designates certain derivatives to hedge fair value 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 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.

The Bank recognizes fair value hedge, which meets hedge accounting conditions, 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 recognized in the income statement. The rule is applicable to the hedged item which otherwise is measured at cost. When the hedged item is an available-for-sale financial asset, gains or losses resulting from the hedged risk are recognized in the income statement.

The Bank discontinue the hedge accounting principles application if the hedging instrument expires or is sold, terminated or exercised; the hedge no longer meets the criteria for hedge accounting or the Bank revokes the hedging designation.

In the case of a hedged instrument, which in other circumstances, would be recognized at amortized cost, the adjustment of the carrying amount resulting from the application of the hedging accounting is amortized to income statement. The amortization starts at the time of ceasing to identify the hedging relation, i.e. from the time of ceasing to adjust the hedged item with changes in fair value resulting from the hedged risk. The adjustment is settled with the effective interest rate method estimated as at the date of starting the amortization.

In the case of a hedged instrument which is an available-for-sale asset measured at fair value, the whole change of fair value from the time of ceasing to identify the hedging relation is recognized in the revaluation reserve according to the generally adopted rule.

6.5.8 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

- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit and loss is not separated).

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

6.6 Impairment of financial assets

6.6.1 Assets carried at amortized cost

Loan receivables constitute the most significant part of financial assets; and the most exposed to impairment, recognized in the Bank's balance sheet at amortized cost. At each balance sheet date (at least once a quarter) the Bank carries out an analysis to determine whether an impairment of the individual assets and/or the impairment of a portfolio of financial assets occurred. A financial asset or a group of financial assets were impaired and impairment losses was incurred when, and only when, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Estimated future losses are not recognized in the estimates of the current impairment. The list of objective circumstances indicating impairment has been presented in Note 7.

If the Bank identifies circumstances that indicate impairment, then the impairment charge is calculated, and is equal to a difference between the book value of a loan receivable and its economic value measured as the present value of expected future cash flows discounted with the effective interest rate of contacts. IFRS allows for, as a practical solution, application of the analysis of the fair value of assets and accepted loan collateral in the analysis of the impairment of assets recognized at amortized cost.

Impairment charge is recognized in the profit and loss account.

Individual impairment is measured for all loan receivables for which certain individual signs indicating impairment were identified.

When no objective evidence occurred which indicate the loan impairment assessed on individual basis, regardless of whether or not it constitutes a significant reporting item, such exposure is included in the portfolio of loans with similar risk features and the portfolio analysis of the impairment is performed. Homogenous loans portfolios are created basing upon the similar characteristics of credit risks that are specific for the defined groups of customers and products. The measurement of the portfolio impairment is performed based on historical parameters of losses generated by the 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. This way, the credit portfolios' risk is identified, and a defined probability exists that this risk will transform into individual losses. The Bank verifies the methodology on a regular basis.

When the circumstances that indicate impairment cease to exist, the impairment charge is reversed through the profit and loss account.

As the Bank applied exemptions indicated in IFRS 1 and did not restate the comparable data as provided in IAS 39, the carrying amount of loan receivables as of 1 January 2004 and 31 December 2004 was disclosed in accordance with the Polish accounting principles in force at the Bank on these days. The Polish principles required the classification of credit exposures into 5 risk groups (normal, under observation, substandard, doubtful and loss), applying a criterion of timely debt coverage and a criterion of the borrower's economic and financial standing. Specific provisions for the risk connected with credit exposures were established at least in the amounts required for the particular risk groups (from 1.5% to 100% of the base of establishment of the specific provisions). The Bank, while estimating the amount of specific provisions for the purpose of the Polish principles, estimated the value of securities in line with the regulations in force as well as the internal principles adopted by the Bank.

Pursuant to article 130 of the Act of 29 August 1997 – Banking Law (Journal of Laws of 2002 No. 72 item 665 as amended), the Bank established a provision for general risk in the comparable data as at 1 January and 31 December 2004 amounting to PLN 129,951 thousand and PLN 97,317 thousand respectively. Under § 7 of the Ordinance of the Minister of Finance of 10 December 2003 on the rules of establishing provisions for the risk of banking transactions (Journal of Laws of 19 December 2003), the Bank decreased the required level of specific provisions for the risk related to credit exposures resulting from retail loans and credits with the portion of the provision for general risk. As a result, this portion of the provision for general risk was recognized in this financial statement as a decrease in loan receivables.

The remaining portion of the provision for general risk as at 1 January and 31 December 2004 did not meet the criteria of its recognition as a provision under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. In accordance with IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, the Bank recognized these amounts in retained earnings/loss as at the above dates respectively.

6.6.2 Write offs of receivables to provisions

The Bank writes off loan receivables to impairment charges when such receivables are lost 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;
- the estate of a deceased debtor does not contain assets that can be subjected to enforcement;
- they are prescribed;
- they are written off due to the sale of claims;
- they are cancelled or written off due to debt restructuring;
- they are cancelled for material reasons, other than listed above.

6.6.3 Available-for-sale financial assets

If the Bank identifies objective evidence of 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 recognized directly in the profit and loss account, 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, the impairment loss is not reversed through the profit and loss account up to the amount previously accounted for in equity, and the surplus is recognized in the profit and loss account. In the case of a debt instrument, at the time when the circumstances indicating impairment are no longer identified, the amount of the reversed impairment loss is recognized in the profit and loss account.

6.7 Finance lease receivables

Lease contracts under which the Bank generally transfers all the risks and rewards related to the ownership of assets are recognized by the Bank as finance lease contracts. Receivables due under finance lease contracts are presented by the Bank in the balance sheet in the amount equal to net leasing investment, as loans and advances to customers.

Interest income under finance lease contracts is settled with the effective interest rate method in order to reflect the constant, in a given period, rate of return on net leasing investment.

6.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

6.9 Sale and repurchase agreements

Securities sold, under repurchase agreements ('repos') are not excluded from the balance sheet; they are only reclassified to pledged assets (available-for-sale assets), if transferee has the contractual or common right to sell or pledge the collateral. Dues to counterparties are recognized in financial liabilities. Securities purchased under agreements to resell ('reverse repos') 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.

6.10 Tangible fixed assets

6.10.1 Owned fixed assets

Property 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 recognized in the balance sheet at cost less depreciation and total impairment charges. Property and equipment with low individual value are fully depreciated in the month of putting them into use.

The Bank, according to IFRS 1 on the preparation of the opening balance sheet according to IFRS, applied fair value as the deemed cost of tangible fixed assets.

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

6.10.2 Capital expenditure incurred in further periods

The Bank recognizes, in the carrying amount of fixed assets, expenses of the increase in value or of the replacement of parts of such fixed assets 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.

6.10.3 Depreciation

Fixed assets 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. Fixed assets that are used together, but which have various useful lives, are depreciated separately.

Estimated periods of expected economic useful life of fixed assets:

• Buildings	40 years
• Leasehold improvements	10 years
• Motor vehicles	6 years
• Plant and machinery	Between 3 and 7 years
• Other fixed assets	10 years

The assets' residual values and useful lives are reviewed on an annual basis. The Bank performs annual review of impairment indicators and if the indicators occurred the tests for impairment of particular groups of fixed assets is carried to ensure whether the present carrying amount is not higher than the 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.

6.11 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 acquired under a separate transaction are recognized in the balance sheet at cost. Intangible assets acquired in transactions of business unit acquisition are recognized in the balance sheet at fair value as at the date of the acquisition.

Following the initial recognition, intangible assets are valued at historical cost.

6.11.1 Computer software

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

The Bank's costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably be used and generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs of the development of software activated in this way are amortized in the estimated useful life not exceeding 5 years.

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

6.11.2 Other intangible assets

Other intangible assets are recognized by the Bank in the balance sheet at cost less accumulated amortization and any impairment charges.

The Bank recognizes, 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 the Bank and the cost of improvement or replacement may be measured reliably. All other expenses are accounted for in the income statement as incurred.

6.11.3 Amortization

Intangible assets are amortized with the straight-line method according to the amortization schedule. The period of economic useful life, if it can be established, is taken into consideration while determining the amortization period and the annual amortization rate. Estimated useful life of intangible asset is 5 years for computer software licenses and copyrights.

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

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

6.12 The methods of the measurement of impairment of assets other than financial assets

The carrying amount of particular assets is periodically tested for impairment. If the Bank identifies evidence of 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 loss is recognized and impairment charge is accounted for in the profit and loss account.

6.12.1. Measurement of recoverable amount

Recoverable amount of an asset is determined as the higher of the following: the 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 recognized in attributed goodwill.

As at 1 January 2004, the Bank has tested for impairment all major classes of assets including goodwill. The Bank analysis of impairment indicators and if required performs tests for impairment of intangible assets and tangible fixed assets at least annually. Goodwill is tested for impairment annually regardless of the occurrence of the impairment triggers.

6.12.2. Reversal of impairment charge

Impairment charge for goodwill is not reversed.

In the case of other assets, impairment loss may be reversed if evidence of impairment ceases to exist or the parameters taken into account in estimates of recoverable amount are changed.

Impairment loss 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 loss had not been made.

6.13. Trade and other receivables

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

6.13.1. 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 loss is recognized. If the selling price of the assets is higher than debt, the difference constitutes a liability towards the borrower.

6.14. Deferred tax assets and liabilities

Deferred tax assets are recognized on all negative temporary differences as well on unsettled tax assets and unused tax losses carried forward, in the amount in which it is probable that taxable income will be generated which will allow for using the said differences, assets and losses:

- except for situations, when deferred tax assets related to negative temporary differences are created as a result of the initial recognition of an asset or a liability in a transaction which is not a business combination and that at the time of the transaction it affects neither profit before tax nor taxable income nor tax loss; and
- in the case of negative temporary differences related to investments in subsidiaries or associates and interests in joint ventures, a deferred tax asset is recognized in the balance sheet only in such an amount for which it is probable that in the foreseeable future the said temporary differences will be reversed and taxable income is generated which will allow for deducting negative temporary differences.

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

Deferred tax liability is recognized for all positive temporary differences:

- except for situations, when the deferred tax liability is created as a result of the initial recognition of goodwill or initial recognition of an asset or a liability in a transaction which is not a business combination and that at the time of the transaction it affects neither profit before tax nor taxable income or tax loss;
- in the case of positive temporary differences arising from investments in subsidiaries or associates and interests in joint ventures – except for situations when the dates of reversing temporary differences are controlled by an investor and when it is probable that, in a foreseeable future, the temporary differences will not be reversed.

Deferred tax assets and deferred tax liabilities are determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Deferred tax liability is not discounted.

Deferred tax related to items recognized directly in shareholders' equity is accounted for in shareholders' equity and not in the income statement.

6.15. 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 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.

6.16. Provisions

The Bank recognizes provisions in the balance sheet when:

a) the Bank has a present legal or constructive obligation as a result of past events;

b) it is more likely than not that an outflow of resources will be required to settle the obligation;

c) the amount of the future obligation can be estimated reliably.

The provision is recognized 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 when the provision is used.

6.16.1. Restructuring provision

The Bank recognizes 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.

6.16.2. 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, as an employer, fulfilling the obligations stipulated 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 part of short-term employee benefits, including remuneration, bonuses, paid leaves. Short-term benefits are recognized in general expense under general principles.

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

6.17. Equity

Share capital is recognized at nominal value in the amount compliant with the Bank’s Memorandum and Articles of Association and the entry in the Court Register. Other shareholders’ equity is recognized in the balance sheet by types as required by law and the Bank’s Memorandum and Articles of Association. Shareholders’ equity also comprises net profit/loss for the period and retained profit or loss. Particular items of shareholders’ equity are presented in notes.

6.18. Granted off-balance sheet liabilities

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

a) a possible obligation depending on whether some future event occurs, whose existence will be confirmed only at the time of the occurrence or non-occurrence of one or more uncertain future events not fully controlled by the Bank;

b) a present obligation resulting from past events, but not recognized in the balance sheet, as it is not probable that the outflow of cash or other assets in order to fulfill the obligation is necessary, or the obligation amount cannot be determined reliably.

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

Undrawn credit lines are recognized in off-balance sheet liabilities in the amount resulting from contracts.

Guarantees issued by the Bank on behalf of customers are recognized in off-balance sheet liabilities in the amount resulting from contracts.

Credit risk arising from off-balance sheet liabilities is assesed on the basis of discounted, expected, future cash flows. The provisions for estimated risk are created in ‘liabilities’ in the Bank’s balance sheet.

6.19. 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.

The Bank has offset assets and liabilities arising on CSBF as it does not constitute Bank’s assets.

6.20. Net interest income

Interest income and expense generated by financial assets and liabilities are recognized in the income statement at amortized cost with the effective interest rate method.

The following financial assets and liabilities are measured at amortized cost:

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

In addition, as indicated in paragraf “*Financial assets and liabilities at fair value through profit and loss”,* in the case of debt securities carried at fair value, the coupon rates and acquired discounts or premiums are settled in the income statement also on the basis of the amortized cost method.

The purpose of the measurement at amortized cost with the effective interest rate is to ensure that income and expenses, in particular reporting periods, related to the measured financial assets and liabilities over the entire period when they are held in the portfolio are commensurable, and, at the same time, the achievement of the constant rate of return on the assets portfolio financed with the defined deposits portfolio.

The effective interest rate is the rate that discounts a future, expected flow of cashpayments 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 rate method or straight-line method) depends on the nature of a given instrument. In the case of financial instruments with fixed cash flows schedules, the effective interest rate method 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.

However, the method of recognizing particular types of commissions/fees settled over time in the income statement as interest income or fee and commission income, and the need for their settlement over time instead of one-off recognition in the income statement, depends on the economic nature of the 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, etc. 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, what modifies the value of initial effective interest rate. Any significant amendment to the terms 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.

Furthermore, if the conclusion of the defined loan agreements is probable, the fees related to the Bank's commitment to conclude them are deemed as remuneration for a permanent commitment in the acquisition of the financial instrument; they are deferred and recognized as the adjustment of the effective return upon the conclusion of a given agreement (with the method of the effective interest rate or on a straight-line basis, depending on the type of a product).

In the case of assets for which evidence 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 and impairment charge basing on effective interest rate applied to calculate impairment charge.

6.21. Net fee and commission income

As stated above, fees and commissions recognized in the income statement with effective interest rate are accounted for by the Bank in the net interest income.

Whereas fees and commissions not settled with the effective interest rate, are settled over time with the straight-line method or recognized one-off and reported in 'net fee and commission income'. Such income 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 recognized one-off.

6.22. 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 results.

6.23. Dividend income

In the case of equity investments recognized in the balance sheet at historical cost, dividend income is accounted for in the income statement at the time when the right to dividend is established. In the case of equity investments recognized in the balance sheet with equity method, dividend income is already included in the measurement with the accrual concept, initially recognized in the measurement with the equity method.

6.24. 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 fixed assets, received and paid indemnities, income and expenses on other services provided or acquired by the Bank to a marginal extent.

6.25. Income tax expense

Tax charge on profit before tax is composed of the current tax and deferred tax.

Current tax for the period is calculated by the Bank on the basis of the accounting profit before tax adjusted with income as stated in books, which, under the tax law in force, is not taxable income, and on the basis of accounting expenses which are not deductible expenses. In addition, profit before tax as stated in books is adjusted with accounting revenue and expenses, which were realized for tax purposes in the period.

Deferred income tax recognized as an element of tax charge on profit before tax is calculated as the net effect of the change in deferred tax assets and liabilities.

6.26. Held-for-sale fixed assets 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. Further, fixed assets and held-for-sale assets are measured at the lower of: present carrying amount or fair value less costs to sell.

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 recognizes operations as discontinued upon sale or classification as 'held-for-sale'.

6.27. Comparable data

Where necessary, comparable data were restated so as to take account for changes in accounting and presentation principles effective on 1 January 2005. The description of adjustments of comparable data has been presented in Note 61.

7. Accounting estimates

The preparation of financial statements in conformity with IFRS requires a professional judgment of an entity'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 at the time, resulting from internal and external conditions. The actual results of future business operations may differ from the present accounting estimates. Therefore, accounting estimates are verified on a regular basis. Changes in estimates are recognized in the financial statement in the period they were made.

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 charges for financial assets measured at amortized cost and historical cost;
- value of deferred tax assets;
- provisions.

7.1. Valuation of financial assets and liabilities at fair value

In the case of financial assets and liabilities recognized in the balance sheet at fair value, for which no active market is identified, except for the 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.

7.2. Impairment of financial assets valued at amortized cost and historical cost

Loan receivables constitute the most significant class of financial assets recognized in the Bank's balance sheet at amortized cost or historical cost.

Under IAS 39, all receivables are subject to impairment assessment, not only receivables with higher credit risk.

The methodology of assesment of evidence of loan impairment has been established in cooperation with the Bank's Major Shareholder on the basis of the Bank's experience acquired in the banking sector, analyzing historical data over a long time and taking into account the current specific character of the local market and the nature of the financial assets portfolios managed by the Bank.

7.2.1. Evidence of impairment triggers

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

The catalogue of objective evidence takes into account quantitative and qualitative data in static and dynamic terms, in relation to both the servicing of credit exposure by the borrower as well as his financial and economic situation, the management and control processes, market and macro-economic environment, what is reflected in the possibility of generating financial resources necessary to cover the indebtedness.

The evidence items listed are graded in terms of their significance; impairment may be evidenced by one circumstance or a combination of circumstances.

In the case of receivables portfolios, the indicators concerning all homogenous assets that may be identified, assessed and quantified in relation to the entire portfolios, but not the individual receivables, constitute the evidence of impairment.

7.2.2. Measurement of individual impairment

Individual impairment is measured for all loan receivables in the case of which certain individual evidence of impairment was identified with regard to all evidence of 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.

The process of estimating future, expected cash flows is carried out in especially dedicated IT tool and is based on the analysis of the relevant scenario.

The economic value of the receivables secured with collateral is estimated taking into account the recoverable amount of such collateral. A group estimation of a possibility of recovering the collateral is prepared in the case of those receivables for which the debt recovery value of collateral is the only expected future cash flow. The Bank acquires knowledge on the quality of collateral portfolio in a form of statistical data updated on a regular basis, related to the historical effectiveness of debt recovery as well as present market value of particular type of collateral, adjusted with the costs of the recovery.

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

7.2.3. Measurement of portfolio impairment

In the event where no objective evidence of 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 portfolio 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 portfolio 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. Thus, the continuous risk of portfolios is identified, and a defined probability exists that this risk will transform into individual losses.

The process of estimating portfolio provision is performed on a quarterly basis and is directly monitored by the Bank’s Credit Committee and the Bank’s Management Board. The following phenomena, apart from calibrated historical trends, have material impact on the level of the portfolio provision:

a) fluctuations in the receivables portfolio, for which individual impairment is not identified;

b) the Bank’s operating effectiveness in credit risk management processes, particularly taking into account the restructuring and debt collecting activities;

c) Poland’s macroeconomic situation and its direct impact on the material ratios applied in the banking sector;

d) the Bank’s credit policy for selected sectors of economy as well as receivables portfolios compared with the models adopted by other banks.

As the Bank took advantage of exemptions indicated in IFRS 1 and did not restate the comparable data as provided in IAS 39, a carrying amount of loan receivables as of 1 January 2004 and 31 December 2004 was disclosed in accordance with the Polish accounting principles effective in the Bank on these days. The Polish principles provided for the classification of credit exposures within 5 risk groups (normal, under observation, substandard, doubtful and loss), applying a criterion of timely debt coverage and a criterion of the borrower's economic and financial standing. Specific provisions for the risk connected with credit exposures have been established at least in the amounts required for the particular risk groups (from 1.5% to 100% of the base of establishment of the specific provisions). The Bank, while estimating the amount of specific provisions for the purpose of the Polish principles, estimated the value of collateral as required by the regulations in force as well as the internal principles adopted by the Bank.

7.3. The value of deferred tax assets

As presented in the Bank's financial statement as of 31 December 2004, the accounting principle related to the measurement of deferred tax assets applied in 2003 and 2004 provided that, at the Bank, bearing in mind balance sheet and tax losses in 2002 and 2003 and the uncertainty of the settlement of the excess of deferred tax asset over deferred tax liability, deferred tax assets were recognized only up to the amount of deferred tax liability.

The positive trend in the operating income generated by the Bank is a proof of increasing probability of settling tax losses accumulated in previous years. The Bank, as of 30 June 2005, bearing in mind the Bank's improving financial result, decided to recognize an excess of deferred tax asset over deferred tax liability in the amount that is probable to be generated in the future. The accounting policy adopted by the Bank stipulates in this respect that at the end of each quarter, the Bank will assess the probability of realizing net deferred tax asset and recognize the amount in the amount of the probable future realization amount on that account. The probability of realizing the net deferred tax asset will be determined on the basis of financial plans and tax forecasts prepared by the Bank's Management Board, updated at the end of each quarter.

7. Segment reporting

The Bank applies a basic division into business segments subject to the reporting requirement. 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.

The Bank is organized into four basic sector segments: corporate, retail, treasury and investment.

Corporate Segment entails transactions with large companies (with annual income exceeding PLN 6 million) as well as state budgetary units at the central and local levels. Beside the traditional deposit, credit and settlement services, other specific services are offered. 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 fixed assets and real estates, and also of real estate trade.

Retail Segment incorporates products targeted at individual customers as well as Small and Medium-size Enterprises (SME), which annual income does not exceed PLN 6 million. The products on offer comprise a wide range of deposit and loan products, insurance products (banc assurance and assure banking) 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. The results of this segment also comprise the result of Żagiel S.A. specializing in the sale of installment loans as well as in intermediation in the distribution of selected services that are found in the Bank's and WARTA's offers. Furthermore, the Bank's offer for this segment includes products offered by KBC TFI sale of shares in investment funds.

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 incorporates the Bank's equity investments in shares of companies whose core business is focused on generating added value for the Bank by specializing 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 includes results on custodian services.

The segment's income and expenses had been determined before inter-segmental exclusions were made. The selling prices exercised among segments are calculated on the basis of the transfer prices methodology. Income and expenses that may not be rationally allocated to any of the segments are disclosed in 'unallocated costs' and 'unallocated income' items. The Bank's expenses are not allocated internally to individual segments. For the purpose of this financial statement, the expenses were allocated using the allocation keys, such as the structure of employment, usable area or the extent of segment's activities as measured with the value of assets and liabilities.

Net profit (loss) of segments presented in the segment note for 2004 included in the Bank's financial statement as at 31 December 2004 differ from the results included in this financial statement due to new rules of calculating inter-company receivables and liabilities between segments and undertaken a process of profound restructuring, which helped implement considerable changes in the organization structure of segments. It means that in 2005, the costs of financing loans and credit activities are calculated on the basis of net value, while in the previous year, they were calculated on the basis of gross value.

As at 31.12.2005 the Bank has not maintained the previous segmentation scheme and data gathering system has been changed what resulted in difficulties for comparable data for year 2004. As a result of the above segment reporting note for a year 2005 is not comparable with the note for the year 2004.

Income statement for the period 01.01-31.12.2005

	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Other	Exclusions	Total
1. Segment income (external)	550 533	682 290	492 761	18 492	91 064	0	**1 835 140**
2. Segment income (internal)	194 090	497 409	531 186	0	14	-1 222 699	**0**
3. Total segment income	**744 623**	**1 179 699**	**1 023 947**	**18 492**	**91 078**	**-1 222 699**	**1 835 140**
4. Segment expense (external)	-145 367	-265 508	-287 462	-947	-56 687	0	**-755 971**
4a. Allocated expenses	-141 563	-599 165	-31 714	-22 174	-6 370	0	**-800 986**
5. Segment expenses (internal)	-293 440	-228 312	-691 512	-9 435	0	1 222 699	**0**
6. Total segment expenses	**-580 370**	**-1 092 985**	**-1 010 688**	**-32 556**	**-63 057**	**1 222 699**	**-1 556 957**
7. Segment result	**164 253**	**86 714**	**13 259**	**-14 064**	**28 021**	**0**	**278 183**
8. Net impairment charges for financial assets, other assets and provisions	**71 466**	**-19 233**	**0**	**1 644**	**-24 254**	**0**	**29 623**
9. Segment result	**235 719**	**67 481**	**13 259**	**-12 420**	**3 767**	**0**	**307 806**
10. Result on discontinued operations							**974**
11. Income tax expense							**101 708**
12. Net profit (loss)	**235 719**	**67 481**	**13 259**	**-12 420**	**3 767**	**0**	**410 488**

Balance sheet as at 31.12.2005

	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Other	Total
1. Segment assets	5 136 831	4 761 217	10 226 697	444 604	0	**20 569 349**
2. Other assets (unallocated)	0	0	0	0	0	**342 546**
3. Total assets	**5 136 831**	**4 761 217**	**10 226 697**	**444 604**	**0**	**20 911 895**
4. Segment liabilities	4 143 611	10 315 800	4 251 054	0	0	**18 710 465**
5. Equity	0	0	0	1 659 718		**1 659 718**
6. Unallocated liabilities	0	0	0	0	0	**541 712**
7. Total liabilities and equity	**4 143 611**	**10 315 800**	**4 251 054**	**1 659 718**	**0**	**20 911 895**
Equity investments (costs of assets acquisition)					69 763	**69 763**
Depreciation	23 390	86 442	8 214	6 650	998	**125 694**

Income statement for the period 01.01-31.12.2004

	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Other	Exclusions	Total
1. Segment income (external)	553 503	876 283	374 847	110 183	44 242		**1 959 058**
2. Segment income (internal)	187 922	513 644	593 316	0	0	-1 294 882	**0**
3. Total segment income	**741 425**	**1 389 927**	**968 163**	**110 183**	**44 242**	**-1 294 882**	**1 959 058**
4. Segment expenses (external)	-141 320	-429 262	-237 088	-47 116	-31 632	0	**-886 418**
4a. Allocated expenses	-148 996	-647 668	-32 495	-29 724	-7 040	0	**-865 923**
5. Segment expenses (internal)	-330 864	-238 981	-701 566	-21 957	-1 514	1 294 882	**0**
6. Total segment expenses	**-621 180**	**-1 315 911**	**-971 149**	**-98 797**	**-40 186**	**1 294 882**	**-1 752 341**
7. Segment result	**120 245**	**74 016**	**-2 986**	**11 386**	**4 056**	**0**	**206 717**
8. Profit from provisions and revaluation	**-60 551**	**-94 648**	**0**	**33 512**	**41 654**	**0**	**-80 033**
9. Segment result	**59 694**	**-20 632**	**-2 986**	**44 898**	**45 710**	**0**	**126 684**
10. Income tax expense	0	0	0	0	0	0	-156
11. Net profit (loss)	**59 694**	**-20 632**	**-2 986**	**44 898**	**45 710**	**0**	**126 528**

Balance sheet as at 31.12.2004

	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Other	Total
1. Segment assets	6 457 837	5 022 405	8 595 421	259 929	0	**20 335 592**
2. Other assets (unallocated)	0	0	0	0	0	**641 104**
3. Total assets	**6 457 837**	**5 022 405**	**8 595 421**	**259 929**	**0**	**20 976 696**
4. Segment liabilities	3 210 031	10 738 514	5 089 610	0	0	**19 038 155**
5. Equity	0	0	0	1 497 042	0	**1 497 042**
6. Unallocated liabilities	0	0	0	0	0	**441 499**
7. Total liabilities and equity	**3 210 031**	**10 738 514**	**5 089 610**	**1 497 042**	**0**	**20 976 696**
Equity investments (costs of assets acquisition)					59 680	**59 680**
Depreciation	25 502	110 855	5 562	5 088	1 205	**148 212**

8. Interest income

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Amounts due from banks	120 988	88 673
Loans and advances to customers	926 990	870 952
- from financial sector	26 441	37 169
- from non-financial sector	834 150	766 975
- from the budgetary sector	66 399	66 808
Fixed yield securities	327 615	288 053
- held for trading	13 248	18 085
- available for sale	241 634	215 416
- held to maturity	72 733	54 552
Securities acquired under repurchase agreements	787	2 216
Other	0	732
Total	**1 376 380**	**1 250 626**

Interest income in 2005 includes PLN 43,519 thousand of interest calculated under an accrual basis, that the Bank, as at the balance sheet date, did not receive in cash, on receivables with recognized impairment. Interest was calculated with the effective interest rate applied to discounting expected cash flows for the purpose of estimating the impairment of loan receivables. In comparable data for 2004, as the Bank took advantage of exemptions indicated in IFRS 1 and did not restate the comparable data as provided in IAS 39, interest income on irregular receivables in the income statement was recognized on the cash basis.

9. Interest expense

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Amounts due to banks	69 868	69 829
Amounts due to customers	510 471	536 975
- from financial sector	67 908	89 623
- from non-financial sector	374 183	362 991
- from the budgetary sector	68 380	84 361
Securities sold under repurchase agreements	28 476	10 362
issue of securities, including:	33 530	31 472
- subordinated securities	33 530	31 472
Other subordinated liabilities	23 535	23 934
Other	14 822	11 042
Total	**680 702**	**683 614**

Net interest income	**695 678**	**567 012**

10. Fee and commission income

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Fees and commissions on loans	36 255	144 363
Fees and commissions on deposit transactions with customers	123 373	127 947
Fees and commissions for the servicing of payment cards and ATMs	49 300	46 412
Brokerage commissions	0	3 696
On foreign clearing operations	13 275	13 124
On guarantee commitments	2 642	4 646
Commission on distribution of investment and insurance products	18 782	6 510
Other fees and commissions	13 543	16 218
Total	**257 170**	**362 916**

11. Fee and commission expense

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Participation of agents in arrangement fee	213	67
Fees and commissions on loans received	2 022	1 392
Fees and commissions for the servicing of payment cards and ATMs	13 727	7 676
Costs of guarantee commitments	70	5 084
Other fees and commissions	4 922	14 012
Total	**20 954**	**28 231**

Net fee and commission income	**236 216**	**334 685**

12. Dividend income

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Available-for-sale securities	780	360
Total	**780**	**360**

13. Net trading income

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Net trading income, including:		
- on debt securities	6 852	1 908
- on derivatives	84 632	13 572
- foreign exchange results	48 352	95 107
- other	2 138	1 515
Total	**141 974**	**112 102**

14. Profit/(loss) from investment activities

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
From available-for-sale assets and held-to-maturity assets:		
- from equity instruments	5 337	25 587
- from debt instruments	-9 743	15 093
Total	**-4 406**	**40 680**

15. Other operating income

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Management of third party assets	0	3 696
Disposal of or liquidation of fixed assets and disposable assets	2 206	18 107
Recovered bad debts and debt recovery costs	7 230	7 324
Indemnities, penalties and fines received	6 235	16
Other non banking income	13 504	5 904
Provisions reversals for other debtors	5 154	9 088
From cooperation with Żagiel and other agents	993	3 249
Reimbursement of remuneration for distribution of Group's products	18 294	7 322
Reorganization and liquidation of the Bank's business units	0	1 314
Other operating income	5 220	4 378
Total	**58 836**	**60 398**

16. General and administrative expenses

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Staff costs, including:	**362 277**	**367 560**
Salaries and wages	295 023	310 352
Salaries and wages mark-up	50 196	53 079
Employee benefits	10 165	0
Training expenses	6 893	4 129
General and administrative expenses including:	**313 015**	**350 151**
Costs of buildings maintenance and lease	101 246	99 144
Postal and telecommunication expenses	48 198	57 506
IT systems operation costs	24 881	31 760
Public relation and advertising services	20 061	7 590
Costs of machinery repairs	10 627	12 329
Property protection costs	17 082	28 873
Costs of balance sheet audit, consulting and advisory	11 796	23 173
Leasing fees	19 553	35 849
Transportation costs	8 847	12 162
Business trips	3 797	4 006
Taxes and fees	5 453	7 859
Costs incurred on account of the Bank Guarantee Fund	3 252	4 457
Other	38 222	25 443
Depreciation, including:	**125 694**	**148 212**
Tangible fixed assets	83 171	107 065
Inangible assets	42 523	41 147
Total	**800 986**	**865 923**

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 recognized 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.

