Annual Report of Kredyt Bank S.A. prepared for the year ended December 31, 2011

(Submitted to the Polish Financial Supervision Authority on February 22, 2012 - translation from Polish language)

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

Dear Shareholders, Customers and Employees,

On behalf of the Management Board of Kredyt Bank S.A., I have the pleasure to present to you the financial statements and the report on the operations of Kredyt Bank S.A. in 2011.

As expected, the previous year was very volatile on global financial markets. In the countries of the euro area, the differences in the economic growth rates and the conditions of public finances deepened. At the same time, the GDP growth rate in Poland accelerated from 3.9% in 2010 to 4.3% in 2011, and was one of the highest growth rates in the EU countries, except for Sweden and the Baltic states. The relatively good condition of the Polish economy, despite negative indicators, such as the deterioration on the labor market and the decrease in the public consumption, allowed the banking sector to improve its results and maintain the robust capital base, which ensured safe operation.

The previous year was the first full year of the implementation of the new strategy of Kredyt Bank S.A. adopted in 2010. It assumes the repositioning of the Bank as a reliable partner providing services to the middle class and small and medium-sized enterprises, focused on precisely defined areas, in which it will compete with the best players on the market. We succeeded in implementing organizational changes, which allow us to increase effectiveness and specialization as well as remodel the processes in order to streamline and simplify the organization. First of all, I mean the mortgage banking area and the corporate banking area, in which we can observe evident results of the changes. We continue the projects commenced last year, aiming at the liquidation of the existing gap in the area of banking technology, such as the optimization of IT systems, including the main operating system, the implementation of a new electronic banking system, the optimization of the network of outlets as well as projects related to the development and management of processes and products.

The net profit of Kredyt Bank S.A. in 2011 amounted to PLN 310,318 thousand and was the highest over the last four years. When compared to 2010, it increased by 179%, ensuring the return on equity of 10.6%. A significant decrease in the costs of credit risk and improved quality of assets were two of the Bank’s greatest achievements.

The capital adequacy ratio of Kredyt Bank S.A. at the end of 2011 exceeded the statutory requirements and was at the level of 12.7%, and the ratio calculated on the basis of own basic capitals only (Tier 1) reached the level of 8.8%.

From December 2010 to December 2011, amounts due to customers increased by PLN 2,384,771 thousand. As a result, by limiting the scale of financing from the inter-bank market, the assets financing structure and the loans/deposits ratio improved; at the end of 2011, the latter was at the level of 102.7%.

The year 2011 was a year of investments in the future, and the use of the established base to increase income and improve its structure even more will be the biggest challenge we are going to face in 2012. The expansion and maintenance of the share in the market of individual customers' deposits and a further increase in the acquisition of customers will remain an objective for the Retail Segment. In the Enterprises Segment, selling activities will be focused on the segment of smaller and medium-sized companies. Expanding the cooperation with existing customers, development of the deposit base and greater diversification of the loans portfolio will remain the core objective.

The year 2012 will be an important year for us also due to the potential ownership changes resulting from the intention, announced in summer 2011, of selling the shares of Kredyt Bank S.A. by KBC Group, the majority shareholder of KB S.A.

I would like to take this opportunity and, on behalf of the Management Board of Kredyt Bank S.A., thank all our Customers for their cooperation and trust. Our employees should be thanked especially for their commitment and effort made in the implementation of changes and their endeavors to improve results and the quality of our services. I believe that together we are able to meet the challenges ahead of us and accomplish our intended objectives.

Yours faithfully,

Maciej Bardan

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

INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Kredyt Bank S.A.

1. We have audited the attached financial statements for the year ended 31 December 2011 of Kredyt Bank S.A. ('the Bank') located in Warsaw at Kasprzaka 2/8 Street, containing the income statement for the period from 1 January 2011 to 31 December 2011, the statement of comprehensive income for the period from 1 January 2011 to 31 December 2011, the balance sheet as at 31 December 2011, the statement of changes in equity for the period from 1 January 2011 to 31 December 2011, the cash flow statement for the period from 1 January 2011 to 31 December 2011, and the summary of significant accounting policies and other explanatory notes ('the attached financial statements').
2. The truth and fairness[1] of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. In addition, the Bank's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152, item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Bank 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:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

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

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelnie i jasno*'

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 2011 to 31 December 2011, as well as its financial position[3] as at 31 December 2011;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Bank's Articles of Association.
5. We have read the Management Board's report on the operations of Kredyt Bank S.A. for the year ended 31 December 2011 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 dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (2009 Journal of Laws No. 33, item 259 with subsequent amendments).

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

Key Certified Auditor

Dorota Snarska-Kuman
certified auditor
No. 9667

Warsaw, 22 February 2012

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

Financial statements

of Kredyt Bank S.A.

for the Year Ended 31.12.2011

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I. Income Statement

in PLN '000'	Note	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Interest income	6	2 349 630	2 097 924
Interest expense	7	-1 223 441	-1 068 926
Net interest income		**1 126 189**	**1 028 998**
Fee and commission income	8	403 340	426 084
Fee and commission expense	9	-88 866	-96 993
Net fee and commission income		**314 474**	**329 091**
Dividend income	10	4 075	6 886
Net trading income	11	78 653	120 466
Net result on derivatives used as hedging instruments and hedged items	12	-1 714	887
Net gains from investment activities	13	1 162	6 486
Other operating income	15	87 717	54 783
Total operating income		**1 610 556**	**1 547 597**
General and administrative expenses	16	-963 986	-891 022
Other operating expenses	17	-44 339	-49 028
Total operating expenses		**-1 008 325**	**-940 050**
Net impairment losses on financial assets, other assets and provisions	18	-193 711	-464 578
Profit (loss) before tax		**408 520**	**142 969**
Income tax expense	19	-98 202	-31 730
Net profit (loss)		**310 318**	**111 239**

Income statement should be analyzed jointly with Notes, which form an integral part of these financial statements

II. Statement of Comprehensive Income

in PLN '000'	**01.01.2011 - 31.12.2011**	**01.01.2010 - 31.12.2010**
Net profit (loss) for the period	**310 318**	**111 239**
Other comprehensive income		
Valuation of financial assets available-for-sale	2 087	42 542
- including deferred tax	-489	-9 979
Effects of valuation of derivatives designated for cash flow hedge	8 584	11 163
- including deferred tax	-2 014	-2 618
Other comprehensive income (loss) recognized directly in equity	**10 671**	**53 705**
Total comprehensive income (loss)	**320 989**	**164 944**

III. Balance Sheet

in PLN '000'	Note	31.12.2011	31.12.2010
Assets			
Cash and balances with Central Bank	20	784 626	1 943 571
Gross loans and advances to banks	21	1 188 012	1 466 249
Impairment losses on loans and advances to banks	22	0	-2 260
Receivables arising from repurchase transactions	23	0	87 218
Financial assets designated upon initial recognition as at fair value through profit or loss	24	79 944	98 849
Financial assets held for trading (excluding derivatives)	25	60 493	1 601 283
Derivatives, including:	26	1 071 089	463 159
- derivatives used as hedging instruments	27	95 592	74 340
Gross loans and advances to customers	28	30 209 994	28 901 536
Impairment losses on loans and advances to customers	28, 29	-1 369 625	-1 875 759
Investment securities:	30	8 676 019	9 464 547
- available-for-sale		5 259 345	6 216 768
- held-to-maturity		3 416 674	3 247 779
Investments in subsidiaries and jointly controlled entities	31	64 626	64 626
Property, plant and equipment	32	261 609	291 922
Intangible assets	33	60 472	51 827
Deferred tax assets	19	242 881	327 776
Current tax receivable	47l	116 870	0
Investment properties	34	17 536	18 217
Non-current assets classified as held for sale	35	2 047	7 070
Other assets	36	84 787	90 424
Total assets		**41 551 380**	**43 000 255**

Balance Sheet (cont.)

in PLN '000'	Note	31.12.2011	31.12.2010
Liabilities			
Amounts due to Central Bank	37	32	6
Amounts due to banks	38	8 060 178	11 771 404
Liabilities arising from repurchase transactions	39	0	228 693
Derivatives, including:	26	982 916	1 131 078
- derivatives used as hedging instruments	27	1 669	1 274
Amounts due to customers	40	28 094 775	25 710 004
Current tax liability		0	152 959
Provisions	41	91 126	70 878
Other liabilities	42	248 125	206 890
Subordinated liabilities	43	1 036 510	911 100
Total liabilities		**38 513 662**	**40 183 012**

in PLN '000'	Note	31.12.2011	31.12.2010
Equity			
Share capital	44	1 358 294	1 358 294
Supplementary capital	44	898 072	887 347
Revaluation reserve	44	70 092	59 421
Other reserves	44	400 942	400 942
Current net profit (loss) for the period		310 318	111 239
Total equity		**3 037 718**	**2 817 243**
Total equity and liabilities		**41 551 380**	**43 000 255**

Capital adequacy ratio (%)	**46**	**12.72**	**12.85**

Balance Sheet should be analyzed jointly with Notes, which form an integral part of these financial statements

IV. Statement of Changes in Equity

Changes in the period 01.01.2011-31.12.2011

in PLN '000'	Note	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings (losses)	Net profit (loss) for the period	Total equity
Equity at opening balance – as of 01.01.2011		**1 358 294**	**887 347**	**59 421**	**400 942**	**111 239**	**0**	**2 817 243**
Valuation of financial assets available-for-sale	44			2 576				2 576
Effects of valuation of derivatives designated for cash flow hedge	44			10 598				10 598
Deferred tax on items recognized in other comprehensive income	44			-2 503				-2 503
Other comprehensive income (expenses) recognized directly in equity				**10 671**				**10 671**
Net profit (loss) for the period							310 318	310 318
Total comprehensive income (expenses)				**10 671**			**310 318**	**320 989**
Profit distribution	44		10 725			-10 725		0
Dividend payment	56					-100 514		-100 514
Equity at the end of period – as of 31.12.2011		**1 358 294**	**898 072**	**70 092**	**400 942**	**0**	**310 318**	**3 037 718**

Statement of Changes in Equity should be analyzed jointly with Notes, which form an integral part of these financial statements

Changes in the period 01.01.2010-31.12.2010

in PLN '000'	Note	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings (losses)	Net profit (loss) for the period	Total equity
Equity at opening balance – as of 01.01.2010		**1 358 294**	**782 046**	**5 716**	**340 942**	**165 301**	**0**	**2 652 299**
Valuation of financial assets available-for-sale	44			52 521				52 521
Effects of valuation of derivatives designated for cash flow hedge	44			13 781				13 781
Deferred tax on items recognized in other comprehensive income	44			-12 597				-12 597
Other comprehensive income (loss) recognized directly in equity				**53 705**				**53 705**
Net profit (loss) for the period							111 239	111 239
Total comprehensive income (expenses)				**53 705**			**111 239**	**164 944**
Profit distribution	44		105 301		60 000	-165 301		0
Equity at the end of period – as of 31.12.2010		**1 358 294**	**887 347**	**59 421**	**400 942**	**0**	**111 239**	**2 817 243**

V. Cash Flow Statement

in PLN '000'	Note	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Cash flow from operating activities			
Net profit (loss)		**310 318**	**111 239**
Adjustments to net profit (loss) and net cash from operating activities, and net increase/decrease in assets and liabilities:		**-552 860**	**4 162 598**
Current and deferred tax recognized in financial result	19	98 202	31 730
Non-realised profit (loss) from currency translation differences	47b	82 443	40 712
Depreciation	16	82 403	91 504
Net increase/decrease in impairment	47c	-503 580	347 316
Dividends	10	-4 075	-6 886
Interest	47d	-202 084	-180 136
Net increase/decrease in provisions		20 248	39 469
Profit (loss) on disposal of investments	47e	-10 792	-8 867
Net increase/decrease in assets (excluding cash)		**-384 065**	**-1 395 822**
Net increase/decrease in gross loans and advances to banks	47f	-22 731	-834 117
Net increase/decrease in receivables arising from repurchase transactions		87 218	244 657
Net increase/decrease in financial assets designated upon initial recognition as at fair value through profit or loss through profit or loss		18 905	37 987
Net increase/decrease in financial assets held for trading	47g	1 546 245	-356 001
Net increase/decrease in derivatives (except for derivatives used as hedging instruments)		-586 678	126 850
Net increase/decrease in gross loans and advances to customers		-1 308 458	-1 589 069
Net increase/decrease in current tax receivable	47l	-116 870	0
Net increase/decrease in other assets	47h	-1 696	973 871
Net increase/decrease in liabilities		**268 440**	**5 203 578**
Net increase/decrease in amounts due to Central Bank		26	-1 321 796
Net increase/decrease in amounts due to banks	47i	-934 270	2 749 327
Net increase/decrease in liabilities arising from repurchase transactions		-228 693	228 693
Net increase/decrease in derivatives (except for derivatives used as hedging instruments)		-148 557	591 902
Net increase/decrease in amounts due to customers	47j	1 702 699	2 991 319
Net increase/decrease in other liabilities	47k	45 995	35 857
Paid/received income tax	47l	-168 760	-71 724
Net cash flow from operating activities		**-242 542**	**4 273 837**

in PLN '000'	Note	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Cash flow from investing activities			
Inflows		**92 531 471**	**55 432 298**
Disposal of property, plant and equipment, intangible assets and investment properties		1 264	3 603
Disposal of interests in equity investments		0	1 449
Disposal of investment securities	47m	92 283 935	55 205 555
Dividends	10	4 075	6 886
Interest received	47m	242 197	214 805
Outflows		**-91 400 433**	**-56 760 756**
Acquisition of property, plant and equipment, intangible assets and investment properties		-55 951	-51 137
Acquisition of interests in equity investments		0	-50
Acquisition of investment securities	47m	-91 344 482	-56 709 569
Net cash flow from investing activities		**1 131 038**	**-1 328 458**
Cash flow from financing activities			
Inflows		**688 007**	**196 695**
Proceeds from loans and advances		688 007	196 695
Outflows		**-3 036 416**	**-1 931 835**
Dividend payment	56	-100 514	0
Repayment of loans and advances		-2 833 472	-1 825 104
Other financial outflows	47n	-102 430	-106 731
Net cash flow from financing activities		**-2 348 409**	**-1 735 140**
Net increase/decrease in cash		**-1 459 913**	**1 210 239**
Cash at the beginning of the period		**2 401 378**	**1 191 139**
Cash at the end of the period, including:	**47a**	**941 465**	**2 401 378**
Restricted cash*		1 059 021	1 078 101

Interest paid **		915 522	907 826
Interest received**		1 770 123	1 520 223

** an amount from the declaration on the amount of the Bank's statutory provision, i.e. the minimum average balance of cash in the current account in the National Bank of Poland; the requirement was satisfied by the Bank in the period from 30.11.2011 to 01.01.2012, despite the fact that the balance as at 31.12.2011 was lower than the declared amount*
*** refers to the items recognized in 'Interest income' and 'Interest expense' lines*

VI. Additional information to the financial statements

1. General information on issuer

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

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

KBC Banking and Insurance Capital Group

Kredyt Bank S.A. is a subsidiary of KBC Banking and Insurance Capital Group (‘KBC Group’) established in 1998 as a result of a merger of ABB Insurance Group, Almanij-Kreditbank Group and CERA Bank Group. As at 31.12.2011, KBC Group held 80.00% of shares of Kredyt Bank S.A. Changes in the shareholding structure as compared to the balance as at 31.12.2010 and after the balance sheet date are described in Note 44. 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 shares of KBC Group NV are listed on the Euronext Stock Exchange in Brussels.

KBC Group focuses on bancassurance-type operations for individual customers, provides services to 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.

In Poland, KBC Group is also a sole shareholder of Żagiel S.A., TUiR WARTA S.A. (as at 31.12.2011; on 20.01.2012, KBC Group announced that it had reached an agreement with the Talanx Group concerning the sale of 100% of shares of TUiR WARTA S.A.), KBC TFI S.A. and KBC Autolease Polska Sp. z o.o.

On 13.07.2011, KBC Group published the press release of the following content:

“KBC Group confirms that, after careful and thorough consideration, it and the Belgian authorities yesterday formally applied to the European Commission to amend the strategic plan which had been submitted on 30 September 2009 and which the European Commission had approved on 18 November 2009 (the ‘EC Decision’). The relevant notification has also been made to the National Bank of Belgium.

Due to the impact of certain changes in the regulatory environment (especially Basel III and draft IFRS changes on leases) and the difficulty involved in floating K&H Zrt. (Keresekedelmi es Hitelbank, Hungary) in the current circumstances, some measures presented in the initial plan have become less effective in achieving the intended aim. In their application to the European Commission, KBC and the Belgian Authorities therefore propose replacing those measures by others.

KBC and the Belgian Authorities formally applied to the European Commission for its approval to replace the planned IPOs of a minority stake of CSOB Bank (Ceskoslovenska obchodni banka A.S., Czech Republic) and K&H Bank Zrt. and the sale and lease back of KBC's headquarter offices in Belgium by the divestment of KBC’s Polish banking and insurance subsidiaries, i.e. Kredyt Bank S.A. (‘Kredyt Bank’) and Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A. (‘Warta’) (and their subsidiaries) and the sale or unwind of selected ABS and CDO assets.”

On 27.07.2011, KBC Group received the approval from the European Commission to amend its 2009 strategic plan.

The announced intention of KBC Group, the major shareholder, to sell its stakes in Kredyt Bank S.A. will not result in the change in strategic objectives of Kredyt Bank S.A. Capital Group adopted in 2010.

2. Basis of preparation

2.1. Declaration of compliance with the IFRS

Pursuant to Article 45 clause 1c of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2009, No. 152, item 1223, as amended) ('the Act'), and under the decision of the General Meeting of Shareholders of Kredyt Bank S.A. of 25.04.2005, starting from 01.01.2005, the financial statements of the Bank have been prepared in compliance with the International Accounting Standards ('IAS') and the International Financial Reporting Standards ('IFRS') that were approved by the European Union ('EU').

Financial statements of the Bank for the year ended 31.12.2011 have been prepared in accordance with the IAS and the IFRS in force as at 31.12.2011 approved by the European Union. Matters not governed by the above-mentioned standards are regulated by the Accounting Act and executive regulations thereto, and the Ordinance of the Minister of Finance of 19.02.2009 on current and interim information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2009, No. 33, item 259, as amended).

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

2.2. Other information about the financial statements

These financial statements were prepared based on the assumption that the Bank would remain going concern in the foreseeable future. As at the approval date of these financial statements, the Bank's Management Board fails to confirm the existence of circumstances which could threaten the continuation of the business of the Bank for the period of minimum 12 months from the balance sheet date.

These financial statements of Kredyt Bank S.A. were approved for publication by the Management Board of Kredyt Bank S.A. on 22.02.2012. On 22.02.2012, the Bank's Management Board approved for publication also the consolidated financial statements of Kredyt Bank S.A. Capital Group.

These financial statements were audited by Ernst & Young Audit Sp. z o.o., the key certified auditor acting on behalf of the authorized entity. The audit was performed in accordance with the Polish law and the National Financial Review Standards issued by the National Chamber of Statutory Auditors.

The Polish zloty is the functional currency of the Bank's companies. These financial statements have been presented in the Polish zloty ('PLN'), and all values, if not stated otherwise, are presented in thousands.

Financial statements were prepared according to the historical cost concept, except for financial assets and financial liabilities which are measured at fair value through profit or loss, loans and advances to customers and financial instruments measured at amortized cost having regard for impairment losses, accepted inter-bank deposits measured at amortized cost, available-for-sale financial instruments which are carried at fair value through revaluation reserve, as well as held-for-sale financial assets, recognized at the lower of: carrying amount as at the classification in this category and fair value less selling costs.

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

3. Description of major accounting policies applied for the purpose of preparing these financial statements

3.1. New or amended IAS and IFRS and new IFRIC interpretations

Below, we present new and amended IAS/IFRS and new IFRIC interpretations that the Bank has applied this year. Their application has not materially affected the financial statements:

- An amendment to IFRS 1 *First-time Adoption of the International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* – applicable to annual periods beginning on 1 July 2010 or later;
- Amended IAS 24 *Related Party Disclosures* (November 2009) – applicable to annual periods beginning on 1 January 2011 or later;
- Amendments to IAS 32 *Financial Instruments: Presentation: Classification of Rights Issues* – applicable to annual periods beginning on 1 February 2010 or later;
- Amendments to IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirements* – applicable to annual periods beginning on 1 January 2011 or later;
- IFRIC 19 *Regulating Financial Liabilities with the Use of Equity Instruments*– applicable to annual periods beginning on 1 July 2010 or later;
- Amendments to IFRS 7 *Financial Instruments: presentation: Disclosures: Transfer of Financial Assets* – applicable to annual periods beginning on 1 July 2011 or later;
- Amendments resulting from the IFRS review (published in May 2010) – a part of the amendments is applicable to annual periods beginning on 1 July 2010 and a part to annual periods beginning on 1 January 2011;

The following standards and interpretations have been issued by the IASB or the IFRIC, however are not in force yet:

- Phase 1 of IFRS 9 *Financial Instruments* – applicable to annual periods beginning on 1 January 2015 or later; by the date of the approval of these financial statements, not approved by the EU;
- Amendments to IAS 12 *Income Tax Expense: Realisation of the deferred tax asset* – applicable to annual periods beginning on 1 January 2012 or later; by the date of the approval of these financial statements, not approved by the EU;
- Amendments to IFRS 1 *First-time Adoption of the International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – applicable to annual periods beginning on 1 July 2011 or later; by the date of the approval of these financial statements, not approved by the EU;
- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these financial statements, not approved by the EU;
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these financial statements, not approved by the EU;
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these financial statements, not approved by the EU;
- IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these financial statements, not approved by the EU;
- IAS 27 *Separate Financial Statements* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these financial statements, not approved by the EU;
- IAS 28 *Investments in Associates and Joint Ventures* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these financial statements, not approved by the EU;
- Amendments to IAS 19 *Employee benefits* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these financial statements, not approved by the EU;
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* – applicable to annual periods beginning on 1 July 2012 or later; by the date of the approval of these financial statements, not approved by the EU;

- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these financial statements, not approved by the EU;
- Amendments to IFRS 7 *Financial Instruments: Disclosures: Offsetting financial assets and financial liabilities*– applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these financial statements, not approved by the EU;
- Amendments to IAS 32 *Financial Instruments: Presentation: Disclosures: Offsetting financial assets and financial liabilities*– applicable to annual periods beginning on 1 January 2014 or later; by the date of the approval of these financial statements, not approved by the EU.

The Management Board does not predict that the introduction of the above standards and interpretations will materially affect the Bank's accounting principles (policy), except for the amendments which will result from the amendments introduced by IFRS 9. According to the analysis carried out in the Bank concerning a part of IFRS 9 (the so called Phase 1) published by the date of the approval of these financial statements, it is estimated that the amendments will not affect the Bank's net profit to a large extent; however, they may affect other income recognized directly in the equity and the disclosures presented in notes.

Furthermore, the Bank has not finished the process of estimating the impact of IFRS 10 and IFRS 13 upon the financial statements for the period in which they will be applied for the first time.

3.2. 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 (loss)es from the translation of the resulting currency translation differences are recognized in the income statement.

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 carried at fair value are translated at the average exchange rate of the National Bank of Poland (NBP) as of the measurement date. Currency translation differences on non-monetary items measured at fair value through profit or loss are recognized in net trading income.

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

	31.12.2011	31.12.2010
EUR	4.4168	3.9603
USD	3.4174	2.9641
CHF	3.6333	3.1639

3.3. 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 the transaction settlement. Loans and receivables are recognized at the time of the payment of cash to the borrower.

3.4. Derecognition of financial assets from the balance sheet

The Bank derecognizes financial assets from the balance sheet when and only when contractual rights to cash flows from such assets expire or when the Bank transfers a financial asset pursuant to paragraphs

18 and 19 of IAS 39, and the transfer meets the requirements for the derecognition from the balance sheet provided for in paragraph 20 of IAS 39. Particularly, the Bank writes off loan receivables from the balance sheet to impairment losses when such receivables are uncollectible receivables, particularly when:

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

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

3.5. Classification and measurement of financial assets and liabilities

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

This category includes:

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

The method of determining the fair value for this group of assets is described in Note 4.1.

Interest and acquired discount or premium on debt 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.

Net gains from assets disposal are calculated with the FIFO method.

Derivatives are recognized at fair value, without deductions of transaction expenses that can be incurred at the disposal. The valuation of derivatives also entails credit risk; the respective charges are recognized in the income statement.

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

3.5.2. 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 or by the date very close to maturity, different from:

a) designated by an entity upon initial recognition as at fair value through profit or loss;

b) designated by an entity as available-for-sale; and

c) meeting the definition of loans and receivables.

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

3.5.3. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

a) financial assets that the company intends to sell immediately or in the near term, which are classified as held for trading, and those that the company upon initial recognition designates as at fair value through profit or loss;

b) financial assets that the company upon initial recognition designates as available-for-sale; or

c) financial assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

Loans and receivables 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 (commissions received less commissions paid) are settled over time using the effective interest rate method and are recognized in interest income. Impairment loss is recognized in the income statement in correspondence with accounts of provisions which adjust assets value.

In the case of the customers for whom the possibilities of servicing loans within the time limits specified in agreements deteriorated, and whose conditions of the debt service are renegotiated, as a principle, the Bank, having regard for the new conditions, re-estimates the discounted cash flows. If the present value of estimated future cash flows discounted using the effective interest rate method is not significantly lower than before the renegotiation, a given loan will remain in the portfolio of exposures with no evidence for impairment. Otherwise, a loan is classified in the portfolio of loans with evidence for impairment.

3.5.4. 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 on the balance sheet. Changes in fair value are recognized in revaluation reserve until the financial asset is derecognized or impairment is recognized; then accumulated gains (loss)es included in equity are recognized in the income statement. In the case of debt securities, interest income and discount or premium is settled over time in net interest income using the effective interest rate method.

The method of determining the fair value for this group of assets is described in Note 4.1.

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

Net gains from assets disposal are calculated with the FIFO method.

If fair value of equity instruments cannot be determined, then assets are recognized at cost less impairment charge.

A significant or prolonged decrease in the fair value of an investment in the equity instrument in the portfolio of available-for-sale financial assets below cost constitutes objective evidence for impairment. Impairment charges are recognized in the income statement in correspondence with accounts of provisions which adjust assets value.

3.5.5. Financial liabilities not held for trading

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

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

3.5.6. Hedge accounting

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

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

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

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

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

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

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

3.5.7. Embedded derivatives

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

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

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic and the risks of the host contract;

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- a hybrid (combined) instrument is not carried at fair value and changes in fair value are not recognized in the income statement.

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

3.6. Offsetting financial instruments

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

3.7. Sale and repurchase agreements

Securities sold under repurchase agreements ('repos' and 'sell buy back') are not excluded from the balance sheet. Payments due to the counterparty are recognized as financial liabilities as 'Liabilities arising from repurchase transactions'. Securities purchased under repurchase agreements ('reverse repos' and 'buy sell back') are reported in 'Receivables arising from repurchase transactions'. 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.

3.8. Property, plant and equipment

3.8.1. Non-current assets

Property, plant and equipment are the fixed assets that are 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 impairment losses.

Property, plant and equipment also include construction in progress and property, plant and equipment put into use under a contract of operating lease as well as property, plant and equipment obtained for use under a contract of finance lease.

Property, plant and equipment not used by the Bank, but classified as held for sale, are recognized in the balance sheet at the lower of: carrying amount as at the classification in this category and fair value less selling costs and classified as 'Non-current assets classified as held for sale'.

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

3.8.2. Capital expenditure incurred in a future period

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

3.8.3. Depreciation

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

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

Buildings	40 years
Leasehold improvements	for the duration of the contract or 10 years
Motor vehicles	6 years
Plant and machinery	between 3 and 7 years
Other property, plant and equipment	5 years

The assets' residual values and useful lives are reviewed on, at least, an annual basis. Moreover, the Bank carries out an annual analysis of the evidence indicating impairment for particular classes of property, plant and equipment.

3.9. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

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, held by the Bank and used by it, are recognized in the balance sheet at cost less amortization and impairment losses.

The Bank's costs that are associated with the production, at own cost and expense and for internal use, of intangible assets from which, according to expectations, the entity will generate future economic benefits, are also recognized as intangible assets in the balance sheet. Direct costs of the production of intangible assets activated in this way are amortized in the estimated useful life not exceeding 5 years.

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 such companies 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.

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

3.9.2. Other intangible assets

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

3.9.3. Amortization

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

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

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

3.10. Investment properties

Under IAS 40, the Bank recognizes investment properties at cost. Following the initial recognition, the value of investment properties is decreased with depreciation and impairment losses.

Investment properties are derecognized from the balance sheet upon their disposal or in the case of the permanent withdrawal of a given investment property from use, when no future profits from its sale are expected. Any gains or losses resulting from the derecognition of an investment property from the balance sheet are recognized in the income statement in the period in which such an investment property was derecognized.

Assets are transferred to investment properties only when there is a change in the method of their use, confirmed with the termination of the use of an asset by its owner or the conclusion of an operating lease agreement. The assets that the Bank uses for its own needs only in a small part also constitute investment properties.

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

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

3.11.1. Measurement of recoverable amount

A recoverable amount of an asset is determined as the higher of the following: a price that can be obtained from the sale less costs of sale 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.

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

3.11.2. Reversal of impairment

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

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

3.12. Trade and other receivables

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

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

3.13. Assets taken over for debts

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

3.14. Non-current assets classified as held for sale

The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Pursuant to IFRS 5, assets held for sale are measured at the lower of: present carrying amount or fair value less costs to sell. Non-current assets, when they are classified as held for sale, are not depreciated.

3.15. Deferred tax asset and liability

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

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

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

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

The Bank offsets deferred tax asset against deferred tax liability.

3.16. Cash and cash equivalents

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

3.17. Provisions

The Bank recognizes provisions in the balance sheet when:

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

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 after which the provision will be utilized.

3.17.1. Restructuring provision

Pursuant to IAS 37, 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.

3.17.2. Employee benefits

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

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

3.18. Equity

Equity comprises capitals and own funds established pursuant to the specific legal regulations, i.e. applicable laws and the Bank’s Memorandum and Articles of Association.

3.18.1. Share capital

Registered share capital is recognized at nominal value according to the Bank’s Memorandum and Articles of Association and the entry in the Court Register.

3.18.2. Supplementary capital

Supplementary capital is established pursuant to the Bank’s Memorandum and Articles of Association from profit allowances and from issue premiums generated from the issue of shares, and is allocated to cover balance sheet losses that may result in relation to the Bank’s operations.

3.18.3. Revaluation reserve

Revaluation reserve is established as a result of the valuation of financial instruments classified as ‘available-for-sale’ and of an effective portion of the valuation of financial instruments designated for cash flow hedge.

3.18.4. Other reserves

Reserves comprise the general banking risk reserve established pursuant to the Banking Law of 29.08.1997 (Journal of Laws of 2002, No. 72, item 665, as amended) from profit after tax and are designated for unidentified risks of the Bank’s operations.

Equity also comprises net profit (loss) for the period and retained profit or loss from previous periods.

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

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

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

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

3.20. Company Social Benefit Fund

Company Social Benefit Fund (CSBF) is created on the basis of write-downs made by the Bank and charged to operating expenses as required by the CSBF Act of 04.03.1994 (Journal of Laws of 1994, No. 43, item 163, as amended). The objective of the Fund is to finance social benefits for employees. The Fund's liabilities are accumulated write-downs made by the Bank for CSBF less non-returnable expenditure from CSBF. The Bank has no social assets; all CSBF liabilities are expressed in cash deposited on a separate banking account.