Under operating leases, the Bank operates two Headquarters buildings, which, towards the end of 2004, were sold to companies, not related to the Bank and are now leased back 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 Bank has no guaranteed repurchase right to the buildings after the 10-year term of lease.

Gross leasing payments paid by the Bank and recognized in particular reporting periods as operating expenses were as follows (in gross terms):

31.12.2005	31.12.2004
77 901	75 516

The major portions of fees were 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:

	31.12.2005	31.12.2004
- up to 1 year	78 006	94 121
- from 1 to 5 years	201 013	242 538
- over 5 years	98 917	119 352
Total	**377 936**	**456 011**

17. Net impairment charges for financial assets, other assets and provisions

Creation of impairment charges and provisions

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Credits and loans	489 131	1 696 339
Available-for- sale financial assets	1 564	626
Equity investments	15 000	0
Assets to be disposed, tangible fixed assets and intangible assets	18 032	13 196
Total impairment charges	**523 727**	**1 710 161**
Provision for restructuring	0	2 000
Provisions for other future liabilities	11 373	2 633
Off-balance sheet liabilities	101 098	224 330
Total provisions	**112 471**	**228 963**
Total	**636 198**	**1 939 124**

Reversal of impairment charges and provisions

	01.01-31.12.2005	01.01-31.12.2004
Credits and loans	594 147	1 591 876
Available-for- sale financial assets	0	5 158
Equity investments	2 470	25 305
Assets to be disposed, tangible fixed assets and intangible assets	2 022	12 183
Total impairment charges	**598 639**	**1 634 522**
Provisions for employee benefits	0	563
Provisions for other future liabilities	0	658
Off-balance sheet liabilities	67 182	225 981
Total provisions	**67 182**	**227 202**
Total	**665 821**	**1 861 724**
Net impairment charges for financial assets, other assets and provisions	**29 623**	**-77 400**

18. Other operating expenses

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Management of third party assets	0	3 536
Disposal of or liquidation of fixed assets, intangible assets and disposable assets	2 427	13 420
Written off receivables and debt recovery expenses	23 676	3 528
Indemnities, penalties and fines paid	1 116	456
Bank’s incidental expense	216	282
Donations	206	1
Insurance	7 564	7 006
Sponsoring	1 210	1 323
Reorganization and liquidation of the Bank’s business units	117	1 177
Other impairment charges of other assets	6 474	4 644
Other expenses	6 903	9 857
Total	**49 909**	**45 230**

Finance lease liabilities

Finance lease liabilities arise on the contracts concluded with the Banks' capital group entities. The finance lease contracts where Bank acts as a lessee relates mainly to the lease of real estate and movables 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.

	31.12.2005	31.12.2004
Finance lease gross liabilities	**119 188**	**143 533**
Future minimum interest payments	44 708	55 930
Finance lease net liabilities	**74 479**	**87 603**
Future minimum lease payments	**119 188**	**143 533**
- up to 1 year	32 091	38 646
- from 1 to 5 years	79 219	95 401
- over 5 years	7 877	9 486
Finance lease net liabilities	**74 682**	**87 603**
- up to 1 year	19 960	23 413
- from 1 to 5 years	49 743	58 349
- over 5 years	4 979	5 841

19. Income tax expense in the income statement

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Current income tax	-507	-555
Deferred income tax	102 215	399
Income tax on net profit	**101 708**	**-156**

Current income tax presented in the income statement

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Profit before tax	307 806	**126 684**
Profit from discontinued operations	974	0
Permanent differences	**-42 666**	**-49 280**
Impairment charges and provisions	-100 273	-131 437
Dividends received	-780	2 471
Depreciation – non tax deductible expenses	2 142	11 124
Penalty interest	1 116	605
Other including:	**55 129**	**67 957**
Income on foreign operations	0	-1 512
Donations	206	242
Voluntary membership fees	0	206
Free benefits	1	18
PFRON	3 784	3 796
Valuation of shares not held for sale	13 281	-27 399
Loss on sale of receivables	43 348	0
Differences arising on IFRS (net profit recalculation)	0	58 647
Other	-5 491	33 959
Temporary differences	**-113 145**	**-3 079**
Accrued interest to be paid	-46 261	9 287
Bought out purchased interest	21 116	3 235
Valuation of derivatives	-9 123	9 358
Tax goodwill	-40 914	-44 643
Accruals for expenses	11 339	6 624
Finance lease	6 148	10 871
Accrued interest to be received	-44 852	-3 913
Unamortized fixed assets – inestemnt tax relief	919	291
Difference between tax and accounting depreciation rates	22 292	-43 628
Impairment charges – temporary difference	-35 410	0
Commissions and held to maturity securities - EIR	17 600	0
Commissions on accounts	2 218	0
Other temporary differences	-18 217	49 439
Suma	**152 969**	**74 325**
Prior periods tax losses settlements	-149 984	-55 569
Reliefs and donations	-499	-126
Tax basis	**2 487**	**18 630**
Tax rate	19%	19%
Current income tax to be paid in Poland	473	3 540
Current income tax paid abroad to be deducted in local tax settlement	473	516
Current income tax paid abroad not to be deducted in local tax settlement	34	39
Tax waiver	0	3 024
Current income tax	**- 507**	**- 555**

Deferred tax presented in the income statement

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
- increase due to establishment and reversal of temporary differences	102 215	125 169
- write-off of deferred tax assets as no possibility to settle it in future periods	0	-125 169
- other elements of deferred tax	0	399
Total deferred tax	**102 215**	**399**

As mentioned in the paragraph 6 of financial statement deferred tax asset was recognized only up to the amount of the deferred tax liability.

The Bank, as of 30 June 2005, bearing in mind the Bank's improving financial performance, decided to recognize an excess of the deferred tax asset over deferred tax liability in the amount that will probably be generated in the future. The accounting policy adopted by the Bank stipulates in this respect that, at the end of each quarter, the Bank will assess the probability of realizing net deferred tax asset and recognize it in the amount of the probable future realization amount on that account. The probability of realizing net deferred tax asset was 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.

Reconciliation of effective tax rate

	31.12.2005	31.12.2004
Profit before tax	**307 806**	**126 684**
Profit from discontinued operations	974	0
Tax charge on gross profit	-58 668	-24 070
Permanent differences	**8 107**	**9 363**
Impairment charges and provisions	19 052	24 973
Dividends received	148	-469
Depreciation – non tax deductible expenses	-407	-2 114
Penalty interest	-212	-115
Other	-10 474	-12 912
Other differences, which become permanent	20 688	
Recognized deferred tax asset from prior periods	102 215	
Other	335	585
Losses from previous periods not recognized in deferred tax asset	28 497	10 558
Donations	95	24
Tax decreases	**473**	**3 024**
Tax waiver	0	3 024
Current income tax paid abroad to be deducted in local tax settlement	473	
Current income tax paid abroad not to be deducted in local tax settlement	-34	-39
Reversal of deferred tax provision – liquidation of Vilnius branch	0	399
Tax charge	**101 708**	**-156**

20. Earnings per share (EPS)

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Net profit (loss) for 12 months	410 488	126 528
Weighed average number of ordinary shares	271 658 880	243 783 743
Net profit (loss) per Bank's shareholders	**1.51**	**0.52**

Consolidated earnings per share

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Net profit (loss) for 12 months	415 878	156 840
Weighed average number of ordinary shares	271 658 880	243 783 743
Net profit (loss) per Bank's shareholders	**1,53**	**0,64**

Earnings per share calculated as the quotient of profit per Bank's shareholders and weighted average number of shares. The Bank does not calculate diluted earnings per share due to the absence of capital categories causing dilution.

21. Cash and balances with Central Bank

By types

	31.12.2005	31.12.2004
Cash in hand	385 047	487 088
Current account in the central bank	222 022	1 025 472
Total	**607 069**	**1 512 560**

By currencies

	31.12.2005	31.12.2004
in PLN	551 100	1 441 953
in foreign currencies (by currency and translated into PLN)	55 969	70 607
- in EURO	29 556	40 169
- in USD	20 334	22 763
- in GBP	4 673	5 480
- in CHF	960	1 568
- other currencies	446	627
Total	**607 069**	**1 512 560**

As at 31 December 2005, cash on the Bank's current account in the National Bank of Poland maintained for central bank statutory reserve amounted to PLN 509,457 thousand. As at 31 December 2004, cash amounted to PLN 571,363 thousand.

22. Amounts due from banks

By types

	31.12.2005	31.12.2004
Current accounts	22 531	12 768
Deposits in other banks	2 151 218	2 641 488
Loans and advances to banks	37 121	36 191
Other	6	0
Interest	18 672	9 354
Total	**2 229 548**	**2 699 801**

By currencies

	31.12.2005	31.12.2004
in PLN	676 613	1 013 541
in foreign currencies (by currency and translated into PLN)	1 552 935	1 686 260
- in EURO	536 368	867 314
- in USD	931 001	746 783
- in GBP	32 852	64 410
- in CHF	37 655	368
- other currencies	15 059	7 385
Total	**2 229 548**	**2 699 801**

By maturity dates

	31.12.2005	31.12.2004
- up to 1 month	1 249 010	2 054 682
- 1-3 months	392 722	354 817
- 3-6 months	153 226	32 679
- 6 months to 1 year	375 904	225 909
- 1 - 3 years	0	18 586
- 3 - 5 years	37 120	0
- past due	2 894	3 774
- interest	18 672	9 354
Total	**2 229 548**	**2 699 801**

Gross receivables

	31.12.2005	31.12.2004
Receivables with no allowance for individual impairment	2 207 982	2 687 253
Receivables with allowances for individual impairment	2 894	3 194
Interest	18 672	9 354
Total	**2 229 548**	**2 699 801**

As at 31 December 2005, average effective interest rates of term deposits in other banks were as follows (by main currencies):

- in EUR – 2.38%
- in GBP – 4.65%
- in PLN – 4.45%
- in USD – 4.2%

All deposits were fixed interest rate deposits.

23. Allowances for impairment losses for receivables due from banks

	31.12.2005	31.12.2004
Allowance for impairment losses for receivables due from banks at period beginning	3 194	3 194
adjustments related to first adoption of IFRS	0	0
Allowance for impairment losses for receivables due from banks at period beginning	3 194	3 194
Utilization	300	0
- receivables written off in the period as bad debts	300	0
Period end	**2 894**	**3 194**

24. Financial assets at fair value through profit and loss

	31.12.2005	31.12.2004
Debt securities	**487 618**	**308 367**
Treasury securities	202 189	307 709
-bonds	162 130	163 670
-bills	40 059	144 039
Central Bank securities	280 754	0
-bills	280 754	0
Other securities	4 675	658
-bonds	4 675	658
Equity securities	0	19
Derivatives	216 270	219 449
Total	**703 888**	**527 835**

	31.12.2005	31.12.2004
Listed		
- shares	0	19
- bonds	166 805	164 328
- money market bills	320 813	144 039
- derivatives	216 270	219 449
Total	**703 888**	**527 835**

Derivatives (by types)

	31.12.2005		31.12.2004	
	Assets	Liabilities	Assets	Liabilities
Interest rate transactions	**161 378**	**178 384**	**165 226**	**149 978**
IRS	145 617	160 257	146 791	129 152
FRA	15 761	18 127	18 435	20 826
foreign exchange transactions	**54 816**	**35 510**	**54 147**	**76 322**
FX swap	20 792	23 612	38 668	66 450
CIRS	17 997	0	0	0
Forward	5 754	5 595	7 779	5 612
Options purchased	10 180	0	7 648	0
Options sold	0	6 233	0	4 186
other	93	70	52	74
embedded derivatives	**76**	**6 261**	**76**	**7 632**
Total	**216 270**	**220 155**	**219 449**	**233 932**

Derivatives (by maturity dates)

	31.12.2005		31.12.2004	
	Assets	Liabilities	Assets	Liabilities
Interest rate transactions (fair value)	**161 378**	**178 384**	**165 226**	**149 978**
Interest rate transactions (nominal value)	**38 991 520**	**32 705 565**	**13 950 000**	**12 746 000**
- up to 1 month	475 000	125 000	1 400 000	1 250 000
- 1-3 months	2 725 000	2 375 000	2 625 000	875 000
- 3-6 months	13 115 000	8 370 000	1 925 000	2 200 000
- 6 months to 1 year	19 681 000	19 010 000	4 946 000	5 575 000
- 1 - 3 years	2 364 000	2 332 000	1 718 000	1 527 000
- 3 - 5 years	418 920	346 965	1 111 000	1 094 000
- 5 - 10 years	212 600	146 600	225 000	225 000
Foreign exchange transactions (fair value)	**54 816**	**35 510**	**54 147**	**76 321**
Foreign exchange transactions (nominal value)	**3 957 279**	**3 944 799**	**1 986 909**	**2 013 441**
- up to 1 month	1 759 760	1 754 708	1 177 758	1 188 445
- 1-3 months	849 522	850 060	261 751	251 787
- 3-6 months	583 706	581 157	163 876	176 239
- 6 months to 1 year	377 141	379 520	285 367	296 963
- 1 - 3 years	387 150	379 354	98 157	100 007
Total fair value*	**216 194**	**213 894**	**219 373**	**226 299**
Total nominal value	**42 948 799**	**36 650 364**	**15 936 909**	**14 759 441**

* excluding embedded derivatives

Debt securities

	31.12.2005	31.12.2004
- up to 1 month	293 218	80
- 1-3 months	55	7 584
- 3-6 months	5 989	57 451
- 6 months to 1 year	51 452	99 611
- 1 - 3 years	63 077	85 288
- 3 - 5 years	13 612	46 840
- 5 - 10 years	55 133	8 400
- 10 - 20 years	5 082	3 113
Total	**487 618**	**308 367**

Financial assets at fair value through profit and loss by currencies

	31.12.2005	31.12.2004
in PLN	672 083	513 069
in foreign currencies (by currency and translated into PLN)	31 805	14 766
- in EURO	20 604	4 477
- in USD	10 148	9 765
- in GBP	1 046	524
- other currencies	7	0
Total	**703 888**	**527 835**

25. Loans and advances to customers

By types

	31.12.2005	31.12.2004
Loans and advances	11 887 984	13 636 178
Purchased debt	91 120	154 693
Realized guarantees and sureties	64 618	44 517
Other receivables	69 032	129 345
Interest	**79 827**	**39 480**
Total	**12 192 581**	**14 004 213**

By currencies

	31.12.2005	31.12.2004
in PLN	9 000 981	10 189 971
in foreign currencies (by currency and translated into PLN)	3 191 600	3 814 242
- in EURO	1 409 786	2 197 859
- in USD	548 674	722 553
- in GBP	0	1 293
- in CHF	1 231 141	891 591
- other currencies	1 999	946
Total	**12 192 581**	**14 004 213**

By maturity dates

	31.12.2005	31.12.2004
- up to 1 month	246 010	1 315 710
- 1-3 months	679 240	450 952
- 3-6 months	545 116	520 446
- 6 months to 1 year	2 719 057	1 987 189
- 1 - 3 years	1 812 288	1 946 586
- 3 - 5 years	1 127 096	1 090 936
- 5 - 10 years	1 508 526	1 279 720
- 10 - 20 years	964 944	1 262 614
- over 20 years	419 051	347 516
- past due	2 091 426	3 763 064
Interest	**79 827**	**39 480**
Total	**12 192 581**	**14 004 213**

	31.12.2005	31.12.2004
Natural persons*	**5 208 456**	**5 105 878**
- overdraft facilities	514 368	508 949
- purchased debt	25 861	51 020
- term loans	2 630 716	2 519 545
- mortgage loans	2 035 351	2 023 005
- realized guarantees	2 160	2 160
- other receivables	0	1 199
Corporate customers	**6 238 756**	**7 587 792**
- overdraft facilities	934 801	920 983
- term loans	5 107 226	6 392 696
- purchased debt	65 239	103 610
- realized guarantees	62 458	42 357
- other receivables	69 032	128 146
Budget	**665 542**	**1 271 063**
- overdraft facilities	1 921	12 933
- term loans	663 601	1 258 067
- purchased debt	20	63
Interest	**79 827**	**39 480**
Total	**12 192 581**	**14 004 213**

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

By classifications

	31.12.2005	31.12.2004
Receivables with no allowance for individual impairment	8 961 490	10 054 848
Receivables with allowances for individual impairment	3 151 264	3 909 885
Interest	**79 827**	**39 480**
Total	**12 192 581**	**14 004 213**

As at 31 December 2005, the unsettled loan commissions amortised with the effective interest rate method, which, according to the concept of the measurement of financial assets decreases value of gross receivables, amounted to PLN 122,563 thousand. This amount has been already recognized in total receivables presented in the note above.

As presented in Note 60, in the comparable data as at 31 December 2004, the Bank, taking advantage of exemptions indicated in IFRS 1, decided not to restate the comparable data as provided in IAS 39, that is, among others, related to the valuation of financial assets with the effective interest rate method and the measurement of impairment of loan receivables portfolio. In the comparable data, the carrying amount of assets measured at amortized cost is recognized in line with accounting principles set out in Polish regulations in force as a these dates.

In the case of receivables for which impairment was identified, the total value of loan collateral approved by the Bank considered for estimated impairment charges for loans as at 31 December 2005 amounted to PLN 1,111,126 thousand. As at 31 December 2004, this value was equal to PLN 1,499,036 thousand.

Also, as at 31 December 2005, 80% of the receivables portfolios were products based on floating interest rate.

As at 31 December 2005, average effective interest rates of loan receivables were as follows (by main currencies):

- in CHF – 4.1%
- in EUR – 4.7%
- in PLN – 9.6%
- in USD – 6.6%

26. Allowances for impairment losses for loans and advances to customers

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Allowances for impairment losses for loans and advances to customers at period beginning	2 487 498	2 487 958
Adjustments related to first adoption of IFRS	195 541	111 459
Allowances for impairment losses for loans and advances to customers at period beginning	2 683 039	2 599 417
a) increase	491 299	1 549 285
Allowance for impairment losses for loans and advances	489 131	1 549 285
Reclassifications	2 168	0
b) decrease	608 588	1 518 244
Reversal of allowance for impairment losses for loans and Advances	594 147	1 446 441
Reclassifications	0	11 320
currency translation differences	14 441	60 483
c) utilization	246 502	142 960
Loan receivables written off in the period as bad debts	246 502	142 960
Period end	**2 319 248**	**2 487 498**

In addition, as at 31 December 2005, PLN 88,748 thousand of the impairment charge for Incurred but not reported losses (IBNR) for loan portfolios is included in impairment charge for loan receivables. In 2005, the IBNR provision of PLN 43,223 thousand was reversed.

27. Investments in securities

	31.12.2005	31.12.2004
Available-for-sale securities	**4 417 819**	**2 449 998**
Treasury securities	2 037 957	1 795 655
-bonds	2 003 354	1 271 701
-bills	34 603	523 954
Central Bank securities	2 208 510	561 520
-bonds	336 847	335 950
-bills	1 871 663	225 570
Other securities	169 397	13 603
-bonds	159 382	4 624
-shares in investment funds	10 015	8 979
Equity securities	1 955	79 220
Held-to-maturity securities	**2 291 832**	**1 462 671**
Treasury securities	2 114 595	1 251 345
-bonds	2 114 595	1 251 345
Other securities	177 237	211 326
-bonds	177 237	211 326
Total	**6 709 651**	**3 912 669**

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, commercial bonds of the Industry Development Agency and non-listed equity investments. NBP bonds and commercial bonds are measured at amortized cost, and equity investments are recognized at cost, as their fair value cannot be determined reliably.

	31.12.2005	31.12.2004
Available-for-sale securities	**4 417 819**	**2 449 998**
Listed	**4 261 501**	**2 376 636**
- shares	0	5 862
- bonds	2 345 220	1 612 271
- bills	1 906 266	749 524
- shares in investment funds	10 015	8 979
Non-listed	**156 318**	**73 362**
- shares	1 955	73 358
- bonds	154 363	4

	31.12.2005	31.12.2004
Held-to-maturity securities	**2 291 832**	**1 462 671**
Listed	**2 291 832**	**1 288 490**
-bonds	2 291 832	1 288 490
Non-listed	**0**	**174 181**
-bonds	0	174 181
Total	**6 709 651**	**3 912 669**

Movement of available-for-sale investment securities

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Period beginning	2 449 998	2 369 431
- adjustments related to first adoption of IFRS	-669 413	0
Period beginning	**1 780 585**	**2 369 431**
Increase	45 818 202	10 029 974
- acquisitions	45 742 805	9 939 116
- other increase	75 397	90 858
Decrease	43 180 968	9 949 407
- sale	43 180 003	9 947 253
- other decrease	965	2 154
Period end	**4 417 819**	**2 449 998**

Financial assets subject to hedge accounting

Hedged assets – bonds from the trading portfolio in '000' PLN

Nominal value	Maturity date	Interest rate	Coupon rate liquidity	Measurement as at 31.12.2005
25 389	24-10-2013	fix 5%	annually	-374
24 118	24-11-2010	fix 6%	annually	50
14 400	24-03-2010	fix 5.75%	annually	-194
			Total	**-518**

Hedging fair value of interest rate transaction - IRS in '000' PLN

Nominal value	Maturity date	Interest rate		Coupon rate liquidity		Measurement as at 31.12.2005
		Coupon received	Coupon paid	Coupon received	Coupon paid	
26 000	03-10-2013	WIBOR 6M	fix 4.595%	every 6 months	annually	593
25 000	16-12-2010	WIBOR 3M	fix 5.11%	every quarter	annually	-184
15 000	12-04-2010	WIBOR 3M	fix 4.66%	every quarter	annually	123
					Total	**532**

Accounting principles and measurement of hedge effectiveness applied for financial assets subject to fair value hedge have been presented in notes 6.5.7 i 65 to the financial statements.

Movement of held-to-maturity investment securities

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Period beginning	1 462 671	1 748 503
- adjustments related to first adoption of IFRS	-193 509	0
Period beginning	**1 269 162**	**1 748 503**
Increase	1 251 792	112 554
- acquisitions	1 222 391	88 110
- other increase	29 401	24 444
Decrease	229 122	398 386
- redemption	229 122	398 386
Period end	**2 291 832**	**1 462 671**

Available-for-sale investment securities

	31.12.2005	31.12.2004
- up to 1 month	1 871 663	260 833
- 1-3 months	48 025	207 801
- 3-6 months	149 613	369 605
- 6 months to 1 year	110 033	194 196
- 1 - 3 years	903 021	310 476
- 3 - 5 years	627 526	406 471
- 5 - 10 years	695 968	662 765
- with unspecified maturity dates	11 970	37 851
Total	**4 417 819**	**2 449 998**

Held-to-maturity investment securities

	31.12.2005	31.12.2004
- up to 1 month	26 960	0
- 3-6 months	168 179	15 555
- 6 months to 1 year	559 018	0
- 1 - 3 years	803 489	841 263
- 3 - 5 years	646 866	163 892
- 5 - 10 years	87 320	441 961
Total	**2 291 832**	**1 462 671**

Available-for-sale investment securities

	31.12.2005	31.12.2004
in PLN	4 202 405	2 449 927
in foreign currencies (by currency and translated into PLN)	215 414	71
- in EURO	143 719	71
- in USD	71 695	0
Total	**4 417 819**	**2 449 998**

Held-to-maturity investment securities

	31.12.2005	31.12.2004
in PLN	2 114 595	1 322 792
in foreign currencies (by currency and translated into PLN)	177 237	139 879
- in EURO	82 050	87 733
- in USD	95 187	52 146
Total	**2 291 832**	**1 462 671**

After 1 January 2005, the Group has not reclassified any securities from the portfolio of held-to-maturity securities to other portfolios.

28. Equity investments available-for-sale

CAPITAL INVESTMENTS IN SHARES OF SUBORDINATED COMPANIES AS AT 31.12.2005

Lp.	a	b	c	d	e						f			g			h	i	j
	company	line of business	carrying amount of shares	total assets	shareholders' capital, including						liabilities including:			receivables			sales	Bank's stake in capital (%)	Bank's share in total number of
						share capital	reserve capital	other shareholders' capital				short-term liabilities	long-term liabilities		short-term receivab	long-term receivables			
									retained earnings	net profit (loss)									
1	Kredyt Trade Sp z.o.o.	organisation of trainings	36 697	141 850	42 373	27 500	10 883	3 990	670	3 320	63 156	13 288	49 868	72 840	23 798	49 042	48 485	99,99	99,99
2	BFI Serwis Sp z.o.o.	banking investments	19 249	19 546	19 527	19 250	4 081	-3 805	0	-3 805	19	19	0	17 103	17 103	0	872	99,99	99,99
3	Victoria Development Sp z.o.o	construction services	18 100	36 554	36 544	6 466		30 078		453				32 223	32 223		1 882	99,99	99,99
4	Żagiel S.A.	intermediaries in retail sale	0	199 279	126 794	23 964	76 205	26 625	7 608	17 017	41 013	41 013		287 129	5 581	281 548	176 816	100	100
5	Kredyt Lease S.A.	leasing services	826	168 770	4 872	27 501	12 525	-35 154	-22 929	-12 225	160 959	59 069	101 890	184 935	62 280	122 655	35 170	99,96	99,96
6	Kredyt International Finance B.V.	financial services	67	2 888	2 725	67		2 658	4 816	-1 521				1 940	1 940		35 170	100,00	100,00
7	PTE Kredyt Bank S.A.	open pension fund management	0	0	0	0		0	0	0				0	0		0	100,00	100,00
8	Net Banking Sp z.o.o.	internet banking	1 424	1 623	1 609	1 425	0	184	0	45	14	14	0	1 623	1 623	0	69	99,96	99,96
9	KB Zarzadzanie Aktywami S.A.	funds' asset management	15 012	16 487	16 478	15 012	246	1 220	380	840	9	9	0	16 487	16 487	0	11 789	100,00	100,00
10	Zakłady Przemysłu Jedwabniczego "Dolwis" S.A.	production of fabrics, textile industry	0	34 552	11 058	502	8 766	-1 986		-1 986	23 246	23 246		10 128	10 025	103	31 168	74,85	74,85
	total balance sheet value of shares		91 375																

Extraordinary Shareholders Meeting of PTE Kredyt Bank S.A. held on 22.12.2005 approved the liquidation financial statement of the Company and on 23.12.2005 the financial statement and resolution of the Shareholders Meeting have been placed in the District Court Register for the City of Warsaw with the application for the deletion of PTE Kredyt Bank S.A. from the Court Register.

CAPITAL INVESTMENTS IN SHARES OF SUBORDINATED COMPANIES AS AT 31.12.2004																			
Lp.	a	b	c	d	e						f			g			h	i	j
	company	line of business	carrying amount of shares	total assets	shareholders' capital, including						liabilities including:			receivables			sales	Bank's stake in capital (%)	Bank's share in total number of
						share capital	reserve capital	other shareholders' capital				short-term liabilities	long-term liabilities		short-term receivab	long-term receivables			
									retained earnings	net profit (loss)									
1	Kredyt Trade Sp z.o.o.	organisation of trainings	36 697	175 887	37 638	27 500	11 069	-931	880	-1 811	106 665	39 102	67 563	113 986	53 180	60 806	43 915	99,99	99,99
2	BFI Serwis Sp z.o.o.	banking investments	18 831	23 345	23 331	19 250	3 434	647		647	14	14		16 465	16 465		793	99,99	99,99
3	Victoria Development Sp z.o.o	construction services	18 100	62 933	35 998	6 466	0	29 532	10 893	18 639	26 786	26 786	0	51 906	51 906	0	14 562	99,99	99,99
4	Żagiel S.A.	intermediaries in retail sale	0	231 437	102 220	23 964	35 107	43 149	0	41 149	114 499	114 499		207 933	30 298	177 635	214 009	100	100
5	Kredyt Lease S.A.	leasing services	0	229 593	-724	12 501	12 525	-25 750	-16 681	-9 069	228 226	76 299	151 927	189 133	78 858	110 275	31 704	99,96	99,96
6	Kredyt International Finance B.V.	financial services	67	1 885 584	2 779	67	0	2 712		2 997	1 882 450	7 498	1 874 952	1 884 883	10 725	1 874 158	54 848	100,00	100,00
7	PTE Kredyt Bank S.A.	open pension fund management	35 614	35 898	35 613	37 400	23 365	-25 152	-46 496	21 712	79	79	0	35 878	35 878		4 737	100,00	100,00
8	Net Banking Sp z.o.o.	internet banking	1 424	1 585	1 564	1 425		139		25	20	20	0	1 584	1 584	0	68	99,96	99,96
9	KB Zarzadzanie Aktywami S.A.	funds' asset management	15 012	15 063	14 978	15 012	183	-217	63	-280	66	66	0	5 684	5 684		1 349	100,00	100,00
10	Zakłady Przemysłu Jedwabniczego "Dolwis" S.A.	production of fabrics, textile industry	0	37 717	13 043	499	8 746	3 798	0	23	24 429	23 224	1 205	13 655	13 655		38 144	74,85	74,85
	total balance sheet value of shares		125 745																

Equity investments net value

	31.12.2005			31.12.2004		
	Purchase price	Impairment	Net value	Purchase price	Impairment	Net value
Kredyt Trade Sp. z o.o.	36 697	0	36 697	36 697	0	36 697
BFI Serwis Sp. z o.o.	19 249	0	19 249	19 249	-418	18 831
Victoria Development Sp. z o.o.	18 100	0	18 100	18 100	0	18 100
Żagiel S.A.	141 231	-141 231	0	141 231	-141 231	0
Kredyt Lease S.A.	43 712	-42 886	826	28 712	-28 712	0
Kredyt International Finance B.V.	67	0	67	67	0	67
PTE Kredyt Bank S.A.	0	0	0	159 200	-123 586	35 614
Net Banking Sp. z o.o.	1 424	0	1 424	1 424	0	1 424
KB Zarządzanie Aktywami S.A.	15 012	0	15 012	15 012	0	15 012
Zakłady Przemysłu Jedwabniczego "Dolwis" S.A.	2 914	-2 914	0	2 914	-2 914	0
Total	**278 406**	**-187 031**	**91 375**	**422 606**	**-296 861**	**125 745**

29. Tangible fixed assets

	31.12.2005	31.12.2004
a) fixed assets, including:	**301 840**	**348 183**
- land	6 973	6 318
- buildings and premises	158 416	146 030
- plant and machinery	66 844	117 252
- motor vehicles	3 428	1 227
- other fixed assets	66 179	77 356
b) construction in progress	**39 225**	**12 690**
Total	**341 065**	**360 873**

As at 31 December 2005 the Bank identified impairment of a few real estates. The impairment was measured by independent appraisers basing on generally accepted valuation methods based on comparable market transactions and models of discounted cash flows generated by these specific real estates treated as cash generating units under IAS 36.