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

3.21. Net interest income

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

The following financial assets and liabilities are measured by the Bank at amortized cost, by using the effective interest method:

- loans and receivables;
- held-to-maturity investments;
- non-derivative financial liabilities not held for trading;
- repurchase transactions.

In addition, in the case of debt securities carried at fair value through profit or loss and available-for-sale assets, the coupon rates and acquired discounts or premiums are charged to the income statement also at amortized cost.

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

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

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

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

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

3.22. Net fee and commission income

As stated above, fees and commissions (including insurance commissions), directly attributable to particular transactions, are deferred and amortized over time using the effective interest rate method. The Bank recognizes them in net interest income.

However, fees and commissions not amortized using the effective interest rate, but settled over time with the straight-line method or recognized one-off, are reported in ‘net fee and commission income’. Income settled over time with the straight-line method includes commissions on revolving loans, overdraft facilities, credit cards, guarantee lines, as well as letters of credit lines. All fees for the activities in which the Bank provides services related to transfers, payments, the distribution of insurance products and shares of investment funds as well as other incidental fees, are recognized once.

3.23. Net trading income

Net trading income comprises gains or losses on the disposal or a change in the fair value of financial assets and liabilities measured at fair value through profit or loss. This item also includes result on foreign exchange and interest on swaps as well as valuation write-downs of active derivatives due to credit risk.

3.24. Dividend income

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

3.25. Other operating income and expenses

Other operating income and expenses include items not related directly to the Bank’s operations. These are in particular income and expenses on sale and liquidation of property, plant and equipment, received and paid indemnities, lease income, and income and expenses on other services.

Other operating income and expenses also include impairment losses on loans and advances to various debtors.

3.26. Taxation

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

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

Details on the method of calculating deferred tax are presented in Note 3.15.

3.27. Comparable data

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

4. Accounting estimates

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

The most important accounting estimates prepared for the purpose of these financial statements refer to:

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

The Bank did not introduce any material changes in the applied accounting principles and methods of performing accounting estimates as compared to the principles and methods described in the Bank's published financial statements as of 31.12.2010.

4.1. Valuation of financial assets and liabilities at fair value

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

The transaction price is the best indicator of fair value at the initial recognition of a financial instrument.

Fair value of financial assets and liabilities is determined on the basis of quotations on active markets, including prices of the latest transactions.

In the case of financial assets and liabilities recognized in the balance sheet at fair value (except for equity instruments from the portfolio of available-for-sale assets), for which no active market is identified and there is no possibility of determining the fair value using market prices, they are measured on the basis of generally adopted measurement models based on variables that can be observed in the market environment.

The fair value of such financial assets and liabilities is determined on the basis of the net present value, i.e. the sum of all cash flows discounted using the yield curve applicable to a given currency and adjusted with the issuer's credit risk.

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.

Financial instruments measured at fair value are classified according to a three-level hierarchy of fair value:

- Level 1 comprises financial instruments quoted in an active market, whose measurement at fair value is determined on the basis of present and readily available market prices,
- Financial assets presented at Level 2 are not quoted in an active market, but the inputs used to measure the fair value are based on observable market inputs,
- Level 3 comprises financial instruments that are not quoted in an active market, and their measurement at fair value is not based on observable market inputs.

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

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

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

Loan receivables constitute the most significant class of financial assets recognized in the Bank's balance sheet at amortized cost and subject to impairment.

4.2.1. Evidence for impairment

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

A list of objective evidence includes:

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

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

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

d) high probability of the borrower's bankruptcy or their another financial reorganisation;

e) in the case of cash loans, exceeding specific factors used in the credit risk assessment process of all customers.

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

4.2.2. Measurement of individual impairment

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

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

4.2.3. Measurement of collective impairment

A collective analysis is conducted in the following cases:

- In the event where, regardless of the exposure value, no objective evidence for loan impairment occurred, such exposure is included in the credit portfolio of similar nature and the collective analysis of the impairment is conducted;
- In the event of objective evidence for the impairment of an asset which is not individually significant (below the defined exposure level).

Homogenous loans portfolios are created basing upon similar characteristics of credit risks that are specific for the defined groups of customers and products. The collective impairment is measured basing on historical parameters of losses generated by similar assets portfolios. Historical trends for losses are cleared of one-off events and are updated against a current risk profile of homogenous groups of assets. Hence, the portfolios systematic risk is identified. The following issues, apart from corrected historical trends, have a material impact on the level of the collective impairment:

- fluctuations in the receivables portfolios;
- the Bank's operating effectiveness in credit risk management processes, particularly taking into account the restructuring and debt collecting activities;
- a macroeconomic situation.

4.3. Impairment of financial assets available-for-sale

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

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

4.4. The values of deferred tax assets

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

5. Segment reporting

The criterion for separating a segment entails the method of carrying business and the type and scope of information used by the management in a given entity. An operating segment is a type of activities reviewed regularly by the authorities responsible for making operating decisions, including decisions concerning the method of allocating resources within the reviewed segment. The figures originate from internal reports used by the Bank's management to review the results of the activities of a given segment. The presentation of particular items follows the approach applied in management reporting. At the same time, one should notice that the management segmentation differs from the financial reporting segmentation applied in the remaining parts of the financial statements.

The Bank's operating activities were divided into three basic categories: retail, corporate, treasury.

The Bank's operations are not diversified in geographical terms. Operations are focused on the Polish market; the main customer base is composed of national natural and legal persons and foreign customers operating on the Polish market

Retail Segment

Retail Segment, in management terms, incorporates products targeted at individual customers, private banking, as well as micro and small enterprises (SME), whose annual sales revenue does not exceed PLN 1 million.

The offer entails a wide choice of deposit, credit and insurance (bancassurance) products offered in cooperation with TUnŻ WARTA S.A. and TUiR WARTA S.A., and investment products offered by KBC TFI S.A. This offer is addressed to customers through traditional channels of distribution via the Bank’s nationwide network of branches and affiliates, KB24 online service as well as creditonline service, as well as intermediaries operating in the market.

Corporate Segment

Corporate Segment, in management terms, entails transactions with medium-sized companies (SME with annual sales revenue exceeding PLN 1 million, but not exceeding PLN 25 million), large companies (with total sales revenue exceeding PLN 25 million) as well as state budgetary units at central and local levels.

Beside the traditional products, such as loans, deposits, settlement services, derivatives, the customers from this segment are offered specialist services. They are tailored to customers’ individual needs, e.g. organizing syndicates supporting investment projects, financing real estate transactions, financing foreign trade and bulk payments.

Treasury Segment

Treasury Segment, in management terms, 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, except for write-downs for credit risk. Besides the trading activities carried by the Bank on its own account, the segment is responsible for the activities aiming to hedge the Banking Book position.

Other

Income and expenses not assigned to above segments have been presented as ‘Other' segment.

Additional clarifications

The results presented in all segments include the costs of the financing of lending activities and interest income on sales of deposit resources in internal transactions and they result from the application of an internal price (transfer rate) determined on the basis of reference rates (money market rates) for particular deposit and credit products.

The reconciliation of particular balance sheet items and income statement items for reporting segments with the items of the balance sheet and the items of the income statement must encompass the adjustments presented further in this Note.

Net interest income includes mainly net interest income from deposit and lending activities and the total net income from loan commissions treated, in management terms, as an element of interest margin. The Bank's Management Board, when making operating decisions, bases them mainly on the interest margin. In addition, particular segments entail the costs of financing the cash maintained in the Bank's branches.

Net commission income and other net income entails:

- commissions for keeping accounts and transactions;
- commissions related to credit, debit and other cards;
- commissions related to the distribution of the shares of the societies of investment funds and other services provided to societies of investment funds;
- commissions related to insurance products;
- commissions related to foreign transactions, i.e. export and import payment orders, transfers and guarantees, letters of credit, bill guarantees and cash collections;
- other net income entailing net income from other commissions and net income from other operating income and expenses.

Net income from treasury transactions in the Retail Segment and in the Corporate Segment is the net income from exchange operations and net income from financial transactions which are a margin on such products as repurchase transactions, bonds, IRS and FX options.

Net income from treasury transactions is composed of the following items of the financial statements:

- net trading income (except for, e.g. net increase/decrease in the provisions for potential losses related to open/active derivatives and the valuation of embedded instruments related to the enterprises function) and
- net result on derivatives used as hedging instruments and hedged items.

Net gains from investment activities – the presented item is the sum of the items from the financial statements: net gains from investment activities and dividend income.

In management reporting, the item *'Net impairment losses on financial assets, other assets and provisions'* includes an additional provision for potential losses related to open/active derivatives (presented in these financial statements in net trading income).

Bank's general expenses – the Bank allocates the costs on the basis of direct costs accounting and statistical key figures applied in own management system; operating expenses of the Bank are fully charged to the retail function. The costs of the Head Office and general and administrative expenses are allocated according to the structure of direct costs. The Bank has been implementing the Activity-based Costing (ABC), which will affect the method of allocating costs to particular segments.

The assets of the segment were divided into four basic categories:

- *Loans and advances to customers* – include net loans and advances to customers, excluding interest receivables, as well as debt securities classified as loans and receivables;
- *Loans and advances to banks* – include net loans and advances to banks, excluding interest receivables, as well as debt securities issued by other banks and classified as loans and receivables. The category is presented in the treasury segment;
- *Securities* – this category is presented in the treasury segment, entails debt securities, securities with the right to equity and shares in investment funds, excluding debt securities classified as loans and receivables;
- *Other* – this category entails all other assets not presented above.

Total equity and liabilities are presented in five lines:

- *Amounts due to customers* – customers' deposits, except for interest liabilities;
- *Interbank deposits* – amounts due to the National Bank of Poland, except for the lombard loan and repos as well as current and term amounts due to banks;
- *Borrowed loans and advances* – the lombard loans and borrowed loans and advances;
- *Subordinated liabilities* – subordinated liabilities, except for interest, both included in and excluded from own funds;
- *Other liabilities and total equity.*

Bank’s net profit for 2011 by operating segments (breakdown according to management reporting)

in PLN ‘000’	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Net interest income, including:	**643 755**	**298 743**	**232 930**	**-4 445**	**1 170 983**
- lending activities	489 179	188 692	0	-4 528	673 343
- depositing activities	166 698	119 946	0	84	286 728
- the cost of financing cash kept in the Bank’s branches	-12 122	-9 895	22 018	-1	0
Net commission income and other net income	**173 272**	**83 812**	**-1 071**	**30 034**	**286 047**
- commissions related to the keeping of accounts and transactions	83 264	51 987	0	584	135 835
- commissions related to cards	63 396	5 330	0	4 365	73 091
- commissions related to shares in investment funds societies	46 452	2 894	0	0	49 346
- commissions related to insurance products	-18 646	-228	0	213	-18 661
- commissions related to foreign transactions	35	20 578	0	383	20 996
- other	-1 229	3 251	-1 071	24 489	25 440
Net income from treasury transactions	**53 327**	**55 175**	**-15 394**	**-2 575**	**90 533**
- exchange transactions	53 247	49 329	13 136	-2 765	112 947
- derivatives and securities	80	5 846	-28 530	190	-22 414
Net gains from investment activities	**0**	**0**	**1 162**	**4 075**	**5 237**
Gross operating income	**870 354**	**437 730**	**217 627**	**27 089**	**1 552 800**
Net impairment losses on financial assets, other assets and provisions	**-147 583**	**-15 434**	**0**	**-32 293***	**-195 310**
Bank's general and administrative expenses	**-709 557**	**-189 969**	**-49 444**	**0**	**-948 970**
- the costs of the operation of business functions (direct costs)	-422 918	-120 928	-29 567	-293 154	-866 567
- allocated expenses	-219 195	-58 685	-15 274	293 154	0
- depreciation (direct costs)	-42 105	-3 572	-2 837	-33 889	-82 403
- depreciation (allocated costs)	-25 339	-6 784	-1 766	33 889	0
Net operating income	**13 214**	**232 327**	**168 183**	**-5 204***	**408 520**
Income tax expense					-98 202
Net profit (loss)					**310 318**

** comprises PLN 35,000 thousand of the provision for a potential liability related to the resale of Żagiel S.A. by KBC Group described in Note 41 to these financial statements — it was a single event*

Bank's net profit for 2010 by operating segments (breakdown according to management reporting)

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Net interest income, including:	**606 233**	**266 433**	**202 397**	**-3 176**	**1 071 887**
- lending activities	485 347	171 812	0	-3 249	653 910
- depositing activities	130 571	102 331	0	73	232 975
- the cost of financing cash kept in the Bank's branches	-9 685	-7 710	17 395	0	0
Net commission income and other net income	**188 545**	**106 796**	**0**	**14 433**	**309 774**
- commissions related to the keeping of accounts and transactions	84 438	52 900	0	900	138 238
- commissions related to cards	82 319	4 645	0	-3 217	83 747
- commissions related to shares in investment funds societies	44 685	2 787	0	0	47 472
- commissions related to insurance products	-4 441	-172	0	0	-4 613
- commissions related to foreign transactions	91	15 624	0	454	16 169
- other	-18 547	31 012	0	16 296	28 761
Net income from treasury transactions	**47 017**	**47 610**	**7 433**	**-1 814**	**100 246**
- exchange transactions	46 934	45 653	18 641	-947	110 281
- derivatives and securities	83	1 957	-11 208	-867	-10 035
Net gains from investment activities	**0**	**0**	**6 486**	**6 886**	**13 372**
Gross operating income	**841 795**	**420 839**	**216 316**	**16 329**	**1 495 279**
Net impairment losses on financial assets, other assets and provisions	**-386 205**	**-52 508**	**0**	**-22 575**	**-461 288**
Bank's general and administrative expenses	**-687 942**	**-162 316**	**-40 764**	**0**	**-891 022**
- the costs of the operation of business functions (direct costs)	-397 398	-102 798	-24 178	-275 144	-799 518
- allocated expenses	-212 433	-50 123	-12 588	275 144	0
- depreciation (direct costs)	-50 426	-2 863	-2 358	-35 857	-91 504
- depreciation (allocated costs)	-27 685	-6 532	-1 640	35 857	0
Net operating income	**-232 352**	**206 015**	**175 552**	**-6 246**	**142 969**
Income tax expense					-31 730
Net profit (loss)					**111 239**

The allocation of assets by operating segments as at 31.12.2011

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Loans and advances to banks	0	0	1 187 219	0	1 187 219
Loans and advances to customers	20 944 185	7 777 564	0	0	28 721 749
Securities	0	0	8 816 456	0	8 816 456
Other	0	0	1 071 089	1 754 867	2 825 956
Total	**20 944 185**	**7 777 564**	**11 074 764**	**1 754 867**	**41 551 380**

The allocation of assets by operating segments as at 31.12.2010

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Loans and advances to banks	0	0	1 463 279	0	1 463 279
Loans and advances to customers	19 569 183	7 358 146	0	0	26 927 329
Securities	0	0	11 164 679	0	11 164 679
Other	0	0	463 159	2 981 809	3 444 968
Total	**19 569 183**	**7 358 146**	**13 091 117**	**2 981 809**	**43 000 255**

The allocation of liabilities and capitals by operating segments as at 31.12.2011

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Inter-bank deposits	0	0	5 243 696	0	5 243 696
Borrowed loans and advances	0	0	2 807 645	0	2 807 645
Amounts due to customers	17 247 467	10 793 329	0	0	28 040 796
Subordinated liabilities	0	0	1 035 985	0	1 035 985
Other liabilities and total equity	0	0	982 916	3 440 342	4 423 258
Total	**17 247 467**	**10 793 329**	**10 070 242**	**3 440 342**	**41 551 380**

The allocation of liabilities and capitals by operating segments as at 31.12.2010

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Inter-bank deposits	0	0	6 498 969	0	6 498 969
Borrowed loans and advances	0	0	5 270 228	0	5 270 228
Amounts due to customers	15 749 960	9 895 934	0	0	25 645 894
Subordinated liabilities	0	0	910 688	0	910 688
Other liabilities and total equity	0	0	1 131 078	3 543 398	4 674 476
Total	**15 749 960**	**9 895 934**	**13 810 963**	**3 543 398**	**43 000 255**

Below, we present the reconciliation of particular items with the income statement and the balance sheet published in this report.

in PLN '000'	**01.01.2011-31.12.2011**
Net interest income – management information	**1 170 983**
- commissions on loans and other commissions included in fee and commission income	49 583
+ operating expenses (interest on finance lease)	-681
+ operating income (the collection of statutory interest)	17 159
+ commissions related to foreign transactions	443
- structured deposit – interest adjustment	12 130
+ other	-2
Net interest income – financial statements	**1 126 189**
Net commission income and other net income – management information	**286 047**
+ commissions on loans and other commissions included in fee and commission income	49 583
- operating expenses (interest on finance lease)	-681
- operating income (the collection of statutory interest)	17 159
- commissions related to foreign transactions	443
- the valuation of shares and of an embedded instrument related to the operations of the enterprises function	-22 538
+ reversal of provisions related to motivation plans	16 603
- other	-2
Net commission income and other income – financial statements – presented as:	**357 852**
Net fee and commission income	314 474
Other operating income	87 717
Other operating expenses	-44 339
Net income from treasury transactions – management information	**90 533**
+ net increase/decrease in provisions for potential losses related to active derivatives	-3 186
+ the valuation of shares and of an embedded instrument related to the operations of the enterprises function	-22 538
+ structured deposit – interest adjustment	12 130
Net trading income and net result on derivatives used as hedging instruments – financial statements – presented as:	**76 939**
Net trading income	78 653
Net result on derivatives used as hedging instruments and hedged items	-1 714
Net gains from investment activities – management information	**5 237**
Net gains from investment activities and dividend income – financial statements – presented as:	**5 237**
Net gains from investment activities	1 162
Dividend income	4 075
Gross operating income before tax – management information	**1 552 800**
+ net increase/decrease in provisions for potential losses related to active derivatives	-3 186
+ reversal of provisions related to motivation plans	16 603
Gross operating income before tax – financial statements – presented as:	**1 566 217**
Total operating income	1 610 556
Other operating expenses	-44 339

Net impairment losses on financial assets, other assets and provisions – management information	**-195 310**
- net increase/decrease in provisions for potential losses related to active derivatives	-3 186
+ charges related to provisions for employee benefits	-1 587
Net impairment losses on financial assets, other assets and provisions – financial statements	**-193 711**

Bank's general and administrative expenses – management information	**-948 970**
- charges related to provisions for employee benefits	-1 587
- reversal of provisions related to motivation plans	16 603
General and administrative expenses – financial statements	**-963 986**

in PLN '000'	**01.01.2010-31.12.2010**
Net interest income – management information	**1 071 887**
- commissions on loans and other commissions included in fee and commission income	45 934
+ operating expenses (interest on finance lease)	-1 440
+ operating income (the collection of statutory interest)	12 492
+ commissions related to foreign transactions	377
- structured deposit – interest adjustment	8 384
Net interest income – financial statements	**1 028 998**
Net commission income and other net income – management information	**309 774**
+ commissions on loans and other commissions included in fee and commission income	45 934
- operating expenses (interest on finance lease)	-1 440
- operating income (the collection of statutory interest)	12 492
- commissions related to foreign transactions	377
- the valuation of shares and of an embedded instrument related to the operations of the enterprises function	4 852
- net increase/decrease in provisions related to the sale of debt	4 581
Net commission income and other income – financial statements – presented as:	**334 846**
Net fee and commission income	329 091
Other operating income	54 783
Other operating expenses	-49 028
Net income from treasury transactions – management information	**100 246**
+ net increase/decrease in provisions for potential losses related to active derivatives	7 871
+ the valuation of shares and of an embedded instrument related to the operations of the enterprises function	4 852
+ structured deposit – interest adjustment	8 384
Net trading income and net result on derivatives used as hedging instruments – financial statements – presented as:	**121 353**
Net trading income	120 466
Net result on derivatives used as hedging instruments and hedged items	887
Net gains from investment activities – management information	**13 372**
Net gains from investment activities and dividend income– financial statements – presented as:	**13 372**
Net gains from investment activities	6 486
Dividend income	6 886

Gross operating income– management information	**1 495 279**
+ net increase/decrease in provisions for potential losses related to active derivatives	7 871
- net increase/decrease in provisions related to the sale of debt	4 581
Gross operating income– financial statements – presented as:	**1 498 569**
Total operating income	1 547 597
Other operating expenses	-49 028

Net impairment losses on financial assets, other assets and provisions – management information	**-461 288**
- net increase/decrease in provisions for potential losses related to active derivatives	7 871
+ net increase/decrease in provisions related to the sale of debt	4 581
Net impairment losses on financial assets, other assets and provisions – financial statements	**-464 578**

in PLN '000'	**Management information**	**Interest**	**Financial statements (net value)**
31.12.2011			
Loans and advances to banks	1 187 219	793	1 188 012
Loans and advances to customers	28 721 749	118 620	28 840 369
31.12.2010			
Loans and advances to banks	1 463 279	710	1 463 989
Loans and advances to customers	26 927 329	98 448	27 025 777

in PLN '000'	**31.12.2011**
Securities – management information	**8 816 456**
Securities – financial statements – presented as:	**8 816 456**
Financial assets designated upon initial recognition as at fair value through profit or loss	79 944
Financial assets held for trading (excluding derivatives)	60 493
Investment securities	8 676 019

in PLN '000'	**31.12.2010**
Securities – management information	**11 164 679**
Securities – financial statements – presented as:	**11 164 679**
Financial assets designated upon initial recognition as at fair value through profit or loss	98 849
Financial assets held for trading (excluding derivatives)	1 601 283
Investment securities	9 464 547

in PLN '000'	**Management information**	**Interest**	**Financial statements**
31.12.2011			
Amounts due to customers	28 040 796	53 979	28 094 775
Subordinated liabilities	1 035 985	525	1 036 510
31.12.2010			
Amounts due to customers	25 645 894	64 110	25 710 004
Subordinated liabilities	910 688	412	911 100

in PLN '000'	**31.12.2011**
Inter-bank deposits – management information	**5 243 696**
Borrowed loans and advances – management information	**2 807 645**
+ interest	8 869
- other amounts due to the National Bank of Poland	32
Amounts due to banks – financial statements	**8 060 178**

in PLN '000'	**31.12.2010**
Inter-bank deposits – management information	**6 498 969**
Borrowed loans and advances – management information	**5 270 228**
+ interest	2 213
- other amounts due to the National Bank of Poland	6
Amounts due to banks – financial statements	**11 771 404**

6. Interest income

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
On account of:		
Loans and advances to banks	111 640	81 415
Loans and advances to customers:	1 506 625	1 389 828
- financial sector	12 979	17 863
- non-financial sector	1 483 239	1 361 316
- budgetary sector	10 407	10 649
Securities:	612 001	528 538
- at fair value through profit or loss	2 766	5 446
- held for trading	75 265	53 869
- available-for-sale	356 908	322 198
- held-to-maturity	177 062	147 025
Receivables arising from repurchase transactions	16 964	4 332
Interest on hedging instruments	102 400	93 811
Total	**2 349 630**	**2 097 924**

Interest income comprises, e.g. cash interest and interest calculated on an accrual basis on receivables for which evidence for impairment was identified. Interest was calculated with the effective interest rate applied in discounting expected cash flows for the purpose of estimating the impairment loss on loan receivables. The interest on the loans and advances with evidence for impairment as at 31.12.2011 amounted to PLN 40,975 thousand, and as at 31.12.2010 to PLN 26,261 thousand. Accrued interest was taken into consideration when estimating impairment losses on such receivables.

7. Interest expense

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
On account of:		
Amounts due to banks	98 262	78 325
Amounts due to customers	942 226	883 758
- financial sector	125 885	114 949
- non-financial sector	745 119	705 261
- budgetary sector	71 222	63 548
Liabilities arising from repurchase transactions	66 606	10 990
Other subordinated liabilities	39 914	34 584
Interest on hedging instruments	76 433	61 269
Total	**1 223 441**	**1 068 926**

Net interest income	**1 126 189**	**1 028 998**

8. Fee and commission income

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Fees and commissions on loans	40 249	40 003
Fees and commissions on deposit-related transactions with customers	135 756	138 166
Fees and commissions due for payment cards processing and ATMs maintenance	118 346	138 057
Fees and commissions on foreign clearing operations	16 136	15 638
Fees and commissions on guarantee commitments	22 708	18 899
Commissions on the distribution and management of combined investment and insurance products	59 329	65 754
Commissions on other custodian services	3 514	3 316
Other fees and commissions	7 302	6 251
Total	**403 340**	**426 084**

9. Fee and commission expense

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Fees related to insurance for granter loans	20 733	21 379
Fees of credit reference agency	6 233	6 398
Fees and commissions due for payment cards processing and ATMs maintenance	48 871	54 718
Brokerages	1 834	1 363
Other fees and commissions	11 195	13 135
Total	**88 866**	**96 993**

Net fee and commission income	**314 474**	**329 091**

At the beginning of 2011, the Bank changed the method of settling certain income and expenses related to the sales of loan products, including income from the sales of insurance related to cash loans and expenses resulting from the cooperation with local lending intermediaries. At present, the above income and expenses are settled using the effective interest rate method, while, in previous years, due to their immateriality, they were recognized once.

10. Dividend income

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Equity instruments	4 075	6 886
Total	**4 075**	**6 886**

In 2011, the Bank received PLN 2,426 thousand of dividends from subsidiaries consolidated with the full method and PLN 1,649 thousand from other entities. In 2010, the Bank received PLN 5,145 thousand of dividends from subsidiaries consolidated with the full method and PLN 1,741 thousand from other entities.

11. Net trading income

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Debt securities	-10 325	1 375
- held for trading	-9 468	1 263
- at fair value through profit or loss	-857	112
Equity instruments	-22 538	4 852
Derivatives	77 761	-623 661
Foreign exchange	33 755	737 900
Total	**78 653**	**120 466**

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

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Result on cash flows hedge		
- on hedging derivatives*	-1 714	887
Total *	**-1 714**	**887**

** result on derivatives used as hedging instruments comprises a non-effective portion of gains or losses associated with the hedging instrument, as well as amounts of transactions settled prior to the balance sheet date*

13. Net gains from investment activities

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Available-for-sale financial assets:	**867**	**3 674**
- equity instruments	0	30
- debt instruments	867	3 644
Held-to-maturity assets:	**295**	**2 812**
- debt instruments	295	2 812
Total	**1 162**	**6 486**

14. Result for particular categories of financial assets and liabilities

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Designated, at the time of initial recognition, as measured at fair value through profit or loss	-20 629	10 410
Held-for-trading*	143 558	-568 529
Repurchase transactions	-49 642	-6 658
Hedging instruments	24 253	33 429
Available-for-sale	357 775	325 872
Held-to-maturity	177 357	149 837
Loans and advances to banks and to customers	1 642 113	1 497 237
Amounts due to banks and customers	-829 686	-738 708
Subordinated liabilities	-39 914	-34 584
Other	79 824	79 722
Total **	**1 485 009**	**748 028**

** also comprises the result on derivatives (excluding derivatives used as hedging instruments)*
*** the item comprises net interest income, net fee and commission income, net trading income net of result on foreign exchange, result on derivatives used as hedging instruments and hedged items, net gains from investment activity*

15. Other operating income

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Sale or liquidation of property, plant and equipment, non-current assets held-for-sale and assets to be disposed	11 027	4 412
Recovered bad debts, including reimbursed debt recovery costs	26 133	21 803
Indemnities, penalties and fines received	59	46
Side income	5 363	4 704
Reversal of impairment losses on receivables from other debtors	326	289
Lease income	4 600	5 287
Other income*	40 209	18 242
Total	**87 717**	**54 783**

** in 2011, the item comprised the reversal of unused provisions created in 2010 related to incentive programmes amounting to PLN 16,603 thousand.*

16. General and administrative expenses

in PLN '000'	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Staff costs	**430 728**	**406 264**
- remunerations	309 130	279 251
- deductions from salaries and wages	46 339	44 058
- bonuses	66 786	74 193
- other operating expenses	8 473	8 762
General expenses	**450 855**	**393 254**
- costs of buildings lease	86 882	83 569
- IT and telecommunications fees	80 069	74 459
- costs of buildings maintenance and renovations	18 695	18 032
- energy costs	15 072	14 776
- advisory and specialist services costs	22 112	20 327
- postal fees	25 277	29 596
- transportation services	15 505	14 026
- property protection expenses	8 252	8 462
- taxes and fees (including VAT)	112 139	86 628
- promotion and advertising services	41 040	19 024
- purchase of other materials	3 749	3 619
- training expenses	5 436	3 357
- business trips	2 177	1 793
- other	14 450	15 586
Depreciation	**82 403**	**91 504**
- property, plant and equipment	66 542	73 925
- investment properties	205	223
- intangible assets	15 656	17 356
Total	**963 986**	**891 022**

<u>Operating lease rental</u>

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.

Net leasing payments paid by the Bank and recognized in particular reporting periods as general expenses were as follows (net of VAT):

in PLN '000'	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Leasing payments	94 281	89 875

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

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

in PLN '000'	**31.12.2011**	**31.12.2010**
Future gross minimum lease payments (with VAT)		
- not later than 1 year	103 870	90 679
- later than 1 year and not later than 5 years	193 917	270 020
- over 5 years	14 764	10 952
Total	**312 551**	**371 651**

Under operating leasing contracts, the Bank operates two Head Office buildings, which, towards the end of 2004, were sold to companies not related to the Bank and are now leased from them. Sale transactions were executed on market terms. Contracts of lease were also executed on market terms. The contracts do not meet the criteria of financial leasing and, therefore, are classified as operating leasing contracts.