30. Movement of fixed assets

For the period of 12 months ended 31 December 2005

	Land (including right to perpetual usufruct of land)	Buildings, premises and civil- and hydro-engineering structures	Plant and machinery	Motor vehicles	Other fixed assets	Construction in progress	Total fixed assets
a) Gross fixed assets at period beginning - as at 01.01.05	6 473	178 211	454 445	7 671	127 646	18 312	792 758
b) Increase	1 349	32 644	17 873	2 799	2 054	21 114	77 833
- acquisition	1 349	20 105	17 873	191	2 054	12 309	53 881
- other increase	0	12 539	0	2 608	0	8 805	23 952
c) Decrease	237	1 717	31 608	2 965	3 986	201	40 714
- sale	14	1 219	21 691	2 829	476		26 229
- liquidation	52	34	8 717	136	2 876		11 815
- other decreases	171	464	1 200	0	634	201	2 670
d) Gross fixed assets at period end	7 585	209 138	440 710	7 505	125 714	39 225	829 877
e) Accumulated depreciation of fixed assets at period beginning - as at 01.01.05	155	30 993	335 601	5 830	48 895	0	421 474
f) Net fixed assets at period beginning – as at 01.01.05	6 318	146 030	117 252	1 227	77 356	12 690	360 873
g) changes in depreciation	48	4 177	36 017	-1 753	9 928	0	48 417
- amortization	65	4 797	65 118	1 038	12 153	0	83 171
- sale	0	-57	-18 510	-2 711	-402	0	-21 680
- liquidation	0	-170	-8 388	-80	-1 688	0	-10 326
- other changes	-17	-393	-2 203	0	-135	0	-2 748

For the period of 12 months ended 31 December 2005 (cont.)

	Land (including right to perpetual usufruct of land)	Buildings, premises and civil- and hydro-engineering structures	Plant and machinery	Motor vehicles	Other fixed assets	Construction in progress	Total fixed assets
h) Accumulated depreciation at period end	203	35 170	371 618	4 077	58 823	0	469 891
i) Impairment charges at period beginning - as at 01.01.05	0	1 188	1 592	614	1 395	5 622	10 411
- increase	409	14 364	814	0	0	0	15 587
- decrease	0	0	158	614	683	5 622	7 077
j) Impairment charges at period end	409	15 552	2 248	0	712	0	18 921
Net fixed assets as at 31 December 2005	**6 973**	**158 416**	**66 844**	**3 428**	**66 179**	**39 225**	**341 065**

For the period of 12 months ended 31 December 2004

	Land (including right to perpetual usufruct of land)	Buildings, premises and civil- and hydro-engineering structures	Plant and machinery	Motor vehicles	Other fixed assets	Construction in progress	Total fixed assets
a) Gross fixed assets at period beginning - as at 01.01.04	8 998	307 642	482 133	10 414	117 027	25 152	**951 366**
b) Increase	322	37 738	10 643	371	13 629	345	**63 048**
- acquisition	0	23 191	9 321	371	13 629	345	**46 857**
- other increase	322	14 547	1 322	0	0	0	**16 191**
c) Decrease	2 847	167 169	38 331	3 114	3 010	7 185	**221 656**
- sale	2 847	137 176	28 169	1 735	1 281	116	**171 324**
- liquidation	0	0	4 544	3	1 650	0	**6 197**
- other decreases	0	29 993	5 618	1 376	79	7 069	**44 135**
d) Gross fixed assets after reclassification adjustments at period end	6 473	178 211	454 445	7 671	127 646	18 312	**792 758**
e) Accumulated depreciation of fixed assets at period beginning after adjustments - as at 01.01.04	167	35 321	269 733	6 711	37 741	0	**349 673**
f) Net fixed assets at period beginning – as at 01.01.04	8 831	272 321	212 400	3 703	79 286	20 577	**597 118**
g) Changes in depreciation	-12	-4 328	65 868	-881	11 154	0	**71 801**

For the period of 12 months ended 31 December 2004 (cont.)

	Land (including right to perpetual usufruct of land)	Buildings, premises and civil- and hydro-engineering structures	Plant and machinery	Motor vehicles	Other fixed assets	Construction in progress	Total fixed assets
- depreciation	84	7 847	84 903	1 687	12 544	0	**107 065**
- sale	-96	-12 720	-12 484	-1 039	-294	0	**-26 633**
- liquidation	0	0	-4 468	-343	-1 005	0	**-5 816**
- other changes	0	545	-2 083	-1 186	-91	0	**-2 815**
h) accumulated depreciation at period end	155	30 993	335 601	5 830	48 895	0	**421 474**
i) impairment charges at period beginning - as at 01.01.04	0	0	0	0	0	4 575	**4 575**
- increase	0	1 188	1 592	614	1 395	1 047	**5 836**
- decrease	0	0	0	0	0	0	**0**
j) impairment charges at period end	0	1 188	1 592	614	1 395	5 622	**10 411**
Net fixed assets as at 31 December 2004	**6 318**	**146 030**	**117 252**	**1 227**	**77 356**	**12 690**	**360 873**

31. Intangible assets

	31.12.2005	31.12.2004
Patents, licenses and similar rights, including:	100 480	119 194
- software	100 480	119 194
Other intangible assets	10 077	19 526
Total intangible assets	**110 557**	**138 720**

32. Movement of intangible assets

For the period of 12 months ended 31 December 2005

	Patents, licenses and similar rights, including:	**Software**	**Other intangible assets***	**Total intangible assets**
a) Gross intangible assets at period beginning as at 01.01.05	239 887	239 887	45 982	**285 869**
b) Increase	24 555	24 555	6 436	**30 991**
- acquisition	9 446	9 446	6 436	**15 882**
- other increase	15 109	15 109	0	**15 109**
c) Decrease	4 700	4 700	16 189	**20 889**
- sale	2 877	2 877	0	**2 877**
- other decreases	1 823	1 823	16 189	**18 012**
d) Gross intangible assets at period end	259 742	259 742	36 229	**295 971**
e) Accumulated amortization at period beginning as at 01.01.05	120 516	120 516	26 456	**146 972**
f) Gross intangible assets at period beginning as at 01.01.05	119 194	119 194	19 526	**138 720**
g) Amortization for the period	37 393	37 393	-304	**37 089**
- amortization	41 721	41 721	802	**42 523**
- sale	-2 728	-2 728	0	**-2 728**
- liquidation	-1 635	-1 635	-720	**-2 355**
- other changes	35	35	-386	**-351**
h) Accumulated amortization at period end	157 909	157 909	26 152	**184 061**
i) Impairment charges at period beginning - as at 01.01.05	177	177	0	**177**
- increase	1 176	1 176	0	**1 176**
j) Impairment charges at period end	1 353	1 353	0	**1 353**
Net intangible assets as at 31 December 2005	**100 480**	**100 480**	**10 077**	**110 557**

*including goodwill written off to zero

For the period of 12 months ended 31 December 2004

	Patents, licenses and similar rights, including:	Software	Other intangible assets*	Total intangible assets
a) Gross intangible assets at period beginning as at 01.01.04	219 648	219 648	63 118	**282 766**
b) Increase	23 440	23 440	16	**23 456**
- acquisition	12 807	12 807	16	**12 823**
- other increase	10 633	10 633	0	**10 633**
c) Decrease	3 201	3 201	17 152	**20 353**
- sale	937	937	1 949	**2 886**
- other decreases	2 264	2 264	15 203	**17 467**
d) Gross intangible assets at period end	239 887	239 887	45 982	**285 869**
e) Accumulated amortization at period beginning as at 01.01.04	83 586	83 586	26 087	**109 673**
f) Gross intangible assets at period beginning as at 01.01.04	136 062	136 062	36 902	**172 964**
g) Amortization for the period	36 930	36 930	369	**37 299**
- amortization	39 573	39 573	1 574	**41 147**
- sale	-720	-720	-381	**-1 101**
- liquidation	-1 843	-1 843	0	**-1 843**
- other changes	-80	-80	-824	**-904**
h) Accumulated amortization at period end	120 516	120 516	26 456	**146 972**
i) Impairment charges at period beginning as at 01.01.04	0	0	129	**129**
- increase	177	177	0	**177**
- decrease	0	0	129	**129**
j) Impairment charges at period end	177	177	0	**177**
Net intangible assets as at 31 December 2004	**119 194**	**119 194**	**19 526**	**138 720**

33. Deferred tax assets

Deferred tax asset	**31.12.2005**	**31.12.2004**	**Change in 2005***
Accrued interest to be paid	48 056	94 317	-46 261
Bought out purchased interest	90 611	69 495	21 116
Valuation of derivatives	53 326	86 204	-32 878
Tax goodwill	56 593	97 507	-40 914
Commissions and held to maturity securities - EIR	131 974	114 374	17 600
Accruals for expenses	61 480	50 141	11 339
Finance lease	23 685	17 537	6 148
Impairment charges – temporary difference	454 630	490 040	-35 410
Valuation of trading portfolio	2 520	22 570	-20 050
Tax losses to be settled in future	112 012	0	112 012
Commissions on accounts	18 734	16 516	2 218
Other temporary differences	25 961	44 796	-18 835
Total	**1 079 582**	**1 103 497**	**-23 916**
Tax rate	19%	19%	0
Deferred tax asses	**205 121**	**209 664**	**-4 544**
Charged to shareholders' equity	479		479
Charged to profit and loss account	204 642	209 664	-5 023
Unrecognized assets	36 499	142 390	-105 891
Assets recognized in profit and loss account	168 142	67 274	100 868
Total deferred tax assets	168 621	67 274	
Deferred tax liability note 41	-69 873	-67 274	
Deferred tax net assets	98 748	0	

* In comparison with the data presented in financial statement as at 30 June 2005 the Bank has changed the amount of the surplus of unrecognized deferred tax asset over deferred tax liability. The change resulted from identification of unrecognized items in the deferred tax calculation. The change has not influenced the level of deferred tax recognized or tax charge for the year 2004 because of significant amount of unrecognized surplus of deferred tax asset over deferred tax liability.

34. Other assets

	31.12.2005	31.12.2004
Fixed assets to be disposed	1 615	5 678
Fixed assets to be sold	5 848	0
Other, including:	**128 680**	**174 187**
Various debtors	118 254	162 691
Prepaid expenses	9 419	10 815
Other assets	1 007	681
Total other assets	**136 143**	**179 865**

The Bank has divided from the fixed assets position assets for sale, which are presented at fair value in other assets. The assets cover real estates, which have not been any longer used by the Bank for its activity.

35. Amounts due to banks

Amounts due to banks (by types)

	31.12.2005	31.12.2004
Current accounts	20 000	24 535
Term deposits	1 587 919	204 094
Loans and advances	949 858	892 470
Other amounts due	0	500
Interest	4 390	3 516
Total	**2 562 167**	**1 125 115**

Amounts due to banks (by currencies)

	31.12.2005	31.12.2004
In PLN	944 116	420 378
In foreign currencies (by currency and translated into PLN)	1 618 051	704 737
- in EURO	835 429	434 817
- in USD	406 690	1 560
- in GBP	2	2
- in CHF	373 628	267 025
- other currencies	2 302	1 333
Total	**2 562 167**	**1 125 115**

Amounts due to banks (by maturity dates)

	31.12.2005	31.12.2004
- up to 1 month	1 462 522	184 088
- 1-3 months	115 355	233 974
- 3-6 months	15 016	279 227
- 6 months to 1 year	15 000	203 950
- 1 - 3 years	23	0
- 3 - 5 years	949 695	0
- 5 - 10 years	166	220 360
Interest	**4 390**	**3 516**
Total	**2 562 167**	**1 125 115**

As at 31 December 2005, average effective interest rates of term deposits accepted from other banks were as follows (by main currencies):

- in EUR – 2.39%
- in USD – 4.35%
- in PLN – 4.34%

All deposits were fixed interest rate deposits.

36. Amounts due to customers

Amounts due to customers (by types)

	31.12.2005	31.12.2004
- in current account	6 734 181	5 129 469
- term deposits	7 724 822	10 716 902
- loans and advances	95 448	105 527
Interest	**38 248**	**69 460**
Total	**14 592 699**	**16 021 358**

Amounts due to customers (by currencies)

	31.12.2005	31.12.2004
In PLN	11 862 947	11 840 388
In foreign currencies (by currency and translated into PLN)	2 729 752	4 180 970
- in EURO	1 308 165	2 331 067
- in USD	1 292 503	1 232 094
- in GBP	105 301	68 528
- in CHF	11 116	544 179
- other currencies	12 667	5 102
Total	**14 592 699**	**16 021 358**

Amounts due to customers (by maturity dates)

	31.12.2005	31.12.2004
- up to 1 month	10 827 052	9 110 470
- 1-3 months	1 828 946	2 530 080
- 3-6 months	894 819	1 156 233
- 6 months to 1 year	677 193	681 697
- 1 - 3 years	213 739	2 259 096
- 3 - 5 years	5 049	78 334
- 5 - 10 years	106 054	131 944
- 10 - 20 years	1 599	3 984
- over 20 years	0	60
Interest	38 248	69 460
Total	**14 592 699**	**16 021 358**

Amounts due to customers

	31.12.2005	31.12.2004
Natural persons*	**9 063 921**	**9 177 815**
- in current account	3 841 765	2 530 744
- term deposits	5 222 156	6 647 071
Corporate customers	**3 801 937**	**5 064 910**
- in current account	1 597 024	1 244 113
- term deposits	2 109 465	3 715 270
- loans and advances	95 448	105 527
Budget	**1 688 593**	**1 709 173**
- in current account	1 295 392	1 354 612
- term deposits	393 201	354 561
Interest	**38 248**	**69 460**
Total	**14 592 699**	**16 021 358**

* The item contains: amounts due to private persons, individual entrepreneurs, individual farmers, and noncommercial institutions providing services for households

In addition, as at 31 December 2005, 92% of customers' deposits were current accounts and other fixed interest rate products, whose maturity dates, as at the balance sheet date, did not exceed 6 months.

As at 31 December 2005, average effective interest rates of customer term deposits were as follows (by main currencies):

- in EUR – 1.4%
- in GBP – 2.3%
- in PLN – 2.8%
- in USD – 1.8%

37. Debt securities issued

	31.12.2005	31.12.2004
Bonds	400 000	400 000
Interest	2 435	18 150
Total	**402 435**	**418 150**

Debt securities issued are registered perpetual bonds with interest rates based on 6M WIBOR with market margin. The issue has been taken over by the KBC Group Bank's strategic investor entities. Based on the decision of the Banking Supervisory Committee Bank classifies the debt securities issued as subordinated liabilities.

38. Securities sold under repurchase agreements

	31.12.2005	31.12.2004
Amounts due to other entities	367 656	716 665
Interest	1 045	2 107
Total	**368 701**	**718 772**

39. Provisions

	31.12.2005	31.12.2004
- employee benefits provision	869	938
- provision for off-balance sheet items	63 039	30 967
- restructuring provision	0	2 000
- provision for litigation	13 164	2 633
Total	**77 072**	**36 538**

Movement of provisions

	01.01.2205-31.12.2005	01.01.2005-31.12.2004
Period beginning	**36 538**	**279 478**
- adjustment related to the adoption of IFRS *	0	-235 278
At period beginning after opening balance adjustment	**36 538**	**44 200**
- employee benefits provision	938	1 500
- provision for off-balance sheet items	30 967	31 742
- restructuring provision	2 000	10 300
- provision for litigation	2 633	658
a) established provisions	**112 471**	**228 964**
- provision for off-balance sheet items	101 098	224 330
- restructuring provision	0	2 000
- provision for litigation	11 373	2 634
b) utilization	**-2 911**	**-10 300**
- employee benefits provision	-69	0
- restructuring provision	-2 000	-10 300
- provision for litigation	-842	0
c) reversal	**-67 182**	**-226 639**
- provision for off-balance sheet items	-67 182	-225 981
- provision for litigation	0	-658
d) other changes	**-1 844**	**313**
- employee benefits provision	0	-563
- provision for off-balance sheet items	-1 844	876
Provisions at period end (by items)	**77 072**	**36 538**
- employee benefits provision	869	938
- provision for off-balance sheet items	63 039	30 967
- restructuring provision	0	2 000
- provision for litigation	13 164	2 633
Period end	**77 072**	**36 538**

* Sum of the reversal of the provisions for general risk and the withdrawal of the measurement on negative assets of subordinated companies

Provisions for employee benefits are composed of provisions for severance pays and provisions for retirement benefits.

40. Deferred tax liability

Deferred tax liability

	31.12.2005	31.12.2004	Change in 2005
Accrued interest to be received	212 877	168 025	44 852
Unamortised fixed assets - investment tax relief	49 937	73 692	-23 755
Financial instruments transactions	5 357	6 276	-919
Difference between accounting and tax depreciation rates	78 662	100 954	-22 292
Valuation of available for sale portfolio	20 765	4 351	16 414
Other	156	775	-619
Total	**367 754**	**354 073**	**13 681**
Tax rate	19%	19%	0
Deferred tax liability	**69 873**	**67 274**	**2 599**
Charged to revaluation reserve	3 946	0	3 946
Charged to profit and loss account	**65 927**	**67 274**	**-1 347**

41. Other liabilities

	31.12.2005	31.12.2004
Amounts due to the State Treasury*	16 961	19 151
Various creditors	139 103	47 255
Costs payable	47 539	44 607
Leasing payables	74 479	95 830
Other (e.g. inter-bank clearings)	161 285	119 660
Total	**439 367**	**326 503**

*This item includes receivables from sale of financial and fixed assets, deposits paid for real estates used by the Bank in the form of finance and operating lease and payment cards settlements.

42. Subordinated liabilities

Loans in 2005

Entity	Loan value by currency	Loan value in '000'	Interest rate terms	Maturity date	Subordinated liabilities	Interest
KBC Bank N.V. Dublin Branch \ Banco Espirito Santo S.A. Madrid	USD	50 000	3M LIBOR + 1.25%	17.01.2006	163 065	1 859
KBC Bank N.V. Dublin	EUR	110 000	3M EURIBOR +1.2 %	25.05.2008	424 578	79
TOTAL					**587 643**	**1 938**

Loans in 2004

Entity	Loan value by currency	Loan value in '000'	Interest rate terms	Maturity date	Subordinated liabilities	Interest
KBC Bank N.V. Dublin Branch Banco Espirito Santo S.A. Madrid	USD	50 000	3M LIBOR +1,25%	17.01.2006	149 520	1 034
KBC Bank N.V. Dublin Branch	EUR	110 000	3M EURIBOR +1,2%	25.05.2008	448 690	42
RAZEM					**598 210**	**1 076**

Subordinated liabilities

	31.12.2005	31.12.2004
- liabilities	587 643	598 210
- interest	1 938	1 076
Total	**589 581**	**599 286**

Movement of subordinated liabilities

	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Period beginning	**599 286**	**766 913**
a) Increase	23 535	23 934
- accrued interest	23 535	23 934
b) Decrease	33 240	191 561
- paid interest	22 673	22 858
- currency translation differences from translation of subordinated loan in foreign currency	10 567	168 703
Subordinated liabilities at period end	**589 581**	**599 286**

Subordinated liabilities are recognized in the balance sheet in amounts to be paid valued at amortized cost with the effective interest rate method.

43. Equity

Share capital

As at 31 December 2005, the Bank's share capital totals PLN 1,358,294 thousand and is 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 General Meeting of Shareholders. All Bank's shares are admitted to public trading.

As at 31 December 2004, the Bank's share capital totals PLN 1,358,294 thousand and is 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 General Meeting of Shareholders. All Bank's shares are admitted to public trading.

The analysis of registered shares and bearer shares presented below was prepared as at 31 December 2005, including the conversion of registered shares of the parent company into bearer shares made by 31 December 2005 by the National Depository for Securities.

Registered shares

Shareholders of the parent company hold 75,008 registered shares, which accounts for 0.03% of the share capital. Registered shares are shares of the following series:

» A (2,942 shares),
» C (1,425 shares),
» F (8,578 shares),
» P (35,400 shares),
» S1 (26,663 shares)

Series A, C and F shares were admitted to stock exchange trading on condition that they are swapped for 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 271,583,872 bearer shares, which accounts for 99.97% of the share capital. Originally, bearer shares were shares of the following series:

» B (2,500,000 shares),
» D (100,000 shares),
» E (1,580,425 shares),
» G (480,000 shares),

» H (3,777,350 shares),
» I (5,600,000 shares),
» J (4,400,000 shares),
» K (2,278,814 shares),
» L (2,000,000 shares),
» M (10,000,000 shares),
» N (847,000 shares),
» O (25,000,000 shares),
» R (32,583,993 shares),
» T (49,301,056 shares),
» U (63,387,072 shares),
» W (60,368,640 shares),

In addition, as a result of the swap of registered shares, bearer shares are the shares of the following series:

» P (2,497,058 shares),
» C (98,575 shares),
» F (306,137 shares),
» P (3,654,282 shares),
» S1 (823,470 shares).

As at 31 December 2005, as many as 271,583,872 bearer shares have been traded on the main market of the Warsaw Stock Exchange. Whereas, as at 31 December 2004, the number of shares traded on the stock exchange amounted to 271,579,179.

The table below presents Shareholders holding over 5% of total votes at the General Meeting of Shareholders as at 31 December 2005:

Shareholder	Line of business	Number of shares and votes at the GMS	Share in votes and share capital (%)
KBC Bank N.V.*	Banking	232 341 875	85.53

*/ By the Resolution of the Commission for Banking Supervision No. 81/KNB/81 of 17 September 2001, KBC Bank N.V. is entitled to exercise no more than 75% of votes at the General Meeting of Shareholders of Kredyt Bank S.A.

Share premium

	31.12.2005	31.12.2004
a) share premium	0	298 159
b) statutory	0	50 000
c) other (by types)	0	2 751
- other	0	2 751
Total supplementary capital	**0**	**350 910**

Revaluation reserve

	31.12.2005	31.12.2004
a) deferred income tax	-3 467	0
b) measurement of financial fixed assets	19 395	-20 247
Total revaluation reserve	15 928	-20 247

Other reserve capitals (by appropriation), including:

	31.12.2005	31.12.2004
- General banking risk fund created from profit	120 942	173 779
Total other reserve capitals	**120 942**	**173 779**

44. Contingent liabilities granted

Guarantees

	31.12.2005	31.12. 2004
- up to 1 month	73 485	93 503
- 1-3 months	58 410	55 339
- 3-6 months	168 949	73 940
- 6 months to 1 year	169 826	1 593 532
- 1 - 3 years	211 912	308 549
- 3 - 5 years	208 631	146 875
- over 5 years	236 662	899 038
Total	**1 127 875**	**3 170 776**

for financing

	31.12.2005	31.12.2004
- up to 1 month	172 315	550 480
- 1-3 months	203 009	192 408
- 3-6 months	230 737	121 613
- 6 months to 1 year	1 068 824	688 499
- 1 - 3 years	250 106	186 071
- 3 - 5 years	259 737	43 104
- over 5 years	476 183	396 109
Total	**2 660 911**	**2 178 284**

Major positions in the contingent liabilities granted are guarantees of good contracts performance and loan repayment guarantees.

The Bank offers its customers guarantees as a standard product offer for corporate customers. Commissions received from guarantees granted are accounted into commission income on straight-line basis over the lifetime of the guarantee.

The Bank treats guarantees granted as an exposure with credit risk for the purpose of credit risk management. All exposures granted to customer including guarantees granted are analyzed by the credit risk department for the occurrence of the impairment indicators and required level of allowance for impairment.

As at 31.12.2005 allowance for impairment losses of the guarantees granted amounted PLN 52 915 thousand, when as at 31.12.2004 PLN 24 740 thousand. These amounts are presented in note 40 as an element of allowance for impairment losses for off-balance sheet exposures

45. Capital adequacy ratio

	31.12.2005	31.12.2004
Capital requirement, including:	983 693	1 089 066
- credit risk	968 218	1 075 960
- other risk	5 561	4 491
- market risk	9 914	8 615
Equity and short-term capital	**1 993 147**	**1 960 076**
- share capital	1 358 294	1 358 294
- supplementary capital	0	350 910
- revaluation reserve included in shareholders' funds	15 928	965
- other reserve capitals	120 942	173 779
- subordinated liabilities	254 747	447 420
- shares in financial entities	-44 092	-60 003
- intangible assets	-108 131	-135 472
- retained profit / loss	-245 934	-588 923
- issue of own securities	400 000	400 000
- short-term capital	15 475	13 106
- current net profit	225 918	0
Capital adequacy ratio	**16,21**	**14,40**

Capital adequacy ratio was calculated as required by the regulations of the National Bank of Poland in force as at the balance sheet date and 31 December 2005 and 31 December 2004.

46. Discontinued operations

On 31 March 2005, the conditional contract on the sale of an organized part of the enterprise in the form of Inwestycyjny Dom Maklerski S.A. between Kredyt Bank S.A. and KBC Securities N.V. was performed.

Below, we present financial figures for IDM Kredyt Bank S.A. as at 31.03.2005.

Income statement

	01.01.2005 - 31.03.2005
Income:	
- interest	963
- fees and commissions	2 612
- financial income	12
- other operating income	423
- reversal of impairment charges	38
Total income	**4 048**

	01.01.2005 - 31.03.2005
Expenses:	
- fees and commissions	-2
- costs of financial activities	-8
- general costs, including:	-1 945
staff costs	*-1 169*
material costs	*-725*
taxes and fees	*-4*
depreciation and amortization	*-47*
- creation of impairment charges	-61
- other operating expenses	-1 058
Total expenses	**-3 074**
Profit before tax	**974**
Income tax expense	0
Net profit on discontinued operations	**974**
Earnings per share	**0.0036**

Balance sheet

	31.03.2005
Intangible assets	264
Tangible fixed assets	128
Cash	33 343
Office cash in the Guarantee Fund of the Warsaw Stock Exchange	14 581
Receivables	50 681
Securities	128
Assets held-for-sale	**99 125**
Liabilities	-69 403
Securities accounts	-28 748
Liabilities directly associated with assets held-for-sale	**-98 151**
Net liabilities related to discontinued operations	974

47. Related party transactions

Related parties with which the Bank concludes transactions, are the Bank's subsidiaries, the companies of KBC Group, persons managing the Bank and the Bank's employees.

Related party transactions are standard banking operations, concluded on market terms: granting loans, issuing bank guarantees, issuing own securities, accepting deposits, borrowing loans, foreign currency transactions, transactions in derivatives. The volumes of transactions and related income and expense have been presented below:

Assets	Subsidiaries	Parent company (KBC Group)*	Total as at 31.12.2005
Amounts due from banks	0	598 449	**598 449**
Loans and advances to customers	265 363	20 843	**286 206**
Other assets	6 818	70 285	**77 103**
Total assets	**272 181**	**689 577**	**961 758**

Including WARTA S.A.

Liabilities	Subsidiaries	Parent company (KBC Group)	Total as at 31.12.2005
Amounts due to banks	0	959 297	**959 297**
Amounts due to customers	59 075	132 258	**191 333**
Investment securities	0	400 000	**400 000**
Subordinated liabilities	0	589 581	**589 581**
Other liabilities	72 634	58 775	**131 409**
Total liabilities	**131 709**	**2 139 911**	**2 271 620**

Off-balance sheet items	Subsidiaries	Parent company (KBC Group)	Total as at 31.12.2005
Guarantees granted	1 718	149 377	**151 095**
Guarantees received	0	90 039	**90 039**
Derivatives	0	5 609 564	**5 609 564**
Total off-balance sheet items	**1 718**	**5 848 980**	**5 850 698**

Income	Subsidiaries	Parent company (KBC Group)	Total as at 31.12.2005
Interest income	19 332	19 781	**39 113**
Fee and commission income	3 251	3 800	**7 051**
Net trading income	321	0	**321**
Other operating income	7 981	5 079	**13 060**
Total income	**30 885**	**28 660**	**59 545**

Expenses	Subsidiaries	Parent company (KBC Group)	Total as at 2005 year
Interest expense	40 898	69 227	**110 125**
Fee and commission expense	81 529	0	**81 529**
Other operating expenses	21 312	0	**21 312**
Operating and administrative expenses	22 213	13 267	**35 480**
Total expenses	**165 952**	**82 494**	**248 446**

Assets	Subsidiaries	Parent company (KBC Group)	Total as at 31.12.2004
Amounts due from banks	2 051 850	218 415	**2 270 265**
Loans and advances to customers	401 181	69	**401 250**
Other assets	24 848	46 663	**71 511**
Total assets	**2 477 879**	**265 147**	**2 743 026**

Liabilities	Subsidiaries	Parent company (KBC Group)	Total as at 31.12.2004
Amounts due to banks	298 681	2 165 551	**2 464 232**
Amounts due to customers	1 964 778	6 511	**1 971 289**
Investment securities	0	400 000	**400 000**
Subordinated liabilities	0	598 210	**598 210**
Other liabilities	214 420	38 765	**253 185**
Total liabilities	**2 477 879**	**3 209 037**	**5 686 916**

in '000' PLN

Off-balance sheet items	Subsidiaries	Parent company (KBC Group)	Total as at 31.12.2004
Guarantees granted	0	1 877 014	**1 877 014**
Guarantees received	0	0	**0**
Derivatives	0	5 621 384	**5 621 384**
Amounts due under sale/purchase transactions	0	77 909	**77 909**
Total off-balance sheet items	**0**	**7 576 307**	**7 576 307**

Income	Subsidiaries	Parent company (KBC Group)	Total as at 2004 year
Interest income	32 701	19 372	**52 073**
Fee and commission income	3 273	8	**3 281**
Other operating income	18 291	22	**18 313**
Total income	**54 265**	**19 402**	**73 667**

Expenses	Subsidiaries	Parent company (KBC Group)	Total as at 2004 year
Interest expense	97 874	59 444	**157 318**
Fee and commission expense	149 917	5 081	**154 998**
Other operating expenses	1 298	0	**1 298**
\Operating and administrative expenses	46 185	2 495	**48 680**
Total expenses	**295 274**	**67 020**	**362 294**

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

Below are presented salaries, bonuses and other benefits of the Supervisory Board and the Management Board.

	Supervisory Board	01.01.2005-31.12.2005	01.01.2004-31.12.2004
		Salary	Salary
1	Witkowski Andrzej	263	255
2	Bergen André	198	207
3	Florquin Francoise	198	191
4	Kulikowski Feliks	198	191
5	Michałowski Marek	198	191
6	Noga Adam	198	191
7	Toczek Józef	198	207
8	Vojć Marko	198	207
9	Docx Rita	176	
10	Mampaey Dirk	22	191
11	Krawczyk Grzegorz		208
12	Guiral Philippe		178
	Total	**1 847**	**2 217**

	Management Board	01.01.2005 – 31.12.2005			
		Salary	Bonus	Other benefits	Total
1	Richardson Ronald	532	297	165	994
2	Kroker-Jachiewicz Małgorzata	912	1 301	252	2 465
3	Libot Guy	912	591	181	1 684
4	Mierzwiński Bohdan	660	556	210	1 426
5	Kokot Krzysztof	760	400	179	1 339
6	Di Maggio Fedele	162	254	152	568
	Total	**3 938**	**3 399**	**1 139**	**8 476**

Management Board		01.01.2004 – 31.12.2004				
		Salary	Bonus	Other benefits	Termination benefits	Total
1	Kroker-Jachiewicz Małgorzata	831	463	146	0	1 440
2	Libot Guy	691	232	91	0	1 014
3	Mierzwiński Bohdan	656	232	121	0	1 009
4	Di Maggio Fedele	632	221	90	0	943
5	Sewerynik Izabela	586	232	140	2 191	3 149
	Total	**3 396**	**1 380**	**588**	**2 191**	**7 555**

Below are presented remuneration paid for the Management Board and Supervisory Board by type of remuneration.

Type of remuneration		Period for which remuneration is given PLN thousand	
		01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
1	Short term employee benefits	10 276	7 556
2	Post employment benefits	47	55
3	Termination benefits	0	2 161
	Total	**10 323**	**9 772**

In 2005 Management Board Members and Supervisory Board Members have not received any remuneration in Banks' subsidiaries.

In 2004 Management Board Members and Supervisory Board Members have been paid for the functions held in subsidiary entities PLN 44 thousand.

The value of loans and advances granted to employees, members of the Management Board and Supervisory Board of the Bank and in its subsidiaries and associates.

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

As at 31 December 2005, total indebtedness related to loans and advances, and cash loan granted by the Bank amounted to:

- for Members of the Management Board – PLN 3 thousand;
- for Members of the Supervisory Board – PLN 894 thousand;
- for the Bank's employees – PLN 81,569 thousand.

As at 31 December 2004, total indebtedness related to loans and advances, and cash loan granted by the Bank amounted to:

- for Members of the Bank's Management Board - PLN 61 thousand;
- for Members of the Supervisory Board - PLN 1,096 thousand;
- for the Bank's employees – PLN 69,508 thousand.

As at 31 December 2005, the total indebtedness of Members of the Management Board and Supervisory Board of the Bank is normal, there is no overdue debt. The employee's overdue exposure amounts to PLN 800.

As at 31 December 2005, the members of the Management Board and Supervisory Board of the Bank have no debts in its subsidiaries.

49. Cash flow statement – additional information

a) Cash and cash equivalents

	31.12.2005	31.12.2004
Cash and balances with Central Bank	607 069	1 512 560
Amounts due from banks	1 641 732	2 409 499
Cash and cash equivalents	**2 248 801**	**3 922 059**

With respect to the presentation of cash for cash flow statement, a change in comparable data has been made in relation to the data from the approved financial statement for the period ended 31 December 2004. Cash as at 1 December 2004 was adjusted with the amount of 3–month term deposits.

In the position cash and cash equivalents the Bank presents obligatory reserve held in line with the adequate regulation on the Central Bank account and marked as restricted cash.

b) Amounts due from banks

	31.12.2005	31.12.2004
Change	469 953	-1 346 703
Nostro accounts - cash at period end	9 763	-16 671
Term deposits up to 3 months - cash at period end	-777 530	1 204 436
Total	**-297 814**	**-158 938**

c) Loans and advances to customers

	31.12.2005	31.12.2004
Change	1 643 382	2 937 076
Adjustments related to adoption of IFRS - effective interest rate	-122 500	0
Adjustments related to adoption of IFRS – loans impairment	-146 261	0
Total	**1 374 621**	**2 937 076**

d) Amounts due to banks

	31.12.2005	31.12.2004
Change	1 437 052	-1 277 007
Adjustments related to adoption of IFRS	-1 041	0
Proceeds from a borrowed working capital loan – presentation in financial activities	-996 140	0
Repayment of a working capital loan - presentation in financial activities	469 609	308 984
Repayment of an investment credit - presentation in financial activities	432 013	0
Other change in a working capital loan and an investment credit - presentation in operating activities	36 248	96 443
Change in a syndicated loan - presentation in financial activities	0	308 984
Total	**1 377 741**	**-871 580**

e) Due to customers

Amounts due to customers	31.12.2005	31.12.2004
Change	-1 428 659	-1 619 489
Adjustments related to IFRS adoption	2 152	0
Total	**-1 426 507**	**-1 619 489**

f) Held-to-maturity assets

	31.12.2005	31.12.2004
Adjustments related to first adoption of IFRS	190 110	0
Adjustments related to adoption of IFRS	-4 223	0
Acquisition in investment activities	-1 222 392	-88 110
Sale in investment activities	333 089	372 171
Changes in interest receivables in operating activities	-131 730	-24 239
Change in held-to-maturity assets in operating activities	5 994	0
Currency differences in operating activities	-9	26 010
Total	**-829 161**	**285 832**

g) Available-for-sale financial assets

	31.12.2005	31.12.2004
Adjustments related to first adoption of IFRS - in operating activities	669 413	0
Acquisition in investment activities	-45 742 823	-9 939 130
Sale in investment activities	43 267 580	9 956 398
Changes in interest receivables in operating activities	-101 905	-56 651
Change in available-for-sale financial assets in operating activities	-68 579	-41 205
Profit/ (loss) on sale	8 488	0
Currency translation differences in operating activities	5	21
Total	**-1 967 821**	**-80 567**

With regard to held-to-maturity assets and available-for-sale assets, the above tables reconcile cash flows presented in various parts of the cash flow statement with the balance sheet change.

h) Operating activity – other adjustments

	31.12.2005	31.12.2004
change in tangible and intangible assets	-12 658	-27 476
change in other assets	-50 219	14 874
change in equity	7 870	22 506
Total	**-55 007**	**9 904**

i) Investment activity – other investment flows

	31.12.2005	31.12.2004
Change of shares into cash (equity pay out for PTE)	36 840	
Total	**36 840**	

j) Financing activity – other financing expenses

	31.12.2005	31.12.2004
Interest repayment on loans received	15 336	27 594
Interest repayment on subordinated liabilities	22 673	23 876
Interest repayment on debt securities issued	49 244	14 007
Total	**87 253**	**65 477**

k) Change in the securities sold under repurchase agreements

	31.12.2005	31.12.2004
Change in the balances	-350 071	718 772
Change in the accrued interest balances – presented as interest in operating activity	1 063	-2 108
Change in the balances	**-349 008**	**716 664**

l) Change in the balance of shares in subsidiaries, other securities and other financial assets

	31.12.2005	31.12.2004
Change in shares in subsidiaries	12 530	-47 831
Change in shares in associates	0	-137
Change in shares in assets for sale	-4 368	-11 208
Change in financial assets	3 179	188 017
Total	**11 341**	**128 841**

ł) Change in debt securities

	31.12.2005	31.12.2004
Change in trading portfolio	682 617	213 915
Change in available for sale portfolio	-52 307	-27 753
Change in held to maturity portfolio	-1 628	0
Total	**628 682**	**186 162**

50. Disposal of subordinated companies and equity investments

On 26 August 2004, the Bank executed the final contract of sale of the whole stake in Kredyt Bank Ukraina S.A., i.e. 65% of shares and votes at the company's General Shareholders Meeting, to PKO Bank Polski S.A. Below, we present the essential information on the disposed company as at 31 July 2004:

	in '000' PLN
Cash and cash equivalents*	38 216
Balance sheet total*	901 629
**figures as at 30.06.2004*	
Income	88 308
Expenses	80 062
Profit/loss on business activities	8 246
Income tax expense	2 542
Net profit/loss	5 704

	in PLN million
Share price	108,8
Shares book value including currency translation differences	72,2
Net profit/loss on shares disposal of Kredyt Bank S.A.	**36,6**

In 2005, the Bank disposed of its whole stake in Wolny Obszar Gospodarczy S.A. and in Solaris Bus and Coach Sp. z o.o. (information on these disposals was included in the Management Board's report on the operations of Kredyt Bank S.A. Capital Group in the first half of 2005).

51. Asset pledged as collateral

As at 31 December 2005, the following assets in a form of Treasury bonds were collateral for the Bank's own liabilities:

» Treasury bonds of the nominal value of PLN 100,500 thousand and of the carrying amount of PLN 110,981 thousand were collateral for a loan borrowed by the Bank of PLN 95,454 thousand and the security for interest payments on the loan. The loan was borrowed by the Bank from the Banking Guarantee Fund for the restructuring of assets and liabilities acquired from Polski Kredyt Bank S.A. pursuant to the recovery plan.

» Treasury bonds of the nominal value of PLN 27,640 thousand and of the carrying amount of PLN 30,523 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 550,000 thousand and of the carrying amount of PLN 512,175 thousand as collateral for possible borrowing of a lombard loan in the National Bank of Poland (NBP).
» Treasury bonds of the nominal value of PLN 353,268 thousand and of the carrying amount of PLN 367,747 thousand pledged in relation to REPO transactions with customers.

As at 31 December 2004, the following assets in a form of Treasury bills and bonds were collateral for the Bank's own liabilities:

» Treasury bills of the nominal value of PLN 110,000 thousand were collateral for loans borrowed by the Bank of PLN 105,000 thousand and secured the payment of interest on these loans. The Bank borrowed the loans from the Banking Guarantee Fund for the restructuring of assets and liabilities acquired from Polski Kredyt Bank S.A. pursuant to the recovery plan and with the rehabilitation of Wschodni Bank Cukrownictwa.
» Treasury bills of the nominal value of PLN 46,000 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 bills of the nominal value of PLN 261,150 thousand were pledged in relation to REPO transactions with customers.
» Treasury bonds of the nominal value of PLN 455,054 thousand were pledged in relation to REPO transactions with customers.

52. Changes in the Management and Supervisory Boards of Kredyt Bank S.A in 2005

On 9 February 2005, the Supervisory Board of Kredyt Bank S.A. appointed, as of 1 March 2005, Mr. Ronald Richardson for the position of the Vice President of the Bank's Management Board. On 8 June 2005, the Commission for Banking Supervision expressed its consent to the appointment of Mr. Ronald Richardson for the position of the President of the Management Board of Kredyt Bank S.A. Under the resolution of the Supervisory Board of 31 March 2005, since the date of the approval, Mr. Ronald Richardson has been performing the function of the President of the Bank's Management Board.

Ms. Małgorzata Kroker-Jachiewicz, the previous President of the Bank's Management Board, remained in the Board as its Vice President.

In addition, on 9 February 2005, the Supervisory Board of Kredyt Bank S.A. appointed, as of 1 March 2005, Mr. Krzysztof Kokot for the position of the Vice President of the Bank's Management Board.

The Supervisory Board also accepted the resignation of Mr. Fedele Di Maggio from the position of the Vice President of the Bank's Management Board. Mr. Fedele Di Maggio was entrusted with other responsibilities in KBC Group.

As at 31 December 2005, the 5-member Management Board of Kredyt Bank S.A. was composed of:

Mr. Ronald Richardson - President of the Management Board, CEO of the Bank,
Mr. Krzysztof Kokot - Vice President of the Management Board, Vice CEO of the Bank,
Ms. Małgorzata Kroker-Jachiewicz - Vice President of the Management Board, Vice CEO of the Bank,
Mr. Guy Libot - Vice President of the Management Board, Vice CEO of the Bank,
Mr. Bohdan Mierzwiński - Vice President of the Management Board, Vice CEO of the Bank.

On 9 February 2005, Ms. Rita Docx was appointed a member of the Supervisory Board following the resignation by Mr. Dirk Mampaey from his position in the Supervisory Board of Kredyt Bank S.A.

As at 31 December 2005, the Supervisory Board of Kredyt Bank S.A. was composed of:

Mr. Andrzej Witkowski	– Chairman of the Supervisory Board,
Mr. André Bergen	– Member of the Supervisory Board,
Mr. Marko Voljć	– Member of the Supervisory Board,
Mr. Francoise Florquin	– Member of the Supervisory Board,
Mr. Feliks Kulikowski	– Member of the Supervisory Board,
Ms. Rita Docx	– Member of the Supervisory Board,
Mr. Marek Michałowski	– Member of the Supervisory Board,
Mr. Adam Noga	– Member of the Supervisory Board,
Mr. Józef Toczek	– Member of the Supervisory Board.

53. Restructuring programm

As a result of the financial loss at the end of 2002, under Article 142 of the Banking Law, the Bank prepared the Recovery Plan for the years 2003-2005 with a view to eliminating a negative impact of the acquisition of Polski Kredyt Bank S.A., a banking enterprise, in the years 2002-2007. This programme was approved by the Commission for Banking Supervision. In December 2003, the plan was updated and communicated to the Commission for Banking Supervision. On 28 June 2004, the Commission for Banking Supervision approved the updated version of the new recovery plan for Kredyt Bank S.A.

The Commission considered the following activities of the parent company: an increase in the Bank's shareholders' equity, covering retained loss, improvement of financial results in 2004 and the restructuring of Kredyt Bank Capital Group. The strategic targets stipulated in the recovery plan provide for the improvement of the Bank's profitability and the maintenance of its strong position as a universal bank, definitely improving its position on the retail banking market while retaining the high level of safety ratios.

The targets assumed in the recovery plan are to be achieved through the utilization and development of existing organization potential based on the identification and neutralization of credit risk, the restructuring of the Capital Group, costs optimization and the development of customer database.

In the event of the improper implementation of the recovery plan, the Bank is subject to sanctions under articles 142-145 of the Banking Law.

The main objectives of the Recovery Plan expressed in the planned net financial result, key performance ratios and capital adequacy were substantially exceeded in 2005.

In 2004 and 2005, the Bank focused on achieving positive effects related to the restructuring and debt recovery processes, mitigating credit risk and reduction of the functioning costs. Major accomplishments, from the point of view of the income statement, were recorded mainly in the first of the above-mentioned areas.

As the strategic shareholder, KBC Bank fully supports the Bank's actions, issuing deposit guarantees and sureties, which constitute additional collateral for loan receivables.

To date, the Bank focused mainly on credit risk, debt recovery, restructuring and the reduction and control of functioning costs. Related undertakings in these areas resulted in specific and noticeable effects in the income statement. At present, the Bank's and the Group's activities, to a larger extent than ever before, will focus on sale, including the development of the banc assurance area.

54. Seasonality or cyclical nature of operations

The Bank's operations are not of seasonal nature.

55. Non-typical factors and events

In 2005 and in 2004, no untypical events occurred in the Bank that would affect the structure of balance sheet items and the financial result.

56. Issue, redemption and repayments of debt or equity instruments

In 2005, Kredyt Bank S.A. did not issue, redeem or repay any debt securities.

In 2004, the Bank has issued 60 368 640 shares issue "W" with share nominal value PLN 5.00 each. The Bank's shareholders to have a right to take over the issue of all newly issued shares. The shareholders subscribed for 60 368 640 shares and this number of shares was granted to investors. As a result of the issue of "W" series the share capital has been increased by the amount of PLN 603 686 thousand.

In 2004 the Bank has issued PLN 70 million of registered bonds. The issue was a second tranch of issuance of perpetual registered bonds offered to KBC Bank N.V. Group entities. The interest rate on bonds is based on 6M WIBOR with market margin. The issue has been taken over by the KBC Group Bank's strategic investor entities.

57. Dividends paid

In 2005, Kredyt Bank S.A. did not have any liabilities related to the distribution of approved dividend.

58. Post-balance sheet events

Subordinated loan agreement of 28 April 2000 concluded with KBC Bank, Dublin Branch and Banco Espirito Santo for USD 50 million was repaid on 17 January 2006 in the amount of USD 50 million.

No other post balance sheet events occurred in the Bank that might have affected figures presented in this financial statement.

59. First time adoption of IAS/IFRS

IFRS 1 - First time adoption of International Financial Reporting Standards, determines the manner of IAS/IFRS application in the financial statements prepared in accordance with IAS/IFRS for the first time.

Preparation of financial statements for the first time in line with IFRS requires a judgment of an entity's Management Board on the adopted accounting principles and estimates applied.

1 January 2004 is the date of adopting IFRS by the Bank, i.e. the opening balance prepared according to IFRS.

The accounting principles adopted for financial statements have been applied on a continuous basis in all presented periods, starting from the opening balance (1 January 2004), except for the exemptions from specific IAS/IFRS permitted under IFRS 1.

IFRS 1 determines two categories of exemptions from the principles of preparing the opening balance under IFRS, according to each IAS/IFRS:

a) exemption from applying certain aspects of specific IAS/IFRS [IFRS 1 - Section 12a];

b) prohibition to retrospectively apply certain aspects of specific IAS/IFRS [IFRS 1 - Section 12b]

The Bank has selected the following options as regards exemptions from the application of certain aspects of specific IAS/IFRS as permitted by IFRS 1 and:

a) does not apply retrospectively the stipulations of IFRS 3 *Business Combinations* in relation to business combinations in the past (before IFRS effective date) [IFRS 1, Section 13a];

b) measures, as of the first day of IFRS application, tangible fixed asets as well as intangible assets at fair value and adopts that figure as deemed cost determined on that day [IFRS 1, Section 13b];

c) re-determines, as of the day of adopting IFRS, financial assets at fair value, including its changes recognized in the income statement or as available for sale [IFRS 1, Section 13g];

d) presents comparable data not compliant with IAS 32 *Financial Instruments*: *Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* [IFRS 1, Section 36A].

The adoption of the above options is consistent with the accounting policy with respect to the first application of IFRS as adopted by the Bank's Major Shareholder.

60. Clarifications related to the adoption of IFRS and the related adjustments in the opening balance

As the accounting principles applied by the Bank for preparation of opening balance in accordance with IFRS, differ from the principles applied on the same date at the time of their historical preparation (pursuant to the Accounting Act), according to IFRS 1, the related adjustments were disclosed in the retained earnings).

The Bank, acting under IAS 12, has not recognised the effect of deferred tax asset on the adjustments related to the first adoption of IFRS. As mentioned in the Bank's financial statements as of 31 December 2004, the accounting principle applied in 2003 and 2004 provided that, at the Bank, bearing in mind balance sheet and tax losses incurred in 2002 and 2003 and the uncertainty of the settlement of the excess of deferred tax asset over deferred tax liability, deferred tax assets were recognized only up to the amount of the deferred tax liability.

IAS/IFRS adjustments to the Bank's shareholders' equity and other items of the financial statement in the periods covered by this report

Table 1 - Reconciliation of the opening balance of the shareholders' equity as of 1 January 2004 in accordance with IAS

	Shareholders' equity as at 31.12.2003 according to PAS	**644 481**
1	**Adjustments related to the adoption of IAS disclosed in revaluation reserve:**	
a)	withdrawal of the measurement of subordinated companies with the equity method	5 442
b)	measurement of fixed assets at fair value	-1 250
c)	reclassification of the currency translation differences from the translation of subordinated companies and foreign branches into separate element of the equity	-10 757
		-6 565
2	**Adjustments related to the adoption of IAS disclosed in retained earnings (loss):**	
b)	withdrawal of the measurement of subordinated companies with the equity method	409 984
c)	recognition of the impairment of investments in shares of subordinated entities measured with the equity method and under IAS 27 are disclosed at cost less impairment	-402 400
d)	measurement of fixed assets at fair value	1 250
e)	reversal of general risk provision	87 867
		96 701
3	**Currency translation differences from the translation of subordinated companies and foreign branches into separate element of the equity**	10 757
	Total IAS adjustments	**100 893**
	Shareholders' equity as at 01.01.2004 according to IAS	**745 374**

<u>Explanation of the adjustments to the consolidated shareholders' equity as of 1 January 2004</u>

Under IAS 27, if an entity prepares an individual financial statement, investments in shares of subordinated entities, not classified as available-for-sale assets, are recognized at cost or at fair value determined in accordance with IAS 39. In accordance with the Bank's accounting principles since 1 January 2004, the Bank recognizes capital investments in shares of subordinated entities at cost less impairment measured in line with IAS 36.

Table 2 - Adjustment of the closing balance of shareholders' equity as of 31 December 2004 in accordance with IAS

in '000' PLN

	Shareholders' equity as at 31.12.2004 according to PAS	**1 459 954**	
	Including net profit for the period		***185 176***
1	**Adjustments related to the adoption of IAS affecting the revaluation reserve:**		
a)	withdrawal of the measurement of subordinated companies with the equity method	285	0
b)	measurement of fixed assets at fair value	-1 250	0
		-965	0
2	Adjustments related to the adoption of IAS affecting retained earnings (loss):		
a)	withdrawal of the measurement of subordinated companies with the equity method	409 984	0
b)	recognition of the impairment of investments in the shares of subordinated entities measured with the equity method and which under IAS are disclosed at cost less impairment	-402 400	0
c)	measurement of fixed assets at fair value	1 250	0
d)	reversal of the provision for general risk	87 867	0
		96 701	0
3	Adjustments related to the adoption of IAS affecting net profit in the period:		
a)	withdrawal of the measurement of subordinated companies with the equity method	-71 090	-71 090
b)	reversal of impairment charge for equity investments in shares of subordinated companies recognized at cost	45 075	45 075
c)	reversal of the provision for general risk	-32 633	-32 633
		-58 648	-58 648
	Total IAS adjustments	**37 088**	**-58 648**
	Shareholders' equity as at 31.12.2004 according to IAS	**1 497 042**	

Explanation of the adjustments to shareholders' equity as of 31 December 2004

With respect to the recognition of investments in shares of subordinated companies, the adjustment of capitals was made in an analogous manner (based on the same provision of IAS 27), as of 1 January 2004.

Table 3 – Significant reclassifications of balance sheet items against data published as at 31 December 2004 according to the Polish Accounting Standards

in '000' PLN

	ASSETS		31.12.2004 Polish Accounting Standards	Adjustments	31.12.2004 IFRS
I	Financial assets (*) (***)	A	8 605 383	47 482	8 652 865
II	Loans and advances to customers	B	14 669 566	-665 353	14 004 213
III	Allowance for impairment losses for loans and advances to customers and banks	C	-2 399 004	-91 688	-2 490 692
IV	Equity investments	D	231 038	-105 293	125 745
V	Intangible assets and tangible fixed assets	E	515 884	-16 291	499 593
VII	Other assets	B	184 993	-21	184 972
	TOTAL ASSETS		**21 807 860**	**-831 164**	**20 976 696**

	LIABILITIES		31.12.2004 Polish Accounting Standards	Adjustments	31.12.2004 IFRS
I	Financial liabilities (**)		19 116 613	0	19 116 613
II	Reserve	G	220 259	-183 721	36 538
III	Special funds and other liabilities(***)	I	1 011 034	-684 531	326 503
	TOTAL LIABILITIES		20 347 906	-800 978	19 546 928
IV	SHAREHOLDERS' EQUITY	J	1 459 954	37 088	1 497 042
	TOTAL LIABILITIES		**21 807 860**	**-831 164**	**20 976 696**

(*) – the item contains: cash and balances with central bank, amounts due from other banks, held-for-trading investments, available-for-sale financial assets, held-to-maturity financial assets.

(**) – the item contains: amounts due to banks and customers, liabilities related to securities disposed of under repurchase agreements, debt securities in issue, financial assets liabilities, subordinated liabilities.

(***) – in these items the Bank has offset assets and liabilities arising on CSBF as it does not constitute Bank's assets. Total assets as at 31.12.2004 presented in the financial statement is lower by PLN 2 866 thousand than total assets presented for the first half of the year 2005 at the same date. The difference arose on the offsetting the assets and liabilities on CSFB.

Explanation of reclassification adjustments to comparable data for 12 months of 2004:

Adjustment in assets	Amount	Item	Adjustment in liabilities	Amount
A	-2 866	Offsetting CSBF liabilities and cash	I	-2 866
A D	50 348 -50 348	reclassification to available-for-sale assets from equity investments		
B	-665 374	offsetting interest accrued on doubtful receivables from financial and non-financial customer with qualified interest	I	-665 374
C	-42 083	reversal of the provision for general risk	G J	-97 317 55 234
C	-49 605	recognition of impairment of equity investments in the amount exceeding the cost of shares purchased in subordinated companies: the excess of the impairment is recognized in loans granted to these entities	J	-49 605
D	-54 945	withdrawal of the measurement of subordinated entities with the equity method and re-measurement at cost with the recognition of the impairment of investments	J	-54 945
E	-16 291	Offsetting assets and liabilities related to investments in fixed assets	I	-16 291
	0	withdrawal of negative measurement of subordinated companies measured according to PAS with the equity method	G	-86 404
	0		J	86 404
Total	**-831 164**			**-831 164**

Table 4 - Adjustment of the opening balance of shareholders' equity as of 1 January 2005 in accordance with IAS

	Shareholders' equity as at 01.01.2005 according to PAS	**1 459 954**
1	Adjustments related to the adoption of IAS disclosed in revaluation reserve:	
a)	withdrawal of the measurement of subordinated entities with the equity method in correspondence to revaluation reserve	285
b)	measurement at fair value of debt securities reclassified from held-to-maturity assets to available-for-sale assets	2 726
c)	reclassification of the measurement of debt securities at fair value reclassified from available-for-sale assets to assets carried at fair value through profit or loss	25 539
d)	measurement of fixed assets at fair value	-1 209
		27 341
2	Adjustments related to the adoption of IAS disclosed in retained earnings/loss:	
a)	withdrawal of the measurement of subordinated companies with the equity method	338 894
b)	recognition of the impairment of investments in the shares of subordinated entities measured with the equity method and which under IAS are recognized at cost less impairment	-380 919
c)	measurement at fair value of the companies: Solaris and Wolny Obszar Gospodarczy reclassified from 'equity investments' to 'available-for-sale assets'	13 281
d)	reclassification of the measurement of debt securities at fair value reclassified from available-for-sale assets to assets carried at fair value through profit or loss	-25 539
e)	Reversal of the provision for general risk	84 167
f)	Reversal of the 1.5% provision for normal consumer loans and under observation loans	20 982
g)	impairment of loan receivables measured for individual exposures	-91 918
h)	impairment of loan receivables portfolios	-131 971
i)	measurement of financial assets and liabilities at amortized cost with the application of the effective interest rate	-74 120
j)	measurement of fixed assets at fair value	1 209
		-245 934
	Total IAS adjustments	**-218 593**
	Shareholders' equity as at 01.01.2005 according to IAS	**1 241 361**

Explanation of the adjustments to shareholders' equity as of 1 January 2005

Due to the fact that the Bank applied IAS 39 for the first time on 1 January 2005, the related adjustments were included in the opening balance of shareholders' equity on that day.

1a) adjustment recognized as for 31.12.2004

1b) the Bank re-determined (under IFRS 1, Section 13g), as of the date of adopting IFRS, the financial assets as available for sale; according to the Polish Accounting Standards these assets were disclosed as held to maturity, and their carrying amount as of 1 January 2005 amounted to PLN 190,110 thousand;

1c) the Bank re-determined, as of the day of adopting IFRS, the financial assets at fair value, including its changes recognized in the income statement; according to the Polish Accounting Standards, these assets were disclosed as available for sale, and their carrying amount as of 1 January 2005 amounted to PLN 862,249 thousand;

2a) and 2b) the adjustments were recognized by analogy to the comparable periods in 2004;

2c) as at 31.12.2004 the shares of Solaris Bus and Coach Sp. z o.o. and Wolny Obszar Gospodarczy S.A. has been valued at equity method. As of 1 January 2005, investments in shares of these companies were classified as available-for-sale assets and are measured at estimated fair value. In the comparable data presented in this report, shares of these companies were disclosed in 'equity investments' and measured at cost according to IAS 27;

2d) this adjustment corresponds to adjustment 1 c)

2e) reversal of provision for general risk established at the Bank in accordance with the Polish Banking law;

2f) the reversal of provision at the Bank for the risk connected with consumer credits classified as 'normal' as well as credits classified as 'under observation' in accordance with Polish regulations on establishing provisions for credit risk;

2g) impairment measured for individual credit exposures;

2h) collective impairment measured for portfolios of homogeneous loan receivables;

2i) the measurement of financial assets and liabilities at amortized cost applying the effective interest rate.

With respect to the presentation of cash for the cash flow statement, a change in comparable date was made in relation to the data originating from the approved financial statement for periods ended 31 December 2004 and 30 June 2004. Cash as at 1 January 2004 and 30 June 2004 was adjusted with the amount of 3-month term deposits by PLN 1,315,828 thousand and PLN 2,899,863 thousand respectively, as described in Section 6.15 of the financial statement of the Kredyt Bank S.A.

As stated before, the Bank, taking advantage of exemptions indicated in IFRS 1, decided not to restate comparable data under IAS 32 and IAS 39.

If the Bank restated the comparable data, major adjustments would affect the measurement of financial assets at amortized cost with the application of the effective interest rate, including the measurement of the impairment of individual assets and portfolios of homogenous financial assets. As regards the restatement of the income statement, the most vital change in the presentation would be associated with the recognition of the fee and commission income at amortized cost taking into account the effective interest rate. It would imply a decrease in net fee and commission income accompanied with the increase in net interest income.

Adjustments related to first adoption of IFRS did not affect cash flows.

61. Fair value of financial assets and liabilities not recognized at fair value in the balance sheet

Fair value is an amount for which a given asset may be sold or exchanged for another asset, or liability may be paid in a transaction concluded on commercial terms between knowledgeable parties entering freely into the transaction. Fair value is best reflected by the market price, if available. As stated in the section on the accounting principles adopted by the Bank, if the market price is unavailable, the measurement is performed on the basis of generally adopted measurement models based on variables that can be observed in the market environment.

The main categories of financial assets and liabilities not measured in the Bank's balance sheet at fair value are assets or liabilities valued at amortized cost or historical cost:

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

The table bellows present the differences between the balance sheet value and estimated fair value of Bank's assets and liabilities, which in the Bank's balance sheet are not presented at fair value.

According to IFRS 1, the Bank took advantage of the exemption related to the presentation of comparable data in terms of fair value (note 60).

31.12.2005	Carrying amount	Fair value
Assets		
Cash and balances with central bank	607 069	607 069
Amounts due from banks	2 226 654	2 226 654
Loans and advances to customers	9 873 333	10 043 708
Investment securities	2 727 027	2 812 233

31.12.2005	Carrying amount	Fair value
Liabilities		
Due to banks	2 562 167	2 562 167
Due to customers	14 592 699	14 596 364
Other liabilities presented at amortized cost*	1 360 717	1 360 717

* This position includes debt securities issued, subordinated liabilities and securities sold under repurchase agreements.

61.1. Amounts due from banks and Loans and advances to customers

As stated in the section on the accounting principles adopted by the Bank and the material accounting estimates, granted loans and credits and other own receivables not held for trading are measured at amortized 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 based on discounted expected cash flows of the principal and interest are the best reflection of the fair value. Expected cash flows assume the same credit risk, which is taken into consideration in the case of the measurement at amortized cost. The discount rate is the market rate as at 31.12.2005 plus the margin for the risk offered on the market for defined loan facilities and specific customer groups.

As provided for in Note 23 short-term deposits are the major part of term deposits on the inter-bank market. In addition, as presented in Note 26 floating interest rate facilities are the bulk of loans and receivables. Due to these features, fair value of such products when no individual impairment has been identified is similar to their book value.

Additionally, in the case of loan receivables for which impairment was identified, there are many cases, particularly of receivables under the debt recovery process, where the initial effective interest rate is much higher than the current market rates. For such receivables, the estimation of their fair value is particularly sensitive to assumptions made.

61.2. Fixed interest rate loans and advances to customers

As regards fixed interest rate facilities, the major parts are installment and cash loans granted by the Bank and through Żagiel sales network. As at balance sheet date the average maturity of those loans does not exceeds two years. Fair value of those assets have been estimated for homogeneous product portfolios where interest cash flows with the average maturity have been estimated based on weighted average of effective interest rate of contracts active as at 31.12.2005. The discount rate used was a weighted average effective interest rate offered for new clients.

61.3. Floating interest rate loans and advances to customers

The Bank has split the loan portfolio for types of products and group of customers for the purpose of the fair value estimation for this group of assets. Expected cash flows have been estimated till the maturity of groups of products based on average credit margins estimated as at 31.12.2005 and expected interest rates for different currencies at balance sheet date. The discount rate used were expected market rate curves adjusted with margins offered for new clients.

61.4. Loans and advances to customers with identified impairment loss

In the portfolio of loans with identified impairment loss, which are under the restructuring or debt recovery process, there are many cases where the initial effective interest rate is much higher than the current market rates. The estimation of their fair value is particularly sensitive to assumptions made.