17. Other operating expenses

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Writing-off receivables	2	6
Debt recovery expenses	34 681	40 422
Other impairment – loans and advances to various debtors	791	306
Disposal or liquidation of property, plant and equipment and intangible assets	1 392	2 046
Indemnities, penalties and fines paid	1 110	654
Other expenses	6 363	5 594
Total	**44 339**	**49 028**

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

Recognition of impairment on assets and provisions

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Recognition of impairment losses on assets		
Impairment losses on loans and advances	2 043 369	2 335 348
Impairment on non-current assets held for sale, property, plant and equipment, intangible assets and investment properties	6 581	18 790
Total impairment	**2 049 950**	**2 354 138**
Provision recognized		
Provisions for severance pays	1 287	0
Provisions for employee benefits	300	335
Provisions for liabilities	39 334	5 674
Provisions for off-balance sheet items	261 881	292 518
Total provisions	**302 802**	**298 527**
Total	**2 352 752**	**2 652 665**

Reversal of impairment for assets and provisions

in PLN '000'	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Reversal of impairment losses on assets		
Impairment losses on loans and advances	1 873 157	1 932 820
Impairment on non-current assets held for sale, property, plant and equipment, intangible assets and investment properties	1 068	154
Total impairment	**1 874 225**	**1 932 974**
Reversal of provisions		
Provisions for liabilities	9 913	2 591
Provisions for off-balance sheet items	274 903	252 522
Total provisions	**284 816**	**255 113**
Total	**2 159 041**	**2 188 087**

Net impairment losses on financial assets, other assets and provisions	**-193 711**	**-464 578**

19. Taxation

in PLN '000'	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Profit before tax	**408 520**	**142 969**
Income tax expense at basic tax rate (19%)	**77 619**	**27 164**
Permanent differences:	**20 583**	**4 566**
- dividends received	-772	-1 517
- provisions and impairment losses	11 228	1 492
- thin capitalisation	11 111	5 950
- other permanent differences	-984	-1 359
Actual deductions from (crediting to) net profit	**98 202**	**31 730**
Effective tax rate	**24.04%**	**22.19%**

Income tax expense (credit) in the income statement	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Current income tax	15 810	192 837
Net increase/decrease in deferred income tax	82 392	-161 107
Deductions from net profit	**98 202**	**31 730**

Deferred tax on the valuation of available-for-sale securities, cash flow hedge instruments, charged to revaluation reserve	**31.12.2011**	**31.12.2010**
Debt instruments	9 606	9 117
Cash flow hedge instruments	6 835	4 821
Total	**16 441**	**13 938**

in PLN '000'	31.12.2011		31.12.2010		Impact upon the result/equity for 2011
Deferred tax asset/liability	**Asset**	**Liability**	**Asset**	**Liability**	
Cash and balances with Central Bank	0	-779	0	0	-779
Gross loans and advances to banks	0	-2 027	0	-2 017	-10
Impairment losses on loans and advances to banks	0	0	418	0	-418
Receivables arising from repurchase transactions	0	0	0	-7	7
Financial assets designated upon initial recognition as at fair value through profit or loss	18 837	0	0	-5 561	24 398
Financial assets held for trading (excluding derivatives)	3 919	0	0	-428	4 347
Derivatives	0	-205 614	0	-86 114	-119 500
Gross loans and advances to customers	0	-19 748	0	-16 869	-2 879
Impairment losses on loans and advances to customers	133 978	0	193 057	0	-59 079
Investment securities:	3 137	-18 892	4 739	-18 026	-2 468
- available-for-sale	2 451	-18 892	4 088	-18 026	-2 503
- held-to-maturity	686	0	651	0	35
Property, plant and equipment	12 305	0	7 017	0	5 288
Intangible assets	0	-4 107	0	-4 475	368
Other assets	5 524	0	5 741	0	-217
Total assets	**177 700**	**-251 167**	**210 972**	**-133 497**	**-150 942**

in PLN '000'	**31.12.2011**		**31.12.2010**		**Impact upon the result/equity for 2011**
Deferred tax asset/liability – cont.	**Asset**	**Liability**	**Asset**	**Liability**	
Amounts due to banks	1 685	0	475	0	1 210
Liabilities arising from repurchase transactions	0	0	8	0	-8
Financial liabilities held for trading (excluding derivatives)	0	-58	0	-481	423
Derivatives	195 610	0	218 464	0	-22 854
Amounts due to customers	10 256	0	12 181	0	-1 925
Provisions	25 103	0	12 389	0	12 714
Other liabilities	21 804	0	7 265	0	14 539
Subordinated liabilities	100	0	0	0	100
Total liabilities	**254 558**	**-58**	**250 782**	**-481**	**4 199**
Asset on the current tax loss	**61 848**	**0**	**0**	**0**	**61 848**

Total asset/liability	**494 106**	**-251 225**	**461 754**	**-133 978**	**-84 895**
Asset/liability recognized with the income statement (in the period and in previous periods)	491 655	-232 333	457 666	-115 952	-82 392
Asset/liability recognized with revaluation reserve (in the period and in previous periods)	2 451	-18 892	4 088	-18 026	-2 503

Presented as	**31.12.2011**	**31.12.2010**
Deferred tax asset	242 881	327 776

20. Cash and balances with Central Bank

By types

in PLN '000'	**31.12.2011**	**31.12.2010**
Cash in hand	668 956	625 274
Current account in the Central Bank	70 663	1 318 297
Deposits in the Central Bank	45 007	0
Total	**784 626**	**1 943 571**

21. Gross loans and advances to banks

By types

in PLN '000'	**31.12.2011**	**31.12.2010**
Current accounts	7 601	19 704
Deposits in other banks	149 251	440 391
Loans and advances to banks	61 054	70 760
Purchased debt	10 988	15 762
Other receivables	60 300	20 881
Debt securities classified as loans and receivables	898 818	898 751
Total	**1 188 012**	**1 466 249**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2011**	**31.12.2010**
- up to 1 month	221 502	480 260
- 1-3 months	3 710	2 454
- 3-6 months	10 623	10 081
- 6 months to 1 year	10 194	15 986
- 1-3 years	683 878	34 098
- 3-5 years	5 647	668 620
- 5-10 years	252 458	252 490
- past due	0	2 260
Total	**1 188 012**	**1 466 249**

Classification due to impairment

in PLN '000'	**31.12.2011**	**31.12.2010**
Loans and advances with no evidence for impairment	1 188 012	1 463 989
Loans and advances with evidence for impairment	0	2 260
Total	**1 188 012**	**1 466 249**

22. Impairment losses on loans and advances to banks

in PLN '000'	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Period beginning	2 260	2 260
a) increase	176	1
b) decrease	176	1
- reversal of impairment	176	1
c) utilization	2 260	0
- written off in the period as bad debts	2 260	0
Period end	**0**	**2 260**

23. Receivables arising from repurchase transactions

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2011	31.12.2010
- up to 1 month	0	87 218
Total	**0**	**87 218**

24. Financial assets designated upon initial recognition as at fair value through profit or loss

in PLN '000'	31.12.2011	31.12.2010
Treasury securities	**26 944**	**26 903**
- bonds	26 944	26 903
Other securities	**34 741**	**31 149**
- bonds	34 741	31 149
Equity securities	**18 259**	**40 797**
Total	**79 944**	**98 849**

All investment securities classified upon initial recognition to the portfolio of financial assets at fair value through profit or loss, are measured at fair value on the basis of market quotations, except for SINUSD commercial bonds and equity investments.

The fair value of SINUSD bonds is determined by discounting cash flows from the bonds with USD-BOND curve having regard for the credit spread, as there are no quotations for these bonds on an active market. The bonds are with fixed coupon.

For equity investments, the Bank developed a valuation model based, inter alia, on the data originating from the active market.

in PLN '000'	**31.12.2011**	**31.12.2010**
Listed	**45 203**	**67 700**
- shares	18 259	40 797
- bonds	26 944	26 903
Non-listed	**34 741**	**31 149**
- bonds	34 741	31 149
Total	**79 944**	**98 849**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2011**	**31.12.2010**
- 3-6 months	34 741	0
- 1-3 years	26 944	58 052
- with unspecified maturity dates	18 259	40 797
Total	**79 944**	**98 849**

25. Financial assets held for trading (excluding derivatives)

in PLN '000'	**31.12.2011**	**31.12.2010**
Treasury securities	**60 493**	**1 151 591**
- bonds	49 304	162 650
- bills	11 189	988 941
Central Bank securities	**0**	**449 692**
- bills	0	449 692
Total	**60 493**	**1 601 283**

All securities classified in the portfolio of financial assets held for trading are measured at fair value on the basis of market quotations, except for Treasury Eurobonds, and money bills of the National Bank of Poland.

The Treasury Eurobonds are valued by discounting cash flows from the bonds with EUR-BOND curve (for securities in EUR), having regard for the credit spread.

The money bills of the National Bank of Poland are valued with the application of PLN-SWAP curve, not having regard for the credit spread.

in PLN '000'	**31.12.2011**	**31.12.2010**
Listed	**60 493**	**1 151 591**
- bonds	49 304	162 650
- bills	11 189	988 941
Non-listed	**0**	**449 692**
- bills	0	449 692
Total	**60 493**	**1 601 283**

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2011	31.12.2010
- up to 1 month	12 434	450 510
- 1-3 months	11 439	250 480
- 3-6 months	1 442	345 012
- 6 months to 1 year	14 350	438 950
- 1-3 years	8 852	20 802
- 3-5 years	2 286	4 314
- 5-10 years	6 963	90 016
- 10-20 years	2 727	1 199
Total	**60 493**	**1 601 283**

26. Derivatives

By types

	31.12.2011		31.12.2010	
in PLN '000'	Assets	Liabilities	Assets	Liabilities
Interest rate transactions	**783 209**	**825 085**	**387 869**	**925 995**
Options purchased	330	0	561	0
Options sold	0	330	0	549
IRS	757 953	795 129	373 157	920 077
FRA	24 926	29 626	14 151	5 369
Foreign exchange transactions	**287 880**	**157 156**	**75 290**	**199 194**
FX swap	239 052	118 854	52 667	76 872
CIRS	6 938	19 298	6 088	104 772
Forward	29 087	6 663	6 802	10 642
Options purchased	11 500	0	9 502	0
Options sold	0	11 110	0	6 604
Spot	1 303	1 231	231	304
Embedded instruments	**0**	**675**	**0**	**5 889**
Total	**1 071 089**	**982 916**	**463 159**	**1 131 078**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2011 Assets**	**31.12.2011 Liabilities**	**31.12.2010 Assets**	**31.12.2010 Liabilities**
Interest rate transactions (nominal value)	**76 462 551**	**94 255 522**	**60 721 420**	**59 590 531**
- up to 1 month	2 614 977	3 389 110	5 164 318	3 382 015
- 1-3 months	9 564 914	9 010 500	7 743 851	5 655 000
- 3-6 months	13 137 852	21 733 937	30 258 617	30 581 076
- 6 months to 1 year	22 084 837	29 126 011	10 311 015	11 508 630
- 1-3 years	25 562 138	25 836 646	6 182 969	6 980 986
- 3-5 years	3 304 841	4 664 198	790 000	1 211 084
- 5-10 years	192 992	495 120	270 650	271 740
Foreign exchange transactions (nominal value)	**14 200 231**	**14 064 252**	**6 977 284**	**7 123 654**
- up to 1 month	6 400 252	6 373 843	2 784 696	2 861 667
- 1-3 months	3 108 431	2 985 832	1 537 591	1 569 532
- 3-6 months	2 249 299	2 256 243	1 090 342	1 093 911
- 6 months to 1 year	2 317 601	2 330 146	1 399 741	1 434 245
- 1-3 years	124 648	118 188	148 954	149 098
- 3-5 years	0	0	15 960	15 201
Total nominal value *	**90 662 782**	**108 319 774**	**67 698 704**	**66 714 185**

** net of embedded derivatives; the item 'Liabilities related to the sale/purchase transactions' in Note 45 also comprises current currency exchange transactions and transactions on securities*

27. Financial assets subject to hedge accounting

As at 31.12.2011 and 31.12.2010, the Bank applied loans-related cash flow hedge, the aim of which is to change floating interest rate cash flows generated by the loans portfolio to cash flows based on a fixed interest rate to match the structure of the interest rate risk for assets and liabilities based on a fixed interest rate. The hedge involves swap transactions in which the Bank, on the whole, pays cash flows based on a variable WIBOR 3M and EURIBOR 3M interest rate matched to the interest rate of the loans portfolio and receives interest flows at a fixed interest rate with required maturity. The above structure makes it possible to change the floating interest rate into the fixed interest rate without the necessity for employing additional liquid cash for the purchase of new assets (e.g. fixed coupon bonds), at the same time ensuring a stable impact on the result by recognizing changes in fair value of swaps in the Bank's equity.

As at 31.12.2010, the Bank applied cash flow hedge accounting for asset swaps. The transactions involve hedging cash flows from floating interest rate bonds, as a result of which the Bank receives fixed and pays floating interest flows.

As at 31.12.2011 and 31.12.2010, the Bank did not apply hedge accounting to hedge fair value of financial assets.

The rules of recognizing and measuring the effectiveness of the hedges for transactions subject to hedge accounting are described in Note 3.5.6 of these financial statements.

Balance sheet as at 31.12.2011

Financial assets subject to cash flow hedge accounting

- loans portfolio

Hedged assets – mortgage loans of PLN 3,173,336 thousand

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in the income statement*
		Coupon received	Coupon paid	Coupon received	Coupon paid		
100 000	09.07.2012	fixed 5.70%	WIB 3M	annually	every quarter	1 924	0
100 000	13.08.2012	fixed 5.62%	WIB 3M	annually	every quarter	1 796	0
50 000	13.08.2012	fixed 5.62%	WIB 3M	annually	every quarter	898	0
150 000	09.11.2012	fixed 5.75%	WIB 3M	annually	every quarter	1 132	0
30 000	17.12.2014	fixed 5.90%	WIB 3M	annually	every quarter	1 004	25
75 000	10.01.2013	fixed 5.94%	WIB 3M	annually	every quarter	4 300	15
85 000	08.02.2013	fixed 5.63%	WIB 3M	annually	every quarter	4 334	0
85 000	20.02.2015	fixed 5.85%	WIB 3M	annually	every quarter	6 650	0
100 000	04.03.2013	fixed 6.01%	WIB 3M	annually	every quarter	5 874	0
70 000	05.03.2015	fixed 5.90%	WIB 3M	annually	every quarter	5 596	0
50 000	15.04.2013	fixed 5.92%	WIB 3M	annually	every quarter	2 265	0
50 000	17.04.2013	fixed 5.85%	WIB 3M	annually	every quarter	2 177	22
50 000	17.04.2012	fixed 5.92%	WIB 3M	annually	every quarter	1 706	28
30 000	08.05.2012	fixed 5.94%	WIB 3M	annually	every quarter	1 018	0
75 000	16.05.2013	fixed 6.01%	WIB 3M	annually	every quarter	3 499	0
60 000	02.10.2013	fixed 5.54%	WIB 3M	annually	every quarter	867	0
60 000	23.12.2013	fixed 4.30%	WIB 3M	annually	every quarter	-476	-328
75 000	08.10.2012	fixed 5.13%	WIB 3M	annually	every quarter	135	0
50 000	05.11.2012	fixed 5.31%	WIB 3M	annually	every quarter	163	0
50 000	05.11.2012	fixed 5.30%	WIB 3M	annually	every quarter	160	0
50 000	10.02.2014	fixed 5.35%	WIB 3M	annually	every quarter	2 661	0
100 000	10.03.2014	fixed 5.41%	WIB 3M	annually	every quarter	5 522	0
75 000	02.03.2016	fixed 5.61%	WIB 3M	annually	every quarter	5 659	87
75 000	04.04.2016	fixed 5.60%	WIB 3M	annually	every quarter	4 723	0
120 000	04.05.2016	fixed 5.60%	WIB 3M	annually	every quarter	7 508	0
100 000	13.05.2013	fixed 5.10%	WIB 3M	annually	every quarter	2 945	0
120 000	02.06.2016	fixed 5.43%	WIB 3M	annually	every quarter	6 544	0
25 000	03.06.2019	fixed 5.50%	WIB 3M	annually	every quarter	1 650	0
150 000	04.07.2016	fixed 5.24%	WIB 3M	annually	every quarter	5 068	0
25 000	05.08.2019	fixed 5.27%	WIB 3M	annually	every quarter	950	0
100 000	03.08.2016	fixed 5.16%	WIB 3M	annually	every quarter	3 003	0
88 336	12.08.2016	fixed 1.99%	EURIB 3M	annually	every quarter	2 523	145
50 000	02.09.2019	fixed 4.65%	WIB 3M	annually	every quarter	-171	-318
120 000	02.09.2016	fixed 4.53%	WIB 3M	annually	every quarter	216	-357
25 000	04.10.2019	fixed 4.91%	WIB 3M	annually	every quarter	47	0
120 000	04.10.2016	fixed 4.78%	WIB 3M	annually	every quarter	120	0
25 000	04.11.2019	fixed 4.83%	WIB 3M	annually	every quarter	-93	-91
120 000	03.11.2016	fixed 4.70%	WIB 3M	annually	every quarter	-339	-366
120 000	02.12.2016	fixed 4.91%	WIB 3M	annually	every quarter	756	0
25 000	02.12.2019	fixed 5.01%	WIB 3M	annually	every quarter	199	0
120 000	03.01.2017	fixed 4.68%	WIB 3M	annually	every quarter	-446	0
25 000	03.01.2020	fixed 4.80%	WIB 3M	annually	every quarter	-144	0
					Total	**93 923**	**-1 138**

** excluding interest presented in net interest income*

Balance sheet as at 31.12.2010

Financial assets subject to cash flow hedge accounting

- <u>bonds</u>

Hedged assets – available-for-sale bonds

Bond nominal value	Maturity date	Interest rate	Coupon rate payment
80 000	25.01.2018	variable 3.99% (31.12.2010)	every 6 months

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in the income statement*
		Coupon received	Coupon paid	Coupon received	Coupon paid		
80 000	29.08.2011	fixed 5.66%	WIB 6M	annually	every 6 months	1 123	0
					Total	**1 123**	**0**

** excluding interest presented in net interest income*

- loans portfolio

Hedged assets – mortgage loans of PLN 1,935,000 thousand

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in the income statement*
		Coupon received	Coupon paid	Coupon received	Coupon paid		
100 000	09.07.2012	fixed 5.70%	WIB 3M	annually	every quarter	3 417	0
100 000	13.08.2012	fixed 5.62%	WIB 3M	annually	every quarter	3 124	0
50 000	13.08.2012	fixed 5.62%	WIB 3M	annually	every quarter	1 562	0
120 000	12.09.2011	fixed 5.65%	WIB 3M	annually	every quarter	2 913	0
20 000	12.09.2011	fixed 5.65%	WIB 3M	annually	every quarter	485	0
150 000	09.11.2012	fixed 5.75%	WIB 3M	annually	every quarter	3 046	0
30 000	17.12.2014	fixed 5.90%	WIB 3M	annually	every quarter	696	82
75 000	10.01.2013	fixed 5.94%	WIB 3M	annually	every quarter	5 312	142
100 000	07.02.2011	fixed 5.73%	WIB 3M	annually	every quarter	4 740	17
85 000	08.02.2013	fixed 5.63%	WIB 3M	annually	every quarter	5 153	0
85 000	20.02.2015	fixed 5.85%	WIB 3M	annually	every quarter	5 639	82
100 000	04.03.2013	fixed 6.01%	WIB 3M	annually	every quarter	7 078	87
70 000	05.03.2015	fixed 5.90%	WIB 3M	annually	every quarter	4 776	0
50 000	15.04.2013	fixed 5.92%	WIB 3M	annually	every quarter	2 814	85
50 000	17.04.2013	fixed 5.85%	WIB 3M	annually	every quarter	2 700	110
50 000	17.04.2012	fixed 5.92%	WIB 3M	annually	every quarter	2 536	93
30 000	08.05.2012	fixed 5.94%	WIB 3M	annually	every quarter	1 511	18
75 000	16.05.2013	fixed 6.01%	WIB 3M	annually	every quarter	4 295	155
60 000	02.10.2013	fixed 5.54%	WIB 3M	annually	every quarter	1 041	33
60 000	23.12.2013	fixed 4.30%	WIB 3M	annually	every quarter	-1 274	-328
75 000	08.10.2012	fixed 5.13%	WIB 3M	annually	every quarter	734	0
75 000	14.10.2011	fixed 4.90%	WIB 3M	annually	every quarter	489	0
50 000	05.11.2012	fixed 5.31%	WIB 3M	annually	every quarter	601	0
50 000	05.11.2012	fixed 5.30%	WIB 3M	annually	every quarter	596	0
75 000	07.11.2011	fixed 4.95%	WIB 3M	annually	every quarter	472	0
50 000	10.02.2014	fixed 5.35%	WIB 3M	annually	every quarter	2 465	0
100 000	10.03.2014	fixed 5.41%	WIB 3M	annually	every quarter	5 022	0
					Total	**71 943**	**576**

** excluding interest presented in net interest income*

In the case of cash flow hedge, the amount recognized in equity in 2011 was PLN 35,976 thousand, and the amount derecognized from equity and recognized in the income statement (the ineffective part) amounted to -PLN 1,138 thousand. In 2010, the amount recognized in equity was PLN 25,378 thousand, and the amount derecognized from equity and recognized in the income statement (the ineffective part) amounted to PLN 576 thousand.

Summary of valuations of hedging derivatives

in PLN '000'	**31.12.2011**	**31.12.2010**
Total positive valuations (with interest)	95 592	74 340
Total negative valuations (with interest)	-1 669	-1 274
Total	**93 923**	**73 066**

28. Gross loans and advances to customers

By types

in PLN '000'	**31.12.2011**	**31.12.2010**
Loans and advances	29 743 920	28 652 245
Purchased debt	251 080	131 535
Realised guarantees	37 592	2 665
Other receivables	56 837	47 559
Debt securities classified as loans and receivables	120 565	67 532
Total	**30 209 994**	**28 901 536**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2011**	**31.12.2010**
- up to 1 month	730 255	667 444
- 1-3 months	1 019 108	921 420
- 3-6 months	1 149 013	1 011 620
- 6 months to 1 year	3 107 661	2 765 354
- 1-3 years	4 098 899	3 866 771
- 3-5 years	2 495 955	2 649 944
- 5-10 years	4 251 841	3 926 722
- 10-20 years	6 846 200	6 152 841
- over 20 years	3 940 668	3 686 473
- past due	2 570 394	3 252 947
Total	**30 209 994**	**28 901 536**

Receivables by classes

in PLN '000'	31.12.2011	31.12.2010
Natural persons*	**23 117 855**	**22 203 956**
- overdraft facilities	1 004 576	860 214
- term loans**	810 165	794 181
- cash loans, installment loans and cards	2 843 264	3 864 194
- mortgage housing loans	17 984 863	16 183 199
- other mortgage loans***	421 838	455 886
- purchased debt	14 421	12 841
- realised guarantees	1 472	1 340
- other receivables	37 256	32 101
Corporate customers and SME	**6 891 980**	**6 509 951**
- overdraft facilities	2 019 967	1 624 480
- term loans**	4 547 504	4 702 698
- purchased debt	216 696	118 694
- realised guarantees	36 120	1 325
- other receivables	19 581	15 458
- debt securities classified as loans and receivables	52 112	47 296
Budgetary sector	**200 159**	**187 629**
- overdraft facilities	4 787	2 735
- term loans**	106 956	164 658
- purchased debt	19 963	0
- debt securities classified as loans and receivables	68 453	20 236
Total	**30 209 994**	**28 901 536**

** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
*** contains mainly investment loans and working capital loans*
**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

Receivables in breakdown by classes and by impaired and non-impaired receivables as at 31.12.2011

in PLN '000'	Gross receivables	Impaired gross receivables	Impairment losses for receivables with evidence for impairment	Non-impaired gross receivables by days of delay in payment: no delay	up to 30 days*	31 - 60 days*	61 - 90 days*	over 90 days*	Non-impaired gross receivables	Impairment losses IBNR
Natural persons**	**23 117 855**	**1 529 253**	**856 604**	**20 027 578**	**1 330 766**	**179 625**	**50 298**	**335**	**21 588 602**	**98 055**
- overdraft facilities	1 004 576	159 967	121 158	703 533	127 000	9 272	4 483	321	844 609	10 333
- term loans***	810 165	114 635	77 842	651 705	38 208	5 324	287	6	695 530	1 308
- cash loans, installment loans and cards	2 843 264	350 984	298 835	2 288 690	155 649	31 151	16 787	3	2 492 280	41 950
- mortgage housing loans	17 984 863	835 694	317 036	16 020 562	973 904	127 507	27 191	5	17 149 169	44 051
- other mortgage loans****	421 838	55 104	30 834	322 943	35 870	6 371	1 550	0	366 734	387
- purchased debt	14 421	2 242	2 242	12 044	135	0	0	0	12 179	26
- realised guarantees	1 472	1 472	918	0	0	0	0	0	0	0
- other receivables	37 256	9 155	7 739	28 101	0	0	0	0	28 101	0
Corporate customers and SME	**6 891 980**	**1 081 062**	**405 333**	**5 630 072**	**176 787**	**2 880**	**936**	**243**	**5 810 918**	**9 561**
- overdraft facilities	2 019 967	158 514	88 257	1 772 914	86 372	988	936	243	1 861 453	7 693
- term loans***	4 547 504	857 524	301 918	3 597 926	90 162	1 892	0	0	3 689 980	1 791
- purchased debt	216 696	9 507	6 297	206 936	253	0	0	0	207 189	77
- realised guarantees	36 120	36 120	1 119	0	0	0	0	0	0	0
- other receivables	19 581	19 397	7 742	184	0	0	0	0	184	0
- debt securities classified as loans and receivables	52 112	0	0	52 112	0	0	0	0	52 112	0
Budgetary sector	**200 159**	**1**	**0**	**199 751**	**407**	**0**	**0**	**0**	**200 158**	**72**
- overdraft facilities	4 787	0	0	4 380	407	0	0	0	4 787	45
- term loans***	106 956	0	0	106 956	0	0	0	0	106 956	25
- purchased debt	19 963	1	0	19 962	0	0	0	0	19 962	2
- debt securities classified as loans and receivables	68 453	0	0	68 453	0	0	0	0	68 453	0
Total	**30 209 994**	**2 610 316**	**1 261 937**	**25 857 401**	**1 507 960**	**182 505**	**51 234**	**578**	**27 599 678**	**107 688**

**in the case of a delay in payment of at least one installment, the total debt is presented as delayed*
*** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.*
****contains mainly investment loans and working capital loans*
***** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

Receivables in breakdown by classes and by impaired and non-impaired receivables as at 31.12.2010

in PLN '000'	**Gross receivables**	**Impaired gross receivables**	**Impairment losses for receivables with evidence for impairment**	**Non-impaired gross receivables by days of delay in payment**						**Impairment losses IBNR**
				no delay	**up to 30 days***	**31 - 60 days***	**61 - 90 days***	**over 90 days***	**Non-impaired gross receivables**	
Natural persons**	**22 203 956**	**1 947 548**	**1 356 133**	**18 829 002**	**1 200 301**	**182 325**	**44 534**	**246**	**20 256 408**	**102 832**
- overdraft facilities	860 214	129 768	95 700	576 439	142 947	7 822	3 066	172	730 446	8 262
- term loans***	794 181	79 721	60 872	653 482	58 877	2 045	56	0	714 460	1 023
- cash loans, installment loans and cards	3 864 194	1 107 274	969 693	2 496 425	181 507	51 485	27 432	71	2 756 920	58 351
- mortgage housing loans	16 183 199	573 804	189 657	14 696 253	787 474	113 046	12 619	3	15 609 395	34 855
- other mortgage loans****	455 886	44 687	28 352	372 550	29 361	7 927	1 361	0	411 199	334
- purchased debt	12 841	1 890	1 890	10 816	135	0	0	0	10 951	7
- realised guarantees	1 340	1 340	917	0	0	0	0	0	0	0
- other receivables	32 101	9 064	9 052	23 037	0	0	0	0	23 037	0
Corporate customers and SME	**6 509 951**	**966 240**	**401 316**	**5 433 391**	**103 414**	**6 777**	**128**	**1**	**5 543 711**	**15 434**
- overdraft facilities	1 624 480	241 940	127 855	1 328 085	52 256	2 070	128	1	1 382 540	5 902
- term loans***	4 702 698	710 704	261 269	3 958 786	28 501	4 707	0	0	3 991 994	9 481
- purchased debt	118 694	7 243	6 042	88 794	22 657	0	0	0	111 451	50
- realised guarantees	1 325	1 325	1 122	0	0	0	0	0	0	0
- other receivables	15 458	5 028	5 028	10 430	0	0	0	0	10 430	1
- debt securities classified as loans and receivables	47 296	0	0	47 296	0	0	0	0	47 296	0
Budgetary sector	**187 629**	**1**	**1**	**183 985**	**3 643**	**0**	**0**	**0**	**187 628**	**43**
- overdraft facilities	2 735	1	1	2 734	0	0	0	0	2 734	3
- term loans***	164 658	0	0	161 015	3 643	0	0	0	164 658	40
- purchased debt	0	0	0	0	0	0	0	0	0	0
- debt securities classified as loans and receivables	20 236	0	0	20 236	0	0	0	0	20 236	0
Total	**28 901 536**	**2 913 789**	**1 757 450**	**24 446 378**	**1 307 358**	**189 102**	**44 662**	**247**	**25 987 747**	**118 309**

** in the case of a delay in payment of at least one installment, the total debt is presented as delayed*

*** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.*

****contains mainly investment loans and working capital loans*

***** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

The amount of non-amortized loan commissions settled with the effective interest rate method, which, according to the concept of the measurement of financial assets at amortized cost, decreases the value of gross receivables, amounted to PLN 70,735 thousand as at 31.12.2011, PLN 78,078 thousand as at 31.12.2010. The amounts have already been recognized in total gross loans and advances.

Receivables quality ratio

in PLN '000'	**31.12.2011**	**31.12.2010**
Loans and advances with no evidence for impairment, including interest	27 599 678	25 987 747
Loans and advances with evidence for impairment, including interest	2 610 316	2 913 789
including: loans and advances for which no impairment losses were established	37 103	17 263
Total gross loan and advances to customers	**30 209 994**	**28 901 536**
Impairment losses on loans and advances to customers	1 369 625	1 875 759
including: impairment losses on loans and advances with evidence for impairment	1 261 937	1 757 450
Total net loans and advances to customers	**28 840 369**	**27 025 777**
The share of loans and advances with evidence for impairment in total gross loans and advances	8.6%	10.1%
Coverage of loans and advances with evidence for impairment with impairment losses	48.3%	60.3%
Coverage of gross loans and advances to customers with corresponding impairment losses	4.5%	6.5%

The quality ratio for the portfolio of the Bank's gross loans and advances understood as 'The share of loans and advances with evidence for impairment in total gross loans and advances' as at 31.12.2011 amounted to 8.6% and, as compared to the balance as at 31.12.2010, it deteriorated by 1.5 p.p.

As at 31.12.2011, the coverage of loans and advances with evidence for impairment with impairment losses was at the level of 48.3% and deteriorated by 12.0 p.p. as compared to the balance as at 31.12.2010.

The quality ratios for loans and advances presented in the table above, changed significantly, as compared to the end of 2010, due to the sale of the portfolio of retail debts between the Bank and BEST III Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ('Best III NSFIZ'), represented by BEST Towarzystwo Funduszy Inwestycyjnych S.A., made under the agreement of 26.04.2011.

The agreement was related to a retail debts portfolio of Kredyt Bank S.A. ('Portfolio'), which comprised 423,849 receivables with the total nominal value as of 31.03.2011 equal to PLN 1,169.7 million. The net carrying amount of the Portfolio in the books of Kredyt Bank S.A. as at 31.03.2011, having regard for the reversal of impairment losses, amounted to PLN 137.2 million.

The final price for the Portfolio was decreased by the sum of all the inflows received by Kredyt Bank S.A. due to the partial or total repayment of the debts included in the Portfolio in the period from 01.04.2011 until the day preceding the day of the ownership transfer.

The positive impact of the transaction upon the net result of Kredyt Bank S.A. for 2011 amounted to PLN 62,722 thousand. The impact of the above transaction upon particular categories of the income statement of the Bank for 2011 is presented in the table below.

in PLN '000'	
Net interest income	-4 313
Net impairment losses on financial assets, other assets and provisions	84 964
Profit before tax	80 651
Income tax expense	-17 929
Net profit	**62 722**

The sold debts and the corresponding impairment losses were derecognized from the Bank's balance sheet on the date of signing the agreement, as, on this day, pursuant to IAS 39, all the substantial risks and rewards related to these assets were transferred unto the buyer.

Receivables assessed individually

in PLN '000'	**31.12.2011**	**31.12.2010**
Gross receivables	1 100 453	905 007
Impairment losses	409 364	361 224
Net receivables	691 089	543 783

Accepted loan collateral

In the case of receivables assessed individually, the total fair value of collateral approved by the Bank considered in estimated future cash flows is presented in the table below.

in PLN '000'	**31.12.2011**	**31.12.2010**
Value of accepted collateral for loans and advances assessed individually	499 995	401 823

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

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

From the point of view of the Bank's loans portfolio, mortgages that significantly reduce the credit risk are the most important collateral. The Bank constantly monitors the value of approved mortgage collateral, e.g. by analyzing LtV *(Loan -to- Value)* ratios. As at 31.12.2011, the fair value of approved mortgage collateral for housing purposes mortgages and other mortgage loans, which affects the assessment of the credit risk, amounted to PLN 15,149 million.