As the Bank does not grant new facilities to borrowers with similar credit risk profiles the Bank has decided that as the fair value of those receivables can be accepted the net present value of the estimated expected cash flows (from the planned cash and collateral recoveries) determined in the process of estimation of the loan impairment allowance discounted with the expected market rate curves for particular currencies as at 31.12.2005

61.5. 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 amortized cost with the effective interest rate methodology. Held-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 does not have any material commitment in shares of the companies recognized at historical cost; these are shares in subsidiaries and equity investments of minority nature. The subsidiaries operate as a supporting activity for the Bank's activity therefore its difficult to reliably estimate its fair value. Minority interests are in majority shares taken up for a debt therefore there is no active market for those assets and the fair value estimation may significantly differ from the market offers.

61.6. Other financial assets and liabilities not presented in 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, current receivables and customer liabilities.

61.7. Financial liabilities not held for trading

As stated in Note 36 and Note 37, deposits on current accounts and term deposits with balance sheet maturities of less than one year constitute the bulk of deposits. Debt securities issued are based on the floating market rate, which is revaluated every six months. Estimates performed on the basis of the models of measurement based on discounted expected cash flows discounted with the expected interest rate curves as at 31.12.2005 are the best reflection of the fair value. On the basis of the above-mentioned characteristics of financial liabilities and 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 as at the date of this financial statement.

62. Information on court proceedings or public administration authority

In 2005, 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 shareholders' equity.

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

The cases in which the Bank is a 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 14,567,292.83 with possible extension of the suit.
  First hearings have already taken place. The defendants replied to lawsuits and applied for the dismissal of all claims.

The cases *in which the Bank is a defendant*

- Court proceedings regarding a credit granted to Laboratorium Frakcjonowania Osocza Sp. z o.o. in Mielec. Kredyt Bank S.A. is the leader of the syndicate of five banks, which, under the agreement of 04.03.1997, granted a syndicate loan to Laboratorium Frakcjonowania Osocza Sp. z o.o. in Mielec. The loan was secured by, among others, a registered pledge on the company's fixed assets 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, Kredyt Bank S.A. (Bank), representing the syndicate, terminated the agreement under its terms and conditions and called LFO Sp. z o.o. to pay claims. As at 30 June 2003, the share of Kredyt Bank in the syndicate amounted to PLN 12.4 million. The proceedings related to the Bank's exercise of the collateral under the loan agreement were unsuccessful; as a result, on 28 March 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. By the letter of 1 July 2003, the Minister of Finance informed that LFO Sp. z o.o. sued the Bank for damages for the termination of the loan agreement and refused to exercise the surety by the time of issuing the court's decision on the justness of LFO Sp. z o.o. claims. As at balance sheet date following claims relating to this case is open:

- Laboratorium Frakcjonowania Osocza Sp. z o.o. (LFO) claims for damages amounting to PLN 119,477 thousand due to the termination of a loan agreement. The suit was filed on 18 June 2003. The Bank is of the opinion that LFO claims are not based on any actual and legal grounds. On 16 March 2005, the court rejected the suit by LFO. On 4 May 2005, LFO filed a complaint about the decision. On 12 August 2005, the court dismissed LFO complaint against the dismissal of lawsuit. On 21 December 2005, the plaintiff submitted its appeal to the Supreme Court. A reply was prepared.
- Laboratorium Frakcjonowania Osocza Sp. z o.o. claims to deprive the executor title of the enforceability clause. The suit was filed on 6 January 2006. The value of the object of the dispute amounts to PLN 102,154 thousand (for all syndicate members, the Bank's portion amounts to PLN 6,787 thousand). The court appointed an expert to resolve on the correctness of amounts included in the bank's executor title issued by the Bank for all syndicate members. The expert confirmed incorrect amount of debt. The Bank files clarifications and objections to expert's opinion. The court closed the case on 18 January 2006. The judgment has been pronounced on 31 January 2006. The banking execution title has been cancelled for the amount of PLN 252 377,13. At the same time banking execution title has been maintained in force for the amount of PLN 101 901 864,67.
- The banks, members of the syndicate, approached the court in order to concede the enforceability clause to the executor title issued on 1 December 2004 against the State Treasury being the guarantor of the loan granted to LFO. The first instance court, by its ruling of 23 March 2005, dismissed the banks' motion. On 22 April 2005, the banks filed a complaint about the decision. Formal defects were removed from the request on granting enforceability clause. We are waiting for the court decision.
- The Minister of Finance, on behalf of the State Treasury, requested for determination whether the syndicated loan agreement concluded between Laboratorium Frakcjonowania Osocza Sp. z o.o. in Mielec and a syndicate of five banks expired on 28 February 1998 as a result of the failure to satisfy a contractual condition, i.e. failure to provide certain documents and the resulting expiry of the commitment of the State Treasury as the guarantor of the loan under the guarantor's agreement concluded on 1 July 1997 by Kredyt Bank, acting on behalf of the five banks, and the State Treasury. On 2 January 2006, the Bank files its reply to the suit and requested for the dismissal of the suit.

• On 5 January 2006, the Bank received a suit filed by the Archdiocese of Gdańsk against bank executory titles issued by the Bank. The plaintiff claims that loan agreements concluded with respect to the business activities of Wydawnictwo Archidiecezji Gdańskiej Stella Maris are invalid as representatives of the Archdiocese were not duly authorized. The value of the object of the dispute amounts to PLN 14,979 thousand. The Bank prepared its reply to the suit and requested for dismissal of all claims. Regional court in Gdańsk has appointed a proceeding on 17.02.2006 and has approved its adequacy only for part of the claim. The other part of the claim has been passed to the Regional court in Bydgoszcz. As the parties tend to achieve an agreement they have applied for a suspension of the court proceedings.

- 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 cheques bearing a forged signature of one of the persons authorized to represent the company in dealings with the Bank. The suit was filed on 6 February 2004. On 13 January 2005, the court suspended the proceedings until penal proceedings are completed.

  On 20 September 2005, under the court's decision, the civil proceedings were initiated in connection with the sentence in a criminal case pertaining to the forgery of signatures on cheques. The hearing is scheduled for 17 March 2006.

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 and disclosed in the Bank's balance sheet.

63. Custody services

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

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 Depository and a participant of the Securities Register (RPW) managed by the National Bank of Poland (NBP). On this basis, the Bank manages accounts for securities deposited in KDPW or RPW. The Custody Department in the Bank's Head Office is the Bank's business unit providing the said services.

Within its activities, this Department also acts as a depository for investment funds, deposits securities not traded on organized market, registered in securities registers and on sub-fiduciary accounts in domestic and foreign financial institutions.

The Bank assists customers in the settlement of sale/purchase transactions related to securities traded on the regulated market (including the stock exchange market) and transactions outside the regulated market (including the inter-bank market).

The Bank settles customers' transactions as required by KDPW, NBP and other institutions organizing trade in securities, and acts as an intermediary in the exercise of rights arising from securities, e.g.

dividends, pre-emptive rights, interest, redemptions, splits, new issues, general meetings of shareholders.

As a depository for investment funds, the Bank offers the following custodian services:
1) keeping the register of a fund's assets;
2) ensuring accurate and proper calculation of NAV and NAVPS;
3) ensuring the proper settlement of contracts on a fund's assets;
4) supervision over fund's investment activities.

64. Risk management in Kredyt Bank S.A.

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

The Bank's Supervisory Board, through the Audit Committee, is informed on the most important issues and approves the actions of the Management Board in this respect.

Particular risks are dealt with directly by specialized Committees:

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

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

The Risk Management Department reporting directly to the President of the Bank's Management Board deals with the measurement and monitoring of all types of risks at 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. The most vital ones are described below:

a) Market risk

Market risk is defined as a degree of the 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 interest rate and exchange rate risk are the two main risks at the Bank. The Bank does not actively operate on shares market and the majority of investments in stocks are long-term investments or strategic investments in subsidiaries. The Bank does not trade on commodity markets.

In order to improve management quality, since 2002, the activities of the Bank have been divided into two parts: Trading Book and Banking Book. Due to different nature of open positions, the risk is monitored in each book separately.

Trading Book

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, in USD and EUR.

- Interest rate risk

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

The Value at Risk (VaR) is the basic metric of risk in trading portfolio; it is calculated in time horizon of 10 days at the 99% confidence level, taking into account market figures for the previous 250 days, what complies with international standards.

VaR limit and utilization as of 31 December 2005 is presented below.

Limit		Utilization as at 31 December 2005
VaR	EUR 2,000 thousand	EUR 257.96 thousand

Additionally, the level of interest rate risk is monitored and limited (by establishment of limits) against BPV (basis point value).

All above-mentioned limits concern the total Trading Book. The Trading Book Unit in the Treasury Department managing the Trading Book is divided into two sections (with the primary term of instruments as the basic division criterion). Internal VaR limits and stop-loss (maximum acceptable loss) restrict the activities of particular sections.

- currency risk

Currency position

The exchange rate risk is the degree of the risk for the entity'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 currency positions resulting from the difference between the value of assets and liabilities in a given currency.

As in the case of interest rate risk, value at risk is the basic measure applied in the monitoring of the currency risk. The parameters applied for calculations are identical as for the interest rate risk. VaR limit and utilization as of 31 December 2005 is presented below.

	Limit	Utilization as at 31 December 2005
VaR	EUR 1,000 thousand	EUR 147.31 thousand

The 'value at risk' method is supplemented by stress-testing, which is the amount of possible loss in extremely adverse (critical), but probable changes in exchange rates.

<u>Foreign exchange options</u>

The Bank also offers foreign exchange options. The options portfolio is small and comprises mainly the options exercised upon the customer's initiative. The Bank does not maintain options portfolio for its own account, i.e. does not speculate. The options on the inter-banking market are the options hedging the position resulting from transactions with customers. Therefore, the risk in the portfolio of foreign exchange option transactions is immaterial. The scenarios analysis and 'Greek' parameters (open delta, gamma, vega) are the basic measures applied for monitoring this section risk. The scenario analysis method involves the calculation of the most adverse result on open position, assuming defined changes in exchange rates and volatility. Below, we present the use and limits of the scenario analysis as of 31 December 2005:

	Limit	Utilization as at 31 December 2005
Scenario analysis	EUR 250 thousand	EUR 3.3 thousand

- capital market risk

Kredyt Bank does not operate on the stock market within the Trading Book. As at 31 December 2004, IDM, which now is not included in the Bank's structure, was engaged in only insignificant trading activities related to its role as a market maker.

The capital requirements for the Trading Book as of 31December 2005 and 31 December 2004 are as follows:

in '000' PLN

Capital requirements for the Trading Book

Market risk	**31.12.2005**	**31.12.2004**
including:		
Equity securities price risk	0	3
Specific risk of debt instruments	54	43
General interest rate risk	9 859	8 568
Settlement risk and counterparty risk	5 561	4 491
Other	0	0
Total capital requirement in the Trading Book	**15 474**	**13 105**

Derivative financial instruments

In 2005, the Bank entered into the following transactions:

» currency swap;
» interest rate swap;
» cross-currency interest rate swaps (CCIRS);
» forwards,
» forward rate agreements (FRA);
» options.

Currency swap

These transactions were made for commercial purposes at normal commercial terms.

As of 31 December 2005, there were 36 active currency swaps whereupon the Bank was obliged to purchase the total of the following amounts: PLN 948,823 thousand; USD 275,239 thousand, EUR 110,984 thousand for total amounts of PLN 933,529 thousand, USD 284,392 thousand, EUR 4,102 thousand and CHF 162,000 thousand. These transactions will be effected from 2 January 2006 to 11 December 2006.

As of 31 December 2005, the balance of currency swaps recognized as 'liabilities from transactions on financial instruments', an off-balance sheet item, amounted to PLN 2,274,837 thousand on forward purchase of currencies by the Bank and PLN 2,278,417 thousand on forward sale of currencies.

Interest rate swaps (IRS)

These transactions were concluded for trading and collateral purposes at market terms. As of 31 December 2005, there were 261 active interest rate swaps with the total nominal value of purchased amounts of PLN 6,675,520 thousand and the total value of sold amounts of PLN 6,330, 565 thousand. These transactions will be effected from 9 January 2006 to 22 June 2015.

In addition, the Bank concluded 3 purchases for securing purposes with the total value of PLN 66, 000 thousand. These transactions will be effected from 12 April 2010 to 3 October 2013.

Forward rate agreements (FRA)

As of balance sheet preparation date, there were 179 active purchase transactions and 154 active transactions on sale of forward rate agreements (FRA). These transactions were concluded for trading purposes at market terms on the interbank market.

As of 31 December 2005, the balance of FRAs recognized as 'liabilities from transactions on financial instruments', an off-balance sheet item, amounted to PLN 32,250,000 thousand on FRA purchase of by the Bank and PLN 26,375,000 thousand on the sale of FRA.

FRA purchase transactions were concluded for the total amount of PLN 32,250,000 thousand, including 132 transactions of the total value of PLN 22,850,000 thousand with domestic banks and 47 transactions for the total amount of PLN 9,400,000 thousand with foreign banks. FRA purchase transactions will be effected from 7 February 2006 to 19 December 2006.

FRA sale transactions were concluded for the total amount of PLN 26,375,000 thousand, including 118 transactions of the total value of PLN 19,450,000 thousand with domestic banks and 36 transactions for the total amount of PLN 6,925,000 thousand with foreign banks, with exercise dates from 8 February 2006 to 15 December 2006.

Cross-currency interest rate swaps (CCIRS)

CCIRS transactions were concluded in order to swap the liquidity from one currency to another at market terms.

As of 31 December 2005, there were 6 active CCIRS whereupon the Bank was obliged to sell the total of EUR 82,082 thousand, USD 65,000 thousand, CHF 50,000 thousand, GBP 10,000 thousand for total amounts of EUR 32,082 thousand and CHF 229,595 thousand. These transactions will be effected on: 23 May 2006, 1 June 2006, 30 June 2006, 3 January 2007, 1 June 2007.

As of 31 December 2005, the balance of CCIRS recognized as 'liabilities from transactions on financial instruments', an off-balance sheet item, amounted to PLN 692,951 thousand on forward purchase of currencies by the Bank and PLN 708,998 thousand on forward sale of currencies.

All transactions currency swap, IRS, FRA, and CCIRS have been concluded on inter-bank market with financial institutions. The Bank does not require any additional pledge for transactions concluded with those entities concluded within the transaction limits granted.

Forwards

These transactions were concluded for trading purposes on market terms.

As of the balance sheet date, there were 364 forwards concluded with customers, whereupon the Bank was obliged to purchase the total of EUR 40,375 thousand, USD 13,575 thousand, GBP 4, 500 thousand, SEK 2,000 thousand and PLN 185,865 thousand. At the same time, the Bank was obliged, as a result of forwards, to sell USD 14,406 thousand, EUR 32,444 thousand, GBP 2,547 thousand, SEK 242 thousand and PLN 225,744 thousand. These transactions will be effected from 2 January 2006 to 4 December 2007.

As of 31 December 2005, the balance of forwards recognized as 'forward exchange transactions', an off-balance sheet item, amounted to PLN 412,111 thousand on forward purchase of currencies by the Bank and PLN 412,382 thousand on forward sale of currencies.

There is a possibility of earlier settlement of transactions under the conditions agreed between the parties. The Bank assumes additional security for forwards. The establishment of the security in the following form is a pre-condition of concluding a forward transaction with a customer:

- frozen term deposit, or
- hold on cash on current account, or
- hold on cash on a separate frozen deposits account, or
- hold on the term deposit made by a customer prior to the forward conclusion date, or
- 'stand-by' loans securing forwards.

Options

Put/call options for currencies are of trading and hedging nature, and are concluded on market terms. As at 31 December 2005, there were 128 active options whereupon the Bank:

- purchased calls for EUR/PLN with the total nominal value of EUR 4,061 thousand;
- purchased calls for EUR/USD with the total nominal value of EUR 16,030 thousand;
- purchased calls for USD/PLN with the total nominal value of USD 2,000 thousand;
- purchased calls for GBP/PLN with the total nominal value of GBP 1,615 thousand;
- purchased puts for EUR/PLN with the total nominal value of EUR 3,988 thousand;
- purchased puts for EUR/USD with the total nominal value of EUR 16,030 thousand;
- purchased puts for GBP/PLN with the total nominal value of EUR 1,615 thousand;
- purchased puts for USD/PLN with the total nominal value of USD 2,000 thousand;
- sold calls for EUR/PLN with the total nominal value of EUR 4,061 thousand;
- sold calls for EUR/USD with the total nominal value of EUR 16,030 thousand;
- sold calls for USD/PLN with the total nominal value of USD 2,000 thousand;
- sold calls for GBP/PLN with the total nominal value of GBP 1,615 thousand;
- sold puts for EUR/PLN with the total nominal value of EUR 3,988 thousand;
- sold puts for EUR/USD with the total nominal value of EUR 16,030 thousand;

– sold puts for GBP/PLN with the total nominal value of GBP 1,615 thousand;
– sold puts for USD/PLN with the total nominal value of USD 2,000 thousand;

There is a possibility of earlier settlement of transactions under the conditions agreed between the parties. As at 31 December 2005, the Bank also recognized in books one call option for indices with the total nominal value of PLN 53,300 thousand and one put option with the total value of PLN 1,400 thousand.

Embedded derivatives

Following the review of assets and liabilities, embedded derivatives, which must be separated and disclosed, were identified in debt instruments (Earls bonds). As a result, option-type embedded derivatives sold by the Bank was separated, where credit rating and a purchased derivative is the basic instrument. The profit from the measurement of derivatives embedded in debt instruments is recognized in current profit/loss in 'profit/loss on financial operations'. As at 31 December 2005, the measurement of derivatives embedded in Earl's bonds amounted to PLN 6.2 million.

The embedded derivatives are measured according to the measurement models of these instruments and input data are derived from the market.

Banking Book

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

- interest rate risk

Kredyt 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:

- ✓ the 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 balance sheet of Kredyt Bank S.A. 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), Kredyt 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.

The Banking Book comprises the following items:

- ✓ Hedging - item resulting from the operations of branches (along with hedging transactions). We distinguish between:
    - ➢ benchmark portfolios of current accounts in PLN, EUR and USD,
    - ➢ benchmark portfolio of savings accounts in PLN,
    - ➢ branch position, except for the part of stable current accounts and savings accounts.
- ✓ Transformation, including:
    - ➢ benchmark portfolio of Free Capital,
    - ➢ item with credit risk (Credit Book).

Interest rate risk analysis

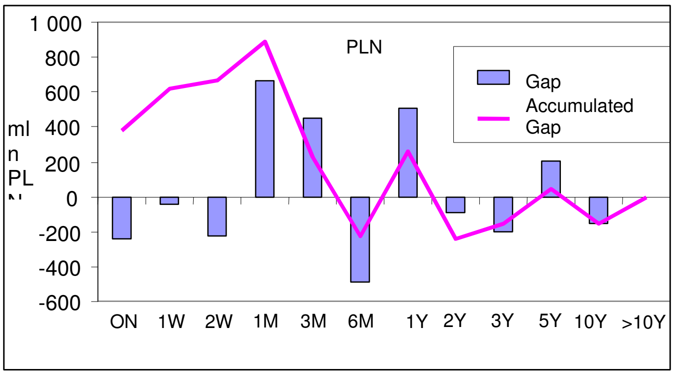
The interest rate risk analysis was conducted upon the following assumptions:

- ✓ the stable part of current PLN and foreign currency accounts (in EUR and USD) is invested cyclically for the period of 5 years for PLN (1/60th of the stable part invested monthly), and 2 years for foreign currencies (1/8th of the stable part invested monthly);
- ✓ two stable portions are separated from savings accounts; the first portion is invested cyclically for 6 months (1/6th of the stable part invested monthly), and the second part is invested for 3 years (1/36th of the stable part invested monthly);
- ✓ unstable parts of current accounts in PLN, EUR and USD, of savings accounts and current accounts in other currencies are classified in the shortest term horizon,
- ✓ free capital approved for the whole year is invested cyclically for the period of 10 years (1/120th of the free capital invested monthly), and an excess or shortage compared to actual amount of free capital is classified in the shortest term horizon;
- ✓ benchmark is applied to non-working loans (40% - ON, 30% - 1M, 30% - 3M);
- ✓ loans are recognized in net terms (less provisions),
- ✓ loans are presented according to repayment schedules;
- ✓ except for nominal flows, also known future interest flows are presented in the report,
- ✓ each flow is divided proportionally into two parts which are classified in adjoining nodes of the curve;
- ✓ cumulative gap is calculated from the longest to the shortest-term periods.

The interest rate gaps in particular currencies (in millions) and based on internal system of transfer rates are presented below.

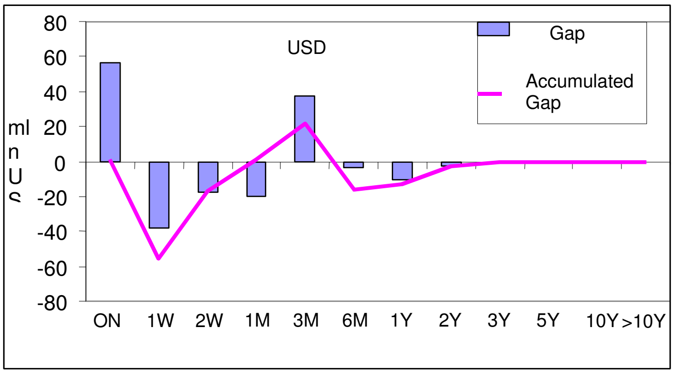
- **PLN**

For items in PLN, a negative value of the gap in the term ranges up to 2 weeks result from holding short-term fixed interest rate customer deposits. The positive gap in term ranges from 2 weeks up to 3 months is a result of a mismatch of volumes of floating interest rate loans and deposits. And the gap in the term range from 6 months up to 1 year results from fixed interest rate loans extended by intermediaries. The negative gap in term ranges from 3 months to 6 months is associated with repricing of the first tranche of perpetual bonds based on 6M WIBOR. The gap in various term ranges is a result of the mismatch of the benchmark portfolios structures.



- **USD**

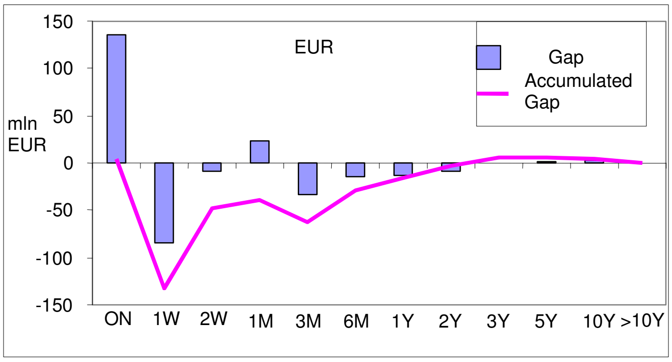
The gap for items in USD is positive in ON term range as a result of the classification of non-working loans and mature loans. And, in the term ranges up to 3 months, it is a result of granting FxSwap. A negative gap results from accepted fixed interest rate customer deposits and the cash loan (ranges of 1-2 weeks).



- **EUR**

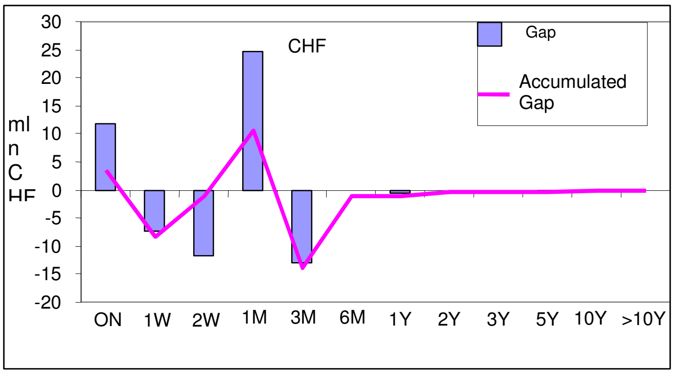
For items in EUR, a positive gap is a result of extending short-term deposit (ON range) and the mismatch of the volumes of floating interest rate loans and deposits and accepted long-term cash loans (the range up to 1 month). A negative gap in short term ranges (up to 1 week, up to 2 weeks) is a result of holding fixed interest rate deposits by the Bank. And, in the term ranges from 1 month up to

3 months, it is a result of accepted long-term cash loans. The gap in term ranges from 3 months to 2 years is a result of the mismatch in the benchmark portfolio between bonds and the stable part of current accounts and fixed interest rate deposits.



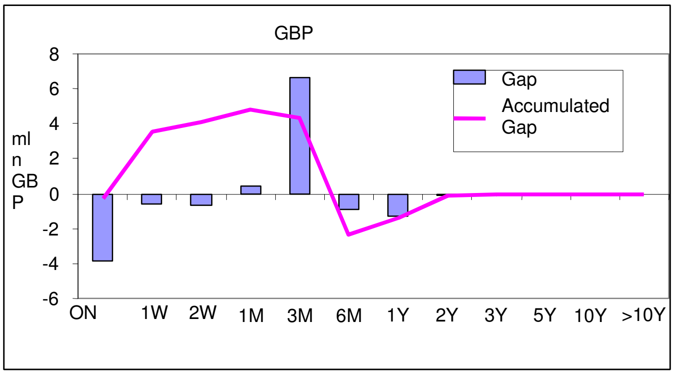
- **CHF**

For CHF, a positive gap in ON term range and ranges from 2 weeks to 1 month results from mismatch between floating interest rate loans and deposits and accepted long-term cash loans. A negative gap in term ranges from ON to 2 weeks are associated with the acceptance of FxSwap transaction, and the gap in the range from 1 month to 3 months is a result of accepting CIRS.



- **GBP**

The gap for items in GBP in term range from 1 month to 3 months is positive with regard to granted CIRS. A negative gap is a result of accepted fixed interest rate deposits.



The table below illustrates the Bank's basis point value (BPV) accompanied with the Bank's parallel shift in interest rates by 10 p.b. up for particular currencies and portfolios.

Currency/portfolio		BPV in millions of original currency 31/12/2005		31/12/2004	
PLN	hedging	0,223	0,188	0,352	0,150
	transformation[1]		0,035		0,203
USD	hedging	0,012	0,012	-0,010	0,059
	transformation		0,000		-0,069
EUR	hedging	0,008	0,012	0,051	0,060
	transformation		-0,005		-0,009
CHF		0,004		0,006	
GBP		0,001		0,002	

[1] At the end of 2004, transformation was composed of benchmark portfolios of PLN current accounts, free capital and credit book. In 2005, benchmark portfolios of current accounts are included in hedging.

The use of BPV limit (an aggregate of the absolute values for all currencies, Hedging and Free Capital portfolios) as at 31 December 2005:

Limit in millions EUR	1,000
BPV in millions EUR	0,077

Hedge accounting

In the third quarter of 2005, Kredyt Bank applied hedge accounting (fair value hedge) to asset swaps for the first time. The purpose of hedge accounting is to hedge fixed interest rate bonds - IRS (fix to float). For the purpose of the relationship being described, the bond is recognized as available-for-sale instrument and IRS as held-for-sale instrument. On the date the hedging relationship is established, hedge effectiveness (hedge expected) is preliminarily evaluated with the application of the following method:

$$HE = -\frac{BPV_{BOND}}{BPV_{IRS}}$$

During the hedging relation, a hedge effectiveness ratio is determined with Dollar-Offset method:

$$HER = -\frac{\Delta FV^{BOND}}{\Delta FV^{IRS}} = -\frac{FV_t^{BOND} - FV_0^{BOND}}{FV_t^{IRS} - FV_0^{IRS}}$$

Exceeding the limit of 80%-125% is related only to material changes in fair value. The effectiveness is measured at the end of each month.

- currency risk

As mentioned above, the currency position 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 open currency position, but also as the risk of 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 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.

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 safety calls for the maintenance of liquid reserves as well as 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 current and operating tasks are performed by the Treasury Department.

Kredyt Bank hedges the liquidity risk by:

» maintenance of appropriate level of cash, taking into account volume of statutory provisions;
» maintenance of liquid securities (government bonds) portfolio, properly hedging the term structure of the Bank's liabilities without specific maturity dates;
» performing transactions on derivatives;
» establishment and monitoring of the observance of corporate prudence standards related to liquidity;
» maintenance of a diversified portfolio of deposits as regards terms and customers;
» 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;
» access to the interbank market and open market transactions;
» access to the lombard loan;

A crucial factor affecting the safety of Kredyt Bank operations is the support of KBC – the strategic investor.

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.

To monitor the liquidity risk, on the basis of the liquidity gap, the Bank established the following liquidity limits:

» Stock Liquidity Ratio (SLR)
» Coverage Ratio (CR)

The stability of the deposit base

A stable deposit base[1], 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 specific deposit type. As at 31 December 2005, large deposits of over EUR 1 million accounted for 19% of the total deposits value.

The stability of the deposit base is particularly ensured with cash from individual customers. At the end of 2005, the percentage of individual customers' deposits was at the level of 56%. More volatile deposits of the financial sector, business entities and the public sector accounted for 4%, 28% and 12% of the deposits respectively.

Current deposits and negotiable term deposits account for 58% of the base, whereas the remaining 42% comprises term deposits (27%) and savings accounts (15%).
The structure of term deposits (except for interbank term deposits and negotiable term deposits) is extremely advantageous from the point of view of initial maturity date. On 31 December 2005, it was as follows:

- Up to 1 week 12.87%
- Up to 1 month 6.10%
- Up to 3 months 28.60%
- Up to 6 months 24.35%
- Up to 12 months 16.48%
- Up to 24 months 2.41%
- Other 9.19%

In terms of a currency type, the structure of the deposit base as at 31 December 2005 was as follows: PLN – 80.9%, USD – 9.0%, EUR – 9.2%, GBP – 0.7%, CHF – 0.1%, other currencies – 0.1%.

» ***Operating risk***

Being aware of dangers resulting from operating risk, the Bank continued preparations for the implementation of the project on measurement and monitoring of this type of risk under so called 'standard method' defined by the Basel Committee. The Operating Risk Committee is responsible for supervision over this process. The business units comprising, among others, employees acting as operating risk coordinators are in charge of the current operating risk management for supporting strategic targets of the Bank.

A separate risk management function, independent from other units generating risk, develops tools for identification and assessment techniques for the operating risk and reports volume of losses.

The actions required by methodologies and rigorous enabling the application of the standard method for the establishment of capital requirements was taken. The database including information facilitating the quality assessment of the most frequent events, and statistical material for quantitative measurement of operating risk has been created. At the same time, the Bank conducts piloting operating risk self-assessment processes, recognizes the risks inherent in business processes and

[1] Deposit base figures do not concern interbank deposits.

processes supporting the business activities which may generate substantial operating risk for the Bank.

» *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 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 Bank's Management Board and the Credit Risk Committee, where the Credit Risk Committee is responsible for the following:

a) acceptance and substantial supervision over the methods of credit risk measurement;
b) recommending to the Bank's Management Board and the Supervisory Board admissible level of credit risk in the Bank's and subsidiaries' balance sheets;
c) expressing opinions on the Bank's credit policy;
d) expressing opinions on creation of provisions and collateral;
e) expressing opinions on internal credit limits;
f) changing risk limits and approval of limit exceeds within the powers of the Bank's Management Board;
g) substantial supervision over the programm of the Bank's adjustment to the requirements of the New Capital Accord related to credit risk;
h) approval of the new products in terms of credit risk.

With reference to the New Capital Accord (Basel II), the Bank is intensively preparing its implementation.