29. Impairment losses on loans and advances to customers

in PLN '000'	**Impairment 31.12.2010**	**Recognized**	**Reversed**	**Written off**	**Other changes**	**Impairment 31.12.2011**
Natural persons*	**1 458 965**	**1 594 980**	**-1 421 993**	**-25 334**	**-651 959**	**954 659**
- overdraft facilities	103 962	173 739	-142 674	-3 733	197	131 491
- term loans **	61 895	37 079	-20 609	-3 779	4 564	79 150
- cash loans, installment loans and cards	1 028 044	857 478	-867 804	-14 317	-662 616	340 785
- mortgage housing loans	224 512	500 688	-367 291	-2 158	5 336	361 087
- other mortgage loans***	28 686	24 468	-21 321	-678	66	31 221
- purchased debt	1 897	607	-236	0	0	2 268
- realised guarantees	917	116	-115	0	0	918
- other receivables	9 052	805	-1 943	-669	494	7 739
Corporate customers and SME	**416 750**	**447 926**	**-450 729**	**-26 029**	**26 976**	**414 894**
- overdraft facilities	133 757	129 606	-150 182	-16 753	-478	95 950
- term loans **	270 750	306 067	-266 540	-8 296	1 728	303 709
- purchased debt	6 092	5 764	-4 902	-980	400	6 374
- realised guarantees	1 122	201	-25 530	0	25 326	1 119
- other receivables	5 029	6 288	-3 575	0	0	7 742
Budgetary sector	**44**	**287**	**-259**	**0**	**0**	**72**
- overdraft facilities	4	231	-190	0	0	45
- term loans **	40	48	-63	0	0	25
- purchased debt	0	8	-6	0	0	2
Total	**1 875 759**	**2 043 193**	**-1 872 981**	**-51 363**	**-624 983**	**1 369 625**

** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
***contains mainly investment loans and working capital loans*
**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

The amount in 'Other changes' column for cash loans, installment loans and cards refers mainly to the sale of debts described in Note 28.

in PLN '000'	**Impairment 31.12.2009**	**Recognized**	**Reversed**	**Written off**	**Other changes**	**Impairment 31.12.2010**
Natural persons*	**1 088 316**	**1 825 323**	**-1 433 186**	**-22 997**	**1 509**	**1 458 965**
- overdraft facilities	104 109	142 371	-127 741	-13 477	-1 300	103 962
- term loans **	67 275	16 118	-18 734	-2 580	-184	61 895
- cash loans, installment loans and cards	802 924	1 152 317	-920 674	-6 475	-48	1 028 044
- mortgage housing loans	85 431	485 353	-348 839	-447	3 014	224 512
- other mortgage loans***	23 365	21 142	-15 831	-18	28	28 686
- purchased debt	1 914	315	-331	0	-1	1 897
- realised guarantees	914	298	-295	0	0	917
- other receivables	2 384	7 409	-741	0	0	9 052
Corporate customers and SME	**451 793**	**509 690**	**-499 221**	**-45 543**	**31**	**416 750**
- overdraft facilities	101 443	209 648	-175 682	-3 315	1 663	133 757
- term loans **	334 253	265 781	-291 476	-36 445	-1 363	270 750
- purchased debt	3 502	28 982	-25 657	-716	-19	6 092
- realised guarantees	4 019	1 887	-4 534	0	-250	1 122
- other receivables	8 576	3 392	-1 872	-5 067	0	5 029
Budgetary sector	**122**	**334**	**-412**	**0**	**0**	**44**
- overdraft facilities	1	246	-243	0	0	4
- term loans **	121	88	-169	0	0	40
Total	**1 540 231**	**2 335 347**	**-1 932 819**	**-68 540**	**1 540**	**1 875 759**

** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
***contains mainly investment loans and working capital loans*
**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

IBNR

Impairment losses on incurred but not reported *(IBNR)* credit losses for homogenous balance sheet and off-balance sheet receivables portfolios as at 31.12.2011 amounted to PLN 110,695 thousand, including PLN 3,007 thousand related to off-balance sheet liabilities; and as at 31.12.2010, amounted to PLN 124,716 thousand, including PLN 6,407 thousand related to off-balance sheet liabilities.

30. Investment securities

in PLN '000'	31.12.2011	31.12.2010
Available-for-sale securities	**5 259 345**	**6 216 768**
Treasury securities	4 849 562	5 608 099
- bonds	4 849 562	5 608 099
Central Bank securities	99 953	299 765
- bills	99 953	299 765
Other securities	307 126	307 674
- bonds	307 126	307 674
Equity securities	2 704	1 230
Held-to-maturity securities	**3 416 674**	**3 247 779**
Treasury securities	3 416 674	3 247 779
- bonds	3 416 674	3 247 779
Total	**8 676 019**	**9 464 547**

All investment securities classified in the portfolio of available-for-sale financial assets are measured at fair value on the basis of market quotations, except for SINPLN commercial bonds, Treasury Eurobonds, money bills of the National Bank of Poland and non-listed equity investments.

The fair value of SINPLN bonds is determined by discounting cash flows from the bonds with PLN-BOND curve having regard for the credit spread. The bonds are with fixed coupon.

The Treasury Eurobonds are valued by discounting cash flows from the bonds with EUR-BOND curve (for securities in EUR), having regard for the credit spread.

The money bills of the National Bank of Poland are valued with the application of PLN-SWAP curve, not having regard for the credit spread.

in PLN '000'	31.12.2011	31.12.2010
Available-for-sale securities	**5 259 345**	**6 216 768**
Listed	**4 849 562**	**5 608 099**
- bonds	4 849 562	5 608 099
Non-listed	**409 783**	**608 669**
- shares	2 704	1 230
- bonds	307 126	307 674
- bills	99 953	299 765
Held-to-maturity securities	**3 416 674**	**3 247 779**
Listed	**3 416 674**	**3 247 779**
- bonds	3 416 674	3 247 779
Total	**8 676 019**	**9 464 547**

Maturities of available-for-sale investment securities

in PLN '000'	**31.12.2011**	**31.12.2010**
- up to 1 month	99 953	299 764
- 1-3 months	83 439	33 379
- 3-6 months	384 609	580 507
- 6 months to 1 year	168 489	192 150
- 1-3 years	1 609 647	1 623 773
- 3-5 years	1 713 662	2 297 947
- 5-10 years	1 196 842	1 188 018
- with unspecified maturity dates	2 704	1 230
Total	**5 259 345**	**6 216 768**

Maturities of held-to-maturity investment securities

in PLN '000'	**31.12.2011**	**31.12.2010**
- up to 1 month	109 657	0
- 1-3 months	0	20 796
- 3-6 months	0	425 050
- 6 months to 1 year	741 928	0
- 1-3 years	980 536	1 195 114
- 3-5 years	1 076 220	1 225 146
- 5-10 years	508 333	381 673
Total	**3 416 674**	**3 247 779**

31. Investments in subsidiaries and jointly controlled entities

in PLN '000'	**31.12.2011**	**31.12.2010**
In financial sector companies	2 629	2 629
In non-financial sector companies	61 997	61 997
Total	**64 626**	**64 626**

32. Property, plant and equipment

in PLN '000'	**31.12.2011**	**31.12.2010**
Property, plant and equipment:	231 502	271 411
- land	22 046	22 125
- buildings and premises	121 749	122 461
- plant and machinery	50 644	76 818
- motor vehicles	1 294	0
- other property, plant and equipment	35 769	50 007
Expenditure on property, plant and equipment	30 107	20 511
Total	**261 609**	**291 922**

Movement on property, plant and equipment

For the period of 12 months ended 31.12.2011

in PLN '000'	Land	Buildings and premises	Plant and machinery	Motor vehicles	Other property, plant and equipment	Expenditure on property, plant and equipment	Total
a) gross property, plant and equipment as at 01.01.2011	22 312	207 141	405 346	537	177 955	20 511	833 802
b) increase	0	6 054	15 684	1 394	5 727	30 592	59 451
- purchase	0	500	2 170	1 394	4 060	15 924	24 048
- other increases*	0	5 554	13 514	0	1 667	14 668	35 403
c) decrease	79	4 091	28 221	348	10 921	20 791	64 451
- sale	29	446	1 662	348	125	0	2 610
- liquidation	0	734	21 419	0	3 285	0	25 438
- other decreases**	50	2 911	5 140	0	7 511	20 791	36 403
d) gross property, plant and equipment as at 31.12.2011	22 233	209 104	392 809	1 583	172 761	30 312	828 802
e) accumulated depreciation as at 01.01.2011	187	51 813	326 789	382	127 239	0	506 410
f) changes in depreciation	0	3 005	14 960	-96	9 210	0	27 079
- depreciation	0	4 424	42 663	99	19 356	0	66 542
- sale	0	-65	-1 555	-195	-17	0	-1 832
- liquidation	0	-404	-21 043	0	-2 979	0	-24 426
- other changes	0	-950	-5 105	0	-7 150	0	-13 205
g) accumulated depreciation as at 31.12.2011	187	54 818	341 749	286	136 449	0	533 489
h) impairment as at 01.01.2011	0	32 867	1 739	155	709	0	35 470
- increases	0	0	1	0	0	1 205	1 206
- decreases	0	330	1 324	152	166	1 000	2 972
i) impairment as at 31.12.2011	0	32 537	416	3	543	205	33 704
j) net property, plant and equipment as at 01.01.2011	22 125	122 461	76 818	0	50 007	20 511	291 922
Net property, plant and equipment as at 31.12.2011	**22 046**	**121 749**	**50 644**	**1 294**	**35 769**	**30 107**	**261 609**

**other increases (except for expenditure on property, plant and equipment) are related mainly to the acceptance for use of property, plant and equipment previously presented in 'Expenditure on property, plant and equipment' line*

*** other decreases in 'Expenditure on property, plant and equipment'line are related mainly to the transfer of property, plant and equipment for use*

For the period of 12 months ended 31.12.2010

in PLN '000'	Land	Buildings and premises	Plant and machinery	Motor vehicles	Other property, plant and equipment	Expenditure on property, plant and equipment	Total
a) gross property, plant and equipment as at 01.01.2010	22 895	218 711	427 274	628	182 055	29 509	881 072
b) increase	0	89	36 142	0	6 554	33 210	75 995
- purchase	0	0	4 312	0	755	33 202	38 269
- other increases*	0	89	31 830	0	5 799	8	37 726
c) decrease	583	11 659	58 070	91	10 654	42 208	123 265
- sale	1	4 460	336	58	281	0	5 136
- liquidation	0	0	48 609	0	7 527	0	56 136
- other decreases**	582	7 199	9 125	33	2 846	42 208	61 993
d) gross property, plant and equipment as at 31.12.2010	22 312	207 141	405 346	537	177 955	20 511	833 802
e) accumulated depreciation as at 01.01.2010	190	50 934	337 768	432	114 289	0	503 613
f) changes in depreciation	-3	879	-10 979	-50	12 950	0	2 797
- depreciation	0	4 992	46 629	19	22 285	0	73 925
- sale	0	-1 297	-328	-35	-260	0	-1 920
- liquidation	0	0	-48 201	0	-6 339	0	-54 540
- other changes	-3	-2 816	-9 079	-34	-2 736	0	-14 668
g) accumulated depreciation as at 31.12.2010	187	51 813	326 789	382	127 239	0	506 410
h) impairment as at 01.01.2010	0	15 709	672	155	685	0	17 221
- increases	0	17 158	1 307	0	24	0	18 489
- decreases	0	0	240	0	0	0	240
i) impairment as at 31.12.2010	0	32 867	1 739	155	709	0	35 470
j) net property, plant and equipment as at 01.01.2010	22 705	152 068	88 834	41	67 081	29 509	360 238
Net property, plant and equipment as at 31.12.2010	**22 125**	**122 461**	**76 818**	**0**	**50 007**	**20 511**	**291 922**

**other increases (except for expenditure on property, plant and equipment) are related mainly to the acceptance for use of property, plant and equipment previously presented in 'Expenditure on property, plant and equipment' line*

*** other decreases are related mainly to the transfer to assets held for sale, the termination of lease agreements and, in 'Expenditure on property, plant and equipment' line, the transfer of property, plant and equipment for use*

33. Intangible assets

in PLN '000'	**31.12.2011**	**31.12.2010**
Internally developed computer software	0	11
Acquired computer	26 152	37 471
Other intangible assets, including capital expenditure	34 320	14 345
Total	**60 472**	**51 827**

Movement on intangible assets

For the period of 12 months ended 31.12.2011

in PLN '000'	**Internally developed computer software**	**Acquired computer**	**Other intangible assets, including capital expenditure**	**Total intangible assets**
a) gross intangible assets as at 01.01.2011	42	296 048	16 973	313 063
b) increase	0	6 456	31 119	37 575
- purchase	0	1 443	30 460	31 903
- other increases*	0	5 013	659	5 672
c) decrease	42	1 758	5 598	7 398
- sale	42	0	0	42
- liquidation	0	1 100	22	1 122
- other decreases**	0	658	5 576	6 234
d) gross intangible assets as at 31.12.2011	0	300 746	42 494	343 240
e) accumulated amortization as at 01.01.2011	31	254 422	116	254 569
f) amortization in the period	-31	14 963	20	14 952
- amortization	1	15 637	18	15 656
- sale	-32	0	0	-32
- liquidation	0	-649	-23	-672
- other changes	0	-25	25	0
g) accumulated amortization as at 31.12.2011	0	269 385	136	269 521
h) impairment as at 01.01.2011	0	4 155	2 512	6 667
- increases	0	1 356	5 526	6 882
- decreases	0	302	0	302
i) impairment as at 31.12.2011	0	5 209	8 038	13 247
j) net intangible assets as at 01.01.2011	11	37 471	14 345	51 827
Net intangible assets as at 31.12.2011	**0**	**26 152**	**34 320**	**60 472**

** other increases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure*
*** other decreases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure*

For the period of 12 months ended 31.12.2010

in PLN '000'	**Internally developed computer software**	**Acquired computer**	**Other intangible assets, including capital expenditure**	**Total intangible assets**
a) gross intangible assets as at 01.01.2010	42	300 206	24 095	324 343
b) increase	0	12 289	14 563	26 852
- purchase	0	966	11 902	12 868
- other increases*	0	11 323	2 661	13 984
c) decrease	0	16 447	21 685	38 132
- sale	0	0	0	0
- liquidation	0	14 696	5 716	20 412
- other decreases**	0	1 751	15 969	17 720
d) gross intangible assets as at 31.12.2010	42	296 048	16 973	313 063
e) accumulated amortization as at 01.01.2010	0	252 444	6 348	258 792
f) amortization in the period	31	1 978	-6 232	-4 223
- amortization	8	17 327	21	17 356
- sale	0	0	0	0
- liquidation	0	-14 264	-5 714	-19 978
- other changes	23	-1 085	-539	-1 601
g) accumulated amortization as at 31.12.2010	31	254 422	116	254 569
h) impairment as at 01.01.2010	0	4 375	7 623	11 998
- increases	0	302	0	302
- decreases	0	522	5 111	5 633
i) impairment as at 31.12.2010	0	4 155	2 512	6 667
j) net intangible assets as at 01.01.2010	42	43 387	10 124	53 553
Net intangible assets as at 31.12.2010	**11**	**37 471**	**14 345**	**51 827**

** other increases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure*
***other decreases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure, and the termination of leasing contracts*

34. Investment properties

The table below presents changes in investment properties in 2011 and in 2010:

in PLN '000'	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Gross value as at the beginning of the period	**22 296**	**15 066**
Increases	0	11 014
Decreases	696	3 784
Gross value as at the end of the period	**21 600**	**22 296**
Depreciation as at the beginning of the period	**2 218**	**2 182**
Changes in depreciation	**-15**	**36**
Depreciation	205	223
Decreases	220	187
Depreciation as at the end of the period	**2 203**	**2 218**
Impairment as at the beginning of the period	**1 861**	**2 991**
Decreases	0	1 130
Impairment as at the end of the period	**1 861**	**1 861**
Net value as at the beginning of the period	**18 217**	**9 893**
Carrying amount as at the end of the period	**17 536**	**18 217**

In 2011, income from rent related to the investment properties amounted to PLN 174 thousand. The direct operating expenses related to the investment properties and incurred in the period amounted to PLN 67 thousand.

In 2010, income from rent related to the investment properties amounted to PLN 291 thousand. The direct operating expenses related to the investment properties and incurred in the period amounted to PLN 94 thousand.

Buildings classified as investment properties are depreciated on a straight-line basis for 40 years (an annual depreciation rate is 2.5%).

35. Non-current assets held for sale

in PLN '000'	31.12.2011	31.12.2010
Fixed assets held for sale	**2 047**	**7 070**
Gross fixed assets	2 047	8 200
Impairment losses	0	1 130
Investments in associates held for sale	**0**	**0**
Gross investments in associates	0	3 707
Impairment losses	0	3 707
Total	**2 047**	**7 070**

Non-current assets classified as held for sale are available for immediate sale. They are actively marketed for sale on market terms, without any exceptional or non-standard conditions, at a sales price reasonable in relation to their present fair value. It is expected that the sale will be recognized as sale made within one year from the date of the reclassification of such assets to the category of non-current assets held for sale.

36. Other assets

in PLN '000'	**31.12.2011**	**31.12.2010**
Various debtors*	69 038	73 043
- gross various debtors	70 729	74 354
- impairment losses	-1 691	-1 311
Prepaid expenses	15 654	17 381
Other	95	0
Total	**84 787**	**90 424**

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

37. Amounts due to Central Bank

By types

in PLN '000'	**31.12.2011**	**31.12.2010**
Other liabilities	32	6
Total	**32**	**6**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2011**	**31.12.2010**
- up to 1 month	32	6
Total	**32**	**6**

38. Amounts due to banks

By types

in PLN '000'	**31.12.2011**	**31.12.2010**
Current accounts	83 795	3 573 391
Term deposits	5 160 973	2 922 345
Borrowed loans and advances	2 808 513	5 271 691
Other liabilities	6 897	3 977
Total	**8 060 178**	**11 771 404**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2011**	**31.12.2010**
- up to 1 month	2 905 234	6 009 725
- 1-3 months	2 214	489 787
- 3-6 months	330	0
- 6 months to 1 year	3 968 482	2 826 848
- 1-3 years	1 183 918	2 445 044
Total	**8 060 178**	**11 771 404**

39. Liabilities arising from repurchase transactions

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2011**	**31.12.2010**
- up to 1 month	0	228 693
Total	**0**	**228 693**

40. Amounts due to customers

By types

in PLN '000'	**31.12.2011**	**31.12.2010**
Current accounts, including:	16 686 063	17 715 332
- savings account	8 721 838	9 850 124
Term deposits	10 352 291	7 671 742
Borrowed loans and advances	879 406	197 122
Other liabilities	177 015	125 808
Total	**28 094 775**	**25 710 004**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2011**	**31.12.2010**
- up to 1 month	20 262 724	19 765 682
- 1-3 months	2 371 382	1 978 829
- 3-6 months	3 301 389	2 169 911
- 6 months to 1 year	1 075 710	1 044 007
- 1-3 years	268 711	535 003
- 3-5 years	47 190	17 585
- 5-10 years	767 668	198 242
- 10-20 years	1	745
Total	**28 094 775**	**25 710 004**

Liabilities by classes

in PLN '000'	31.12.2011	31.12.2010
Natural persons*	**17 876 440**	**16 004 138**
- current accounts (including savings account)	11 677 122	12 536 406
- term deposits	6 026 092	3 346 027
- other liabilities	173 226	121 705
Corporate customers and SME	**8 759 565**	**7 718 067**
- current accounts	3 952 993	3 819 713
- term deposits	3 925 148	3 697 129
- loans and advances**	879 406	197 122
- other liabilities	2 018	4 103
Budgetary sector	**1 458 770**	**1 987 799**
- current accounts	1 055 948	1 359 213
- term deposits	401 051	628 586
- other liabilities	1 771	0
Total	**28 094 775**	**25 710 004**

** contains amounts due to private persons, individual entrepreneurs, individual farmers, non-commercial institutions providing services to households*
*** comprises loans from the European Investment Bank, which, according to the segmentation of the National Bank of Poland, is presented in the corporate customers segment*

41. Provisions

in PLN '000'	31.12.2011	31.12.2010
Employee benefits provision	1 699	1 547
Provision for off-balance sheet items	41 615	51 397
Provision for litigations	8 977	17 284
Other	38 835	650
Total	**91 126**	**70 878**

On 29.12.2011, the Bank's Management Board decided to create a provision in the amount of PLN 35 million for the potential liability related to the resale of Żagiel S.A. by KBC Group, for the price lower than the price obtained by Kredyt Bank S.A.

According to the agreement concluded on 16.12.2009 between Kredyt Bank S.A. and KBC Bank NV, the sale price for 100% of the shares of Żagiel S.A. amounted to PLN 350 million. The said agreement provided that the risk of Kredyt Bank S.A. would be limited to 10% of the sale price, i.e. PLN 35 million, if KBC sold the shares of Żagiel to an outside entity for the price lower than PLN 350 million. The decision to create the said provision reflects the current assessment of the probability of satisfying the condition described above.

The litigations with the highest value claims are described in Note 65.

'Employee benefits provisions' are composed of provisions for retirement benefits.

Net increase/decrease in provisions

in PLN '000'	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Period beginning	**70 878**	**31 409**
- employee benefits provision	1 547	1 408
- provision for off-balance sheet items	51 397	11 429
- restructuring provision/severance pays	0	2 279
- provision for litigations	17 284	14 370
- other	650	1 923
a) recognition	302 802	298 527
- employee benefits provision	300	335
- provision for off-balance sheet items	261 881	292 518
- restructuring provision/severance pays	1 287	0
- provision for litigations	4 334	5 674
- other	35 000	0
b) utilization	-4 163	-2 644
- employee benefits provision	-148	-196
- restructuring provision/severance pays	-1 287	-2 279
- provision for litigations	-2 728	-169
c) reversal	-284 816	-255 113
- provision for off-balance sheet items	-274 903	-252 522
- provision for litigations	-9 913	-2 591
d) other changes	6 425	-1 301
- provision for off-balance sheet items	3 240	-28
- other	3 185	-1 273
Period end (by items)	**91 126**	**70 878**
- employee benefits provision	1 699	1 547
- provision for off-balance sheet items	41 615	51 397
- restructuring provision/severance pays	0	0
- provision for litigations	8 977	17 284
- other	38 835	650
Period end	**91 126**	**70 878**

42. Other liabilities

in PLN '000'	31.12.2011	31.12.2010
Amounts due to the State Treasury	20 787	18 592
Various creditors	65 584	37 965
Expenses and income settled over time	139 978	127 067
- income collected in advance	20 483	19 105
- expenses to be paid	47 699	42 314
- provision for bonuses*	58 855	56 325
- provision for unused annual leaves	12 941	9 323
Leasing payables	3 549	8 456
Inter-bank clearings	18 227	14 810
Total	**248 125**	**206 890**

** comprises, e.g. provisions for interim and annual bonuses and provisions for bonuses related to the projects being implemented in the Bank*

43. Subordinated liabilities

in PLN '000'	**31.12.2011**	**31.12.2010**
Amount of subordinated liabilities	1 036 510	911 100
Total	**1 036 510**	**911 100**

Balance sheet as at 31.12.2011

Entity	Loan value		Interest rate	Maturity date	Amount of subordinated liabilities
	by currency	in '000			
KBC Bank NV O/Dublin	100 000	CHF	3M LIBOR+1.6p.p.	15.06.2018	362 934
KBC Bank NV O/Dublin	165 000	CHF	3M LIBOR+4.5p.p.	28.06.2019	598 620
KBC Bank NV O/Dublin	75 000	PLN	1M WIBOR+3.0p.p.	30.01.2019	74 956
Total			.		**1 036 510**

Balance sheet as at 31.12.2010

Entity	Loan value		Interest rate	Maturity date	Amount of subordinated liabilities
	by currency	in '000			
KBC Bank NV O/Dublin	100 000	CHF	3M LIBOR+1.6p.p.	15.06.2018	315 616
KBC Bank NV O/Dublin	165 000	CHF	3M LIBOR+4.5p.p.	28.06.2019	520 541
KBC Bank NV O/Dublin	75 000	PLN	1M WIBOR+3.0p.p.	30.01.2019	74 943
Total					**911 100**

44. Equity

Share capital

As at 31.12.2011, the Bank's share capital totalled PLN 1,358,294,400 and was divided into 271,658,880 shares of nominal value of PLN 5.00 each. The Bank's shares are registered shares and bearer shares, but not preference shares. Each share entitles its holder to one vote at the Bank's General Meeting of Shareholders (KBC Bank NV is entitled to exercise no more than 75% of votes). The Bank's shares are admitted to public trading on the main market of the Warsaw Stock Exchange. The share capital did not change in 2011.

The analysis of registered shares and bearer shares presented below was prepared as at 31.12.2011.

Registered shares

The Bank's Shareholders hold 65,864 registered shares, which account for 0.02% of the share capital. Registered shares as at 31.12.2011, which have not changed as compared to the balance as at 31.12.2010, are presented below.

Series	Number of shares
A	2 942
C	1 425
F	5 792
P	29 042
S1	26 663
Total	**65 864**

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

Bearer shares

The Bank's shareholders hold 271,593,016 bearer shares, which account for 99.98% of the share capital. Originally, the number of bearer shares amounted to 264,204,350. In addition, as a result of the conversion of registered shares into bearer shares, there are 7,388,666 bearer shares. Bearer shares as at 31.12.2011, which have not changed as compared to the balance as at 31.12.2010, are presented below:

Bearer shares (original)		**Converted registered shares into bearer shares**	
Series	**Number of shares**	**Series**	**Number of shares**
B	2 500 000	A	2 497 058
D	100 000	C	98 575
E	1 580 425	F	308 923
G	480 000	P	3 660 640
H	3 777 350	S1	823 470
I	5 600 000		
J	4 400 000		
K	2 278 814		
L	2 000 000		
M	10 000 000		
N	847 000		
O	25 000 000		
R	32 583 993		
T	49 301 056		
U	63 387 072		
W	60 368 640		
Total	**264 204 350**	**Total**	**7 388 666**
Total bearer shares			**271 593 016**

The table below presents the list of major shareholders of Kredyt Bank S.A. as at 31.12.2011.

Shareholder	Line of business	Number of shares and votes at GMS	Share in votes and in share capital (in %)
KBC Bank NV* – party of KBC Group*	Banking	217 327 103	80.00
Pioneer Fundusz Inwestycyjny Otwarty**	Investment fund	20 040 203	7.38

** by the Resolution of the Commission for Banking Supervision No. 81/KNB/01 of 17 September 2001, KBC Bank NV is entitled to exercise no more than 75% of votes at the General Meeting of Shareholders of Kredyt Bank S.A.*
***according to the information of 15.04.2010 received from Pioneer Pekao Investment Management S.A. See also Note 57 of these financial statements.*

According to the information received from KBC Bank NV and KBC Group NV on 08.02.2011 and 15.02.2011:

- KBC Securities NV – subsidiary of KBC Bank NV – sold all the shares of Kredyt Bank S.A. held by it.

  Prior to the sale, KBC Securities NV held 11,751,771 shares, which accounted for 4.33% in the capital and votes at the General Meeting of Shareholders of Kredyt Bank S.A. Following the sale, KBC Securities NV does not hold any shares of Kredyt Bank S.A.

- KBC Insurance NV – an entity from KBC Group NV – sold all the shares of Kredyt Bank S.A. held by it.

  Prior to the sale, KBC Insurance NV held 7,860,918 shares, which accounted for 2.89% in the capital and votes at the General Meeting of Shareholders of Kredyt Bank S.A. Following the sale, KBC Insurance NV does not hold any shares of Kredyt Bank S.A.

KBC Bank NV still holds 217,327,103 shares accounting for 80% of votes.

On 26.01.2012, the Bank received a notice from Pioneer Pekao Investment Management S.A. (‘PPIM’) about the decline in its total commitment to 4.29% of the total votes at the General Meeting of Shareholders concerning the financial instruments included in the portfolios managed by PPIM. Pursuant to the said notice, the commitment of Pioneer Fundusz Inwestycyjny Otwarty decreased to 4.16% of the total votes at the General Meeting of Shareholders.

Further information about the issue is available in the current report dated 26.01.2012.

Supplementary capital

in PLN ‘000’	**31.12.2011**	**31.12.2010**
From the distribution of retained profit	898 072	887 347
Total supplementary capital	**898 072**	**887 347**

The Bank’s net profit for 2010 amounting to PLN 111,239,095.19 was allocated to:

- the payment of dividend of PLN 100,513,785.60;
- the remaining amount, i.e. PLN 10,725,309.59 to supplementary capital.

Revaluation reserve

in PLN '000'	31.12.2011	31.12.2010
Valuation of available-for-sale financial assets	50 557	47 981
Valuation of derivatives designated for cash flow hedge	35 976	25 378
Deferred tax on items recognized in revaluation reserve	-16 441	-13 938
Total revaluation reserve	**70 092**	**59 421**

Reserves

in PLN '000'	31.12.2011	31.12.2010
General banking risk reserve created from profit	400 942	400 942
Total reserves	**400 942**	**400 942**

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

45. Off-balance sheet items

in PLN '000'	31.12.2011	31.12.2010
Liabilities granted and received		
Liabilities granted:	**6 690 987**	**6 224 202**
- financial	4 494 703	4 153 019
- guarantees	2 196 284	2 071 183
Liabilities received:	**882 927**	**2 129 702**
- financial	41 421	1 051 341
- guarantees	841 506	1 078 361
Liabilities related to the sale/purchase transactions	**199 278 505**	**134 779 591**
Collateral received	**8 437 525**	**7 353 944**

Granted off-balance sheet liabilities by types

in PLN '000'	31.12.2011	31.12.2010
Financial	**4 494 703**	**4 153 019**
- undrawn credit lines	2 955 640	2 925 059
- undrawn overdraft facilities	849 092	645 513
- limits on credit cards	456 222	446 973
- opened import letters of credit	181 712	135 474
- term deposits to be released	52 037	0
Guarantees	**2 196 284**	**2 071 183**
- guarantees granted	2 190 953	2 070 723
- export letters of credit	5 331	460
Total	**6 690 987**	**6 224 202**

Financial off-balance sheet liabilities (by maturity dates)

in PLN '000'	31.12.2011	31.12.2010
- up to 1 month	386 213	348 777
- 1-3 months	428 821	324 366
- 3-6 months	463 408	291 334
- 6 months to 1 year	1 708 678	1 470 460
- 1-3 years	665 554	620 717
- 3-5 years	70 949	214 972
- over 5 years	771 080	882 393
Total	**4 494 703**	**4 153 019**

Guarantees off-balance sheet liabilities (by maturity dates)

in PLN '000'	31.12.2011	31.12.2010
- up to 1 month	47 588	35 594
- 1-3 months	77 042	86 333
- 3-6 months	187 230	52 915
- 6 months to 1 year	259 454	232 753
- 1-3 years	926 242	463 873
- 3-5 years	253 574	644 706
- over 5 years	445 154	555 009
Total	**2 196 284**	**2 071 183**

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

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

As at 31.12.2011, the estimated amount of provisions for the guarantees granted and unconditional financing liabilities amounted to PLN 41,615 thousand and as at 31.12.2010, to PLN 51,397 thousand. This amount is presented in Note 41 as 'provision for off-balance sheet items'.

46. Capital adequacy ratio

in PLN '000'	**31.12.2011**	**31.12.2010**
Capital requirement:	**2 356 196**	**2 235 557**
- credit risk	2 102 918	1 995 922
- market risk	31 068	32 749
- operational risk	222 210	206 886
Own funds and short-term capital	**3 745 195**	**3 591 823**
Basic capitals:	**2 585 156**	**2 575 122**
- share capital	1 358 294	1 358 294
- supplementary capital	898 072	887 347
- revaluation reserve included in basic equity	-7 683	-15 806
- other reserves	400 942	400 942
- net profit included in the calculation of capital adequacy ratio	212 167	33 728
- dividends predicted*	-212 167	-33 728
- intangible assets	-60 472	-51 827
- shares in financial entities (50%)	-3 828	-3 828
- other	-169	0
Supplementary funds:	**1 082 031**	**963 601**
- revaluation reserve included in supplementary equity	48 034	53 995
- subordinated liabilities included in equity	1 037 825	913 434
- shares in financial entities (50%)	-3 828	-3 828
Short-term capital	**78 008**	**53 100**
Capital adequacy ratio (%)	**12.72**	**12.85**
Ratio, including basic funds (%)	**8.78**	**9.22**

** the information about the payment of the dividend is available in Note 56*

As at 31.12.2011 and 31.12.2010, capital adequacy ratio was calculated as required by the regulations of the Polish Financial Supervision Authority.

Below, we present the information concerning the compliance with capital requirements:

1) Amounts accounting for 8% of risk weighted exposures separately for each class of exposure defined in § 20 clause 1 of Annex No. 4 to the Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010, as amended, concerning the scope and detailed rules of determining capital requirements for particular types of risks.

The amount of the capital requirement for credit risk*, including counterparty credit risk as at 31.12.2011

in PLN '000'	Carrying amount	Granted liabilities and the nominal value of derivatives**	Risk weighted value	Capital requirement
Total:	**41 551 380**	**190 601 131**	**26 286 479**	**2 102 918**
- central governments and central banks	9 847 163	150	0	0
- regional governments and local authorities	152 685	6 149	30 914	2 473
- administrative bodies and non-commercial undertakings	101 589	31 521	93 026	7 442
- multilateral development banks	52 108	0	0	0
- international organisations	0	0	0	0
- institutions – banks	2 075 620	182 328 200	1 041 302	83 304
- corporates	3 219 860	6 097 765	4 866 576	389 326
- retail exposures	12 798 289	1 412 294	9 807 660	784 613
- exposures secured by real estate property	11 762 226	724 804	9 649 093	771 928
- past due exposures	305 308	248	333 964	26 717
- exposures belonging to regulatory high-risk categories	2 704	0	4 056	324
- covered bonds	0	0	0	0
- securitisation positions	0	0	0	0
- exposures to banks and corporates with a short-term credit rating	0	0	0	0
- in collective investment undertakings	0	0	0	0
- other exposures	1 233 828	0	459 888	36 791

** estimated on the basis of the Standardized Approach*
*** the net amount of off-balance-sheet liabilities and the nominal value of derivatives included in the Capital Adequacy Account*

The amount of the capital requirement for credit risk*, including counterparty credit risk as at 31.12.2010

in PLN '000'	**Carrying amount**	**Granted liabilities and the nominal value of derivatives****	**Risk weighted value**	**Capital requirement**
Total:	**43 000 255**	**133 067 764**	**24 949 020**	**1 995 922**
- central governments and central banks	13 411 508	4 000 250	0	0
- regional governments and local authorities	145 777	9 640	30 677	2 454
- administrative bodies and non-commercial undertakings	122 599	27 479	105 630	8 451
- multilateral development banks	47 281	0	0	0
- international organisations	0	0	0	0
- institutions – banks	1 983 331	121 422 361	888 061	71 045
- corporates	2 919 491	5 787 922	4 549 572	363 966
- retail exposures	12 340 590	1 035 087	9 612 446	768 996
- exposures secured by real estate property	10 455 892	784 517	8 850 666	708 053
- past due exposures	362 059	508	372 622	29 810
- exposures belonging to regulatory high-risk categories	42 013	0	63 040	5 043
- covered bonds	0	0	0	0
- securitisation positions	0	0	0	0
- exposures to banks and corporates with a short-term credit rating	0	0	0	0
- in collective investment undertakings	0	0	0	0
- other exposures	1 169 714	0	476 306	38 104

** estimated on the basis of the Standardized Approach*
*** the net amount of off-balance-sheet liabilities and the nominal value of derivatives included in the Capital Adequacy Account*

2) The amounts of minimum capital requirements referred to in § 6 clause 1 items 2-5 of the Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010, as amended, concerning the scope and detailed rules of determining capital requirements for particular types of risks

in PLN '000'	**31.12.2011**	**31.12.2010**
The amount of the capital requirement for credit risk	**31 068**	**32 749**
- currency risk	0	0
- commodity price risk	0	0
- equity securities price risk	0	0
- price risk of debt instruments	11	23
- general interest rate risk	31 057	32 726

3) The amounts of minimum capital requirements referred to in § 6 clause 1 item 6 of the Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010, as amended, concerning the scope and detailed rules of determining capital requirements for particular types of risks.

in PLN '000'	**Year**	**2011**
Result*	2008	1 453 068
Result*	2009	1 488 182
Result*	2010	1 543 923
Capital Charge	2008	213 555
Capital Charge	2009	220 704
Capital Charge	2010	232 373
Operational risk requirement**		**222 210**

** calculated according to Annex No. 14 to Resolution No. 76/2010 of the Polish Financial Supervision Authority, as amended*
*** estimated on the basis of the Standardized Approach*

in PLN '000'	**Year**	**2010**
Result*	2007	1 291 673
Result*	2008	1 453 068
Result*	2009	1 488 477
Capital Charge	2007	189 835
Capital Charge	2008	213 555
Capital Charge	2009	217 268
Operational risk requirement**		**206 886**

** calculated according to Annex No. 14 to Resolution No. 76/2010 of the Polish Financial Supervision Authority, as amended*
*** estimated on the basis of the Standardized Approach*

As at 31.12.2011 and 31.12.2010, the exposure concentration limit, the large exposure limit and the capital concentration threshold were not exceeded in Kredyt Bank S.A.

The risk management process is strictly related to the capital management process. According to the industry standards, the amount of the internal capital is defined from the economic point of view. In consequence, the internal capital of Kredyt Bank S.A. is estimated by applying the internal capital model of KBC Group, having regard for all material types of risk.

47. Cash flow statement – additional information

a) Cash and cash equivalents

in PLN '000'	**31.12.2011**	**31.12.2010**
Cash and balances with Central Bank	784 626	1 943 571
Due from other banks (up to 3 months)	156 839	457 807
Cash and cash equivalents	**941 465**	**2 401 378**

b) Operating activities – unrealised gains (losses) on currency translation differences

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Currency translation differences for investment securities	-37 395	1 380
Currency translation differences from financial assets held for trading	-922	-64 194
Currency translation differences from the assets designated upon initial recognition as at fair value through profit or loss	-4 533	-1 138
Currency translation differences on subordinated liabilities	125 293	104 664
Total	**82 443**	**40 712**

c) Operating activities – net increase/decrease in impairment *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Net increase/decrease in impairment losses on loans and advances to banks	-2 260	0
Net increase/decrease in impairment losses on loans and advances to customers	-506 134	335 528
Net increase/decrease in impairment of property, plant and equipment, intangible assets and investment properties	4 814	11 788
Total	**-503 580**	**347 316**

d) Operating activities – interest *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Interest on investment securities	-350 838	-297 496
Interest on borrowed loans	107 313	79 746
Interest on leasing	1 527	3 030
Interest on subordinated liabilities	39 914	34 584
Total	**-202 084**	**-180 136**

e) Operating activities – gains (losses) from the sales of investments *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Profit (loss) on the sales of equity investments	0	-30
Profit (loss) on the sales of available-for-sale investment securities	-867	-3 644
Profit (loss) on the sales of held-to-maturity investment securities	-295	-2 812
Profit (loss) on sales of property, plant and equipment and intangible assets	-9 630	-2 381
Total	**-10 792**	**-8 867**

f) Loans and advances to banks *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Net balance sheet change	275 977	-377 485
Change in Nostro accounts – cash	-12 103	12 548
Change in term deposits up to 3 months – cash	-288 865	429 571
Debt securities classified as loans and receivables	0	-898 751
Impairment	2 260	0
Total	**-22 731**	**-834 117**

g) Financial assets held for trading *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Balance sheet change in financial assets held for trading	1 540 790	-421 333
Currency translation differences in operating activities	5 455	65 332
Total	**1 546 245**	**-356 001**

h) Operating activities – net increase/decrease in other assets *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Balance sheet change in other assets	5 637	12 084
Net increase/decrease in property, plant and equipment held for sale	5 023	-7 070
Other net increase/decrease in investment properties	0	-7 804
Debt securities classified as loans and receivables	0	965 146
Net increase/decrease in held-to-maturity investments	319	0
Other net increase/decrease in property, plant and equipment and intangible assets	-551	16 145
Balance sheet change in hedging derivatives (presented in assets)	-21 252	-18 599
Other changes	9 128	13 969
Total	**-1 696**	**973 871**

i) Amounts due to banks *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Balance sheet change in amounts due to banks	-3 711 226	939 714
Repayment of borrowed loans/advances	2 827 397	1 825 104
Interest on borrowed loans in operating activities	-98 245	-76 419
Paid interest on borrowed loans – presentation in financing activities	47 804	60 928
Total	**-934 270**	**2 749 327**

j) Amounts due to customers *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Balance sheet change in amounts due to customers	2 384 771	3 188 318
Proceeds from loans and advances	-688 007	-196 695
Repayment of borrowed loans/advances	6 075	0
Interest on borrowed loans in operating activities	-9 068	-3 327
Paid interest on borrowed loans – presentation in financing activities	8 928	3 023
Total	**1 702 699**	**2 991 319**

k) Operating activities – net increase/decrease in other liabilities *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Balance sheet change in other liabilities	41 235	31 950
Payment of leasing payables from financing activities	4 374	5 786
Balance sheet change in hedging derivatives (presented in assets)	395	-1 892
Other changes	-9	13
Total	**45 995**	**35 857**

l) Paid income tax *in PLN ‘000’*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Net increase/decrease in current tax receivables/liabilities	-269 829	121 126
Accrual of current tax	-15 810	-192 837
Other changes	9	-13
Total cash flows due to income tax, presented as:	**-285 630**	**-71 724**
Net increase/decrease in current tax receivable	-116 870	0
Paid income tax	-168 760	-71 724

m) Net increase/decrease in investment securities *in PLN ‘000’*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Balance sheet change in investment securities	788 528	-1 645 251
Net increase/decrease in interest receivables in operating activities	350 838	297 496
Net increase/decrease in available-for-sale financial assets in operating activities	4 913	55 977
Net increase/decrease in held-to-maturity investments in operating activities	-24	3 949
Currency translation differences in operating activities	37 395	-1 380
Total balance sheet change, presented as:	**1 181 650**	**-1 289 209**
Acquisition in investment activity	-91 344 482	-56 709 569
Disposal in investment activity	92 283 935	55 205 555
Interest received in investment activity	242 197	214 805

n) Financing activities – other financial expenses *in PLN ‘000’*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Interest repayment on loans received	-56 732	-63 951
Interest repayment on subordinated liabilities	-39 797	-33 964
Payment of leasing payables	-5 901	-8 816
Total	**-102 430**	**-106 731**

o) Subordinated liabilities *in PLN ‘000’*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Interest repayment on subordinated liabilities – presentation in financing activities	39 797	33 964
Accrued interest on subordinated liabilities – presentation in operating activities	-39 914	-34 584
Currency translation differences on subordinated liabilities – presentation in operating activities	-125 293	-104 664
Balance sheet change in subordinated liabilities	125 410	105 284
Proceeds from a subordinated loan	**0**	**0**

48. Division of financial instruments measured at fair value depending on the method of fair value measurement

Below, we present the division of financial assets and liabilities measured at fair value depending on the method of fair value measurement according to IFRS 7. The method of classifying financial instruments at particular levels is presented in Note 4.1.

Assets measured at fair value	Level 1	Level 2	Level 3	Total 31.12.2011
Financial assets held for trading				
Debt securities	58 860	1 633	0	60 493
Derivatives, different from derivatives used as hedging instruments	0	975 497	0	975 497
Financial assets designated upon initial recognition as at fair value through profit or loss				
Debt securities	26 944	34 741	0	61 685
Equity securities	0	18 259	0	18 259
Available-for-sale financial assets*				
Debt securities	4 551 660	704 981	0	5 256 641
Hedging instruments				
Derivatives	0	95 592	0	95 592
Total	**4 637 464**	**1 830 703**	**0**	**6 468 167**

** except for equity securities measured at cost*

Liabilities measured at fair value	Level 1	Level 2	Level 3	Total 31.12.2011
Held-for-trading financial liabilities				
Derivatives, different from derivatives used as hedging instruments	0	981 247	0	981 247
Hedging instruments				
Derivatives	0	1 669	0	1 669
Total	**0**	**982 916**	**0**	**982 916**

Assets measured at fair value	Level 1	Level 2	Level 3	Total 31.12.2010
Financial assets held for trading				
Debt securities	1 144 179	457 104	0	1 601 283
Derivatives, different from derivatives used as hedging instruments	0	388 819	0	388 819
Financial assets designated upon initial recognition as at fair value through profit or loss				
Debt securities	26 903	31 149	0	58 052
Equity securities	0	40 797	0	40 797
Available-for-sale financial assets*				
Debt securities	5 295 703	919 835	0	6 215 538
Hedging instruments				
Derivatives	0	74 340	0	74 340
Total	**6 466 785**	**1 912 044**	**0**	**8 378 829**

** except for equity securities measured at cost*

Liabilities measured at fair value	Level 1	Level 2	Level 3	Total 31.12.2010
Held-for-trading financial liabilities				
Derivatives, different from derivatives used as hedging instruments	0	1 123 915	5 889	1 129 804
Hedging instruments				
Derivatives	0	1 274	0	1 274
Total	**0**	**1 125 189**	**5 889**	**1 131 078**

Change in financial assets at fair value – level 3

Assets measured at fair value	31.12.2011	31.12.2010
Opening balance – at the beginning of the period	0	2 463
Derivatives	0	-2 463
Closing balance – at the end of period	**0**	**0**

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

49.1. Fair value

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

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

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

The table below shows the carrying amount and estimated fair value of the Bank's financial assets and liabilities not recognized in the Bank's balance sheet at fair value.

Balance sheet as at 31.12.2011

in PLN '000'	**Carrying amount**	**Fair value**
Assets		
Cash and balances with Central Bank	**784 626**	**784 626**
Net loans and advances to banks*	**1 188 012**	**1 175 040**
Net loans and advances to customers:	**28 840 369**	**27 330 574**
Natural persons**	**22 163 196**	**20 730 293**
- overdraft facilities	873 085	872 186
- term loans***	731 015	727 760
- cash loans, installment loans and cards	2 502 479	2 513 394
- mortgage housing loans	17 623 776	16 179 792
- other mortgage loans****	390 617	394 991
- purchased debt	12 153	12 032
- realised guarantees	554	483
- other receivables	29 517	29 655
Corporate customers and SME	**6 477 086**	**6 400 725**
- overdraft facilities	1 924 017	1 921 219
- term loans***	4 243 795	4 183 034
- purchased debt	210 322	208 914
- realised guarantees	35 001	25 631
- other receivables	11 839	11 155
- debt securities classified as loans and receivables	52 112	50 772
Budgetary sector	**200 087**	**199 556**
- overdraft facilities	4 742	4 742
- term loans***	106 931	106 488
- purchased debt	19 961	19 873
- debt securities classified as loans and receivables	68 453	68 453
Held-to-maturity investment securities	**3 416 674**	**3 389 867**

** contains debt securities classified as loans and receivables*
*** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
****contains mainly investment loans and working capital loans*
***** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

The significantly lower fair value as compared to the carrying amount of mortgages is an effect of changes in margins related to such types of loans.

in PLN '000'	**Carrying amount**	**Fair value**
Liabilities		
Amounts due to banks and Central Bank	8 060 210	8 046 111
Amounts due to customers	28 094 775	28 091 894
Other financial liabilities recognized in the balance sheet at amortized cost *	1 036 510	1 036 510

** subordinated liabilities*

Balance sheet as at 31.12.2010

in PLN '000'	**Carrying amount**	**Fair value**
Assets		
Cash and balances with Central Bank	**1 943 571**	**1 943 571**
Net loans and advances to banks*	**1 463 989**	**1 457 038**
Net loans and advances to customers	**27 025 777**	**24 986 656**
Natural persons**	**20 744 991**	**18 745 911**
- overdraft facilities	756 252	744 510
- term loans***	732 286	720 317
- cash loans, installment loans and cards	2 836 150	2 715 235
- mortgage housing loans	15 958 687	14 115 382
- other mortgage loans****	427 200	416 102
- purchased debt	10 944	10 860
- realised guarantees	423	352
- other receivables	23 049	23 153
Corporate customers and SME	**6 093 201**	**6 055 943**
- overdraft facilities	1 490 723	1 483 616
- term loans***	4 431 948	4 406 473
- purchased debt	112 602	110 302
- realised guarantees	203	241
- other receivables	10 429	10 511
- debt securities classified as loans and receivables	47 296	44 800
Budgetary sector	**187 585**	**184 802**
- overdraft facilities	2 731	2 731
- term loans***	164 618	161 835
- debt securities classified as loans and receivables	20 236	20 236
Held-to-maturity investment securities	**3 247 779**	**3 238 283**

** contains debt securities classified as loans and receivables*
*** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
****contains mainly investment loans and working capital loans*
***** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

The significantly lower fair value as compared to the carrying amount of mortgages is an effect of changes in margins related to such types of loans.

in PLN '000'	**Carrying amount**	**Fair value**
Liabilities		
Amounts due to banks and Central Bank	11 771 410	11 706 717
Amounts due to customers	25 710 004	25 724 934
Other financial liabilities recognized in the balance sheet at amortized cost *	911 100	911 100

** subordinated liabilities*

49.2. Loans and advances to banks and to customers

As stated in the sections concerning the accounting principles adopted by the Bank and the material accounting estimates, granted loans and advances and other own receivables not held for trading are measured at 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 sales of loan collateral) discounted with the original effective interest rate.

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

The calculation of the fair value is based on estimated market interest rates. Estimating the market rate for mortgagehousing loans in CHF was necessary in particular, due to the extinction of the market of such mortgages in Poland. The Bank estimated the market interest rate on the basis of, among others, the public market information and the cost of the potential financing in CHF.

49.3. Held-to-maturity investments

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. 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.

49.4. Financial liabilities not held for trading

As stated in Note 38 and Note 40, the deposits made in current accounts and term deposits with balance sheet maturities of less than three months, for which it was estimated that their carrying amount is equal to their fair value, constitute the bulk of the deposits made by banks and of customer deposits. The term loans and deposits received from KBC Group were discounted at the market rate from the inter-bank market for the respective currency and maturity.

50. Assets pledged as collateral

As at 31.12.2011, the following assets in the form of debt securities were collateral for the Bank's own liabilities:

- Commercial bonds of the nominal value of PLN 135,000 thousand and of the carrying amount of PLN 135,773 thousand were collateral for the protection fund for guaranteed cash in the Banking Guarantee Fund and were deposited in the National Depository for Securities;
- Treasury bonds of the nominal value of PLN 1,110,000 thousand and of the carrying amount of PLN 1,153,225 thousand as security for the loan extended by the European Investment Bank.

As at 31.12.2010, the following assets in the form of debt securities were collateral for the Bank's own liabilities:

- Commercial bonds of the nominal value of PLN 130,000 thousand and of the carrying amount of PLN 130,600 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 240,000 thousand and of the carrying amount of PLN 235,899 thousand as security for the loan extended by the European Investment Bank;
- Treasury bonds of the nominal value of PLN 190,000 thousand and of the carrying amount of PLN 198,767 thousand, as well as Treasury bills with the nominal value of PLN 200,000 thousand and

the carrying amount of PLN 209,032 thousand pledged in relation to IRS transactions hedging cash flow with the Ministry of Finance.

51. Related party transactions

In 2011, no significant non-standard transactions had place with related parties whose nature and terms were not related to current operations. All transactions were executed on market terms, without any exceptional or non-standard terms or conditions.

Transaction volumes as well as related income and expenses are presented below.

Balance sheet as at 31.12.2011

Assets	**Subsidiaries**	**Parent company - KBC Bank NV**	**KBC Group (without KBC Bank NV)***	**Total as at 31.12.2011**
Loans and advances to banks	0	75 221	2 462	77 683
Derivatives	0	201 285	10 671	211 956
Loans and advances to customers	339 585	0	0	339 585
Other assets	2 301	58	15 465	17 824
Total assets	**341 886**	**276 564**	**28 598**	**647 048**

** including WARTA Group*

Liabilities	**Subsidiaries**	**Parent company - KBC Bank NV**	**KBC Group (without KBC Bank NV)***	**Total as at 31.12.2011**
Amounts due to banks	0	7 785 533	210 427	7 995 960
Derivatives	0	133 392	8 697	142 089
Amounts due to customers	51 618	2 385	879 652	933 655
Subordinated liabilities	0	1 036 510	0	1 036 510
Other liabilities	3 606	3 338	12 378	19 322
Total liabilities	**55 224**	**8 961 158**	**1 111 154**	**10 127 536**

** including WARTA Group*

Off-balance sheet items	**Subsidiaries**	**Parent company - KBC Bank NV**	**KBC Group (without KBC Bank NV)***	**Total as at 31.12.2011**
Granted financing liabilities	148 321	0	240 150	388 471
Guarantees granted	5 222	51 491	40 717	97 430
Received financing liabilities	0	583 450	0	583 450
Guarantees received	0	133 676	33 005	166 681
Derivatives	0	31 288 332	2 758 553	34 046 885
Collateral received	82 880	0	1 400	84 280
Total off-balance sheet items	**236 423**	**32 056 949**	**3 073 825**	**35 367 197**

** including WARTA Group*

Income	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	01.01.2011-31.12.2011
Interest income	18 464	22 320	1 458	42 242
Fee and commission income	0	250	75 971	76 221
Net trading income	0	17 436	18 919	36 355
Dividend income	2 426	0	0	2 426
Other operating income	852	7	7 382	8 241
Total income	**21 742**	**40 013**	**103 730**	**165 485**

** including WARTA Group*

Expenses	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	01.01.2011-31.12.2011
Interest expense	2 677	99 755	64 913	167 345
Commission expense**	0	1 515	29 568	31 083
General and administrative expenses, as well as other operating expenses	7 547	2 702	33 217	43 466
Total expenses	**10 224**	**103 972**	**127 698**	**241 894**

** including WARTA Group*
*** from the third quarter of 2011, this item has been presented on a contractual basis, and in previous periods, it was presented according to the policy of the major shareholder*

Balance sheet as at 31.12.2010

Assets	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2010
Loans and advances to banks	0	88 777	17 538	106 315
Derivatives	0	91 481	9 810	101 291
Loans and advances to customers	295 658	0	83 203	378 861
Other assets	3 147	87	11 775	15 009
Total assets	**298 805**	**180 345**	**122 326**	**601 476**

** including WARTA Group*

Liabilities	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2010
Amounts due to banks	0	8 086 577	2 901 654	10 988 231
Derivatives	0	193 330	28 534	221 864
Amounts due to customers	49 247	954	1 445 464	1 495 665
Subordinated liabilities	0	911 100	0	911 100
Other liabilities	8 588	1 088	11 392	21 068
Total liabilities	**57 835**	**9 193 049**	**4 387 044**	**13 637 928**

** including WARTA Group*

Off-balance sheet items	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2010
Granted financing liabilities	194 662	0	240 150	434 812
Guarantees granted	120	50 257	17 343	67 720
Received financing liabilities	44 000	977 267	0	1 021 267
Guarantees received	0	875 070	116 196	991 266
Derivatives	0	12 094 379	2 559 963	14 654 342
Collateral received	82 920	0	0	82 920
Total off-balance sheet items	**321 702**	**13 996 973**	**2 933 652**	**17 252 327**

** including WARTA Group*

Income	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	01.01.2010-31.12.2010
Interest income	5 679	17 076	496	23 251
Fee and commission income	0	274	67 297	67 571
Dividend income	5 145	0	0	5 145
Other operating income	1 081	41	7 314	8 436
Total income	**11 905**	**17 391**	**75 107**	**104 403**

** including WARTA Group*

Expenses	Subsidiaries	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	01.01.2010-31.12.2010
Interest expense	3 201	68 172	27 933	99 306
Commission expense**	0	446	25 876	26 322
Net trading income	-443	200 816	53 746	254 119
General and administrative expenses, as well as other operating expenses	12 686	3 660	28 515	44 861
Total expenses	**15 444**	**273 094**	**136 070**	**424 608**

** including WARTA Group*
*** from the third quarter of 2011, this item has been presented on a contractual basis, and in previous periods, it was presented according to the policy of the major shareholder*

52. Disposal of subordinated companies

No subordinated companies were sold in 2011.

On 1.04.2010, the Bank sold:
- to KBC TFI S.A., 970 shares in Net Fund Administration Sp. z o.o. (former Net Banking Sp. z o.o.);
- to PTE WARTA S.A., 1,868 shares in Net Fund Administration Sp. z o.o. (former Net Banking Sp. z o.o.).

Hence, the Bank sold all its shares held in Net Fund Administration Sp. z o.o.

53. Changes in the Management Board and in the Supervisory Board of Kredyt Bank S.A. in 2011

On 25.05.2011, Mr. Gert Rammeloo, due to his decision to return to Belgium, resigned from his position of the Vice President of the Bank's Management Board.
The Supervisory Board of Kredyt Bank S.A., at its meeting held on 25.05.2011, appointed the Bank's Management Board for a new term of office. As a result, Mr. Krzysztof Kokot ceased to perform his function of a Vice President of the Bank's Management Board, and Mr. Jerzy Śledziewski (on 25.05.2011) and Mr. Mariusz Kaczmarek (on 01.07.2011) were appointed Vice Presidents of the Bank's Management Board.

As at 31.12.2011, the Management Board of Kredyt Bank S.A. was composed of:

Mr. Maciej Bardan	- President of the Management Board, CEO
Mr. Umberto Arts	- Vice President of the Management Board, Vice CEO
Mr. Mariusz Kaczmarek	- Vice President of the Management Board, Vice CEO
Mr. Zbigniew Kudaś	- Vice President of the Management Board, Vice CEO
Mr. Piotr Sztrauch	- Vice President of the Management Board, Vice CEO
Mr. Jerzy Śledziewski	- Vice President of the Management Board, Vice CEO

On 25.05.2011, Mr. Dirk Mampaey resigned from his membership in the Supervisory Board due to other professional obligations.

In addition, the Ordinary General Meeting of Shareholders of Kredyt Bank S.A. appointed, as of 25.05.2011, Mr. Guy Libot as a Member of the Bank's Supervisory Board.

As at 31.12.2011, the Supervisory Board of Kredyt Bank S.A. was composed of:

Mr. Andrzej Witkowski	- Chairman of the Supervisory Board
Mr. Adam Noga	- Vice Chairman of the Supervisory Board
Mr. Ronny Delchambre	- Member of the Supervisory Board
Mr. Guy Libot	- Member of the Supervisory Board
Mr. Stefan Kawalec	- Member of the Supervisory Board
Mr. Jarosław Parkot	- Member of the Supervisory Board
Mr. Marko Voljc	- Member of the Supervisory Board

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

The figures presented in the tables below refer to paid remunerations, awards, bonuses, other benefits and severance pays for performing functions in the Bank's Management Board.

Bank's Management Board	Term on the Board	01.01.2011 – 31.12.2011				
		Basic remuneration	Bonus*	Other benefits	Severance pay	Total
Maciej Bardan	01.01.2011-31.12.2011	1 345	317	31	0	1 693
Umberto Arts	01.01.2011-31.12.2011	1 304	0	366	0	1 670
Zbigniew Kudaś	01.01.2011-31.12.2011	1 209	232	47	0	1 488
Piotr Sztrauch	01.01.2011-31.12.2011	827	60	29	0	916
Jerzy Śledziewski	25.05.2011-31.12.2011	582	0	25	0	607
Mariusz Kaczmarek	01.07.2011-31.12.2011	464	0	8	0	472
Gert Rammeloo	01.01.2011-25.05.2011	655	0	254	0	909
Krzysztof Kokot	01.01.2011-25.05.2011	411	260	34	1 546	2 251
Total		**6 797**	**869**	**794**	**1 546**	**10 006**

** partial payment of the bonuses for 2010*

Bank's Management Board	Term on the Board	01.01.2010 – 31.12.2010				
		Basic remuneration	Bonus	Other benefits	Severance pay	Total
Maciej Bardan	01.01.2010-31.12.2010	1 220	0	691	0	1 911
Lidia Jabłonowska - Luba	01.01.2010-14.03.2010	286	0	631	0	917
Gert Rammeloo	01.01.2010-31.12.2010	946	0	447	0	1 393
Krzysztof Kokot	01.01.2010-31.12.2010	1 027	0	76	0	1 103
Umberto Arts	01.01.2010-31.12.2010	1 587	0	498	0	2 085
Zbigniew Kudaś	26.04.2010-31.12.2010	828	0	35	0	863
Piotr Sztrauch	15.09.2010-31.12.2010	231	0	21	0	252
Total		**6 125**	**0**	**2 399**	**0**	**8 524**

Remunerations, awards, bonuses and other benefits paid to Members of the Bank's Supervisory Board.

Bank's Supervisory Board	Term on the Board	01.01.2011 – 31.12.2011		
		Basic remuneration	Other benefits	Total
Andrzej Witkowski	01.01.2011-31.12.2011	369	14	383
Ronny Delchambre	01.01.2011-31.12.2011	0	0	0
Stefan Kawalec	01.01.2011-31.12.2011	277	9	286
Adam Noga	01.01.2011-31.12.2011	323	14	337
Jarosław Parkot	01.01.2011-31.12.2011	0	0	0
Marko Voljč	01.01.2011-31.12.2011	0	0	0
Dirk Mampaey	01.01.2011-25.05.2011	0	0	0
Guy Libot	25.05.2011-31.12.2011	0	0	0
Total		**969**	**37**	**1 006**

Bank's Supervisory Board	Term on the Board	01.01.2010 – 31.12.2010		
		Basic remuneration	Other benefits	Total
Andrzej Witkowski	01.01.2010-31.12.2010	350	14	364
Adam Noga	01.01.2010-31.12.2010	306	14	320
Ronny Delchambre	01.01.2010-31.12.2010	0	0	0
Dirk Mampaey	01.01.2010-31.12.2010	0	0	0
Francois Gillet	01.01.2010-23.02.2010	44	0	44
Marek Michałowski	01.01.2010-23.03.2010	66	0	66
John Hollows	01.01.2010-26.05.2010	0	0	0
Feliks Kulikowski	01.01.2010-26.05.2010	109	14	123
Krzysztof Trębaczkiewicz	01.01.2010-26.05.2010	109	14	123
Jarosław Parkot	26.05.2010-31.12.2010	0	0	0
Stefan Kawalec	26.05.2010-31.12.2010	158	0	158
Marko Voljč	26.05.2010-31.12.2010	0	0	0
Total		**1 142**	**56**	**1 198**

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

Benefit	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Short-term employee benefits	9 466	9 706
Benefits paid after employment termination	0	16
Severance pays	1 546	0
Total	**11 012**	**9 722**

In 2011 and 2010, the Members of the Bank's Management Board and the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

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

55. Value of loans and advances granted to Members of the Management Board and of the Supervisory Board of Kredyt Bank S.A.