With regard to credit risk, application of an option, which involves successive conversion from less advanced approaches, offered under the agreement (Standard Method) to more advanced approaches (Internal Ratings Method: Basic and Advanced).

The Programm on Quantitative Assessment of Credit Risk - QCR (Quantitative Credit Risk) Programm - was created for the fulfillment of the tasks in this area, the completion of which will facilitate among others:

- development and implementation of credit risk measurement models;
- development and implementation of databases and tools facilitating the collection of data for the purposes of model development and their testing;
- reorganization of the credit process taking into account the established level of risk;
- development and implementation of RAROC concept at the Bank,

a. development and implementation of databases on credit risk, tools and reporting standards for the purposes of calculating capital adequacy by the standard method and internal ratings.

It is assumed that fulfillment of the above tasks will improve ROE through optimal adjustment in terms of capital requirements, the improvement of efficiency of credit processes at the Bank and enhancement of business management.

- ***Debt recovery processes***

Debt recovery and restructuring processes in 2005

In 2005, the Bank took an extensive action to reduce the portfolio of non-performing receivables.
As a result of the Bank's internal changes in 2004, in 2005 cooperation between the units servicing doubtful portfolio improved and the access to customer data was better, what positively affected the decisions made with regard to restructuring and debt recovery in 2005. Additionally, the adjustment of the problems related to reporting data to decision-making units contributed to the above improvement what made it possible to generate the results described above.

At the beginning of 2005, the Bank managed the portfolio of non-performing receivables of PLN 3,909,885 thousand, including 65.78% of 'loss' receivables. At the end of the year, non-performing receivables decreased by PLN 779,681 thousand. Loss receivables to non-performing receivables ratio, as compared to data as of the end of December 2005 and December 2004, decreased by 2.16 p.p.
Throughout the whole year, the Bank conducted intensive works aimed at effective debt rescheduling and recovery. As a result, the Bank considerably decreased non-performing receivables, mainly due to total or partial payments made by debtors, the sale of the Bank's debt, the sale of collateral and restructuring resulting in change in the receivables category and risk reduction.

- ***Risk metrics***

a) balance sheet instruments

Instrument	Carrying amount	Risk weighted value
Cash	385 048	0
Receivables	12 490 762	9 508 997
Debt securities	6 538 299	0
Other securities, shares	227 573	227 573
Fixed assets	346 913	346 913
Intangible assets	2 426	2 426
Other	298 020	72 602
Total banking portfolio	**20 219 041**	**10 158 511**
Trading portfolio	692 854	1 530
Total balance sheet instruments	**20 911 895**	**10 160 041**

b) off-balance sheet instruments

Instrument	Nominal value	Balance sheet equivalent	Risk weighted value
Interest rate instruments	137 600	2 761	552
Foreign exchange instruments	72 002	7 219	1 444
Total derivatives	**209 602**	**9 980**	**1 996**

c) other off–balance sheet – banking portfolio

Instrument	Carrying amount	Credit equivalent	Risk weighted value
Credit lines	2 612 053	1 041 078	1 027 645
Guarantees granted	1 073 738	910 498	883 619
Letters of credit	28 705	28 705	28 705
Other	11 250	11 250	2 250
Total	**3 725 746**	**1 994 131**	**1 942 219**

	Risk weighted value	Capital requirement
Total credit risk exposure (banking portfolio)	**12 102 726**	**968 218**

» ***The structure of the exposure concentration for the Bank***

The Bank's exposure towards corporate customers as at 31 December 2005 and 31 December 2004, by major exposures, is as follows:

Exposure towards 10 major corporate customers of the Bank

Entity	Share (%) in the portfolio as at 31.12.2005	Share (%) in the portfolio as at 31.12.2004
Customer 1	2.2	9.7
Customer 2	1.8	2.6
Customer 3	1.6	2.2
Customer 4	1.4	1.5
Customer 5	1.3	1.4
Customer 6	1.2	1.2
Customer 7	1.2	1.1
Customer 8	1.0	1.0
Customer 9	0.9	0.9
Customer 10	0.8	0.9
Total	13.4	22.5

The Bank's exposure as at 31 December 2005 and 31 December 2004, by industrial segments, was as follows:

Exposure in industrial segments

Industry	Exposure (%) 31.12.2005	Exposure (%) 31.12.2004
Production activities	28.8	27.0
Retail and wholesale; repairs of motor vehicles and articles for personal and home use	22.9	21.5
Real estate administration and lease	14.6	14.3
Public administration and national defense, legally guaranteed social care	8.4	12.7
Financial intermediation	8.1	5.7
Supplies of electricity, gas and water	4.9	5.7
Construction	3.5	3.3
Other services for municipalities, social and individual services	1.4	2.6
Agriculture, hunting and forestry	2.3	1.9
Hotels and restaurants	1.6	1.6
Transport, storing and communication	1.6	1.5
Education	1.2	1.1
Health care and social care	0.5	0.2
Other	0.2	0.9
Total	**100**	**100**

Geographical exposure

Province	Gross loans structure (%) 31.12.2005	Gross loans structure (%) 31.12.2004
Mazowieckie	*18.5*	23.8
Lubelskie	*15.8*	13.6
Śląskie	*10.9*	9.5
Wielkopolskie	*9.7*	9.2
Dolnośląskie	*9.1*	9.6
Pomorskie	*7.6*	8.0
Małopolskie	*6.3*	5.2
Łódzkie	*4.6*	4.6
Zachodniopomorskie	*3.8*	3.4
Podlaskie	*3.2*	3.1
Kujawsko-pomorskie	*2.3*	2.2
Warmińsko-mazurskie	*2.3*	2.3
Podkarpackie	*1.7*	1.8
Świętokrzyskie	*1.5*	1.3
Non-resident	*1.1*	1.1
Lubuskie	*0.8*	0.8
Opolskie	*0.8*	0.5
Total	**100**	**100**

Signatures of all Management Board Members

Date 28.02.2006	Ronald Richardson	President of the Management Board	....
Date 28.02.2006	Krzysztof Kokot	Vice-President of the Management Board	....
Date 28.02.2006	Małgorzata Kroker-Jachiewicz	Vice-President of the Management Board	....
Date 28.02.2006	Guy Libot	Vice-President of the Management Board	....
Date 28.02.2006	Bohdan Mierzwiński	Vice-President of the Management Board	....

The Management Board's report on the operations of Kredyt Bank S.A. in the period covered by this financial statement ended 31.12.2005

TABLE OF CONTENTS

1. Introduction – basic economic and financial values disclosed in the annual financial statement

In 2005, the Bank generated net profit of PLN 410 488 thousand, i.e. by 224.4% higher than net profit for 2004. ROE increased by 14.2p.p. to the level of 26.0%, ROA by 1.4p.p. to the level of 2.0%. In 2005, the Bank focused mainly on credit risk, debt recovery and restructuring, reduction and control of functioning costs. Actions taken in these areas resulted in specific effects reflected in changes of basic financial ratios and values.

In 2005, unlike in the previous year, risk costs had marginal impact upon the Bank's financial results. Net impairment charges for financial assets, other assets and provisions on 31.12.2005 amounted to PLN + 29 623 thousand as compared to PLN – 77 400 thousand in 2004.

As a result of the loan portfolio restructuring, in 2005 the value of loans for which individual evidence for impairment was identified dropped by 19.4%, i.e. PLN 758 621 thousand. The quality of the portfolio measured with the share of non-performing receivables in total gross loans and advances to customers improved by nearly 2.0 p.p. to 26.0%, despite the decrease in total gross loans and advances to customers. The ratio of coverage of receivables for which individual evidence for impairment was identified by impairment charges in 2005 increased by 10.0p.p. to 70.8%; this ratio was among the highest in the banking industry.

Cost/income ratio (CIR) at 31.12.2005 was at the level of 74.2%, what implies an improvement by 6.7p.p. against last year's figures, achieved despite a slight decrease in net income. Further improvement of this ratio remains one of the Bank's most imperative financial goals for the future. Functioning and administrative costs in 2005 amounted to PLN 800 986 thousand and were lower by 7.5% than in the previous year. Savings were made in all basic categories: material costs, depreciation and staff costs.

The positive trends in net operating income generated by the Bank confirm an increasing probability of settling retained tax losses. Therefore, the Bank, as of 31.12.2005, recognized the excess of deferred tax asset over deferred tax liability amounting to PLN 102 215 thousand, what had a direct impact upon the Bank's net result in 2005.

As a result of the Group's restructuring process, the balance sheet structure has improved. As compared to 31.12.2004, as at 31.12.2005, total customer loans to total customer deposits ratio increased from 87.4% to 83.6%. The share of liquid assets, defined as the aggregate of amounts due from banks, financial assets measured at fair value through profit or loss and investment securities, in total net assets rose from 34.0% to 46.0%. Capital adequacy ratio improved from 14.4% to 16.2%.

All measures taken by the Group which resulted in the improvement of relations and ratios described above aim at further upgrading of operations safety and the establishment of dependable basis for future profits.

2. Events and factors exerting material impact on the operations and the financial result of Kredyt Bank S.A. in 2005

2.1. Macroeconomic situation

2.1.1. Overall economic situation in Poland

After the decline in economic situation in the first quarter of 2005 caused to a large extent by the static base effect, during the rest of the year a gradual improvement in economic growth rate was observed. In further quarters of 2005, GDP amounted to 2.1%; 2.8% and 3.7% y/y. The growth was a result of the vanishing high base effect and gradual improvement in internal demand level. However, export remained the main driving force of the Polish economy, despite the appreciation of the Polish Zloty in this period. The tendencies observed from the beginning of the year consolidated in the last quarter. It is estimated that, in the last three months of the year, an economic growth rate rose to 4.0% y/y, mainly due to further moderate increase in domestic demand and still positive impact of net exports. And, in the whole year 2005, it should be at the level of ca. 3.2% y/y.

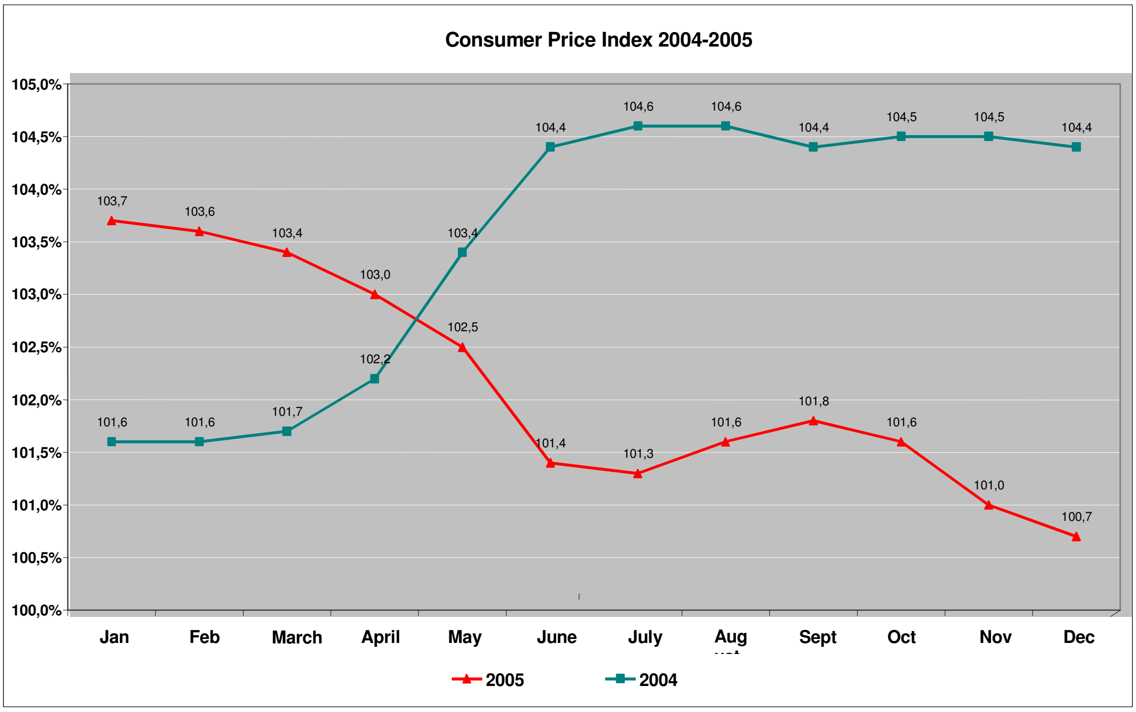
The major factors having a positive impact upon the macroeconomic environment are as follows:

- gradual improvement of domestic demand;
- growth in the building industry;
- gradual improvement of the labour market;
- decrease in investment risk following the accession of Poland to the EU;
- growth in financial profitability of enterprises;
- safe implementation of the State budget (the deficit on the level lower than assumed in the 2005 schedule) and good perspectives for the 2006 budget;
- significant improvement of external balance due to exports increase and influx of EU grants.

Throughout 2005, a significant decline in consumer prices occurred (on a year-to-year basis) being, particularly in the second half of the year, a direct effect of the stabilization of prices on the global fuels market, the appreciation of the Polish Zloty and a material decrease in annual dynamics of food prices which resulted, among others factors, from the embargo on the import of Polish foodstuffs to Russia placed in November.

At 31.12.2005, inflation (measured with CPI) equaled 0.7%, i.e. it was below the bottom limit established by the Monetary Policy Council for the year 2005 regarding the inflationary target of 2.5% ± 1p.p. y/y.

The diagram bellow shows CPI in 2005 against CPI in 2004.



The following factors are listed among the disturbing macroeconomic tendencies and negative phenomena:

- relative weakness of factors that may steadily support economic growth, including relatively low level of the absorption of EU grants limiting the scale of observable growth in investments;
- potentially unstable political environment.

The increase in the share of investments in GDP should be perceived as the key issue and the main threat to the re-establishment of the high growth in the medium-term time horizon.

2.1.2. Monetary policy of the central bank

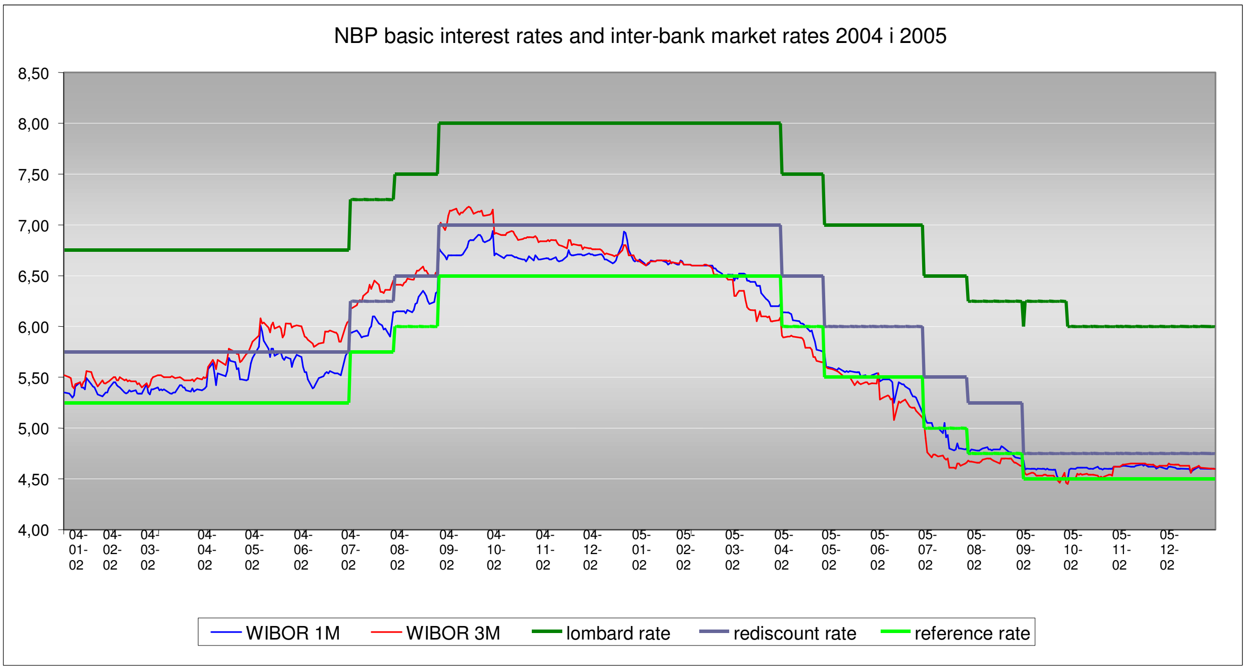
In 2005, the Monetary Policy Council, in response to the decline in CPI and surprisingly low GDP figures in the first quarter of 2005, decreased interest rates repeatedly (by the total of 200p.p.). Nevertheless, towards the end of the second quarter and in the second half of the year, the pace of interest rates increases was hindered due to the signs of upcoming growth in business activity and the anxiety related to the impact of record-breaking crude oil prices upon the inflation rate. In the first half of 2005, the Monetary Policy Council changed its approach in monetary policy three times: in February – to non-restrictive, in April – to neutral, and again to non-restrictive in June. Since the beginning of

2006, this instrument has no longer been available; instead the Council will publish a detailed report on threats to inflation.

At the end of 31.12.2005, the basic interest rates of the central bank were as follows:

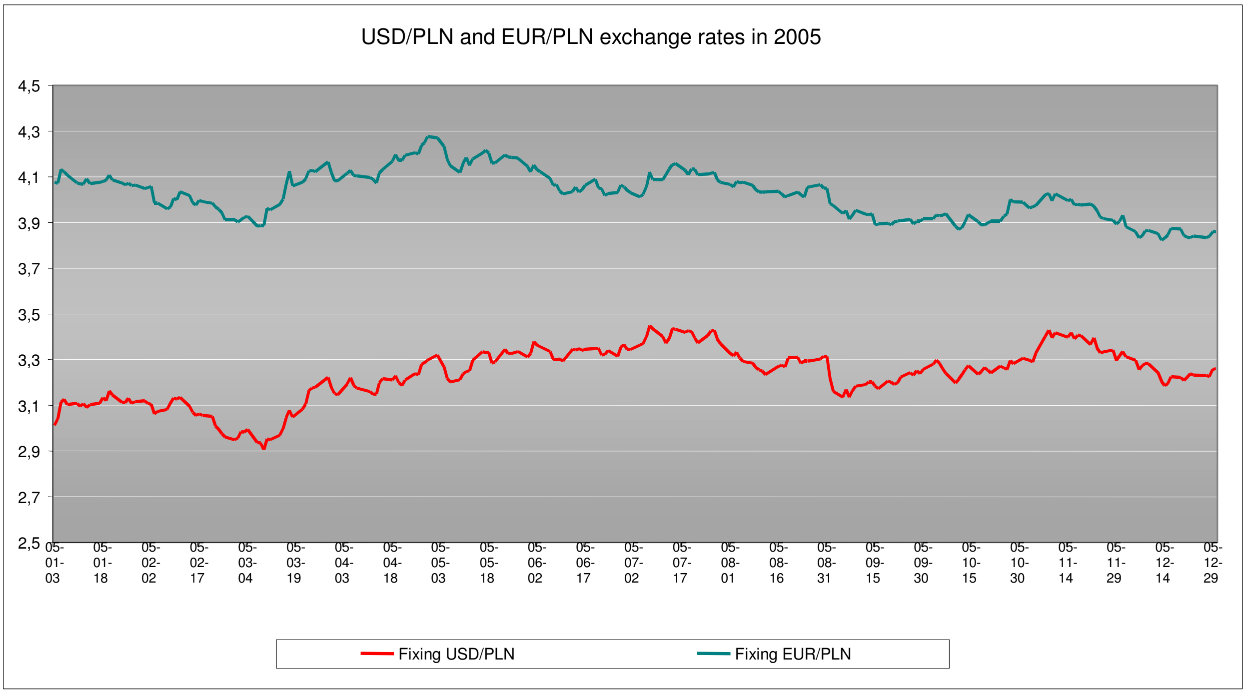
- reference rate 4.5% p.a.;
- lombard rate 6.0% p.a.;
- rediscount rate 4.75% p.a.;
- NBP deposit rate 3.5% p.a.

The diagram below illustrates basic interest rates of the National Bank of Poland against inter-bank market rates in 2004 and 2005.



The fear that too restrictive monetary policy contributed to the slump in economic growth in the first half of 2005 was the main cause of the decrease in NBP interest rates in the first half of 2005. At the same time, the decline in the inflation rate resulting from a base effect and no pressure on an increase in salaries and wages was conducive to deeper cuts.

The Polish Zloty, after significant appreciation in the first quarter to its record high, both against Euro and US dollar, slightly lost in value in the second quarter due to a global change in investors' approach to the currencies of emerging economies and an increase in political risk prior to parliamentary elections. The losses were compensated for in further quarters. At 31.12.2005, the exchange rates were as follows: PLN 3.8598 per 1 EUR and PLN 3.2613 per 1 USD. The diagram below illustrates tendencies in USD/PLN and EUR/PLN exchange rates in 2005.



2.1.3. Outlook for the Polish economy in 2006

Domestic demand and exports, although to a lesser extent than in previous years, will be the main driving force of economic growth in 2006. The increase in domestic demand will be an effect of a higher level of individual consumption and increase in investing activities in the Polish economy. Gradual enhancement on the labour market and adjustment of pensions planned for 2006 will be the basic causes of the consumption improvement. A more dynamic consumer demand, very high levels of resources of Polish enterprises and the lowest ever interest rates will contribute to the growth in investment demand. Furthermore, simplification of application procedures for EU grants declared by the government, which so far have been very effective obstacles in utilizing such grants, will be a crucial factor. Imports will rise along with the growth in domestic demand, what will also contribute to a greater role of net exports in economic growth.

Despite the growth in domestic demand, the inflation rate should still remain under control and in 2006 it should not exceed the NBP inflationary target of 2.5% y/y. The low inflation rate in 2006 will be a result of its extremely low level at the end of 2005 and wage discipline resulting from a high unemployment rate. The situation on the fuels market and food market will also be crucial in inflation processes. However, it should not result in exceeding the inflation rate of 2.5% y/y. In response to the low inflation rate, the absence of excessive wage pressure and Polish Zloty appreciation, the central bank may further reduce the cost of money, i.e. continue reducing interest rates.

In 2006, PLN exchange rate should remain strong due to fundamental factors, such as still low deficit on current accounts and the influx of direct foreign investments fully covering the above deficit. PLN exchange rate will depend, to a large extent, on the political situation and on its stability. The intensification of works on the 2007 budget and local government elections in autumn will become potential periods of increased anxiety on the foreign currency market. Also, excessive appreciation of the Polish Zloty may undermine the Polish export and, as a result, the economic growth in Poland.

2.2. Banking sector in 2005

The economic recovery, progressing on a quarter-by-quarter basis, has contributed to an increased interest in financial services and the situation of the banking system which, in 2005, reported a record-breaking increase in net profit[1] and further improvement of assets quality. The main causes of the above financial results were as follows:

- increase in balance and transaction volumes;
- lower balance of write-downs for non-performing receivables;
- control over functioning costs.

The prevailing high profitability of enterprises accompanied with their low investing activity had a material impact on the changes of banks' loans portfolios. Loans to corporate customers increased by only 3% p.a. Slow growth of volumes was compensated for with high growth in loans to households (23% y/y). Particularly fast growth in sales was recorded for loans to finance real estate. Fast growth in mortgage loans (over 40% y/y in nominal terms and ca. 23% net of the impact of changes in PLN exchange rates), and particularly the fact that over 60% of amounts due are expressed in foreign currencies, resulted in objections of the banking supervision authorities which emphasized that the present FX-related preferences of certain banks and their customers complicate an issue of prudent assessment of exchange rate risk the borrowers are exposed to.

As a result of the above-mentioned phenomena characteristic of the credit market, a role of the retail segment has been more and more dominant in the structure of receivables from the non-financial sector. At the same time, this tendency contributes to the improvement of the quality of the whole loan portfolio[2]. The increasing potential of retail banking growth results in its higher and higher importance as a source of banks' income against a role of the corporate segment.

As regards deposits, the banks' situation is a derivative of two factors: a gradually increasing purchasing power of citizens (a result of the decrease in the unemployment rate in the second half of the year and rising wages and salaries) and good financial standing of enterprises accompanied with the absence of growth in investments. As a result, in the first half of the year, the drop in household

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[1] According to preliminary data of General Inspectorate of Banking Supervision (GINB), net profit of the commercial banking sector improved in 2005 to PLN 8,69 bn from PLN 6,82 bn recorded in the previous year.

[2] According to NBP data, non-performing loans ratio (understood as a share of non-performing loans in total gross receivables from domestic sectors) at the end of 2005 amounted to 10,4% against 14% recorded in the previous year.

deposits was halted and, towards the 31.12.2005, they grew again (5.4% y/y). On the other hand, business entities were the source of net resources for the banking sector for the second successive year[3].

Declining deposit spreads and alternative forms of investing savings supported a trend of relocating financial assets of households to increase their liquidity[4] and rate of return. Shares of investment funds were among the most popular groups of products dedicated to households. An annual change of the volumes of investment funds assets (over PLN 23 billion) was twice as high as the growth in household deposits in this period.

Assuming that the Polish economy is growing, the perspectives for the banking sector development are constructive. First and foremost, further growth in the volumes of mortgage loans and consumer (retail) loans is expected what, in turn, should be reflected in the development of distribution network. It seems that neither so called 'anti-usury act' nor contemplated restrictions on extending loans in foreign currencies will arrest the development of both markets.

In terms of liabilities, we expect that the deposit base will still compete with interest-free saving and investment products.

2.3. Risk management

The aim of risk management is to optimize the financial result and, at the same time, to limite and diversify the operating risk. The Bank's supervisory bodies, explicitly the Supervisory Board and Management Board, are crucial in the risk management process. The Bank's Supervisory Board, through the Audit Committee, is notified of the most important decisions and approves the measures taken by the Management Board in this respect.

Particular risks are dealt with directly by specialized Committees:

- Credit Risk Committee – supervises the credit risk management process;
- Assets and Liabilities Management Committee – responsible for the management of market risk in banking portfolio as well as the management of the Bank's structural liquidity;
- Financial Markets Committee – supervises market risk in the Bank's trading portfolio;
- Operating Risk Committee – supervises implementation of the operating 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, reporting directly to the

[3] According to NBP data, annual change in loan receivables amounted to PLN +1,7 bn, and PLN +19,3 bn for deposits.

[4] According to NBP data, over 80% of the growth in deposits volume was financed with current resources.

President of the Bank's Management Board, is involved in the measurement and monitoring of all types of risks in Kredyt Bank. It is the only unit reporting all risk-related issues, fully independent of business units. In the process of risk identification, measurement and management, the Bank applies techniques relevant to a given type of risk.

Hedge accounting

As at 31.12.2005, the Bank applied hedge accounting of fair value to hedge specific assets against interest rate risk resulting from the Bank's investing activities. Hedge accounting issues have been described in detail in the description of accounting principles applied by the Bank and in Notes.

2.3.1. Credit risk

Credit policy

Kredyt Bank S.A. follows a prudent credit risk policy. The basic aim is to establish a safe credit portfolio with a minimum share of doubtful receivables. The primary assumptions of the credit policy are as follows:

- clear-cut division of sale and credit risk management functions;
- risk diversification through a decrease in receivables concentration;
- limited financing of higher-risk business activities;
- monitoring and early identification of hazards;
- centralization of decision-making powers in the credit process and in the process of the management of non-performing loans portfolio.

New guidelines were developed for corporate customers which stipulate:

- general assumptions related to transaction financing;
- preferences regarding concentration of credit exposure in single borrowers and/or borrowers' group, indicating obligatory concentration limits;
- direction of actions related to certain groups of industries and exclusion of financing for enterprises in certain industries;
- preferences and exclusions regarding the extension of working capital loans, investment loans and guarantees;
- general rules concerning the application of financial and non-financial clauses.

Credit risk management

The Bank's credit risk is defined as the risk of non-payment of amounts due if a borrower, guarantor, reassurer, contractor or 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 centralization of the risk assessment and management at the Bank ended in 2005. The Bank developed and implemented rules of identifying evidence of and testing impairment according to IAS 39.

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

The portfolio risk management is the responsibility of the Bank's Management Board and the Credit Risk Committee, where the Credit Risk Committee is responsible for the following:

- acceptance and substantial supervision over credit risk measurement methods;
- recommending, to the Bank's Management Board and the Supervisory Board, admissible level of credit risk in the Bank's and subsidiaries' balance sheets;
- expressing its opinion on the credit process organization;
- expressing its opinion on the Bank's credit policy, making impairment charges and the valuation of hedges;
- expressing its opinion on the limits of decision-making powers in the credit process;
- expressing opinions on internal credit limits;
- changing risk limits and approving limit exceeds within the powers of the Bank's Management Board;
- approval of new products in terms of credit risk;
- substantial supervision over the programme of the Bank's adjustment to the requirements of the New Capital Accord on credit risk.

The Bank, in order to satisfy the requirements of the New Capital Accord (Basel II) in the area of credit risk, implemented the Programme on Quantitative Assessment of Credit Risk - QCR (Quantitative Credit Risk) Programme, under which the Bank:

- develops and implements credit risk measurement models;
- develops and implements databases and tools facilitating collection of data for the purposes of models development and testing;
- reorganizes the credit process taking into account the established level of risk;
- develops and implements RAROC concept (the system of calculating effectiveness of cooperation with a customer at various levels).

The Bank created an online central credit database - CMT (Credit Management Tool) - an obligatory credit rating tool. It entails all enterprises keeping accounts under the Accounting Act and includes:

- risk measurement model - PD (Probability of Default),
- data on customers' financial standing and risk assessment sheet;
- electronic monitoring reports containing information on customers' receivables,
- 'Ryzyko Grupy' [Group's Risk] application with information on groups of customers related in organizational and equity terms.

Implementation of the new risk assessment and credit rating tools was accompanied with further improvement of the credit process, which was supported, among others, by:

- changes in decision-making powers;
- detailing, in one manual, the rules of extending loans to entrepreneurs, including, among others, the documentation required from a customer, credit rating rules, division of employees' responsibilities at particular stages of the credit process, what allowed for the elimination of any possible irregularities in the functional division between the areas of credit products sale, credit rating and decision making as well as administration and credit documentation.

In the individual customers group, creditworthiness and risk group are determined in the scoring system. In 2005, the Bank implemented its own risk scoring sheet both for the Bank's customers and the customers of Żagiel S.A. A behavioral base was also created; it includes all individual and corporate customers who keep simplified accounts. In order to take advantage of the information on customers' behavior, the Bank has also developed a quasi-behavioural scoring model according to which behavioural risk groups will be determined; they are an additional element of the credit rating process.

Number and value of executory titles and the value of collateral established on customers' accounts and assets

In the course of the Bank's restructuring process, debt recovery and restructuring functions were merged to create the non-performing loans division. In 2005, in the course of debt recovery actions aimed at non-paying customers, the Bank issued 22 448 banking executory titles for the total amount of PLN 186.9 million.

In the case of receivables for which impairment was identified, the total value of loan collateral approved by the Bank as at 31.12.2005 amounted to PLN 1 088 670 thousand. As at 31.12.2004, this value was equal to PLN 1 499 036 thousand.

2.3.2. Liquidity risk

Liquidity risk results from the mismatch of assets and liabilities in terms of maturity dates, which is a natural effect of varied customers' requirements as regards deposits and loans. Maintenance of financial liquidity, understood as an ability to meet financial obligations in a timely manner, is the crucial element of the policy on assets and liabilities management applied by the Bank. The current liquidity is maintained by correcting an excess or shortage of liquid resources with operations conducted on the inter-bank money market. The Bank's safety is fully ensured by the maintenance of liquid reserves as well as the proper term and quality structure of the whole balance sheet. Liquidity risk management decisions are taken by the Bank's Assets and Liabilities Management Committee. The Risk Management Department measures and monitors strategic (long-term) liquidity. The current and operating tasks are performed by the Treasury Department.