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

As at 31.12.2011, the receivables related to loans and cash loans extended by the Bank amounted to PLN 269,995 thousand for the Bank's employees. As at 31.12.2011, there were no receivables from the Members of the Bank's Management Board and of the Bank's Supervisory Board.

As at 31.12.2010, the receivables related to loans and cash loans extended by the Bank amounted to PLN 262,500 thousand for the Bank's employees. As at 31.12.2010, there were no receivables from the Members of the Bank's Management Board and of the Bank's Supervisory Board.

The employees' debt also comprised past due debts, which, as at 31.12.2011, amounted to PLN 625 thousand as compared to PLN 66 thousand as at 31.12.2010.

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

All disclosures concerning the Members of the Management Board and the Members of the Supervisory Board are presented in this Note and there is no other material information concerning loans and advances granted to the Members of the Management Boards and the Members of the Supervisory Boards in the Bank and in subsidiaries.

56. Dividends paid and declared

The recommendations concerning the potential payment and amount of dividend for 2011 or the decision not to pay dividend will be submitted to the Supervisory Board by the Bank’s Management Board prior to the convening of the General Meeting of Shareholders which will approve the Bank’s financial statements for 2011. Following their examination, the Supervisory Board will submit its opinion to the General Meeting of Shareholders. The Management Board’s recommendation concerning the distribution of the Bank’s result for 2011 will take into account both the Bank's current financial and market situation and its development plans for the future.

Pursuant to the Resolution of the Ordinary General Meeting of Shareholders of Kredyt Bank S.A. concerning the distribution of profit for 2010 adopted on 25.05.2011, the dividend for the financial year 2010 was paid in the gross amount of PLN 0.37 per share. The total amount of the dividend was PLN 100,513,785.60, and the entitlement to the dividend was vested in 271,658,880 shares of the Bank of A to W series inclusive. The right to dividend was established on 14.06.2011. The dividend was paid on 30.06.2011.

57. Events after the reporting period

On 26.01.2012, the Bank received a notice from Pioneer Pekao Investment Management S.A. (‘PPIM’) about the decline in its total commitment to 4.29% of the total votes at the General Meeting of Shareholders concerning the financial instruments included in the portfolios managed by PPIM. Pursuant to the said notice, the commitment of Pioneer Fundusz Inwestycyjny Otwarty decreased to 4.16% of the total votes at the General Meeting of Shareholders.

Further information about the issue is available in the current report dated 26.01.2012.

On 03.02.2012, Fitch Ratings downgraded the Bank’s Long-term Issuer Default rating (IDR) to ‘BBB’ from ‘A-‘. Fitch also maintained the said rating on Rating Watch Evolving (RWE).

Further information about the issue is available in the current report dated 03.02.2012.

Apart from the above issues, no significant events which should be disclosed in the financial statements had place from the balance sheet date to the publication date of these financial statements.

58. Employment structure

FTEs	**31.12.2011**	**31.12.2010**
- Head Office	2 297	2 113
- branches and affiliates	2 578	2 634
Total	**4 875**	**4 747**

59. Employee benefits

59.1. Employee Stock Ownership Plan

In 2011 and 2010, no employee stock ownership plan was implemented in the Bank.

59.2. Retirement benefits and other benefits after retirement

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

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Period beginning	1 547	1 408
Provision recognized	300	335
Paid benefits	-148	-196
Provision reversed	0	0
Other changes	0	0
Period end	**1 699**	**1 547**

59.3. Benefits related to the dissolution of employment

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Period beginning	0	2 279
Recognized	1 287	0
Reversed	0	0
Utilization	-1 287	-2 279
Period end	**0**	**0**

60. Social assets and the Company Social Benefit Fund

The Bank meets the requirements of the CSBF Act, establish the CSBF and create periodical charges for this purpose. The Fund has no property, plant and equipment. The objective of the Fund is to subsidize the Company's employee-related operations, loans borrowed to employees and other employee-related expenses.

The Bank set off the Fund assets against its liabilities to the Fund, as these assets are not separate assets under IAS/IFRS.

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

in PLN '000'	**31.12.2011**	**31.12.2010**
Employee cash loans	8 355	9 897
Cash on CSBF's bank accounts	7 362	4 661
Fund-related payables	15 717	14 558
Charges to the Fund in the period	5 929	3 800

61. Seasonality or cyclical nature of operations

The operations of the Bank are not of seasonal nature.

62. Non-typical factors and events

In 2011 and 2010, no untypical events occurred in the Bank (not related to operating activities) that would affect the structure of balance sheet items and the financial result to a large extent, and which were not presented in these financial statements.

63. Custodian services

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

The Bank holds an authorization of the Polish Securities and Exchange Commission to maintain securities accounts; it is also a direct participant of the National Depository for Securities (KDPW) as a Custodian Bank and a participant of the Securities Register (RPW) managed by the National Bank of Poland (NBP). On this basis, the Bank maintains accounts for securities admitted to organized trading, deposited in KDPW or RPW. The Financial Transactions Clearing Office in the Bank's Head Office is the Bank's unit responsible for maintaining securities accounts and the provision of the services of the issue sponsor.

In 2011, income related to the maintenance of securities accounts and registers as well as the services of an issue sponsor and of the custodian bank amounted to PLN 6,454 thousand as compared to PLN 5,661 thousand in 2010 and is accounted for in the comission income.

64. Discontinued operations

The Bank did not carry out operations which were discontinued in 2011 or in 2010.

65. Information on proceedings before a court, an authority competent for arbitration proceedings or a public administration authority

In 2011, the Bank was not a party to any proceedings before a court, an authority competent for arbitration proceedings or a public administration authority, where the amount(s) claimed would amount to at least 10% of the Bank's (issuer's) equity.

Below are presented those proceedings, in which the Bank is the defendant and in which the amounts claimed are the highest.

- Two court proceedings regarding a credit granted to Laboratorium Frakcjonowania Osocza Sp. z o.o. in Mielec ('LFO'). The Bank is the leader of the syndicate of five banks, which, under the agreement of 04.03.1997, granted a syndicated loan to LFO. The loan was secured by, among others, a registered pledge on the company's property, plant and equipment and the surety of the State Treasury up to 60% of the drawn amount of the loan and accrued interest. As the investment project for which the loan was extended had not been completed and the dates of the payment of commitments had not been met, the Bank, representing the syndicate, terminated the agreement under its terms and conditions and called LFO to pay claims.

- The State Treasury requested for determination whether the syndicated loan agreement concluded between LFO and the syndicate of five banks had expired on 28.02.1998 as a result of the occurrence of a contractual condition, and, as a result, the commitment of the State Treasury as the guarantor of the loan under the guarantor's agreement had expired as well. The State Treasury is represented by the General Public Prosecutor's Office of the State Treasury. Experts' opinions and auxiliary opinions were prepared and additional witnesses were questioned. In the first quarter of 2007, the State Treasury changed the lawsuit and claimed PLN 8,207 thousand including interest. In the fourth quarter of 2008, the court requested the Bank to submit documents concerning the debt collection process carried out against the State Treasury on the basis of a banking executory title with the enforceability clause. The Bank delivered the required documents to the court. In September 2010, the court ordered the Bank to hand over the documents confirming the launch of the loan (the launches dates and amounts) to an accounting expert. In June 2011, the court obliged the parties to submit pleadings containing all the statements and evidence material for the proceedings. No date of the hearing was set by the publication date of these financial statements.

- Claims of LFO for damages due to the termination of the loan agreement amounting to PLN 119,477 thousand. At present, after being heard by courts of all instances, the case was referred to the circuit court in Warsaw, which, as a result of LFO bankruptcy, stayed legal proceedings. Upon the request of LFO, the court called upon the trustee in bankruptcy of LFO to participate in the case. In the meantime, the parties submitted pleadings. On 27.10.2011, the court decided to terminate the bankruptcy proceedings.

- On 17.01.2001, the President of the Office for Competition and Customer Protection, upon the request of the Polish Organization of Commerce and Distribution (POHiD), initiated proceedings concerning competition-restricting practices on the payment cards market by VISA and MasterCard as well as 20 banks, including Kredyt Bank S.A.

  On 29.12.2006, the President of the Office for Competition and Customer Protection issued the decision in which:

- they imposed a fine on Kredyt Bank of PLN 12,158.4 thousand;
- HSBC Bank Polska S.A. was fined with PLN 193.0 thousand and the proceedings against this company were discontinued (under a binding agreement between HSBC and Kredyt Bank S.A., the fine for HSBC should be paid by Kredyt Bank S.A. as well).

  The decision was to be enforced immediately as regards the order to discontinue the practice of joint determination of the intercharge fee rate. On 17.01.2006 and 19.01.2007, appeals against Decision No. DAR 15/2006 of the President of the Office for Competition and Customer Protection were made on behalf of HSBC Bank Polska and Kredyt Bank. In this decision, the President of the Office for Competition and Customer Protection resolved that joint determination by the Banks, Visa and MasterCard of the interchange fee restricted competition. On 18.01.2007, the President of the Office for Competition and Customer Protection issued a decision in which they obliged the banks to jointly and severally pay PLN 157.6 thousand to the Polish Organization of Commerce and Distribution (POHiD) as reimbursement of the proceedings costs. Kredyt Bank S.A. complained against this decision on 31.01.2007 and deemed it unjustified. The case was referred to the Economic Court in Warsaw which split the case into separate proceedings against each of the banks involved in the case. On 25.08.2008, the court decided to withhold the execution of the decision issued in the case of interchange fees. On 12.11.2008, the circuit court in Warsaw, the Competition and Customer Protection Court, issued a judgment amending the contested decision, in which the court stated that the Banks had not applied monopolistic practices in this respect. On 3.02.2009, the Bank received the appeal against the judgment made by the President of the Office for Competition and Customer Protection. At the hearing held on 22.04.2010, the court issued a judgment by which it overruled the judgment of the circuit court and referred the case to the circuit court to be re-examined. The hearing was held on 09.02.2012, but no solutions were reached.

- In relation to a loan transaction to finance the construction of ‘Altus’ building in Katowice, the Bank and Reliz Sp. z o.o. (the building owner) are involved in certain disputes of legal nature. The Bank owns 100% shares of Reliz. The said disputes are related to claims of Mostostal Zabrze Holding S.A., the guarantor of the loan to finance the building, against the Bank and the building owner. The present dispute concerns fraudulent conveyance charge by Mostostal Zabrze Holding S.A. (MZH) against Reliz Sp. z o.o. regarding the failure to recognize the agreement on the transfer of ownership title to ‘Altus’ building by Business Center 2000 Sp. z o.o. (‘BC 2000’) to Reliz Sp. z o.o. as effective.

  On 31.07.2009, the circuit court announced the judgment in the fraudulent conveyance proceedings, which ascertained the ineffectiveness, towards MZH, of the sale agreement concerning ‘Altus’ building concluded between the building owner and Reliz Sp. z o.o., Reliz Sp. z o.o. filed the request to prepare and deliver the judgment with the justification, submitting means of appeal. On 12.03.2010, the court of appeal overruled the judgment of the circuit court of 31.07.2009 and referred the case to the circuit court to be re-examined. On 16.06.2010, as a result of the re-examination of the case, the circuit court in Katowice issued a judgment which ascertained the ineffectiveness, towards MZH, of the sale agreement concerning the real estate with ‘Altus’ building in relation to MZH’s claims up to the amount of PLN 45,980,560. Following the delivery of the judgment with the justification, an appeal to the judgment was made on 16.06.2010. The appeal hearing took place on 13.04.2011, during which the court closed the hearing and announced its judgment dismissing the full appeal of Reliz Sp. z o.o. The judgment of 13.04.2011 means upholding the judgment of the circuit court in Katowice of 16.06.2010, which recognized the agreement concerning the sale of ‘Altus’ building concluded between Business Center 2000 Sp. z o.o. and Reliz Sp. z o.o. as ineffective. On 01.07.2011, the agent for litigation from Reliz Sp. z o.o. filed the last resort appeal against the said decision.

According to the Bank’s knowledge as of the date of this information, MZH holds valid judgments against BC 2000 for the total amount, including interest, of PLN 35,797,629. On 05.05.2011, the court enforcement officer at the district court for Katowice-Wschód in Katowice initiated, upon the request of MZH, the enforcement process against BC 2000 based on the judgments in the case under the fraudulent conveyance charge. The enforcement process refers to the right of perpetual usufruct of a real estate, and ‘Altus’ building. Both the Bank and Reliz Sp. z o.o. took respective adverse claim measures, which resulted in the legal discontinuation of the enforcement proceedings regarding a part of the real estate. As regards further charges, the initiated adverse claim proceedings have not been validly terminated.

- The plaintiff claims damages from Kredyt Bank S.A. and HSBC Bank Polska S.A. of PLN 20 million and PLN 10 million as the satisfaction of the claim. In the justification of the lawsuit, the plaintiff claims that Prosper Bank S.A. (now HSBC Bank Polska S.A.), acting under the cooperation agreement concluded with a leasing company, wrote a bill of exchange which secured the agreement, and further lodged a lawsuit against this company and the plaintiff in the proceedings by writ of payment for this bill of exchange and obtained the order for payment. In the plaintiff’s opinion, Prosper Bank violated the agreement, wrote the bill of exchange incorrectly and lodged a completely unjustified lawsuit. The plaintiff claims that the order for payment issued by the district court on 11.01.1999 resulted in the loss of his property and his detriment amounting to PLN 30 million. Kredyt Bank S.A. submitted a reply to the lawsuit on its own and HSBC’s behalf. On 28.09.2010, the circuit court in Warsaw issued a judgment on the dismissal of the plaintiff’s lawsuit against Kredyt Bank S.A. and HSBC Bank Polska S.A. The plaintiff made an appeal to this decision. On 06.07.2011, the court dismissed the plaintiff’s appeal, issuing the decision upholding the judgment of the court of first instance. The case was validly terminated; however, the plaintiff is entitled to make the last resort appeal. By the publication date of these financial statements, the Bank has not received the plaintiff’s last resort appeal.
- The plaintiff (a company engaged in leasing activities) claims damages from Kredyt Bank S.A. and HSBC Bank Polska S.A. of PLN 89 million. In the justification of the lawsuit, the plaintiff claims that Prosper Bank S.A. (now HSBC Bank Polska S.A.), acting under the cooperation agreement concluded with a leasing company, wrote a bill of exchange which secured the agreement, and further lodged a lawsuit against this company in the proceedings by writ of payment for this bill of exchange and obtained the order for payment. In the plaintiff’s opinion, Prosper Bank violated the bill agreement, wrote the bill of exchange incorrectly and lodged a completely unjustified lawsuit. The plaintiff claims that the order for payment of 11.01.1999 issued by the District Court resulted in the collapse of the company’s financial situation; as a result, the plaintiff recorded damage to his assets of PLN 73.7 million increased with interest. On 9.04.2010, the court dismissed the plaintiff’s lawsuit. On 15.07.2010, the Bank received the plaintiff’s appeal to which the Bank replied. Having examined the appeal, the court issued the judgment dismissing the plaintiff’s claim, hence upholding the decision of the court of first instance. On 28.07.2011, the Bank received the plaintiff’s last resort appeal to which the Bank’s attorneys responded on 10.08.2011.
- On 23.12.2010, a plaintiff filed a lawsuit against Kredyt Bank S.A. questioning the validity of the settlements of option transactions made between July 2008 and August 2009. The plaintiff claims and accuses the Bank of, inter alia, unauthorized financial advisory and persuading him to make

the transactions, the failure to exercise due diligence, the contradiction between the option transaction structure and the hedging function of such transactions. On 30.12.2010, the circuit court in Gliwice issued an order for the Bank, delivered to the Bank on 13.01.2011, to pay the claimed amount to the plaintiff. The Bank's representatives prepared and filed an objection to the payment order. The filing of the objection will result in the re-examination of the case, within the normal procedure of fact-finding proceedings. On 22.09.2011, the court announced its decision in favor of the Bank and dismissed the entire lawsuit. On 08.11.2011, the Bank received the plaintiff's appeal. On 22.11.2011, the Bank's attorneys responded to the appeal. The appeal hearing was held on 29.12.2011. The appeal court dismissed the plaintiff's appeal and, as a result, upheld the judgment of the court of first instance. The plaintiff is entitled to make the last resort appeal.

- The plaintiff – a meat processing company – filed a lawsuit against Kredyt Bank S.A. questioning the validity of concluded option transactions amounting to PLN 9,468,362, particularly the put options concluded by the Bank. The plaintiff claims and accuses the Bank of, inter alia, misleading the customer, abusing its stronger contractual position, and violating the norms of social coexistence. The Bank's attorneys responded to the lawsuit. One hearing was held in August 2011, but no solution was reached. The next hearing is scheduled on 15.05.2012.

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

66. Risk management in Kredyt Bank S.A.

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

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

On 08.02.2011, the Bank's Management Board appointed the Risk and Capital Committee which replaced the following existing committees: the Assets and Liabilities Management Committee, the Operational Risk Committee and the Credit Risk Committee. The new Committee will become a forum for the integrated review of all types of risk and capital management. It supports the Bank's Management Board in the area of risk management, control and monitoring. The works of the Risk and Capital Committee are directed by the member of the Bank's Management Board responsible for risk and capital management.

All types of risk in Kredyt Bank are measured and monitored by the departments in the Risk and Capital Management Function, which is supervised by the Member of the Management Board accountable for the risk and capital management, i.e.:

- Capital Management Department;
- Corporate and SME Loans Risk Department;
- Retail Loans Risk Department;
- Operational Risk Department;
- Market Risk Department.

These units monitor and report all risk-related aspects, at the same time being fully independent of the Bank's business units.

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

The overriding objectives of risk management policy concerning mainly the observance of internal and external limits and optimising and mitigating risk in the process of ongoing monitoring are being systematically implemented. The risk management process is strictly related to the capital management process. The main objective of capital management in the Bank is to optimise it and, at the same time, to meet external capital requirements. To achieve this goal, in 2008, the Bank implemented ICAAP (Internal Capital Adequacy Assessment Process).

67. Credit risk

Credit risk in Kredyt Bank S.A. is defined as the potential shortfall relative to the value expected for a financial instrument consequent on non-payment or non-performance by a borrower, guarantor or counter-guarantor, counterparty (in relation to treasury transactions) or an issuer (of a debt instrument), due to that party’s insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country.

Credit risk management process in the Bank entails the following phases:

- risk identification;
- risk measurement (e.g. maximum approach, risk weighted assets, Exposure At Default – EAD, Expected Loss – EL, Unexpected Loss – UL);
- risk monitoring, particularly as regards the compliance of the risk profile with the determined risk appetite and established limits (e.g. exposures concentrations related to loans used to finance commercial properties, related to residential properties, industrial properties, professional properties and commercial properties);
- reporting;
- an analysis and formulation of recommendations;
- a decision-making process.

The main participants in the credit risk management process, within the organisation of the risk management system, are as follows:

- Supervisory Board;
- Audit, Risk and Compliance Committee;
- Bank’s Management Board;
- Risk and Capital Committee;
- Retail Loans Risk Department;
- Corporate and SME Loans Risk Department;
- Business lines managers;
- Audit and Inspection Department.

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 Corporate and SME Loans Risk Department and the Retail Loans Risk Department play the key role in the process of risk management for individual transactions.

The portfolio risk management is the main responsibility of the Corporate and SME Loans Risk Department, Retail Loans Risk Department, as well as of the Risk and Capital Committee. The main tasks of the Risk and Capital Committee are as follows:

- supporting the Management Board in:

- developing and reviewing the risk and capital management system, including the structures, processes, empowerments and policies;
- informing about the risk management system;
- monitoring the implementation status of the risk management system;
- establishing tolerance to risk – risk appetite;
- establishing the structure of internal risk limits consistent with the risk appetite;
- monitoring the implementation status of measures taken in response to observed risk;

- taking measures in response to observed risk, including cyclical reviews of the structure, processes, empowerments and policies in the area of risk and capital management, internal risk limits and corrective measures (e.g. changes in the risk parameters for the Bank's products) related to the risk and capital management below the materiality threshold;
- monitoring the risk and capital profile (including the use of limits, stress-testing, the use of the regulatory capital and of the economic capital) on the basis of the overall risk report;
- deciding on the issues of the rating and modeling system;
- reporting risk management issues to the Bank's Management Board; also informing the Bank's Management Board about decisions aimed at making the defined risk and yield ratios reach pre-determined levels;
- taking decisions concerning credit risk related to the powers granted by the Management Board.

The Bank's gross exposure towards 10 major corporate customers

31.12.2011		31.12.2010	
Company	**Share (%) in the portfolio**	**Company**	**Share (%) in the portfolio**
Customer 1	3.2	Customer 1	3.8
Customer 2	2.4	Customer 2	3.5
Customer 3	2.2	Customer 3	2.9
Customer 4	2.0	Customer 4	2.7
Customer 5	1.8	Customer 5	2.0
Customer 6	1.6	Customer 6	2.0
Customer 7	1.5	Customer 7	1.8
Customer 8	1.4	Customer 8	1.8
Customer 9	1.4	Customer 9	1.8
Customer 10	1.4	Customer 10	1.5
Total	**18.9**	**Total**	**23.8**

The Bank's exposure in geographical segments (excluding banks)

Province	Gross loans structure (%) 31.12.2011	Gross loans structure (%) 31.12.2010
Mazowieckie	20.4	21.1
Dolnośląskie	10.7	10.6
Wielkopolskie	9.3	8.9
Lubelskie	9.2	11.8
Pomorskie	8.7	8.7
Małopolskie	7.6	7.3
Śląskie	6.7	6.3
Łódzkie	5.2	4.3
Zachodniopomorskie	5.2	5.2
Podlaskie	3.3	3.2
Kujawsko-pomorskie	3.2	3.1
Podkarpackie	2.6	2.6
Warmińsko-mazurskie	2.6	2.4
Lubuskie	2.3	2
Świętokrzyskie	1.8	1.2
Opolskie	1.1	1.2
Non-resident	0.1	0.1
Total	**100.0**	**100.0**

The Bank's exposure in industrial segments (excluding natural persons)

Industry	Exposure % 31.12.2011	Exposure % 31.12.2010
Trade	24.3	21.2
Commercial real estate	13.6	17.5
Building industry	12.6	8.1
Natural resources, metals, chemicals	9.8	13.8
Agriculture and foodstuff production	7.8	7.8
Services	7.1	6.8
Automotive industry, shipyards, aviation	7.0	7.2
Local government units and financial institutions	5.7	6.6
Timber and papermaking	5.3	4.3
Electrical engineering	3.3	3.2
Transport	2.0	2.3
Gas, energy and water suppliers	0.9	0.5
Media, telecommunications, IT	0.6	0.7
Total	**100.0**	**100.0**

As at 31.12.2011 and 31.12.2010, the concentration limits regarding a customer/a group of related customers were not exceeded.

The table below presents the quality of the portfolio of non-past due loans and advances with no evidence for impairment. The table is based on the system of internal ratings applied by the Bank. The coverage of the Bank's balance sheet loans and advances to customers other than banks with internal ratings as at 31.12.2011 was at the level of 93.97%. As at 31.12.2010, the coverage was at the level of 93.57%.

Rating	31.12.2011	31.12.2010
PD 1 (the best rating)	11.5%	18.1%
PD 2	27.8%	18.7%
PD 3	6.5%	18.1%
PD 4	21.6%	10.2%
PD 5	9.0%	14.3%
PD 6	10.8%	8.8%
PD 7	7.9%	7.1%
PD 8	3.3%	2.9%
PD 9 (the worst rating)	1.6%	1.8%
Total	**100.0%**	**100.0%**

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

The Bank's maximum exposure to credit risk

Balance sheet instruments	31.12.2011	31.12.2010
Debt securities	**8 795 493**	**11 122 652**
- available-for-sale	5 256 641	6 215 538
- held-to-maturity	3 416 674	3 247 779
- financial assets at fair value through profit or loss (excluding derivatives)	122 178	1 659 335
Derivatives	**1 071 089**	**463 159**
Net loans and advances to banks	**1 188 012**	**1 463 989**
Net loans and advances to customers:	**28 840 369**	**27 025 777**
Natural persons*:	22 163 196	20 744 991
- overdraft facilities	873 085	756 252
- term loans **	731 015	732 286
- cash loans, installment loans and cards	2 502 479	2 836 150
- mortgage housing loans	17 623 776	15 958 687
- other mortgage loans***	390 617	427 200
- purchased debt	12 153	10 944
- realised guarantees	554	423
- other receivables	29 517	23 049
Corporate customers and SME:	6 477 086	6 093 201
- overdraft facilities	1 924 017	1 490 723
- term loans **	4 243 795	4 431 948
- purchased debt	210 322	112 602
- realised guarantees	35 001	203
- other receivables	11 839	10 429
- debt securities classified as loans and receivables	52 112	47 296
Budgetary sector:	200 087	187 585
- overdraft facilities	4 742	2 731
- term loans **	106 931	164 618
- purchased debt	19 961	0
- debt securities classified as loans and receivables	68 453	20 236
Various debtors (receivables recognized in other assets)	**69 038**	**73 043**
Total	**39 964 001**	**40 148 620**

Granted off-balance sheet liabilities	31.12.2011	31.12.2010
Financial	4 494 703	4 153 019
Guarantees	2 196 284	2 071 183
Total liabilities granted	**6 690 987**	**6 224 202**
Total assets and off-balance sheet items	**46 654 988**	**46 372 822**

** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
***contains mainly investment loans and working capital loans*
**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

Having regard for the existing macroeconomic situation, which is characterized by a high level of uncertainty as regards the future evolution and a relatively low rate of its improvement, the Bank focused on the monitoring of credit risk with the use of cyclical and provisional reports and analyses in order to response fast to disadvantageous trends in the quality of the loans portfolio. The Bank established early warning signs within portfolio limits, the principles for their monitoring and procedure in the case they are exceeded. On the basis of the findings of the analyses, the Bank introduced changes in the credit policy aimed at improving the quality of the loans portfolio.

The main areas of changes in terms of credit policy include:

a) for the portfolio of retail customers:

- complete implementation of 'T Recommendation';
- changing the methodology of calculating maintenance costs implemented at the customer level (uniform for all products);
- expanding the principles of the lending policy in the case of individual customers who borrow mortgages in a foreign currency (EUR) to 100% LtV;
- establishing the cooperation with the provider of insurance (TU Europa) in the area of insuring borrowers' low own funds in a loan for mortgage loans;
- addressing the product offer mainly at existing customers with good behavioural assessments;
- expanding the stress-testing methodology and its use in the process of establishing concentration limits;

b) for the portfolio of corporate and SME customers:

- the reorganization of the lending process and defining new liability scopes for particular participants in this process, including:
  - determining the business liability for the total lending process;
  - appointing professional decision-makers in the independent risk function focused on the process of making credit decisions and liable for the management of the credit risk of the assigned loans subportfolio;
  - centralizing the lending process for SME customers in specialized units.

Currency derivatives (net of embedded derivatives)

	31.12.2011		31.12.2010	
in PLN '000'	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Total balance sheet exposure, excluding banks	51 267	16 637	24 967	23 339
Net position aggregated at customer level, excluding banks	40 598	5 293	17 669	16 041

As at 31.12.2011, the Bank hedged concluded currency contracts by frozen cash on bank accounts in the total amount of PLN 5 million. The valuation of derivatives also entails credit risk. In 2011, write-downs for active derivatives of PLN 3 million (presented in net trading income) were recognized, and write-downs for mature derivatives of PLN 10 million (presented in impairment losses) were reversed, in the Bank's income statement.

As at 31.12.2010, the Bank hedged concluded currency contracts by frozen cash on bank accounts in the total amount of PLN 9 million. The valuation of derivatives also entails credit risk. In 2010, the write–downs for active and mature derivatives of PLN 26 million, including PLN 8 million related to active transactions (presented in net trading income), and PLN 18 million related to mature transactions (presented in impairment losses), were reversed in the Bank's income statement.

68. Operational risk

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

To calculate the capital requirement for operational risk in pillar I, the Bank applies the Standardized Approach.

As a result, the Bank, inter alia,:

- has specified roles and responsibilities of employees within the operational risk management system;
- keeps a record of operational events and losses resulting from the operational risk;
- has the operational risk management system which is regularly reviewed by independent auditors.

Pursuant to the requirements concerning the application of the Standardized Approach, the Bank strengthened the operational risk assessment system. Risk self-assessment (RSA) is carried out systematically in particular business areas, action plans to reduce the risk are implemented and the level of risks is measured with the applications of key risk indicators (KRI).

Once a year, the Bank identifies key operational risks (Risk Scan).

Business units play a significant role in the implementation of operational risk management tools and techniques, as the direct responsibility for the operational risk management is on the managers of particular business lines.

69. Market risk and ALM

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

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

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

69.1. Trading Book

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

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

- The fact that the level of risk reflected by VaR is the resultant of historical changes in price parameters and in the position on a given day. In order to more fully present the level of the risk to which the Bank was exposed in 2011, the tables below present both VaR on the last day of the year, and the average, minimum and maximum levels in the whole 2011.
- VaR does not provide information about the distribution of potential losses when the losses exceed VaR. Although, according to expectations, the losses will not exceed the calculated VaR at the pre-determined materiality level (99%), in the remaining cases the losses may be much higher than the calculated VaR. To control the above-mentioned limitations, the Bank verifies the

correctness of the adopted methodology by carrying out annual backtesting of the results from the VaR model.

- In the VaR model applied by the Bank, on the basis of historical price changes, it is assumed that the prices in the future will be subject to the same distribution as the prices in the examined period in the past.

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

	Limit	31.12.2011	Data for 2011		
			Average	Minimum	Maximum
VaR	3 000.0	1 580.54	1 497.31	298.82	2 894.13

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

	Limit	31.12.2010	Data for 2010		
			Average	Minimum	Maximum
VaR	3 000.0	706.11	1 778.10	644.97	3 202.60

69.1.1. Interest rate risk

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

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

All above-mentioned limits concern the total Trading Book. The Trading Book Unit in the Cash Processing Department managing the Trading Book is divided into two sections (with the primary term of instruments/transactions made on the interbank market as the basic division criterion): Short Term Desk and Long Term Desk. The activities of the Trading Book in the area of interest rate risk are limited by an internal limit on VaR for the interest rate position and stop-loss limits (the maximum acceptable value of the loss). Interest rate risk VaR is calculated using the same parameters as Global VaR, i.e. the significance level of 99%, 10-day time horizon and 500-day observation horizon.

Global VaR limit was not exceeded in 2011. At the same time, in the first quarter of the year, the internal VaR limit for the interest rate was exceeded occasionally, which resulted from the maintenance of substantial positions in PLN.