Kredyt Bank hedges the liquidity risk by:

- maintenance of an appropriate level of cash, taking into account the volume of statutory provisions;
- maintenance of liquid securities (government bonds) portfolio, properly hedging the term structure of the Bank's liabilities without specific maturity dates;
- performing transactions on derivatives;
- establishment and monitoring of the observance of corporate prudence standards related to liquidity (liquidity gap analysis, assessment of the deposit base stability, internal liquidity limits);
- maintenance of a diversified portfolio of deposits as regards terms and customers;
- 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;
- access to the inter-bank market and open market transactions;
- access to the lombard loan.

Support of KBC Group, the strategic investor, in the case of any potential emergency situation is a crucial factor affecting safety of Kredyt Bank's operations.

2.3.3. Market risk

Market risk is defined as a degree of the hazard to the Bank's financial standing resulting from adverse changes in interest rates, exchange rates and prices of shares and their market volatility. It is identified, measured and monitored by the Risk Management Department.

The interest rate and exchange rate risk are the two main risks identified at the Bank. The Bank does not actively operate on the shares market and the majority of investments in stocks are long-term investments or strategic investments in subsidiaries. The Bank does not trade on the commodity markets.

In order to improve management quality, since 2002, activities of the Bank have been divided into two parts: trading book and banking book. Due to different nature of open positions, the risk is monitored in each book separately.

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 banking book covers operations not covered by trading portfolio, i.e. commercial activities of branches, credit intermediaries and portfolios of securities hedging the liquidity and constant interest income. The banking book aims at the elimination of the market risk.

Value at Risk (VaR) is the basic measure in the monitoring of interest rate risk and the currency risk as well as for the determination of limits in the trading portfolio. Additionally, the level of interest rate risk is monitored and limited (by establishment of limits) with the application of BPV (basis point value). The 'value at risk' method is supplemented by stress-testing which is the amount of a possible loss in extremely adverse (critical), but probable changes in exchange rates.

An interest rate gap prepared separately for each currency is the basic measurement and risk-limiting tool in the banking portfolio. The sensitivity of the valuation of assets and liabilities (BPV), duration and accumulated gap ratios are calculated on that basis. The analysis of interest rate gap applied in the interest rate risk management of the banking book is based on information on particular items of the balance sheet of Kredyt Bank S.A. as well as off-balance items sensitive to changes of interest rates. The Bank's exposure to interest rate risk is marginal.

Currency risk covers currency exchange operations and measurement of open currency positions resulting from the difference between the value of assets and liabilities in a given currency. Foreign exchange transactions performed by the Bank are marginal; the majority of them are performed by customers. The Bank does not pursue speculative activity. The options on the inter-bank market are the options hedging the position resulting from transactions with customers. The risk in the portfolio of foreign exchange option transactions is insignificant. Currency position is managed in the trading book. The currency risk at Kredyt Bank is perceived not only as the risk occurring for open currency position, but also as the risk of a change in the value of certain products as a result of changes in exchange rates, particularly in the case of loans expressed in foreign currencies. In order to reduce the credit risk in the case of the growing exchange rates, loan agreements for institutional customers contain clauses on establishment of additional collateral or permit to translate the loan, when the customer does not generate income in the loan currency. In order to hedge a customer's exchange rate risk they are exposed to, they are offered derivatives (forwards, options).

Average interest rates in Kredyt Bank S.A. in 2005

Floating interest rate facilities as at 31.12.2005 accounted for ca. 80% of receivables. As at 31.12.2005, average effective interest rates of loan receivables were as follows (by main currencies):

- in CHF – 4.1%
- in EUR – 4.7%
- in PLN – 9.6%
- in USD – 6.6%

As at 31.12.2005, 92% of customers' deposits were current accounts and other fixed interest rate products, whose maturity dates, as at the balance sheet date, did not exceed 6 months. As at 31.12.2005, average effective interest rates of customer term deposits were as follows (by main currencies):

- in EUR – 1.4%
- in GBP – 2.3%
- in PLN – 2.8%
- in USD – 1.8%

2.3.4. Operating risk

In 2005, the Bank continued preparations for the implementation of the project on measurement and monitoring of this type of risk under so called 'standard method' defined by the Basel Committee. The Operating Risk Committee is responsible for supervision over this process. Business units comprising, among others, employees acting as operating risk coordinators are in charge of the current operating risk management in processes supporting completion of the Bank's strategic targets.

An action allowing for the application of a standard method for establishment of capital requirements was taken. A database including information facilitating the quality assessment of the most frequent events and statistical material for quantitative measurement of operating risk has been created. At the same time, the Bank conducts piloting operating risk self-assessment processes, recognizes the risks inherent in business processes and processes supporting the business activities which may generate substantial operating risk for the Bank.

2.4. Events and contracts material for the Bank's operation in 2005

The following events and contracts were material for the Bank's operations in 2005:

- On 18 January 2005, KB S.A. disposed of its whole stake in Wolny Obszar Gospodarczy S.A., i.e. 49.95% share in the capital and votes at the General Meeting of Shareholders of the company to Hutchison Ports Poland (a subsidiary of Hutchison Whampoa Limited). The shares were sold for PLN 11 132 thousand against PLN 10 346 thousand of the book value of shares held by KB S.A.

- A conditional contract of the sale of an organized portion of the enterprise in the form of IDM S.A. to KBC Securities N.V., Brussels was signed on 18 February 2005 and performed on 31 March 2005. The value of the transaction added up to PLN 10 922.3 thousand and was neutral for the Bank's results. Brokerage activities, so far performed by IDM KB S.A., will be continued and developed in the Polish branch of KBC Securities.
- On 7 January 2005, Kredyt International Finance BV, the Netherlands, a wholly-owned subsidiary of Kredyt Bank S.A. repaid 83.3% (EUR 150 million) of the loan granted in October 2002 by KBC Bank NV Dublin Branch, before due date. As a result of the transaction, Kredyt Bank S.A. decreased the amount of the collateral securing the loan.
- On 13 April 2005, Kredyt Bank S.A. and Clif S.A. settled all disputes between them out of court. The compromise resulted in mutual expiry of claims. The termination of the dispute has had a positive impact on financial results of Kredyt Bank S.A..
- On 20 April 2005, the District Court for the capital city of Warsaw registered a merger of the following companies: Towarzystwo Funduszy Inwestycyjnych Kredyt Bank S.A. (TFI KB), WARTA Asset Management S.A. (WARTA AM), WARTA Towarzystwo Funduszy Inwestycyjnych S.A. (WARTA TFI). As a result, KBC Towarzystwo Funduszy Inwestycyjnych S.A. (KBC TFI) was established. The company's shareholders are: Kredyt Trade Sp. z o.o., a subsidiary of Kredyt Bank S.A., and TUiR 'WARTA' S.A. holding 39.6% and 60.4% of the share in capital and votes respectively. On 25 July 2005, Kredyt Trade Sp. z o.o. sold, to KBC Asset Management N.V., 2 422 605 shares of KBC TFI and, as a result of the transaction, it holds 30.0% share in capital and votes at the General Meeting of Shareholders of the company.
- On 25 April 2005, under the decision of the General Meeting of KB S.A.'s Shareholders, retained loss disclosed in the financial statement for 2004 of PLN 588.9 million was covered from the supplementary capital (PLN 350.9 million), net profit for 2004 (PLN 185.2 million) and from the general risk fund (PLN 52.8 million).
- On 28 April 2005, Kredyt Bank S.A. disposed of 28.545 (82.32%) shares in Solaris Bus and Coach Sp. z o. o., a subsidiary of Kredyt Bank S.A., to Openaco Trading CO, Limited, Nicosia (Cyprus). The total value of sold shares amounted to PLN 54 238.9 thousand. The book value of disposed shares amounted to PLN 51 254.9.
- On 1 July 2005, the Management Board of KB S.A. informed that KB S.A. had acquired, under a contract, from Centralny Fundusz Inwestycyjny Sp. z o.o., 15 300 shares of Korporacja Budowlana Inwestycje Sp. z o.o. They account for 40.37% of share in the capital and votes of the Company's General Meeting of Shareholders. The total value of acquired shares amounted to PLN 95 thousand.

- On 7 July 2005, KIF BV, the Netherlands, a wholly-owned subsidiary of Kredyt Bank S.A. repaid the remaining portion (EUR 30 million) of the total loan of EUR 180 million granted in October 2002 by KBC Bank NV Dublin Branch, before due date. At the same time, KIF BV repaid the total loan of CHF 200 million granted in October 2002 by KBC Bank NV Dublin Branch, before due date. As a result of the above transactions, KB S.A. guarantees securing the repaid loans expired. The transaction value was PLN 654 805 thousand.
- On 14 July 2005, Kredyt Bank S.A. concluded with KBC Bank NV Dublin Branch two loan agreements on market terms with a five-year maturity amounting to EUR 150 million and CHF 150 million. Cash obtained under the above loans was used to finance the Bank's current operations. Contract value: PLN 1 022 790 thousand.
- On 18 August 2005, Kredyt Bank S.A. sold to Gdańska Stocznia Remontowa S.A its all shares in Stocznia Północna S.A. (27.17% share in the capital and votes at the General Meeting of Shareholders). The selling price was: PLN 12 172.9 thousand. This transaction exerted a neutral impact upon the results of Kredyt Bank S.A.
- On 24 October 2005, the District Court for the capital city of Warsaw registered an increase in the share capital of Kredyt Lease S.A. Following the registration, the company's share capital increased to PLN 27 501 thousand. KB S.A. holds 99.98%, and Kredyt Trade Sp. z o. o. (a subsidiary of KB S.A) holds 0.02% share in the capital and votes at the General Meeting of Shareholders.
- On 22 December 2005, a syndicated loan agreement was signed with a company operating in the fuels and chemicals industry. It is composed of two tranches: Tranche A – EUR 250 million (PLN 958 325 thousand) and Tranche B – EUR 750 million (PLN 2.874.9 thousand). The share of KB S.A. in the said Tranches is EUR 22.7 million (PLN 87 120.5 thousand) and EUR 68.2 million (PLN 261 361.4 thousand) respectively. The margin depends on the Borrower's selected financial ratio. The claim under the loan was not secured.

Post-balance sheet events

On 17 January 2006, Kredyt Bank S.A. repaid a subordinated loan extended under the agreement of 28 April 2000 with KBC Bank, Dublin Branch and Banco Espirito Santo for the amount of USD 50 000 thousand.

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

On 26 July 2005, the Bank entered into an agreement with Ernst&Young Audit Sp. z o.o. in Warsaw, an entity authorized to audit financial statements, on the review of the individual and consolidated half-year financial statement of the Bank and of the Group and the audit and review of the individual and consolidated annual financial statement for 2005. The total remuneration under this agreement amounted to PLN 1 407 thousand net (compared to PLN 1 352.4 thousand in 2004). The remaining, total remuneration under agreements with an entity authorized to audit financial statements, due or paid on accounts other than audit or review, in 2005 amounted to PLN 995 thousand (PLN 110 thousand in 2004).

3. Organization and capital relations

3.1. Shareholding structure

As at 31.12.2005, the Bank's share capital totaled 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 Bank's shares are admitted to public trading. The share capital did not change in 2005.

As at 31.12.2005, KBC Bank NV was the only shareholder holding over 5% of votes at GMS.

Shareholder	Line of business	Number of shares and votes at GMS (%)	Share in votes and share capital (%)
KBC Bank NV*	Banking	232 341 875	85.53%

*/ By the Resolution of the Commission for Banking Supervision No. 81/KNB/81 of 17 September 2001, KBC Bank N.V. is entitled to exercise no more than 75% of votes at the General Meeting of Shareholders of Kredyt Bank S.A

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

3.2. Authorities of the Bank

The Bank's Management Board runs the Bank's business and represents it outside. The President of the Bank's Management Board is appointed and dismissed by the Supervisory Board. Vice-Presidents and Members of the Management Board are appointed and dismissed on a motion of the President of the Management Board or upon his/her approval by the Supervisory Board accounting for requirements defined in the Banking Law regulations.

On 9 February 2005, the Supervisory Board of Kredyt Bank S.A. appointed, as of 1 March 2005, Mr. Ronald Richardson for the position of the Vice President of the Bank's Management Board. On 8 June 2005, the Commission for Banking Supervision expressed its consent to the appointment of Mr. Ronald Richardson for the position of the President of the Management Board of Kredyt Bank S.A. Under the resolution of the Supervisory Board of 31 March 2005, since the date of the approval, Mr. Ronald Richardson has been performing the function of the President of the Bank's Management Board.

Ms. Małgorzata Kroker-Jachiewicz, the previous President of the Bank's Management Board, remained in the Board as its Vice President. Additionally, on 9 February 2005, the Supervisory Board of Kredyt Bank S.A. appointed, as of 1 March 2005, Mr. Krzysztof Kokot for the position of the Vice President of the Bank's Management Board.The Supervisory Board also accepted the resignation of Mr. Fedele Di Maggio from the position of the Vice President of the Bank's Management Board. Mr. Fedele Di Maggio was entrusted with other responsibilities in KBC Group.

As at 31.12.2005, the Management Board of Kredyt Bank S.A. was composed of:

Ronald Richardson	- President of the Management Board,
Krzysztof Kokot	- Vice President of the Management Board,
Małgorzata Kroker-Jachiewicz	- Vice President of the Management Board,
Guy Libot	- Vice President of the Management Board,
Bohdan Mierzwiński	- Vice President of the Management Board.

The Supervisory Board exercises a permanent supervision over the Bank's activities in all areas of its operation. The particular duties of the Supervisory Board include assessment of statements with regard to their compliance with books and documents as well as with the factual status and assessment of motions of the Management Board concerning profit distribution or loss coverage. The Supervisory Board is appointed by the General Meeting of Shareholders. On 9 February 2005, due to the resignation by Mr. Dirk Mampaey from his position in the Supervisory Board of Kredyt Bank S.A., Ms. Rita Docx was appointed a member of the Supervisory Board.

As at 31.12.2005, the Supervisory Board of Kredyt Bank S.A. was composed of:

Mr. Andrzej Witkowski	- Chairman of the Supervisory Board,
Mr. André Bergen	- Member of the Supervisory Board,
Ms. Rita Docx	- Member of the Supervisory Board,
Mr. Francoise Florquin	- Member of the Supervisory Board,
Mr. Feliks Kulikowski	- Member of the Supervisory Board,
Mr. Marek Michałowski	- Member of the Supervisory Board,
Mr. Adam Noga	- Member of the Supervisory Board,
Mr. Józef Toczek	- Member of the Supervisory Board,
Mr. Marko Voljć	- Member of the Supervisory Board

3.3. The Bank’s shares held by members of management and supervisory authorities

A number and nominal value of shares of the Bank and shares in its subsidiaries and associates held by members of the Management Board and members of the Supervisory Board of Kredyt Bank S.A. as at 31.12.2005 have been presented below:

	Shares of Kredyt Bank S.A.		Shares in subsidiaries and associates	
	Number of shares	Nominal value (in ‘000’ PLN)	Number of shares	Nominal value (in ‘000’ PLN)
Members of the Management Board	5 100	25,5	0	0
Ronald Richardson	5 000	25	0	0
Małgorzata Kroker-Jachiewicz	100	0.5	0	0
Members of the Supervisory Board	24 491	122.5	0	0
Andre Bergen	23 491	117.5	0	0
Marek Michałowski	1 000	5.0	0	0

3.4. Remuneration of persons managing and supervising the Bank

Detailed information on remuneration of persons managing and supervising the Bank and contracts entered into by the Issuer and managing persons are presented in Note 49 to the financial statement of Kredyt Bank S.A. for 2005.

Employment contracts concluded with three members of the Bank’s Management Board stipulate payment of a compensation in the case of resignation or dismissal from the office held without any material reason.

One of the contracts includes a clause concerning a severance pay in the amout of 36 average annual salaries from the last 12 months of the employment contract. The two remaining contracts stipulate a severance pay amounting to 24 average annual salaries from the last 12 months of the employment contract.

All the three contracts include a condition clause that a severance pay is not received if the contract has been terminated due to a recall from an office held resulting from:

- Acting to the detriment of the Bank,

- Commission of an obvious crime or an offence ascertained by a valid court sentence,
- Serious damage to the Bank's assets,
- Violation of a non-competition contract,
- Violation of a company secret,
- Gross violation of the Bank's internal regulations or resolutions by its bodies.

Additionally, one of the contracts includes a clause that a severance pay is not received in the case of resignation from the office held.

Furthermore, it should be emphasized that, pursuant to § 27 of the Bank's By-laws, a Member of the Management Board may be recalled by a material reason only.

3.5. Investment plans, including capital investments

One of the basic objectives of the Bank's strategy is to increase its share in the Polish financial services market. Capital investments in entities of the financial sector create potential opportunities for the accomplishment of such goals.

In each such potential case, undertaken measures comply with the law and are analyzed in terms of economic and organizational conditions.

According to the Bank's development strategy, adoption of the model of an universal bank is the best method to attain a significant position on the Polish financial market. It means that the Bank will focus on areas of business other than investment banking.

As at 31.12.2005, capital 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 shares taken in the debt recovery and restructuring process. As at 31.12.2005, their share in the Group's balance sheet was immaterial.

A detailed list of the Bank's capital investments has been presented in Note 29 to the financial statement of Kredyt Bank S.A. for 2005.

3.6. Related party transactions

Related party transactions are presented in Note 48 to the financial statement of Kredyt Bank S.A. for 2005.

4. The Bank's products, services and areas of operation

In order to improve its sales organization and adjust the product offer to market requirements, the Bank separated two major customer segments: a retail segment, including SMEs and a corporate one. The new segmentation is reflected in existing sales structures.

4.1. Retail segment

In 2005, the number of retail customers increased by 6%.

in thousand	**31.12.2005**	**31.12.2004**
Individual customers	797	752
Small and Medium-sized Enterprises	81	76
Total customers	**878**	**828**

Major product strategy targets in retail banking

During the year 2005 the Bank continued its market expansion. An emphasis was put to strengthen Bank's market position by promotion of new brand (introduced common graphics logo for all KBC Group entities) new and modified products range and development of wide bank assurance product offer in cooperation with KBC Group entities. Simultaneously with the promotion of the new image and the new common product offer, the Bank embarked on a process of standardizing its branch network which are to facilitate customers' access to the products of all cooperating entities in each outlet. Changes of the product offer focused on:

- modification of the product offer for individual customers by making it more attractive and competitive with special emphasis on the 'family' offer;
- dynamic development of the bancassurance offer in cooperation with WARTA Group;
- modifications to Żagiel's offer;
- expanding cooperation with KBC TFI in area of distributing investment fund units.

Accounts and payments

The Bank improved its basic offer for individual customers: Ekstrakonto savings accounts and credit cards offer. The cooperation with Towarzystwo Ubezpieczeniowe WARTA S.A., a strategic partner, became closer in terms of bancassurance services. The cooperation in this area was highlighted with joint marketing campaigns in autumn 2005.

The main aim of modifying Ekstrakonto account was to develop the most practical offer on the market for the Bank's customers and their families. In May, the Bank launched the most extensive nationwide ATMs network, in which individual customers may take out money from personal accounts free of charge.

In cooperation with WARTA, the Bank offers a wide range of insurance products linked with current account - "Ekstrakonto". The offered product range includes: accident insurance, 'Ektrapomoc' assistance block in case of various events of fate (car assistance, medical aid, repairs of household appliances and computers). "Razem" is the scheme marketed by the Bank for customers' families providing products offer which allows for reduction of spending on financial products and services.

The number of newly opened current & saving accounts (ROR) as at 31.12.2005 increased by 10% against 31.12.2004.

in '000' PLN	**31.12.2005**	**31.12.2004**
ROR		
Volume (in thousands)	508	460
Carrying amount	766 090	683 348

The Bank has also modified offer for Żagiel customers and since 20 October 2005, in cooperation with Żagiel has started issue and servicing of VISA Electron Żagiel Card.

Modification of the product offer for individual customers should result in increase in market share in 2006.

Investment funds

At 31.12.2005 asset managed by KBC TFI S.A. amounted to PLN 4.9 billion.

The value of assets acquired through the Bank's distribution network amounted to PLN 1.8 billion.

As of the end of 31.12.2005, KBC TFI managed 19 investment funds:

- 5 open-end investment funds (KBC Pieniężny FIO, KBC Papierów Dłużnych FIO, KBC Obligacyjny FIO, KBC Stabilny FIO i KBC Aktywny FIO);
- 3 specialist open-end investment funds (ALFA SFIO, BETA SFIO, KBC GAMMA SFIO);
- 1 close-end investment fund investing in foreign investment funds denominated in US Dollars (KBC Dolar FIZ);
- 9 close-end capital guaranteed funds (KB Kapitał Plus FIZ, KB Kapitał Plus II FIZ, KB Kapitał Plus III FIZ, KB Klik Europa FIZ, KB Klik Ameryka FIZ, KBC Złoty Dolar FIZ, KBC Elita FIZ, KBC Index Nieruchomości FIZ, KBC Byki i Niedźwiedzie FIZ);

- 1 specialist close-end investment fund KBC SIGMA SFIZ, being wound-up.

KBC TFI S.A. is the leader on the Polish market of guaranteed capital funds with 93.6% share in this segment. At 31.12.2005, the assets entrusted into those funds amounted to over PLN 912 million. In cooperation with KBC Asset Management N.V., further actions are taken to expand the product offer. The subscription of investment certificates of another capital guaranteed fund will take place in February 2006.

As at 31.12.2005, the companies of KB S.A. Capital Group did not issue, redeem or repay any debt or equity securities.

Deposits

The deposit offer for individual customers is still being developed. The volumes on the Savings Account, which is one of the basic depositary products, are growing on a regular basis; as at 31.12.2005, the value of deposits amounted to PLN 1.9 billion, i.e. doubled as compared to 31.12.2004. The number of new Accounts increased by 73% as compared to the analogous period in the previous year.

in '000' PLN	**31.12.2005**	**31.12.2004**
Saving Accounts		
Volume (in thousands)	160	93
Carrying amount	1 951 041	854 943

In 2005, the Bank launched 3 editions of special purpose 6-month term deposits 'Efektywna',– PLN 41.5 million, 'Wygodna' – PLN 507.4 million, 'Korzystna' – PLN 212.0 million. The sale of these term deposits was supported with promotional campaign. In addition, 3-month 'Constans' term deposit interest rate offered was increased for the period of summer holidays.

Credit cards

The cooperation with WARTA related to bancassurance allowed for the launch of the common credit card of the bank and insurance company, first of this type on the Polish market. Visa Gold Card is dedicated to customers who are members of the prestigious 'Klub Klienta VIP' [VIP Customer Club] in WARTA. The card is an ID card for the Club members, offers a number of attractive financial attributes (like discounts on other banking products, e.g. Ekstrakonto, mortgage loans) and enables their holders to take advantage of price reductions offered by the Bank's and WARTA's commercial partners. In result, WARTA customers enjoy greater financial opportunities, and the Bank has gained access to the partner's best customers database.

In the third quarter of 2005, the Bank extended its credit cards offer with two new cards. One of them is targeted at the mass segment (Visa Flag) and, due to the issue of the card, the Bank will be able to increase its share in this segment of the market. Bearing in mind the perspective customer group, special Visa Student card for students was issued; it enables students with higher average grades to obtain higher limits. At present, the Bank offers credit cards dedicated to all customer groups: from basic cards, through Gold-type cards, to the most prestigious Platinum cards.

At 31.12.2005, the number of issued credit cards increased by 75% as compared to figures recorded at 31.12.2004. The volume of credit card transactions is also growing systematically.

in thousands	**31.12.2005**	**31.12.2004**
Credit cards	66	38

Loans and advances

The sale of retail loans through Żagiel distribution network in the four quarters of 2005 remained stable. The total value of new installment and cash loans during 12 months of 2005 amounted nearly to PLN 1.8 billion. At 31.12.2005, the exposure on installment and cash loans granted through Żagiel amounted to PLN 1 423.6 million. At 31.12.2004 it amounted to PLN 1 405.9 million.

Under the cross-selling strategy realized in the co-operation with WARTA S.A., a significant growth in the sale of life insurance policies to customers borrowing installment loans through Żagiel has been noted; compared with previuos12 months, written premium almost doubled.

In '000' PLN	**31.12.2005**	**31.12.2004**
Żagiel – installment and cash loans		
Gross portfolio value	1 423 623	1 405 915

In 2005, the sale of mortgage loans almost doubled. In 2005, the Bank granted mortgage loans of PLN 951.5 million as compared to PLN 505.8 million in 2004.

Mortgage loans	**31.12.2005**	**31.12.2004**
Portfolio carrying amount*	2 035 351	1 569 314
Share of loans in foreign currencies in the portfolio carrying amount	57%	46%

* the item contains: amounts due from private persons, individual entrepreneurs, individual farmers

In March and December, the Bank modified its special purpose loans, which from the spring edition on, is called „Błyskawiczny". The fourth edition of this product was launched in 2005 and, as compared to 2004 figures, the value of sold loans increased five time.

Bancassurance

The total gross written premium for life and property insurances of WARTA Group offered by Kredyt Bank increased in 2005 by 43% as compared to 2004,.

In 2005, the Bank launched two new saving & investments products (beside the existing Warta Gwarancja Plus) in the form of life insurance policies with investment funds managed by KBC AM, with capital guaranteed and potential profits linked to indexes growth: Warta Klik Światowy, Warta Zysk Azjatycki.

The growth rate of insurance premium at the sale of life insurance to customers purchasing installment loans through Żagiel reached 200%.

Changes in the offer for SMEs

In March 2005, the offer for SMEs segment was supplemented with a new attractive product – deposit account to invest financial surpluses. For a customer, it means an attractive interest rate combined with full liquidity of resources. By the end of 2005, customers deposited PLN 122.3 million on such accounts.

In April 2005, the 'Ekstrabiznes' package was expanded to cover the whole SMEs segment. This attractive offer is addressed to companies with annual net sales of PLN 6 million. The package offers more loan facilities (working capital loan, investment loan, VISA Business Electron card).

In October 2005, the Bank launched a new investment loan: Kredyt Inwestycyjny - Wspólnota Mieszkaniowa. The loan is designated to finance overhauls or modernization of real estates owned by tenants' associations. The loan is extended in the Polish zloty for the period of eight years.

Simultaneously, new simplified credit rating methods were developed to rate tenants' associations applying for thermomodernization loans. The credit rating is based on regularity and timeliness of payments to the repairs fund.

During 2005, the sale of loans and deposits for SME has been growing

in '000' PLN	**31.12.2005**	**31.12.2004**
Loans for SMEs	688 745	528 878
Current accounts for SMEs	1 009 595	875 231

In June 2005, *Rzeczpospolita* daily awarded the Bank with an honourable mention for the best corporate account for active companies, which supports the positive assessment of the pricing policy towards SME customers. During the assessment, independent *Rzeczpospolita* daily experts granted the maximum score to Ekstrabiznes account which was found to be the most advantageous account for companies frequently using bank accounts: making transfers, placing standing orders, disbursing cash at banks or in ATMs and paying with cards for purchased goods.

In 2005, the Bank carried out a number of educational programmes for SMEs customers, among others, on EU grants and rules of financing repairs and thermomodernizations for administrators of real estates and building societies.

4.2. Corporate segment

The Bank offers a full range of services for corporate customers, both traditional banking products and treasury products, trade finance and corporate finance. 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 services are provided through 12 Corporate Banking Centres located in the biggest Polish cities. Relationship Managers maintain direct customer relations in case of specialized products; the employees of the organizational units of the Head Office support them.

The Bank offers a full range of traditional loan facilities, such as investment loans, working capital loans in credit or current account, revolving and non-revolving loans, payment and foreign currency facilities, export financing, payments under own letters of credit, etc. 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, including term deposits, current accounts, payment cards, consolidated current accounts (which make it possible to service multi-branch companies and adjust the liquidity management strategy to the specific nature of a company) supplement 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.

In addition, the Bank offers corporate finance facilities, such as consulting on mergers and acquisitions, privatization of state-owned enterprises, capital restructuring and seeking new investors for companies. Within the above tasks, the Bank also provides partial services, such as: complete assessment of investment projects, assistance in preparation of corporate development strategies, company valuations, due diligence, preparing memoranda, business plans and negotiations on the customer's behalf.

All-inclusive servicing of foreign trade constitutes a separate group of services provided by the Bank through:

- a worldwide network of correspondence banks;
- Nostro accounts in foreign banks and Loro accounts opened in our Bank by foreign banks;
- cooperation agreements with global foreign institutions, e.g. European Investment Bank, European Reconstruction and Development Bank, Visa International;

- fast and safe foreign transactions in the SWIFT system.

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The Bank offers, among others, transfers in foreign trade, cheques in foreign trade, documentary letters of credit, guarantees in foreign trade, purchase and sale of foreign currencies and forfeiting.

4.3. Money and capital markets

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, what is the basis for stabilization and development of existing corporate customer base.

The treasury products offer is being expanded and ensures appropriate services both to Private Banking customers and medium-sized and large companies.

The Bank is the Treasury Securities Dealer and Money Market Dealer.

4.4. Custody services

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 Depository and the participant of the Securities Register (RPW) managed by the National Bank of Poland (NBP).

The custodian services of Kredyt Bank S.A. entail managing accounts of securities, hold in KDPW or RPW, for domestic and foreign, both institutional and private customers. For the special group of customers, i.e. investment funds, Kredyt Bank S.A. also plays a role of a depository and transfer agent.

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.

The Bank assists customers in the settlement of sale/purchase transactions related to securities traded on the regulated market (including the stock exchange market) and transactions outside the regulated market (including the inter-bank market); it also intermediates in the exercise of rights incorporated in securities, such as dividends, subscription rights, interest, redemptions, splits, new issues, general meetings of shareholders.

4.5. Cooperation with international financial institutions

Kredyt Bank has established active relations with domestic and foreign banks providing services like FX/MM, Custody, Trade Finance and payments. Due to the base of 35,000 SWIFT keys exchanged with other institutions, the Bank is able to exchange correspondence with banks and service foreign trade in the majority of countries worldwide.

Kredyt Bank manages 8 VOSTRO accounts in foreign currencies and 28 VOSTRO accounts in PLN for 31 foreign banks. Kredyt Bank also provides services for 3 domestic banks, and manages 6 VOSTRO accounts for them. The structure of NOSTRO correspondents, optimized in the previous year, did not change. The network of 17 accounts fully satisfies the clearing needs of Kredyt Bank.

4.6. Distribution channels

Traditional channels

Customers of Kredyt Bank S.A. are serviced through the network of 333 retail units located all over Poland which, as at 31.12.2005, comprised 80 branches, 233 affiliates, 18 banking outlets and 2 agencies. These units provide a full range of services for retail customers and payment services for corporate customers.

The network servicing retail customers is supplemented with 11 private banking units providing services exclusively to this sub-segment of customers.

Corporate customers are serviced (except for payments) in 12 Corporate Banking Centers located in Białystok, Bydgoszcz, Gdańsk, Katowice, Kraków, Lublin, Łódź, Poznań, Rzeszów, Szczecin, Warsaw and Wrocław. An additional center in Warsaw has been established for strategic customers sub-segment.

Electronic channels

The KB 24 system provides electronic access to personal accounts (Ekstrakonto) via the Bank's website – www.kb24.pl and call center – Tele KB.

To ensure high quality services in KB24, in 2005 the Bank migrated KB24 e-banking system and databases of electronic distribution channels to a new operating system. Databases were also upgraded. The application of up-to-date solutions has increased the performance of the internet banking and the speed of transactions. It has affected the quality of transactions concluded in the Internet, through call centers or ATMs. The new IT platform guarantees the top quality of services and the stability of the servers operations. The above system equipment enabled to:

- expand and upgrade the functionality of KB 24, the website and TeleKB call center;

- change the appearance of KB24 website;
- launch a new website: www.kredytbank.pl and a new release of CMS 2, a website management system.

At 31.12.2005, as compared to 31.12.2004, the number of KB 24 users increased by 29%.

in thousands	31.12.2005	31.12.2004
KB24 users	165	128

Tele KB is a call center for KB24 users, which accepts phone orders and provides technical support for KB24 users. IVR information and transaction service, a part of Tele KB, identifies customers and makes it possible for them to check balances, print out statements of recent transactions without the assistance of Tele KB consultant. In 2005, the center recorded 528 thousand calls.

VideoTel is a system servicing payment orders placed from office or a customer's house via PC with the use of public telephone systems (including cellular phones) or network adapter in the case of VPN-supported permanent telecommunication connection with the Internet.

As at 31.12.2005, VideoTel serviced 7 292 customers, i.e. 4% less than at 31.12.2004. The decrease in the number of customers using VideoTel from April 2005 is a result of the migration of customers using VideoTel system to the KB24 system and remains in accordance with the Bank's assumptions.

ATMs

In 2005, considering the fact that the purchase of new equipment and organic network development is a time- and money-consuming process, the Bank signed respective agreements with independent operators and banks to establish 'Twoja Sieć' network. Kredyt Bank customers were offered free cash disbursements in ca. 1,900 ATMs located in the whole territory of Poland.

At 31.12.2004, Kredyt Bank offered a network of 493 ATMs, in which Kredyt Bank customers could withdraw money free of charge.

5. The Bank's financial results in 2005

5.1. Income statement structure

The Bank's profit before tax in 2005 amounted to PLN 307 806 thousand as compared to PLN 126 684 thousand in 2004. The Bank's net profit in 2005 amounted to PLN 410 488 thousand. The following factors contributed to the material improvement of the financial result as compared to 2004:

- growing business activity reflected in, among others, an increase in the sale of installment and mortgage loans, the sale of insurance policies and shares of investment funds;
- regular mitigation of credit risk supported by efficient restructuring and debt recovery activities;
- improved quality of working assets;
- effective management of the Bank's operating expenses.

The main items from the income statement, with comparable data are presented below:

Income

in '000' PLN	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Net interest income	695 678	567 012
Net fee and commission income	236 216	334 685
Net trading income and profit from investment activity (including dividend income)	138 348	153 142
Result on other operating income/expenses	8 927	15 168
Total income	**1 079 169**	**1 070 007**

Expenses

in '000' PLN	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
General and administrative expenses and depreciation	-800 986	-865 923
Net impairment charges for lfinancial assets, other assets and provisions	29 623	-77 400
Total expenses	**-771 363**	**-943 323**

Tax

in '000' PLN	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Income tax expense	101 708	-156

Net profit

in '000' PLN	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Net profit	410 488	126 528

Net interest income generated by the Bank in 2005 amounted to PLN 695 678 thousand and was higher by 22.7% than the level recorded for 2004. Such figure was a result of, among others, an increase in the share of working assets in the balance sheet as observed over the last few months and the volatile structure of loan receivables portfolio with a growing share of amounts due from natural persons. The increasing interest income is a result of an effective restructuring and debt recovery activities concerning the impaired receivables portfolio.

Net fee and commission income amounted to PLN 236 216 thousand and was lower by 29.4% in comparison with last year's figures. The lower net fee and commission income is a consequence of adopting by the Bank (from 1 January 2005 on) the methodology of effective interest rate to measure financial assets and liabilities recognized at amortised cost without the restatement of comparable data, what is in line with IFRS 1. The fees and commissions received in cash are withdrawn from the fee and commission income and amortized with the effective interest rate of contracts and classified as interest income. Retail loans as well as long-term mortgage loans are the most substantial portion of fees and commissions settled with the effective interest rate method.

In 2005, systematic growth in net fee and commission income could be observed on a quarterly basis as a result, among others, of an increase in income on the sale of shares in investment funds and of insurance policies.

Total net interest and fee and commission result in 2005 amounted to PLN 931 894 thousand and was higher by 3.3% than net interest and fee and commission result in 2004.

Net trading income and profit from investment activity in 2005 amounted to PLN 138 348 thousand, i.e. was ca. 9.7% less than in 2004. This was result of material one-off income in 2004 relating to the restructuring of the Capital Group and the Bank's investment portfolio. Such income was not repeated on a comparable scale in 2005. A sale of shares of Kredyt Bank (Ukraina) S.A. was the main transaction, which resulted in net profit of PLN 36 314 thousand.

Throughout 2005, we observed a growth in net trading income as a result of the extended scale of market transactions concluded to protect against fluctuating foreign currency exchange rates. This item also includes interest income on swaps. As at 31.12.2005, net trading income amounted to PLN 141 974 thousand against PLN 112 102 thousand in as at 31.12.2004.

Result on other operating income and operating expenses recorded in 2005 amounted to PLN 8 927 thousand and was lower than in 2004 due to a high reference base. In 2004, the Bank conducted a transaction of sale of a real estate on which recognized profit in the amount of PLN 10 829 thousand in other operating income.

In 2005, General and administrative expenses amounted to PLN 800 986 thousand and were lower by 7.5% as compared to 2004 figures. All main cost categories: material costs, depreciation and staff costs, were lower.

The main areas, in which the Bank's savings were the most significant as compared to 2004 figures are as follows: depreciation and operation of IT and telecommunication systems; renegotiation of major contracts with service providers, such as security, cash transport, telecommunication services, postal and courier services, car fleet management and reorganization of material supplies in 2004.

Lower staff costs were connected with the implementation of the Bank's restructuring process and the changes resulting from this process with respect to the Bank's HR policy. Under that policy, the main emphasis was placed on the strengthening of sales divisions, centralizing certain functions as well as optimizing the employment in the area of back office and support for business units.

Cost/income ratio (CIR) at 31.12.2005 was equal to 74.2%, what is an improvement by 6.7p.p as compared to last year's level.

In 2005, the Bank recorded a positive result on net impairment charges for loan receivables and other assets. It amounted to PLN 29 623 thousand against PLN 77 400 thousand in 2004. The result is the effect of reduction of credit risk in the Bank and the successful implementation of the restructuring programme concerning non-performing receivables portfolio, which took on the form of income from debt recovery activities.

The continuous positive trend in net operating income generated by the Bank is a proof of the high probability of settlement of retained tax losses and future realization of negative temporary differences. Therefore, as at 31.12.2005, the Bank recognized an excess of deferred tax assets over deferred tax liability amounting to PLN 102 215 thousand. This difference was directly reflected in the Bank's net profit for 2005.

5.2. Assets structure

The Bank's total assets as at 31.12.2005 amounted to PLN 20 911 895 thousand against PLN 20 976 696 thousand as at 31.12.2004 and were lower by 0.3%.

Loans and advances to customers and securities are the basic items with the largest share in the assets structure.

The major changes in the assets structure in 2005 are as follows:

- decrease in the level of loans and advances to customers from 54,9% to 47.2%;
- increased share of investment securities in total assets from 18.7% to 32.1%.

The value of particular assets is presented in the table below (in '000' PLN):

	31.12.2005	31.12.2004	Change
Cash and balances with Central Bank	607 069	1 512 560	-905 491
Amounts due from banks	2 229 548	2 699 801	-470 253
Allowance for impairment losses for receivables due from banks	-2 894	-3 194	300
Financial assets at fair value through profit or loss, including held-for-trading assets	703 888	527 835	176 053
Loans and advances to customers	12 192 581	14 004 213	-1 811 632
Allowance for impairment losses for loans and advances to customers	-2 319 248	-2 487 498	168 250
Investment securities	6 709 651	3 912 669	2 796 982
Equity investments available-for-sale	91 375	125 745	-34 370
Tangible fixed assets	341 065	360 873	-19 808
Intangible assets	110 557	138 720	-28 163
Deferred tax assets	98 748	0	98 748
Current tax receivables	13 412	5 107	8 305
Other assets	136 143	179 865	-43 722
Total assets	**20 911 895**	**20 976 696**	**-64 801**

The portfolio of gross loans and advances to customers decreased in 2005 as a result of the repayment of a few significant credit exposures. Factors, which also affected loan portfolio in 2005, were as follows: the appreciation of the Polish zloty against other major currencies and prudent credit policy aiming at a decrease in receivables concentration and diversification of credit risk.

Credit portfolio quality

The Bank successfully continues the process of decreasing the balance of non-performing loans portfolio through efficient restructuring and debt recovery activities carried out on the basis of new organizational and procedural solutions implemented in the previous year. Over the previous 12 months, individually impaired non-performing loans decreased by 19.4%. As a result, the quality ratio of the Bank's gross receivables portfolio improved by 2.0p.p over the last 12 months, despite the decrease in total gross loans and advances to customers. Over the last 12 months, the Bank has written off receivables of PLN 246 502 thousand to provisions.

The Bank applies prudence principle when estimating credit risk related to individual credit exposures as well as the portfolio receivables. The coverage of non-performing loans with allowances for impairment losses over the last 12 months increased by 10.8p.p. and, as of 31.12.2005, the value of this ratio was among the highest in the sector.

in '000' PLN	**31.12.2005**	**31.12.2004**	**Change**
Gross loans and advances to customers* (net of interest)	12 112 754	13 964 733	-1 851 979
Receivables with no allowance for individual impairment	8 961 490	10 054 848	-1 093 358
Receivables with allowances for individual impairment	3 151 264	3 909 885	-758 621
Interest	79 827	39 480	40 347
Total gross loan and advances to customers	12 192 581	14 004 213	-1 811 632
Impairment charges for loans and advances to customers	2 319 248	2 487 498	-168 250
Impairment charges for receivables with individual impairment allowance	2 230 500	2 377 039	-146 539
Total net loans and advances to customers	9 873 333	11 516 715	-1 643 382
Receivables for which individual allowance for impairment was identified to total gross receivables	26.0%	28.0%	-2.0%
Coverage of receivables for which individual allowance for impairment was identified	70.8%	60.8%	10.0%

* excluding banks

Loans and credits by customers

The increased share of loan receivables due from natural persons in total loans and advances to customers as assumed in the strategy is the most important change in the structure of the Bank's loan portfolio. As at 31.12.2005, it amounted to 42.7%, i.e. increased by 6.2p.p. as compared to 31.12.2004.

	31.12.2005	31.12.2004	Change
Natural persons*	**42.6%**	**36.4%**	**6.2 p.p.**
- overdraft facilities	9.9%	10.0%	-0.1 p.p.
- purchased debt	0.5%	1.0%	-0.5 p.p.
- term loans	50.5%	49.3%	1.2 p.p.
- mortgages	39.1%	39.7%	-0.6 p.p.
- realized guarantees	0.0%	0.0%	0.0 p.p.
- other receivables	0.0%	0.0%	0.0 p.p.
Corporate customers	**51.2%**	**54.2%**	**-3.0 p.p.**
- overdraft facilities	15.0%	12.1%	2.8 p.p.
- term loans	81.9%	84.2%	-2.4 p.p.
- purchased debt	1.0%	1.4%	-0.3 p.p.
- realized guarantees	1.0%	0.6%	0.4 p.p.
- other receivables	1.1%	1.7%	-0.6 p.p.
Budget	**5.5%**	**9.1%**	**-3.6 p.p.**
- overdraft facilities	0.3%	1.0%	-0.7 p.p.
- term loans	99.7%	99.0%	0.7 p.p.
- purchased debt	0.0%	0.0%	0.0 p.p.
Interest	**0.7%**	**0.3%**	**0.4 p.p.**
Total	**100.0%**	**100.0%**	

* the item contains: amounts due from private persons, individual entrepreneurs, individual farmers, noncommercial institutions providing services for households

Exposure towards the Bank's 10 major institutional customers

One of the main assumptions of the Bank's credit policy is to diversify credit risk through the decrease of receivables concentration. The table below presents the share of exposure towards 10 largest corporate customers in the Bank's portfolio. In 2005, it dropped by 9.1p.p. to 13.4% of total portfolio.

Company	Share (%) in the portfolio as at 31.12.2005	Share (%) in the portfolio as at 31.12.2004
Customer 1	2.2	9.7
Customer 2	1.8	2.6
Customer 3	1.6	2.2
Customer 4	1.4	1.5
Customer 5	1.3	1.4
Customer 6	1.2	1.2
Customer 7	1.2	1.1
Customer 8	1.0	1.0
Customer 9	0.9	0.9
Customer 10	0.8	0.9
Total	**13.4**	**22.5**

Geographical structure of exposure

The Bank's exposure as at 31.12.2005 and 31.12.2004 by provinces was as follows:

Province	Gross loans structure (%) 31.12.2005	Gross loans structure (%) 31.12.2004
mazowieckie	18.5	23.8
lubelskie	15.8	13.6
śląskie	10.9	9.5
wielkopolskie	9.7	9.2
dolnośląskie	9.1	9.6
pomorskie	7.6	8.0
małopolskie	6.3	5.2
łódzkie	4.6	4.6

zachodniopomorskie	3.8	3.4
podlaskie	3.2	3.1
kujawsko-pomorskie	2.3	2.2
warmińsko-mazurskie	2.3	2.3
podkarpackie	1.7	1.8
świętokrzyskie	1.5	1.3
non-resident	1.1	1.1
lubuskie	0.8	0.8
opolskie	0.8	0.5
Total	**100**	**100**

Exposure in industrial segments

The Bank's exposure as at 31.12.2005 and 31.12.2004 by industrial segments was as follows:

Industry	Exposure (%) 31.12.2005	Exposure (%) 31.12.2004
Production activities	28.8	27.0
Retail and wholesale; repairs of motor vehicles and articles for personal and home use	22.9	21.5
Real estate administration and lease	14.6	14.3
Public administration and national defense, legally guaranteed social care	8.4	12.7
Financial intermediation	8.1	5.7
Supplies of electricity, gas and water	4.9	5.7
Construction	3.5	3.3
Other services for municipalities, social and individual services	1.4	2.6
Agriculture, hunting and forestry	2.3	1.9
Hotels and restaurants	1.6	1.6
Transport, storage and communication	1.6	1.5
Education	1.2	1.1
Health care and social care	0.5	0.2
Other	0.2	0.9
Total	**100**	**100**

Amounts due from customers by maturities

Loans and advances to customers as at 31.12.2005 and 31.12.2004 by maturities were as follows (in '000' PLN):

	31.12.2005	31.12.2004	Change
- up to 1 month	246 010	1 315 710	-1 069 700
- 1-3 months	679 240	450 952	228 288
- 3-6 months	545 116	520 446	24 670
- 6 months to 1 year	2 719 057	1 987 189	731 868
- 1 - 3 years	1 812 288	1 946 586	-134 298
- 3 - 5 years	1 127 096	1 090 936	36 160
- 5 - 10 years	1 508 526	1 279 720	228 806
- 10 - 20 years	964 944	1 262 614	-297 670
- over 20 years	419 051	347 516	71 535
- past due	2 091 426	3 763 064	-1 671 638
- interest	79 827	39 480	40 347
Total	**12 192 581**	**14 004 213**	**-1 811 632**

5.3. Liabilities structure

In 2005 the Bank replaced financing sources received from financial institutions via Kredyt International Finance B.V. ("KIF"), its subsidiary, by sources obtained directly from the Bank. To maintain comparability, the amounts from KIF, equal to PLN 1 874 490 thousand were disclosed in amounts due from banks in 2004.

In 2005, as a result of terminating the restructuring processes of sales divisions, the Bank recorded an increase by 3.2% in amounts due to customers, the major item of liabilities.

At the same time, in 2005, the Bank recorded, as assumed in the Bank's strategy, a significant increase in the value of assets of investment funds managed by KBC TFI sold though the Bank. KBC TFI has been established as a result of merger of two companies owned by KB S.A. and WARTA S.A. The value of investment funds assets increased in 2005 by 258% to PLN 1.8 billion. In terms of total assets of investment funds and deposits, the increase in customer resources between 31.12.2004 and 2005 amounted to 12.1%.

Amounts due to customers in total assets increased by 2.3p.p. to 69.8%. Another positive change was a decrease of amounts due to banks in total assets by 2.0p.p. to 12.3%. As at 31.12.2005, amounts due to banks were higher than amounts due from banks, but the surplus was marginal and fluctuated during the year (at the end of September 2005, amounts due from banks exceeded amounts due to them).

The book value of particular liabilities and shareholders' equity is presented in the table below:

in '000' PLN	31.12.2005	31.12.2004	Change
Amounts due to banks*	2 562 167	2 999 605	-437 438
Held-for-trading financial liabilities	220 155	233 932	-13 777
Amounts due to customers*	14 592 699	14 146 868	445 831
Securities sold under repurchase agreements	368 701	718 772	-350 071
Debt securities issued	402 435	418 150	-15 715
Provisions	77 072	36 538	40 534
Other liabilities	439 367	326 503	112 864
Subordinated liabilities	589 581	599 286	-9 705
Shareholders' equity	1 659 718	1 497 042	162 676
Total liabilities and Shareholders' equity	**20 911 895**	**20 976 696**	**-64 801**

Customers' deposits by entities and types

Two tendencies were noticed in the structure of customers' deposits in 2005: an increase in the share of current deposits recorded both for natural and corporate customers and an increase in the share of the corporate segment in total deposits (excluding the resources of KIF, a subsidiary of KB S.A., from customers' resources in 2004).

A substantial increase of the individual customers' interest, in alternative forms of investing activities, in the shares of investment funds has been observed.

Customers' deposits	31.12.2005	31.12.2004	Change
Natural persons*	62.0%	64.8%	-2.8 pp
- in current account	42.4%	27.6%	14.8 p.p.
- term deposits	57.6%	72.4%	-14.8 p.p.
Corporate customers**	26.1%	22.6%	3.5 p.p.
- in current account	42.0%	39.0%	3.0 p.p.
- term deposits	55.5%	57.7%	-2.2 p.p.
- loans and advances	2.5%	3.3%	-0.8 p.p.
Budget	11.6%	12.1%	-0.5 p.p.
- in current account	76.7%	79.3%	-2.5 p.p.
- term deposits	23.3%	20.7%	2.5 p.p.
Interest	0.3%	0.5%	-0.2 p.p.
Total**	**100.0%**	**100.0%**	**0.0 p.p.**

* the item contains: amounts due from private persons, individual entrepreneurs, individual farmers, noncommercial institutions providing services for households

** to maintain comparability, the amount of the means from KIF as at 31.12.2004 was not disclosed in amounts due from customers. As at 31.12.2004 the means from KIF amounted to PLN 1 874 490 thousand

Amounts due to customers by geographical regions

Amounts due to customers as at 31.12.2005 and 31.12.2004 by provinces were as follows:

Province	Gross loans structure (%) 31.12.2005	Gross loans structure (%) 31.12.2004
mazowieckie	30.1	27.9
dolnośląskie	9.4	8.2
małopolskie	6.7	7.4
Pomorskie	6.7	7.0
Śląskie	6.7	8.1
Łódzkie	6.4	6.9
Podlaskie	6.2	5.6

Wielkopolskie	5.9	6.1
Lubelskie	5.4	5.6
Podkarpackie	4.8	4.9
Zachodniopomorskie	3.3	3.4
kujawsko-pomorskie	3.0	3.0
warmińsko-mazurskie	1.9	2.0
Świętokrzyskie	1.4	1.6
Lubuskie	1.2	1.2
Opolskie	0.9	1.1
Total	**100**	**100**

Customers' deposit (by maturities)

	31.12.2005	31.12.2004	Change
- up to 1 month	10 827 052	9 110 470	1 716 582
- 1-3 months	1 828 946	2 530 080	-701 134
- 3-6 months	894 819	1 156 233	-261 414
- 6 months to 1 year	677 193	681 697	-4 504
- 1 - 3 years	213 739	384 606	-170 867
- 3 - 5 years	5 049	78 334	-73 285
- 5 - 10 years	106 054	131 944	-25 890
- 10 - 20 years	1 599	3 984	-2 385
- over 20 years		60	-60
- interest	38 248	69 460	-31 212
Total	**14 592 699**	**14 146 868**	**445 831**

* to maintain comparability amount of the means from KIF as at 31.12.2004 was not disclosed in the range of 1 - 3 years. As at 31.12.2004 the means from KIF amounted to PLN 1 874 490 thousand

Loans and advances borrowed by the Bank

As at 31.12.2005, there were two subordinated loans in the balance sheet of Kredyt Bank S.A. borrowed from KBC Bank N.V. Dublin amounting to USD 50 million with maturity date on 17 January 2006 and a loan of EUR 110 million with maturity date on 25 May 2008.

In addition, as at 31.12.2005, the following loans were active:

- from KBC Bank N.V. Dublin: EUR 150 million with maturity date in July 2009 and of CHF 150 million with maturity date falling in July 2010.
- from BFG amounting to PLN 95.5 million with maturity date on 10 October 2007. This loan was taken over by Kredyt Bank S.A. together with the organized part of a banking enterprise run by Polski Kredyt Bank S.A. and confirmed by an agreement concluded with BFG on 13 December 2002. The aim of continuation of granting the repayable financial support by BFG was to mitigate effects of the takeover of the above-mentioned enterprise.

5.4. Off-balance sheet items

The value of particular off-balance sheet items as at 31.12.2005 is presented in the table below (in '000' PLN):

	31.12.2005	31.12.2004	Change
Contingent liabilities, granted and received	4 300 859	5 867 635	-1 566 776
1. Liabilities granted, including:	3 788 786	5 349 060	-1 560 274
a) financial	2 660 911	2 178 284	482 627
b) guarantee	1 127 875	3 170 776	-2 042 901
2. Liabilities received	512 073	518 575	-6 502
a) financial	12 699	55 284	-42 585
b) guarantees	499 374	463 291	36 083
Amounts due under sale/purchase transactions	79 905 636	31 099 032	48 806 604
Other	3 068 907	3 661 768	-592 861
- received securities and guarantees	3 068 815	3 661 677	-592 862
- other	92	91	1
Total off-balance sheet items	**87 275 402**	**40 628 435**	**46 646 967**

The substantial decrease in guarantee liabilities as at 31.12.2005 results from the expiry of the guarantee granted by the Bank to KBC Dublin for the benefit of KIF B.V.

Loans extended, guarantees and sureties issued, including those granted to the Issuer's related parties

As at 31.12.2005, the Bank issued guarantees with the total value of at least 10% of the Bank's shareholders' equity to two companies and their subsidiaries. The guarantees were issued for the total amounts of PLN 235 735 thousand and PLN 176 601 thousand. Their average maturities as at 31.12.2005 were one year two months and seven months respectively.

As at 31.12.2004, the Bank issued guarantees of the total value of at least 10% of the Bank's shareholders' equity to its subsidiary. The guarantee amounted to PLN 1 874 490 thousand. On 7 July 2005, due to the repayment of secured loans, the above guarantees expired.

The above guarantees were issued on market terms. The Bank's remuneration for issuing the guarantees was also determined on market terms.

6. Ratings of the Bank's financial reliability

At 31.12.2005, Kredyt Bank S.A. had the following ratings of financial reliability:

Moody`s Investors Service

Long-term deposits rating	**A2**
Short-term deposits rating	**P1**
Financial strength	**D-**
Outlook rating	**Stable**

On 19 September 2005, Moody`s Investors Service, an international rating agency, upgraded the Bank's financial strength rating from 'E+' to 'D-', which implies stable growth outlook. The agency noted that the upgrade of the financial strength rating was associated with the improvement of the Bank's financial standing. The agency also emphasized the substantial decrease in operating expenses resulting from the restructuring scheme and the high level of the Bank's capital adequacy ratio.

Fitch Ratings

Short-term rating	**A**
Long-term rating	**F1**
Support rating	**1**
Individual rating	**D**
Outlook for long-term rating	**Positive**

Short-term ranking	**A**
Long-term ranking	**F1**
Support ranking	**1**
Individual ranking	**D**
Outlook for long-term ranking	**Stable**

On 5 December 2005, Fitch Ratings, an international rating agency, increased the individual rating of Kredyt Bank S.A. from D/E to D. The increase in the individual rating was a result of regaining appropriate profitability by the Bank and improvement of the effectiveness of the Bank's functioning. Furthermore, the agency stressed that long- and short-term ratings include the support of KBC Bank NV, a strategic investor, rated by Fitch Ratings at AA- level.

7. Corporate governance

Since January 2005, the Group has been bound by the corporate governance rules, adopted by the Stock Exchange, but modified as compared to the 2002 version, for public companies admitted to stock exchange trading set forth in 'The 2005 Best Practices in Public Companies'.

According to the Warsaw Stock Exchange guidelines stating that statements of the companies on the observance of corporate governance should be approved by the General Meeting of Shareholders, on 25 April 2005, under Resolution No. 26, the General Meeting of Shareholders of Kredyt Bank S.A. adopted and obliged the company to observe corporate governance – 'The 2005 Best Practices in Public Companies' approved by the Resolution of the Stock Exchange Board No. 44/1062/2004 of 15.12.2004.

The key assumptions of corporate governance are as follows:

- best practices of General Meetings of Shareholders;
- best practices of Supervisory Boards;
- best practices of Management Boards;
- best practices in relations with third parties and third party institutions.

In the current report of 1 July 2005, the Management Board of Kredyt Bank S.A. submitted, to the Warsaw Stock Exchange, the scope and contents of the corporate governance rules applied by the Bank and set forth in the Resolution of the General Meeting of Shareholders of Kredyt Bank S.A. as of 25 April 2005.

Under the corporate governance rules, the Bank adopted the By-laws of its three governing bodies: the Management Board, the Supervisory Board and the General Meeting of Shareholders. In addition, the Bank, implementing the corporate governance rules, presents on its website, in investor relations section, stock exchange reports, current reports, basic internal by-laws and regulations and other information.

As stipulated in the policy on implementation of the compliance function, i.e. the compliance with law, recommendations and guidelines of the National Bank of Poland, the Commission for Banking Supervision, the Minister of Finance, the Securities and Exchange Commission, the General Inspector of Banking Supervision and internal regulations, adopted by the Management Board of Kredyt Bank S.A., since 30.07.2004, the Bank has been obliged to comply with 'The Code of Ethics for Employees of Kredyt Bank S.A.'

The ethics rules set forth in the Code arise from the general moral standards and are basic guidelines to be observed by the Bank's employees performing their tasks, i.e. honesty, loyalty, professionalism, reliability and due diligence. Each employee is obliged to make every effort and show initiative to continue improving the quality of the customer service in the Bank.

The Ethics, Procedures and Control Unit has been established within the Compliance Department. Its main objective is to supervise the observance of the financial ethics rules, initiating explanatory and auditory proceedings and cooperate with the ethics unit of the Bank's major shareholder.

8. The Bank's outlook and growth drivers

Kredyt Bank S.A. holds a strong position among 10 top largest institutions on the banking market. The Bank and its related companies provide a wide range of retail and corporate banking services, services on the money market and indirectly on the insurance market. A developed network of outlets and distribution channels ensures easy access for customers to the Bank's and the Group's services and products.

In the months to come, the rate of economic growth will be one of the external factors contributing to the Bank's development. An increase in capital expenditure on fixed assets, absorption of support and the inflow of direct foreign investments will be crucial for corporate banking. In the event of retail banking, the rate of individual consumption growth depends on a decrease in the unemployment rate and increase in salaries fund. From the point of view of financial product prices, the monetary policy of the Monetary Policy Council, especially a possibility of further reduction of interest rates, is of great importance in this respect. The above-mentioned factors are directly reflected in the level of demand for banking facilities.

The banking sector is not competing for household resources with non-banking institutions. The competition is noticeable in the increased popularity of alternative forms of saving money, such as investment funds and investments on real estate markets. The relatively weaker the position of banks becomes in the process of households resources accumulation in the form of deposits, the stronger inter-bank competition is in the fight for a retail client.

The Bank's long-term goal involves accomplishment of a strong position among institutions on the banking market in Poland through, among others, development and implementation of the bancaassurance model. The Bank will focus on building up and fostering its position on the basic financial services markets, seeking to develop sales and stable long-term customer relations, achieve high quality of customer service and high levels of customer satisfaction.

The Bank's strategic goals:

In terms of their position on the retail market:

- focus on 'mass' and 'upper mass' customers as well as SMEs (including companies with annual sales up to PLN 16 million);
- focus on key products (retail and mortgage loans; credit cards; term deposits and trust funds; and the most popular products linked to Warta insurance offer)

In terms of their position on the corporate market:

- 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 through the sale of additional products; beside traditional loans and deposits, these are mainly leasing, cash management, trade financing and market risk management instruments.

In terms of their financial standing:

- a medium-term goal entails the achievement of ROE at the level of 17%;
- a medium-term goal entails the achievement of cost/income ratio at the level of 60%.

Methods of the goals accomplishment:

- implementation of the bancassurance model on the basis of the major shareholder's experience;
- fostering the Bank's new brand;
- increasing network effectiveness and its expansion (the process of creating 120 new outlets to be launched in 2006), creating mobile sale teams, activating alternative distribution channels;
- high quality of services and customer satisfaction.

The process of changing the Bank's brand visualization launched in September 2005 according to the new strategy is listed among the internal factors contributing to the Bank's development. Kredyt Bank S.A. and WARTA S.A., as well as other entities in KBC Group operating on the Polish market, introduced similar logotypes, with their colouring and graphics referring to the common shareholder. The change is accompanied by a process of standardizing interiors of the outlets and promotion of the Bank's image and the new, joint product offer.

The new visualization and logo emphasize the close cooperation and the membership of the Bank and the Insurer in the international structure of KBC Group. The Bank will become more recognizable and this will also allow it to maximize the synergy effect.

The common goal of KB S.A. and Warta S.A. is to develop bancassurance and to escalate measures leading to the creation of a banking and insurance group. Both companies are natural partners; their services and products are complementary and ensure a complete offer for customers. The successful accomplishment of the Bank's development strategy also depends on the continuance of effective credit risk management and the control and adjustment of functioning costs to the scale of operations.

9. Statement of the Management Board

Under Article 101 clause1 p.4 and p.5 of the Regulation by the Polish Council of Ministers of 21 March 2005 on current and interim information provided by issuers of securities (Journal of Laws of 25.03.2005 No. 49 item 463), the Management Board of Kredyt Bank S.A. hereby makes the following statement:

9.1. 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 statement of Kredyt Bank S.A. and the annual financial statement of Kredyt Bank S.A. covering the period from 1.01.2005 to 31.12.2005 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, assets and financial result of Kredyt Bank S.A. 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. Capital Group in 2005.

9.2. 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 statement of Kredyt Bank S.A. as at 31.12.2005 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 28.02.2006	Ronald Richardson	President of the Management Board	....
Date 28.02.2006	Krzysztof Kokot	Vice-President of the Management Board	....
Date 28.02.2006	Małgorzata Kroker-Jachiewicz	Vice-President of the Management Board	....
Date 28.02.2006	Guy Libot	Vice-President of the Management Board	....
Date 28.02.2006	Bohdan Mierzwiński	Vice-President of the Management Board	....