Value at Risk for interest rate positions

in '000' EUR	Limit	31.12.2011	Data for 2011		
			Average	Minimum	Maximum
Trading	2 600.0	1 590.03	1 487.39	295.19	2 883.27

Value at Risk for p interest rate positions and particular sections

in '000' EUR	Limit	31.12.2010	Data for 2010		
			Average	Minimum	Maximum
Trading*	2 600.0	708.19	1 659.73	597.28	3 220.61
Short term Desk**	1 300.0	-	1 691.67	1 060.52	2 767.96
Long Term Desk**	1 300.0	-	671.56	224.92	1 317.28

** the limit has been valid since 24 March 2010 (the data presented in the table refer to the period 24.03.2010 – 31.12.2010)*
*** the limit abolished on 24 March 2010 (the data presented in the table refer to the period 1.01.2010 – 23.03.2010)*

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

Interest rate options

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

69.1.2. Currency risk

Position in currencies

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

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

Currency risk VaR values are as follows:

VaR for the Trading Book – currency risk

in '000' EUR	**31.12.2011**	**Data for 2011**		
		Average	Minimum	Maximum
Trading	38.00	104.36	12.50	798.16

VaR for the Trading Book – currency risk

in '000' EUR	**31.12.2010**	**Data for 2010**		
		Average	Minimum	Maximum
Trading	19.11	114.27	15.24	1 117.65

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

Currency options

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

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

Balance sheet as at 31.12.2011:

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Assets							
Cash and balances with Central Bank	7 730	69 332	14 522	24 875	663 435	4 732	784 626
Gross loans and advances to banks	24 770	161 419	8 931	54 166	930 390	8 336	1 188 012
Financial assets designated upon initial recognition as at fair value through profit or loss	0	0	0	34 741	45 203	0	79 944
Financial assets held for trading (excluding derivatives)	0	1 633	0	708	58 152	0	60 493
Derivatives	2 174	64 496	3 797	6 808	993 110	704	1 071 089
Gross loans and advances to customers	11 206 405	3 170 271	10 062	223 251	15 599 350	655	30 209 994
Impairment losses on loans and advances to customers	-62 211	-74 776	-1	-9 688	-1 222 924	-25	-1 369 625
Investment securities:	0	343 739	0	0	8 332 280	0	8 676 019
- available-for-sale	0	297 956	0	0	4 961 389	0	5 259 345
- held-to-maturity	0	45 783	0	0	3 370 891	0	3 416 674
Investments in subsidiaries and jointly controlled entities	0	0	0	0	64 626	0	64 626
Property, plant and equipment	0	0	0	0	261 609	0	261 609
Intangible assets	0	0	0	0	60 472	0	60 472
Deferred tax assets	0	0	0	0	242 881	0	242 881
Current tax receivable	0	0	0	0	116 870	0	116 870
Investment properties	0	0	0	0	17 536	0	17 536
Non-current assets held for sale	0	0	0	0	2 047	0	2 047
Other assets	2	11 820	57	67	72 758	83	84 787
Total assets	**11 178 870**	**3 747 934**	**37 368**	**334 928**	**26 237 795**	**14 485**	**41 551 380**

Balance sheet as at 31.12.2011 (cont.)

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Liabilities							
Amounts due to Central Bank	0	0	0	0	32	0	32
Amounts due to banks	6 787 514	985 556	967	1 241	282 890	2 010	8 060 178
Derivatives	105	44 479	75	9 101	929 150	6	982 916
Amounts due to customers	697 695	2 614 170	80 937	772 228	23 922 857	6 888	28 094 775
Provisions	0	27 662	0	223	63 241	0	91 126
Other liabilities	61	9 648	100	822	237 471	23	248 125
Subordinated liabilities	961 554	0	0	0	74 956	0	1 036 510
Total liabilities	**8 446 929**	**3 681 515**	**82 079**	**783 615**	**25 510 597**	**8 927**	**38 513 662**

Off-balance-sheet items as at 31.12.2011

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Off-balance sheet items							
Liabilities granted:	**981**	**1 539 028**	**27 339**	**251 001**	**4 844 653**	**27 985**	**6 690 987**
- financial	981	591 978	527	237 293	3 659 680	4 244	4 494 703
- guarantees	0	947 050	26 812	13 708	1 184 973	23 741	2 196 284
Liabilities received:	**0**	**259 542**	**0**	**0**	**623 385**	**0**	**882 927**
- financial	0	9 417	0	0	32 004	0	41 421
- guarantees	0	250 125	0	0	591 381	0	841 506
Liabilities related to the sale/purchase transactions	**4 132 643**	**24 370 804**	**78 826**	**4 384 407**	**166 273 066**	**38 759**	**199 278 505**
Collateral received	**2 765 426**	**686 977**	**0**	**35 539**	**4 949 539**	**44**	**8 437 525**

Balance sheet as at 31.12.2010:

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Assets							
Cash and balances with Central Bank	3 079	45 405	6 187	19 227	1 862 104	7 569	1 943 571
Gross loans and advances to banks	24 320	387 007	2 951	37 230	994 625	20 116	1 466 249
Impairment losses on loans and advances to banks	0	0	0	0	-2 260	0	-2 260
Receivables arising from repurchase transactions	0	0	0	0	87 218	0	87 218
Financial assets designated upon initial recognition as at fair value through profit or loss	0	0	0	31 149	67 700	0	98 849
Financial assets held for trading (excluding derivatives)	0	7 030	0	1 581	1 592 672	0	1 601 283
Derivatives	2 319	38 000	138	4 612	418 035	55	463 159
Gross loans and advances to customers	10 258 473	2 196 350	19 122	327 740	16 099 185	666	28 901 536
Impairment losses on loans and advances to customers	-36 206	-49 894	-4	-9 152	-1 780 480	-23	-1 875 759
Investment securities:	0	353 883	0	0	9 110 664	0	9 464 547
- available-for-sale	0	312 444	0	0	5 904 324	0	6 216 768
- held-to-maturity	0	41 439	0	0	3 206 340	0	3 247 779
Investments in subsidiaries and jointly controlled entities	0	0	0	0	64 626	0	64 626
Property, plant and equipment	0	0	0	0	291 922	0	291 922
Intangible assets	0	0	0	0	51 827	0	51 827
Deferred tax assets	0	0	0	0	327 776	0	327 776
Investment properties	0	0	0	0	18 217	0	18 217
Non-current assets held for sale	0	0	0	0	7 070	0	7 070
Other assets	271	7 615	20	116	82 366	36	90 424
Total assets	**10 252 256**	**2 985 396**	**28 414**	**412 503**	**29 293 267**	**28 419**	**43 000 255**

Balance sheet as at 31.12.2010 (cont.)

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Liabilities							
Amounts due to Central Bank	0	0	0	0	6	0	6
Amounts due to banks	7 988 319	1 375 125	4 104	2 225 862	157 620	20 374	11 771 404
Liabilities arising from repurchase transactions	0	0	0	0	228 693	0	228 693
Derivatives	169	47 663	1 030	5 567	1 076 642	7	1 131 078
Amounts due to customers	9 143	1 885 733	83 942	688 276	23 035 185	7 725	25 710 004
Current tax liability	0	0	0	0	152 959	0	152 959
Provisions	54	25 365	0	1 013	44 446	0	70 878
Other liabilities	80	7 055	86	648	198 995	26	206 890
Subordinated liabilities	836 156	0	0	0	74 944	0	911 100
Total liabilities	**8 833 921**	**3 340 941**	**89 162**	**2 921 366**	**24 969 490**	**28 132**	**40 183 012**

Off-balance-sheet items as at 31.12.2010

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Off-balance sheet items							
Liabilities granted:	**28 754**	**1 566 937**	**23 744**	**196 431**	**4 379 084**	**29 252**	**6 224 202**
- financial	28 754	666 003	368	168 823	3 289 071	0	4 153 019
- guarantees	0	900 934	23 376	27 608	1 090 013	29 252	2 071 183
Liabilities received:	**973 848**	**312 423**	**0**	**0**	**838 039**	**5 392**	**2 129 702**
- financial	973 848	0	0	0	72 101	5 392	1 051 341
- guarantees	0	312 423	0	0	765 938	0	1 078 361
Liabilities related to the sale/purchase transactions	**6 150 912**	**6 926 354**	**118 980**	**4 955 853**	**116 597 183**	**30 309**	**134 779 591**
Collateral received	**2 421 169**	**441 789**	**0**	**30 318**	**4 460 624**	**44**	**7 353 944**

69.1.3. Capital market risk

The Bank does not operate on the stock market within the Trading Book. At the same time, in 2011, the Bank offered structured products to customers, in which the payment depended on the preservation of WIG 20 index. As in the case of currency options and interest rate options, the Bank does not have an open option position on the basis of the capital market instruments. Options on the inter-bank market are the options hedging the position resulting from transactions with customers. Therefore, the market risk in the above-mentioned portfolio of currency option transactions does not exist.

69.1.4. Commodity price risk

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

69.1.5. Capital requirements

The capital requirements for the Trading Book as of 31.12.2011 and 31.12.2010 are as follows:

Capital requirements for the Trading Book

in PLN '000'	**31.12.2011**	**31.12.2010**
Equity securities price risk	0	0
Specific risk of debt instruments	11	23
General interest rate risk	31 057	32 726
Settlement risk and counterparty risk	46 940	20 351
Currency risk (total for the Trading Book and the Banking Book)	0	0
Total capital requirement in the Trading Book	**78 008**	**53 100**

69.2. Banking Book

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

69.2.1. Interest rate risk

The Bank actively manages the interest rate risk in the main currencies of the balance sheet, including PLN, EUR, USD and CHF.

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

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

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

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

Interest rate risk analysis

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

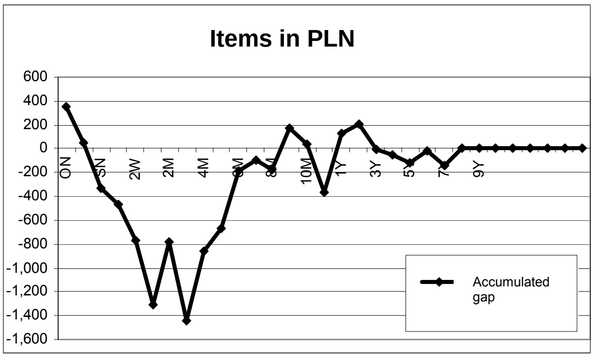
- a stable part of current accounts in PLN and EUR is cyclically invested for the period of:
  1. 8 years for PLN;
  2. 5 years for EUR;
- a stable portion of savings accounts in PLN is invested cyclically (every month) for the period of 5 years;
- unstable parts of current accounts in PLN and EUR, and current accounts in other currencies are classified in the shortest time horizon;
- a unstable part of savings accounts in PLN is invested in terms from 1 to 3 months (cyclically every month) and O/N; savings accounts in other currencies are classified in the shortest time horizon;
- free capital approved for the whole year is still invested cyclically for the period of 10 years (with 1/120th of the free capital invested monthly), an excess or shortage compared to an actual amount of free capital is classified in the shortest time horizon, and the passive portion of the free capital portfolio is deemed as insensitive to changes in interest rates;
- loans are recognized in net terms;
- fixed interest rate loans are accounted for according to the payment schedule, and the floating interest rate loans are presented in the closest revaluation period;
- a gap report, apart from for nominal flows, also presents known future interest flows;
- each flow is divided proportionally into two parts which are classified in adjoining nodes of the curve;
- a cumulative gap is calculated from the longest to the shortest term periods.

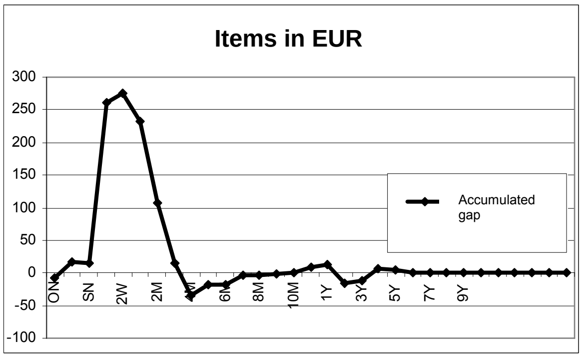
The interest rate gaps diagrams for the position resulting from the operation of branches (including derivatives used as hedging instruments) based on an internal system of transfer rates in particular currencies: PLN, EUR, USD and CHF, are presented below.

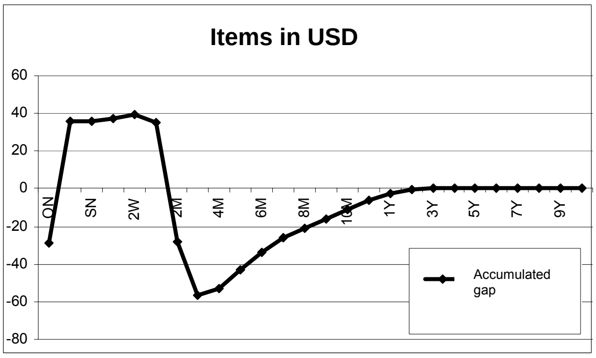
The diagrams present the mismatch between the repricing periods for assets and liabilities in time ranges: from O/N time range (overnight) to 10Y time range (10 years). The accumulated gap presents the total mismatch for a given time horizon; the gaps are accumulated beginning from the most remote date. The most noticeable mismatch both in particular time ranges and accumulated ranges appear in time ranges up to 3 months. It is related to the structure of the Bank's balance sheet, namely customers' floating interest rate loans portfolio with repricing periods of 1 month and 3 months and financing, i.e. customers' deposits and long-term floating interest rate loans are the main position affecting the interest rate gap.

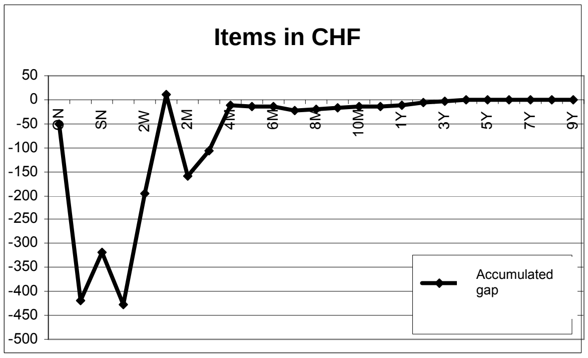
The Bank actively mitigates the risk resulting from the mismatch between balance sheet assets and liabilities, closing the positions with derivatives and applying hedge accounting.

Data for the Bank as at 31.12.2011 (in original currencies)

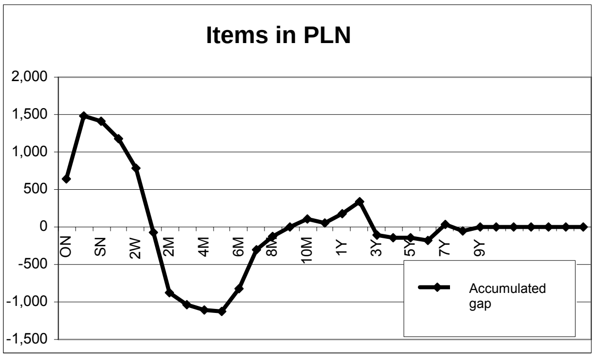


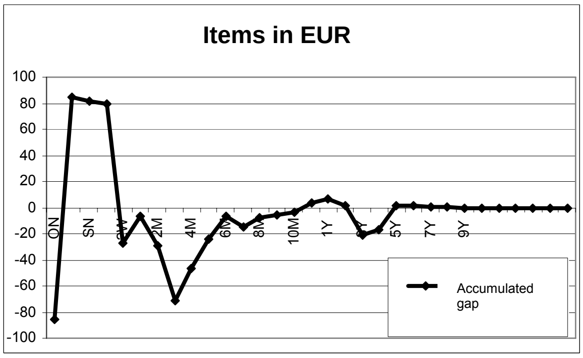


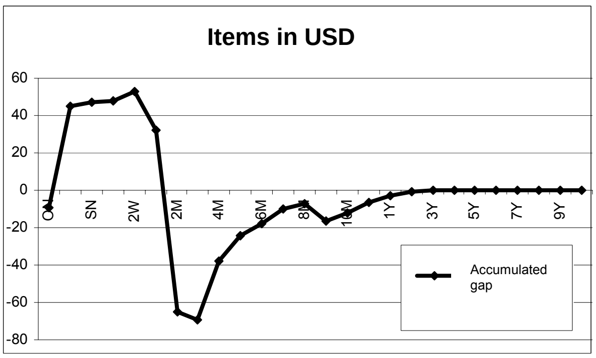


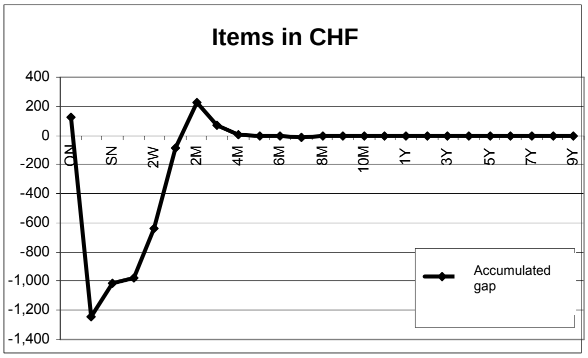


Data for the Bank as at 31.12.2010 (in original currencies)









The Bank analyzes BPV of the Bank, with the simultaneous upward shift of interest rates by 10 b.p. in breakdown into particular currencies.

The total BPV for the Banking Book is presented below. It is calculated as the aggregate BPV for particular currencies and portfolios. According to the methodology of calculating BPV for limits, the liabilities side of the Free Capital portfolio, as insensitive to changes in interest rates, is not included in calculations.

in '000' EUR	**31.12.2011**	**31.12.2010**
BPV (calculation to limit)	-1 957	-2 134

69.2.2. Hedge accounting

Fair value hedging accounting

In 2011 and 2010, the Bank did not apply hedge accounting for fair value hedge.

Hedge accounting of cash flows

In 2011, the Bank ceased to apply hedge accounting of cash flows for asset swaps, which consists in hedging cash flows resulting from floating interest rate bonds. In 2010, the Bank applied hedge accounting of cash flows for asset swaps (the hedge involves the conclusion of an IRS in which the Bank receives fixed and pays floating interest flows).

In 2011, as in 2010, the Bank continued to apply hedge accounting for the part of the mortgage loans portfolio based on 3-month WIBOR rate, which involves the conclusion of an IRS in which the Bank receives fixed and pays floating interest rates. Interest rate risk resulting from a change in the 3-month interest rate is the hedged risk in this case.

69.2.3. Currency risk

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

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

In order to mitigate the currency risk on granting mortgage housing loans in a foreign currency to individual customers, the Bank, analyzing the creditworthiness:

a) determined the value of the highest monthly interest and principal repayment installment for the applied loan with the assumption that the principal of the applied loan is 20% higher;

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

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

In May 2010, the Bank eliminated from its offer mortgages denominated in CHF, focusing on the development of the offer in PLN and EUR. In January 2012, the mortgages denominated in EUR were also withdrawn from the offer.

69.3. Liquidity risk

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

The Bank hedges the liquidity risk by:

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

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

According to the methodology of the Financial Services Authority adopted by the Bank, the stable part of current accounts and savings accounts is recognized in the shortest term range. In the range up to 6 months, the Bank presents highly probable cash flows (the principal and interest). In ranges above 6 months, the Bank presents only cash flows related to principals. The adoption of the said methodology results in a more restrictive picture of the Bank's liquidity than in the situation when the gap analysis shows all interest flows expected in the future.

In the tables below, the current accounts and savings accounts are presented in 'on demand' term range, term deposits are presented at maturity, what results in the negative gap in the ranges up to 1Y, particularly in the range up to 1M. In reality, the deposit base is characterized with a high level of stability, which is analyzed by the Bank on an ongoing basis. On this basis, the Bank prepares the liquidity gap, having regard for 'made real' (i.e. expected by the Bank) maturity dates for particular categories of customer deposits.

Liquidity gap report

Data as at 31.12.2011 (in million PLN)

Assets	**up to 1M**	**1 - 3M**	**3 - 6M**	**6M - 1Y**	**1Y - 2Y**	**2Y - 3Y**	**3Y - 5Y**	**over 5Y**	**Total**
Cash in hand	669	0	0	0	0	0	0	0	669
NOSTRO	89	0	0	0	0	0	0	0	89
Loans granted	853	1 344	1 693	2 178	3 141	2 403	2 494	15 092	29 198
Other loans and receivables granted	194	0	0	0	0	0	0	0	194
Liquid bonds, money and Treasury bills	105	96	163	175	943	1 321	1 634	1 454	5 891
Non-liquid bonds/held-to-maturity	110	2	410	770	478	500	1 045	566	3 881
Liquid bonds in the Trading Book	60	0	0	0	0	0	0	0	60
Reverse repos/BSB	0	0	0	0	0	0	0	0	0
Equity investments	0	0	0	0	0	0	0	86	86
Other	0	52	0	0	2	0	0	0	54
Derivatives – cash flows to be received									
FX derivatives	4 146	3 303	1 726	1 107	83	0	0	0	10 365
IR derivatives	155	1 042	659	0	0	0	0	0	1 856
CIRS – cash flows to be received	0	8	184	1 038	16	11	10	0	1 267
Total	**6 381**	**5 847**	**4 835**	**5 268**	**4 663**	**4 235**	**5 183**	**17 198**	**53 610**

Liabilities	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	over 5Y	Total
Current accounts	3 896	4	4	0	0	0	0	0	3 904
Deposits/savings accounts	14 200	2 155	3 693	552	140	1	1	3	20 745
Deposits of the budgetary sector	1 267	166	26	1	12	0	0	0	1 472
Inter-bank deposits	1 276	2 321	203	193	0	0	0	0	3 993
Perpetual bonds and cash loans	46	30	30	3 977	1 257	34	47	1 799	7 220
LORO	74	1	1	0	0	0	0	0	76
Repos/SBB	0	0	0	0	0	0	0	0	0
Free capital*	0	0	0	0	0	0	0	2 388	2 388
Other	0	84	0	102	31	0	0	0	217
Derivatives – cash flows to be paid									
FX derivatives	4 122	3 177	1 731	1 101	80	0	0	0	10 211
IR derivatives	116	1 074	605	0	0	0	0	0	1 795
CIRS – cash flows to be paid	0	4	183	1 056	13	11	8	0	1 275
Total	**24 997**	**9 016**	**6 476**	**6 982**	**1 533**	**46**	**56**	**4 190**	**53 296**

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

	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	over 5Y
Assets	6 381	5 847	4 835	5 268	4 663	4 235	5 183	17 198
Liabilities	24 997	9 016	6 476	6 982	1 533	46	56	4 190
Liquidity gap	**-18 616**	**-3 169**	**-1 641**	**-1 714**	**3 130**	**4 189**	**5 127**	**13 008**

Data as at 31.12.2010 (in million PLN)

Assets	**up to 1M**	**1 - 3M**	**3 - 6M**	**6M - 1Y**	**1Y - 2Y**	**2Y - 3Y**	**3Y - 5Y**	**over 5Y**	**Total**
Cash in hand	625	0	0	0	0	0	0	0	625
NOSTRO	1 346	0	0	0	0	0	0	0	1 346
Loans granted	966	1 114	1 585	2 054	2 950	2 143	2 656	13 937	27 405
Other loans and receivables granted	96	0	0	0	0	0	0	0	96
Liquid bonds, money and Treasury bills	304	52	677	190	441	922	2 672	1 383	6 641
Non-liquid bonds/held-to-maturity	0	22	493	0	1 209	378	1 189	387	3 678
Liquid bonds in the Trading Book	1 694	0	0	0	0	0	0	0	1 694
Reverse repos/BSB	87	0	0	0	0	0	0	0	87
Equity investments	0	0	0	0	0	107	0	0	107
Other	0	44	0	0	2	0	0	0	46
Derivatives – cash flows to be received									
FX derivatives	2 547	2 176	2 538	1 111	138	0	0	0	8 510
IR derivatives	117	546	462	0	0	0	0	0	1 125
CIRS – cash flows to be received	402	3	13	454	0	20	24	0	916
Total	**8 184**	**3 957**	**5 768**	**3 809**	**4 740**	**3 570**	**6 541**	**15 707**	**52 276**

Liabilities	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	over 5Y	Total
Current accounts	4 005	5	6	0	0	0	0	0	4 016
Deposits/savings accounts	14 109	1 792	1 972	743	429	4	1	1	19 051
Deposits of the budgetary sector	1 571	101	53	10	20	0	0	0	1 755
Inter-bank deposits	6 012	651	518	17	4	0	0	0	7 202
Perpetual bonds and cash loans	5	19	25	2 827	2 445	81	14	1 110	6 526
LORO	25	0	0	0	0	0	0	0	25
Repos/SBB	229	0	0	0	0	0	0	0	229
Free capital*	0	0	0	0	0	0	0	2 341	2 341
Other	0	78	0	834	28	0	0	0	940
Derivatives – cash flows to be paid									
FX derivatives	2 548	2 241	2 548	1 125	140	0	0	0	8 602
IR derivatives	147	349	1 097	0	0	0	0	0	1 593
CIRS – cash flows to be paid	475	2	10	483	0	17	22	0	1 009
Total	**29 126**	**5 238**	**6 229**	**6 039**	**3 066**	**102**	**37**	**3 452**	**53 289**

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

	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	over 5Y
Assets	8 184	3 957	5 768	3 809	4 740	3 570	6 541	15 707
Liabilities	29 126	5 238	6 229	6 039	3 066	102	37	3 452
Liquidity gap	**-20 942**	**-1 281**	**-461**	**-2 230**	**1 674**	**3 468**	**6 504**	**12 255**

The liquidity gap presented above was prepared on the basis of contractual maturities for particular balance sheet items. Liabilities without a defined maturity (current accounts and savings accounts) are recognized in the shortest term range, although the actual/made real maturity for such instruments occurs in further tenors.

At the end of 2011, as compared to the end of 2010, the following changes in the structure of the Bank's financial liabilities can be noticed:

- an increase in the balance of customers' deposits by PLN 1,299 million;
- the amount of accepted inter-bank deposits decreased by PLN 3,209 million;
- an increase in the balance of loans on the wholesale market by PLN 694 million;
- a decrease in the balance of repos by PLN 229 million.

The Bank's financial liquidity is also monitored on the basis of a system of ratios reflecting the structure of liabilities and receivables for time ranges from 7 days to 10 years.

- the ratio of the coverage of the 5- and 30-day liquidity gap with liquid assets – Short Term Liquidity Surplus (STLS) – short-term liquidity ratio (to 5 and 30 working days respectively);
- the liquidity buffer in the liquidity stress-test (within a 30-day horizon);
- Liquidity Mismatch Ratio (LMR) – medium-term liquidity ratio (up to 3, 6 months);
- Coverage Ratio (CR) – liquidity ratio which informs about a degree of financing long-term assets with long-term liabilities (1, 2, 3, 5 and 10 years).

The Bank's liquidity is also monitored through a set of regulatory liquidity ratios pursuant to the requirements of Resolution No. 386/2008 of the Polish Financial Supervision Authority.

69.3.1. Regulatory liquidity ratios

Within the liquidity management process, the Bank has been required to maintain the ratios listed in the Resolution of the Polish Financial Supervision Authority No. 386/2008 above the established minimum limit.

Data as at 31.12.2011

	Assets	*in PLN '000'*
A1	Basic liquidity reserve	8 984 754
A2	Supplementary liquidity reserve	4 234 595
A3	Other transactions on the wholesale financial market	14 965 149
A4	Limited liquidity assets	28 939 510
A5	Non-liquid assets	583 830
	Liabilities and equity	*in PLN '000'*
B1	Own funds less total capital requirements related to market risk, and to settlement risk and counterparty risk	3 566 284
B2	Stable external financing	30 223 000
B3	Other liabilities on the wholesale financial market	13 811 705
B4	Other liabilities	412 582
B5	Unstable external financing	9 658 566

	Liquidity ratios	Minimum value	Risk weighted
M1	Short-term liquidity gap: ((A1+A2)-B5)	0.00	3 560 782.42
M2	Short-term liquidity ratio: ((A1+A2)/B5)	1.00	1.37
M3	Own funds to non-liquid assets: (B1/A5)	1.00	6.11
M4	Own funds and stable external financing to non-liquid assets and limited liquidity assets: ((B1+B2)/(A5+A4))	1.00	1.14

Data as at 31.12.2010

	Assets	*in PLN '000'*
A1	Basic liquidity reserve	11 826 102
A2	Supplementary liquidity reserve	3 027 888
A3	Other transactions on the wholesale financial market	10 347 994
A4	Limited liquidity assets	27 201 586
A5	Non-liquid assets	673 934
	Liabilities and equity	*in PLN '000'*
B1	Own funds less total capital requirements related to market risk, and to settlement risk and counterparty risk	3 453 781
B2	Stable external financing	28 803 751
B3	Other liabilities on the wholesale financial market	9 867 395
B4	Other liabilities	297 089
B5	Unstable external financing	12 531 790

	Liquidity ratios	Minimum value	Risk weighted
M1	Short-term liquidity gap: ((A1+A2)-B5)	0.00	2 322 200.49
M2	Short-term liquidity ratio: ((A1+A2)/B5)	1.00	1.19
M3	Own funds to non-liquid assets: (B1/A5)	1.00	5.12
M4	Own funds and stable external financing to non-liquid assets and limited liquidity assets: ((B1+B2)/(A5+A4))	1.00	1.16

69.3.2. Financing sources – amounts due to banks and subordinated liabilities

in PLN '000'	31.12.2011	31.12.2010
Loans and advances from KBC Group, including:	2 808 513	5 271 691
- in foreign currencies	2 808 513	5 271 691
Term deposits, including:	5 160 973	2 922 345
- from KBC Group	5 117 701	2 909 169
Current accounts, including:	83 795	3 573 391
- from KBC Group	69 746	2 809 093
Other liabilities	6 897	3 977
Total amounts due to banks	**8 060 178**	**11 771 404**
Subordinated liabilities (from KBC Group)	1 036 510	911 100
Total	**9 096 688**	**12 682 504**

The Bank finances the lending activities not only with deposits, but also with the financing made available by KBC Group, the Bank's major shareholder. The loans in foreign currencies granted by the Bank are, to a large extent, financed with loans in foreign currencies received from KBC Group, deposits in foreign currencies made by entities from KBC Group and customer deposits in foreign currencies.

At the same time, the diversification of the deposit base results in the fact that the Group is not clearly dependent on any specific market segment, customer group or a specific deposit type.

The structure of customers' deposits was presented in Note 40.

Signatures of all Management Board Members

date	22.02.2012	Maciej Bardan	President of the Management Board	....
date	22.02.2012	Piotr Sztrauch	Vice President of the Management Board	....
date	22.02.2012	Umberto Arts	Vice President of the Management Board	....
date	22.02.2012	Jerzy Śledziewski	Vice President of the Management Board	....
date	22.02.2012	Zbigniew Kudaś	Vice President of the Management Board	....
date	22.02.2012	Mariusz Kaczmarek	Vice President of the Management Board	....

Signature of a person responsible for keeping the accounting books

date	22.02.2012	Grzegorz Kędzior	Director of Accounting and External Reporting Department	....

KREDYT BANK S.A.

LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

I. GENERAL NOTES

1. Background

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

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

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

The Bank is the holding company of Kredyt Bank S.A. Capital Group. Details of transactions with affiliated entities are included in Note 51 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2011.

The principal activities of the Bank are as follows:

- accepting call (demand) or term deposits and keeping deposit accounts,
- keeping other types of bank accounts,
- extending loans,
- extending and confirming bank guaranties, letters of credit and securities,
- issuing bank securities, including in non material form,
- performing bank settlements,
- operations including cheques and bills of exchange, as well as operations warrants,
- issuing payment cards and performing operations using such cards,
- performing forward financial operations,
- purchasing and disposing of debt,
- storing valuable items and securities and renting safe deposit box,
- purchasing and selling of foreign exchange,
- intermediation in money transfers and settlements in foreign exchange trade,
- performing commissioned services relating to issuance of securities,
- extending cash loans,
- issuing electronic money instruments,
- acting as a bank – representative of bond holders,
- taking over or purchasing shares and rights arising from banks' shares and other rights from shares from other legal entities or participation units in investment funds,

- purchasing securities on own account or third parties, dealing with those securities, keeping securities accounts and intermediation in the conclusion and execution of securities accounts agreements,
- performing brokerage activities,
- incurring liabilities relating to the issuance of securities,
- acting as a trustee in dealing with securities, realizing commissioned services relating to the management of securities and other financial instruments, exercising rights arising from these securities on behalf of Banks' clients and on their request,
- performing lease operations, factoring, underwriting and forfeiting, as well as acting as an intermediary in this areas,
- managing investments and pension funds, serving as intermediary for investment funds, acting as depositary for investment and pension funds, keeping accounting books and members registers for funds, serving as payment agent for foreign investment funds,
- insurance agency activities for individuals and corporations,
- acquisition for open pension funds,
- performing, in accordance with agreement with debtors, conversion of liabilities to parts of debtor assets in line with the Banking Law,
- acquiring and disposing of real estate,
- financial consulting and advisory services,
- intermediation in performing banking services for other banks and financial services for other banks, credit and financial institutions.

As at 31 December 2011, the Bank's issued share capital amounted to 1,358,294 thousand zlotys and it comprised of 271,658,880 shares with the nominal amount of 5 zlotys each. The Bank's equity as at that date amounted to 3,037,718 thousand zlotys.

In accordance with excerpt from the Bank's Shares Register of 21 February 2012, the ownership structure of the Bank's issued share capital as at 31 December 2011 was as follows:

	Number of shares	Number of votes	Par value of shares (in zlotys thousand)	% of issued share capital
KBC Bank N.V.* (Bruksela)	217,327,103	217,327,103	1,086,636	80.00%
Pioneer Fundusz Inwestycyjny Otwarty	20,040,203	20,040,203	100,201	7.38%
Others	34,291,574	34,291,574	171,457	12.62%
TOTAL	271,658,880	271,658,880	1,358,294	100.00%

* By the Resolution of the Commission for Banking Supervision No. 81/KNB/01 of 17 September 2001, KBC Bank N.V. is entitled to exercise no more than 75% of votes at the General Shareholders' Meeting of Kredyt Bank S.A.

According to information included in the Bank's Share Register as at 21 February 2012, the following changes took place in the ownership structure of the Bank's issued share capital during the financial year and between the balance sheet date and the date of the report:

- On 8 and 15 February 2011 the Bank was informed about a reduction of the interest in the Bank total shareholding held yet by affiliated entities of KBC Group N.V. by over 1% of total shareholding. According to received information, as a result of the disposal of interest in Kredyt Bank S.A., KBC Securities N.V. and KBC Insurance N.V. sold all held shares of the Bank. After the transaction number of the Bank's shares hold by KBC Bank N.V. has not changed.
- On the 26 January 2012, Kredyt Bank S.A. was informed by Pioneer Pekao Investment Management S.A. ("PPIM") about the reduction to 4.29% of votes at the General Shareholders' Meeting of the Bank relating to investment portfolios managed by PPIM. According to this information, the share in voting rights of Pioneer Fundusz Inwestycyjny Otwarty has been reduced to the level of 4.16% of votes at the General Shareholders' Meeting of the Bank.

There were no movements in the share capital in the reporting period as well as during the period from the balance sheet date to the date of the opinion.

(in thousand zlotys)

As at 22 February 2012, the Bank's Management Board was composed of:

Maciej Bardan	- President of the Management Board
Umberto Arts	- Vice-President of the Management Board
Mariusz Kaczmarek	- Vice-President of the Management Board
Zbigniew Kudaś	- Vice-President of the Management Board
Piotr Sztrauch	- Vice-President of the Management Board
Jerzy Śledziewski	- Vice-President of the Management Board

In the reporting period, there have been movements in the Bank's Management Board, as follows:

- On 25 May 2011, Mr Gert Rammeloo resigned from the function of Vice-President of the Management Board, due to the decision of returning to Belgium.
- At the meeting held on 25 May 2011 the Supervisory Board of the Bank appointed the Management Board for the new term. As a result, Mr Krzysztof Kokot has completed his function as a Vice-President of the Management Board, while Mr Jerzy Śledziewski and Mr Mariusz Kaczmarek were appointed for the positions of Vice-Presidents of the Management Board with effect from 25 May 2011 and 1 July 2011 respectively.

2. Financial Statements

On 25 April 2005 the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

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 Supervisory Board of Kredyt Bank S.A. on 23 February 2011 to audit the Bank's financial statements.

Ernst & Young Audit sp. z o.o. and the key 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. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (2009 Journal of Laws, No. 77, item 649 with subsequent amendments).

Under the contract executed on 6 June 2011 with the Bank's Management Board, we have audited the financial statements for the year ended 31 December 2011.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an auditors' unqualified opinion dated 22 February 2012, 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 2011 of Kredyt Bank S.A. ('the Bank') located in Warsaw at Kasprzaka 2/8 Street, containing the income statement for the period from 1 January 2011 to 31 December 2011, the statement of comprehensive income for the period from 1 January 2011 to 31 December 2011, the balance sheet as at 31 December 2011, the statement of changes in equity for the period from 1 January 2011 to 31 December 2011, the cash flow statement for the period from 1 January 2011 to 31 December 2011, and the summary of significant accounting policies and other explanatory notes ('the attached financial statements').
2. The truth and fairness[1] of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. In addition, the Bank's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152, item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Bank 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:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board of the Bank, 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 2011 to 31 December 2011, as well as its financial position[3] as at 31 December 2011;

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelnie i jasno*'
[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

- have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and based on properly maintained accounting records;
- are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Bank's Articles of Association.

5. We have read the Management Board's report on the operations of Kredyt Bank S.A. for the year ended 31 December 2011 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 dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (2009 Journal of Laws No. 33, item 259 with subsequent amendments)."

We conducted the audit of the Bank's financial statements during the period from 7 November 2011 to 22 February 2012. We were present at the Bank's head office from 10 November 2011 to 23 December 2011 and from 2 January 2012 to 22 February 2012.

2.2 Representations provided and data availability

The Bank's Management Board confirmed its responsibility for the truth and fairness[4] of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, 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 22 February 2012, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the audited financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the audited 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

The Bank's financial statements for the year ended 31 December 2010 were audited by Dorota Snarska-Kuman, key certified auditor No. 9667, acting on behalf of Ernst & Young Audit sp. z o.o. located in Warsaw at Rondo ONZ 1. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2010 dated 25 February 2011. The Bank's financial statements for the year ended 31 December 2010 were approved by the General Shareholders' Meeting on 25 May 2011, and the shareholders resolved to appropriate the 2010 net profit as follows:

[4] Translation of the following expression in Polish: "*rzetelność i jasność*"

(in thousand zlotys)

Reserve capital	10.725
Dividends for the shareholders	100.514

	111.239
	========

The financial statements for the financial year ended 31 December 2010, 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 3 June 2011 with the National Court Register.

The introduction to the financial statements, the profit and loss account for the year ended 31 December 2010, the statement of comprehensive income for the year ended 31 December 2010, the balance sheet as at 31 December 2010, statement of changes in equity and cash flow statement for the year ended 31 December 2010, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B No. 1887 on 12 October 2011.

The closing balances as at 31 December 2010 were correctly brought forward in the accounts as the opening balances at 1 January 2011.

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 2009 - 2011. The ratios were calculated on the basis of financial information included in the financial statements for years ended 31 December 2010 and 31 December 2011.

(in thousand zlotys)

	2011	2010	2009
Total assets	41,551,380	43,000,255	38,912,543
Shareholders' equity	3,037,718	2,817,243	2,652,299
Net profit	310,318	111,239	165,301
Capital adequacy ratio	12.72%	12.85%	12.13%
Profitability ratio	42.38%	16.05%	18.21%
$\frac{\text{Profit before tax}}{\text{general and administrative expenses}}$			
Cost to income ratio	61.55%	59.46%	47.75%
$\frac{\text{general and administrative expenses}}{\text{total operating income less other operating expenses}}$			
Return on equity (ROE)	10.60%	4.07%	6.32%
$\frac{\text{net profit}}{\text{average shareholders' equity}}$			
Return on assets	0.73%	0.27%	0.43%
$\frac{\text{net profit}}{\text{average assets}}$			
Rate of inflation:			
yearly average	4.3%	2.6%	3.5%
December to December	4.6%	3.1%	3.5%

3.2 Comments

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

- Net profit of the Bank for 2011 amounted to 310,318 thousand zloty in comparison to the net profit of 111,239 thousand zlotys in 2010 and 165,301 thousand zlotys in 2009.
- Compared to 2010, there was a decrease in total assets of the Bank in 2011. The total assets as at 31 December 2011 amounted to 41,551,380 thousand zloty.
- The profitability ratio decreased from 18.21% in 2009 to 16.05% in 2010 and subsequently increased to 42.38% in 2011.
- Cost to income ratio increased from 47.45% in 2009 to 59.46% in 2010 and subsequently to 61.55% in 2011.
- Return on equity ratio decreased from 6.32% in 2009 to 4.07% in 2010 and subsequently increased to 10.60% in 2011.
- Return on assets ratio decreased from 0.43% in 2009 to 0.27% in 2010 and subsequently increased to 0.73% in 2011.
- The Bank's capital adequacy ratio amounted 12.72% as at 31 December 2011 as compared to 12.85% at the end of 2010 and 12.13% at the end of 2009.

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 2011 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 2.2 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2011, the Management Board of the Bank has stated that the financial statements were prepared on the assumption that the Bank will continue as a going concern for a period of at least twelve months subsequent to 31 December 2011 and that there are no circumstances that would indicate a threat to its continued activity.

In addition, as stated in Note 1 of the additional notes and explanations to the audited standalone financial statement of the Bank for the year ended 31 December 2011, on the 27 July 2011, KBC N.V. Group was given an approval from the European Commission to make changes to the strategy from the year of 2009, including disposing of the Polish subsidiaries – Kredyt Bank S.A. and Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A. (along with their subsidiaries). The matter described above does not have an impact on the Management Board's assumption that the Bank will continue as a going concern for a period of at least 12 months subsequent to 31 December 2011.

3.4 Application of regulation mitigating banking risk

As at 31 December 2011, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolution of the Polish Financial Supervision Committee ('KNF') envisaged banking regulatory norms in relation to following items:

- level of currency positions,

- concentration of credit risk,
- concentration of investments in shares,
- classification of loans and issued guarantees and warranties according to the risk categories, recognition of provisions related to banking operations,
- solvency,
- liquidity,
- level of obligatory reserve,
- capital adequacy.

During the 2011 audit we have not identified any facts indicating that during the period from 1 January 2011 to 31 December 2011 the Bank did not comply with the above regulations. In addition, we have received written representation from the Bank's Management Board that during the financial year the banking regulatory norms were not breached.

3.5 Correctness of calculation of capital adequacy ratio

During our audit we have not identified any significant irregularities in relation to the calculation of the capital adequacy ratio as of 31 December 2011 in accordance with Resolution No. 76/2010 of the Polish Financial Supervision Committee of 10 March 2010 on the scope and detailed principles of the capital requirements against particular risks (Official Journal of the Polish Financial Supervision Committee No. 2, dated 9 April 2010 with further amendments).

II. DETAILED REPORT

1. Accounting System

The Bank's accounts are kept using the Profile computer system, Oracle Financials, Murex, LoanIQ and Flexcube 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 2011.

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 2011.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the audited financial statements for the year ended 31 December 2011 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union.

4. Directors' Report

We have read the Management Board's report on the operations of Kredyt Bank S.A. for the year ended 31 December 2011 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the audited financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (2009 Journal of Laws No. 33, item 259 with subsequent amendments).

5. Materiality level

When determining the materiality level, professional judgement was applied taking into account the specific characteristic relating to the Bank. This included consideration of quantitative and qualitative aspects.

6. Conformity with Law and Regulations

We have obtained a letter of representations from the Bank's Management Board confirming that no laws, regulations or provisions of the Bank's Articles of Association were breached during the financial year, which could have an impact on the audited financial statements of the Company.

7. Work of experts

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

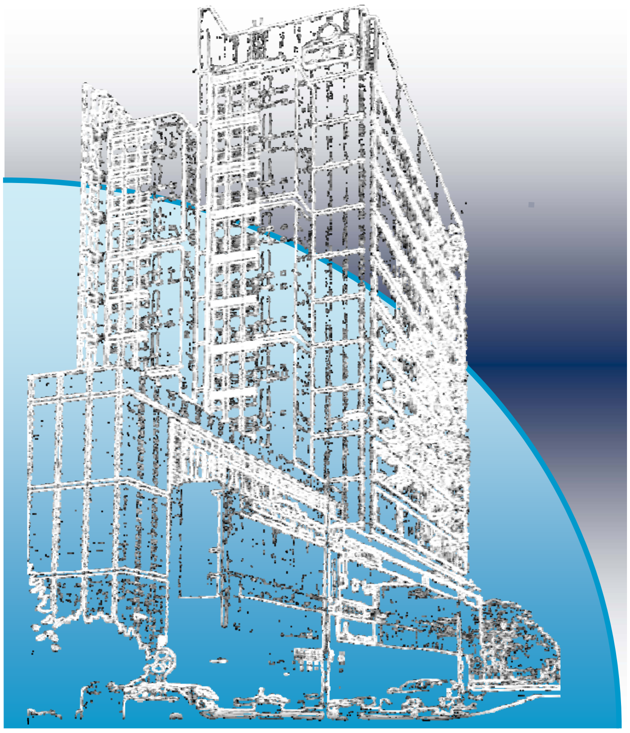
- real estate experts – in calculation regarding the level of loan impairment we took into consideration the valuations of collateral, prepared by property appraisers, that were engaged by the Bank;
- actuary – actuarial calculation of provision for retirement benefits performed on the Bank's request.

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

Key Certified Auditor

Dorota Snarska-Kuman
certified auditor
no. 9667

Warsaw, 22 February 2012



THE MANAGEMENT BOARD'S REPORT ON THE OPERATIONS OF KREDYT BANK S.A. for 2011

2011

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1. Factors affecting the results of Kredyt Bank S.A. in 2011

In 2011, Kredyt Bank S.A. generated PLN 310,318 thousand of net profit and PLN 408,520 thousand of profit before tax. The figures were higher than the figures recorded in 2010 by 179.0% and 185.7% respectively. The results allowed for the generation of a significantly higher, than in 2010, return on equity (ROE) at the level of 10.6% and return on assets (ROA) at the level of 0.7%.

Selected financial ratios and figures	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Net loans and advances to customers	28 840 369	27 025 777	25 772 236	26 925 698	16 898 328
Amounts due to customers	28 094 775	25 710 004	22 521 686	20 555 309	17 180 731
Net operating income	1 566 217	1 498 569	1 801 604	1 413 309	1 265 075
Profit before tax	408 520	142 969	156 604	389 379	512 202
Operating profit	602 231	607 547	940 895	522 463	441 907
Net profit	310 318	111 239	165 301	301 072	400 519
ROE	10.6%	4.1%	6.3%	12.5%	18.7%
ROA	0.7%	0.3%	0.4%	0.9%	1.6%
CIR	61.5%	59.5%	47.8%	63.0%	65.1%
Capital adequacy ratio	12.7%	12.8%	12.1%	8.9%	9.6%
Loans and advances with evidence for impairment/total gross loans and advances	8.6%	10.1%	9.1%	5.4%	7.4%

The most important elements that affected the financial result of Kredyt Bank S.A. in 2011:

- The sale of the portfolio of retail debts with the total nominal value of PLN 1,169.7 million (as at 31.03.2011) in the first half of 2011. The net book value of the Portfolio in the books of Kredyt Bank S.A. as of 31.03.2011 amounted to PLN 137.2 million. The positive impact of the transaction upon the net result of Kredyt Bank S.A. recognized in the consolidated income statement for 2011 amounted to PLN 62,722 thousand. Disregarding the impact of the above-mentioned transaction, net profit in 2011 would amount to PLN 247,596 thousand and would be higher than the result recorded in 2010 by 122.6%.
- Reduction of the costs of credit risk and smaller deduction of net impairment losses on financial assets, other assets and provisions from profit before tax. In 2011, they were negative and amounted to -PLN 193,711 thousand, i.e. less by 58.3% than in 2010 (-PLN 464,578 thousand). Disregarding the impact of the above-mentioned sale of debts, net impairment losses in 2011 would amount to -PLN 278,675 thousand (the impact of the transaction upon the net impairment losses amounted to +PLN 84,964 thousand). In addition, net impairment losses on financial assets, other assets and provisions in 2011 comprise the provision of PLN 35 million for the potential liability related to the resale of Żagiel S.A. by KBC Group below the price obtained by Kredyt Bank S.A. in 2009.

Other factors that affected the level and structure of results in 2011 to a large extent were as follows:

- An increase in the value of the Bank's loans and deposits portfolio. At the end of 2011, net loans and advances to customers amounted to PLN 28,840,369 thousand, i.e. 6.7% more than at the end of 2010, and amounts due to customers amounted to PLN 28,094,775 thousand, i.e. 9.3% more than at the end of 2010.
- An increase by 9.4% in net interest income as compared to 2010. It was the result of a significant increase, in 2011, in the deposit margin in both main business segments, as well as of an increase in the loan margin especially in the segment of enterprises.

- Net fee and commission income lower by 4.4% as a result of, among others, a decrease in the net income related to payment cards processing and ATMs maintenance.
- A decrease in the net trading income resulting primarily from the negative valuation of the securities measured at fair value through profit or loss due to the decline in quotations at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).
- An increase in the Bank's general and administrative expenses in 2011 by 8.2% as compared to 2010. It was related to higher costs of taxes and fees (the Bank Guarantee Fund and VAT) and an increase in marketing costs, which aimed at the improvement of the brand image and at the acquisition of greater numbers of individual customers. An increase in staff costs also adversely affected the general and administrative expenses.

The most important events for the Bank's operations in 2011 are as follows:

- Stabilization of the economic situation in Poland reflected in a better economic situation of the customers from the Enterprises Segment,
- Growth of the demand for loans in the Enterprises Segment, which is positive for the implementation of the strategy of the diversification of the loans portfolio,
- Further implementation of the Bank's new strategy which involves the concentration of activities on selected products and services as well as target customer segments, organizational changes aiming at the improvement of the management of processes and changes in business models in order to better align the offer and processes to market and customer requirements,
- Termination of the reorganization of the mortgage banking business line in order to, among other things, improve the management of the credit risk of the mortgages portfolio and better align the sales process to the market requirements,
- Obtaining, by KBC Group, the approval of the European Commission to change the strategic plan, which involves the decision concerning the outside sale of the Polish assets of the Group, including Kredyt Bank S.A.,
- Deterioration of the business conditions in the euro area adversely affecting the financial markets and, as a result, the sales of investment products,
- Changes in the exchange rate of the Polish zloty adversely affecting the structure and costs of financing banking activities, the risk-weighted assets and the costs of the risk in the case of loan products in foreign currencies,
- Increased price competition on the deposits market associated with the amendments to the law concerning the taxation of income from bank term deposits and the concerns about the sources of financing banking activities in 2012.

2. Business conditions in Poland and the banking sector in 2011

Overall situation in 2011

In 2011, the GDP growth rate in Poland accelerated from 3.9% y/y in 2010 to 4.3% in 2011, and was one of the highest growth rates in the EU states, apart from Sweden and the Baltic states. It resulted, to the largest extent, from the maintenance of the high growth rate of private consumption, which, however, due to a high inflation rate, a difficult situation on the labor market and reduced availability of consumer loans, remained below the level recorded before the previous economic slowdown. The acceleration of the economic growth rate, as compared to the previous year, was also affected by the higher growth rate of the investments of enterprises, supported with the increase in loans granted to companies. In addition, the inflow of resources from the EU funds and the implementation of infrastructural projects related to EURO 2012 contributed to a further increase in public investments. However, it was adversely affected by the tightening of the fiscal policy in Poland, which, due to the reduction of budgetary expenditure, resulted in the decline in the government consumption. Good business conditions of the major business partners, including those in Germany, and the maintenance of a relatively weak exchange rate of the Polish zloty in the second half of the year, contributing to the increase in the price competitiveness of Polish exporters, resulted in the improved net export and, as a result, contributed to the higher GDP growth rate.

In 2011, we witnessed the deterioration of the situation on the labor market, which is evidenced by the employment and unemployment figures. The escalation of the crisis in the euro area contributed to greater uncertainty concerning the future demand for the goods manufactured in Polish enterprises, what reduced their demand for new employees. In addition, the deterioration of the situation on the labor market also resulted from reduced employment in the public sector and more limited spending from the Labor Fund on active forms of counteracting unemployment. The factors were reflected in the decline in the growth rate of the number of people employed outside agriculture from 1.1% in 2010 to 0.9% in 2011 and in the increased unemployment rate recorded at the end of the year that reached the highest level since 2006 (12.5%). The complicated situation on the labor market combined with the continuing high inflation rate contributed to the decline in the average annual real growth rate of wages and salaries in the national economy to the lowest level in over 15 years (1.2%).

Throughout 2011, the CPI inflation remained above the upper limit of deviations from the inflation target of the National Bank of Poland (3.5%), and in May it reached the highest level since a decade (5.0%). The high inflation rate resulted, inter alia, from the abrupt increase in prices at the beginning of the year, chiefly due to the higher VAT rates and an increase in regulated prices, as well as due to the boom on global markets of agricultural raw materials, which contributed to the increase in food prices. In further months, the increase in prices was affected also by an adverse supply situation on the internal market of fruit, vegetables and crops, as well as further rises in the prices of energy raw materials in the world. In turn, the depreciation of the exchange rate of the Polish zloty, which was reflected in the rises in regulated prices (gas), fuel prices and the prices of other imported goods, contributed to the maintenance of a higher level of the inflation rate in the last quarter of 2011.

In response to the rise in the inflation rate and the resulting greater inflation expectations, in the first half of 2011, the Monetary Policy Council increased the interest rates four times. The reference rate of the National Bank of Poland (NBP) was raised by the total of 100 b.p. to 4.50%. The Monetary Policy Council terminated the cycle of increases mainly due to the deterioration of the perspectives for the economic growth, contributing to the weakening of the inflation pressure and, hence, increasing the probability of the inflation returning to the target in the horizon of the impact of the monetary policy.

Following a period of some stabilization, in the first half of the year, the Polish zloty depreciated against the major currencies. It was an effect of a global increase in the risk aversion following the escalation of the financial crisis in the euro area and related outflow of the foreign capital from the economies of developing countries. The depreciation of the Polish zloty much below its fundamental value made the NBP decide to carry out the first, since the floating of the Polish zloty, monetary intervention to prevent its further depreciation, which resulted in reduced volatility of the exchange rate of the Polish zloty. In addition, the depreciation of the Polish zloty against the Swiss franc was limited with the decision of the Swiss National Bank concerning the determination of the minimum exchange rate of the euro against the Swiss currency. At the end of 2011, the Polish zloty was weaker by 13% against the euro, 15% against the British pound and 16% against the US dollar and the Swiss franc as compared to the levels recorded at the end of 2010.

Banking sector in 2011

The financial results of banks in the first three quarters of 2011 were close to record-high levels from 2008. In the period, the net financial result of the banking sector amounted to PLN 11.8 billion against PLN 8.6 billion in the first three quarters of 2010 and PLN 12.6 billion in the corresponding period of 2008. Such a high financial result in 2011 resulted from a significant improvement of the business conditions in Poland. It was combined with the increase in the quality of the loans portfolio associated with the decline in impairment losses for consumer loans and loans for enterprises. At the same time, the loans/deposits ratio in the Polish banking system increased, which resulted, in the first place, from the depreciation of the Polish zloty that caused the rise in the nominal value of loans in foreign currencies. Having regard for the changes in the exchange rate, the loans/deposits ratio remained in 2011 at a firm level. In addition, the capital adequacy ratio for the banking sector remained in 2011 at the level close to the one recorded in 2010, fluctuating within the range of 13-14%.

In the first quarters of 2011, WIBOR rates rose due to the increases in interest rates made by the Monetary Policy Council. In the second half of the year, a further increase in WIBOR rates, despite the termination of the cycle of tightening the monetary policy, resulted from greater uncertainty on financial markets, which manifested as a higher risk premium accounted for in the rates of the money market. In addition, the escalation of the financial crisis and the related decreased liquidity in the European banking sector contributed to reduced turnovers and a more limited supply of instruments with longer maturity dates on the inter-bank market.

At the end of 2011, the volume of loans granted by banks to the non-financial sector was higher by 14% than the year before. Mortgages grew the fastest, what was positively affected by the decline in loan margins and the announcements concerning the introduction of more rigorous conditions of granting subsidies under 'Rodzina na swoim' ('Own house for a family') programme, which encouraged customers to make faster decisions about taking out a loan. However, the effects were partially set-off due to the requirement for banks to implement, in the second half of the year, the recommendations of the Polish Financial Supervision Authority, which decreased the creditworthiness of households by establishing the maximum level of loan repayment installments in relation to income (the so-called T Recommendation) and the maximum lending period applied in the calculations of the creditworthiness (the so-called S Recommendation). Moreover, the said regulations, which imposed stricter conditions of granting loans in foreign currencies, contributed to the increase in the share of loans in PLN in the structure of new mortgage loans. In 2011, we also witnessed an increase in the volume of loans for enterprises, which was positively affected by the introduction, by certain banks, of less stringent granting criteria by decreasing loan margins, increasing the maximum loan amount and extending the maximum lending period. In the structure of loans granted to enterprises, investment loans outnumbered overdraft facilities, what reflected the high liquidity and growing investing activity of companies. Consumer loans were the only market segment that recorded a decline in the value of the receivables of the banking sector. It resulted primarily from the tightening of the lending policy of banks due to the implementation of T Recommendation and a greater inclination of households to save money.

The banks' amounts due to the non-financial sector grew at the end of 2011 by 13%. It was supported by the higher interest rates on deposits resulting from the increase in WIBOR rates and the deterioration of the liquidity situation on the inter-bank market. The increase in the interest rates on deposits also contributed to the changes in the maturity structure of deposits and the transfer of funds from current accounts and savings accounts to term deposits. The growth of deposits from natural persons was also a result of a greater inclination of households to save money due to the uncertainty concerning their future financial situation and declining stock exchange indexes, which discouraged investors from investing on the equity market. On the other hand, good financial results and the reluctance to make new investments in the context of deteriorating perspectives for the economic growth contributed to the increase in the deposits of enterprises.

3. The strategy of Kredyt Bank S.A.

In autumn 2010, KB S.A. adopted a new strategy for 2010 – 2012. Its main objective is to ensure the accomplishment of satisfactory financial results, assuming the reduction of the risk of the operations, and it prefers the business model based on organic growth. The strategy was implemented in 2011 and remains valid.

Overall strategic objectives for 2010 – 2012

- A fundamental increase in the quality of customer service,
- Promotion of a new and widely-recognizable image of the Bank,
- Stable and profitable growth in selected segments and products that will ensure the preservation of the goodwill,
- Accomplishment and maintenance of significant market shares in selected areas,
- The return for shareholders expressed with ROE at a double-digit level in 2012,
- The C/I ratio at ca. 55% in 2012,
- Maintenance of the capital adequacy ratio above 10%.

KB S.A. intends to accomplish the strategic objectives through, for example, the development of three strategic business lines:

- Retail Banking,
- Mortgage Loans Factory,
- Enterprises Banking,

and an independent and integrated risk and capital management function.

The target customer segments in the area of retail banking:

- mass customers,
- medium-affluent and affluent customers,
- private banking (PB) customers,
- micro-enterprises (SOHO).

The target customer segments in the area of enterprises banking:

- small and medium-sized enterprises (SME),
- medium-sized companies (MidCap).

The methods of accomplishing the goals:

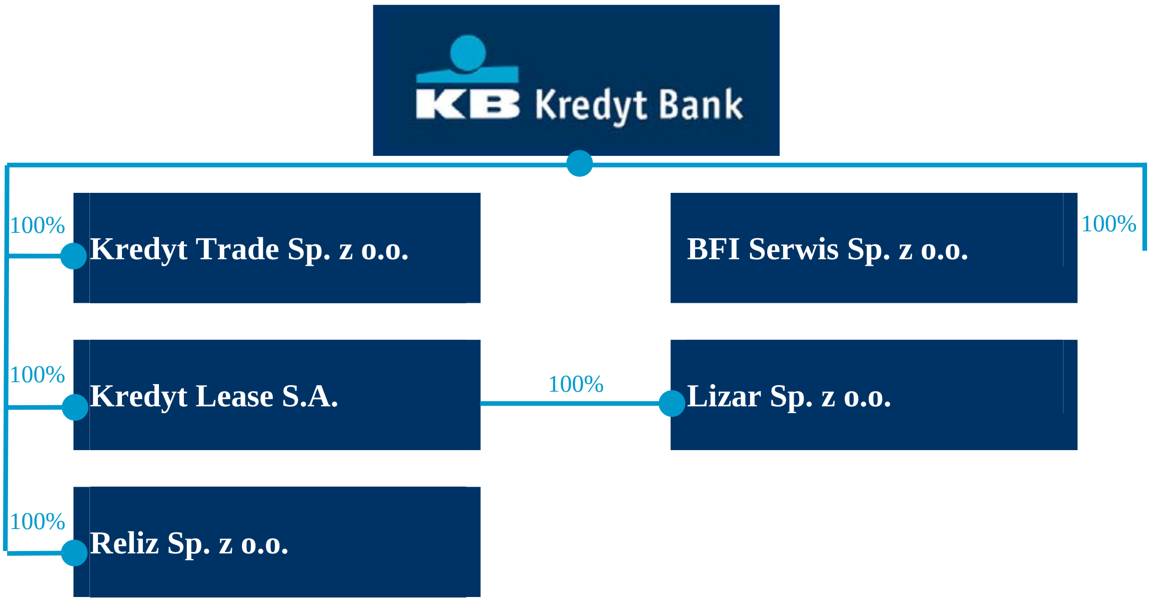
- A banking model based on the development and expansion of customer relations on the basis of selected products and services. Focus on the accomplishment of the leading position in the case of selected banking products and services,
- An independent and integrated risk management function, while preserving the full liability of business lines for the financial result, including the costs of risk. Limitation of credit risk through a prudent credit policy, focus on the cooperation with reliable, tested customers and close monitoring of the customers' standing,
- Changes in the area of infrastructure. Optimization of IT systems aiming at the increase in the integrity and coherence of applied IT solutions; a new electronic banking platform,
- Organizational changes aiming at the centralization and improvement of the processes of product development and management, distribution and customer service,
- Taking advantage of the implemented cost management model to optimally align the level of incurred costs to the existing potential of income generation. A decrease in the level of fixed costs, an increase in the share of variable costs,
- Taking advantage of revolving long–term financing made available by KBC Group, the Bank's major shareholder,
- In the Retail Segment, focus on the growth of the share in the individual customer deposits market and in the market of the sales of investment funds. Continuation of the growth of the base of deposits, acquisition of new customers, conversion of sourced deposits to the investment offer,
- Recovery and maintenance of the position on the market of mortgages — the market share at 6%. Development of the bancassurance offer sold together with the mortgage. In the case of cash loans — focus on customers with lower credit risk, i.e. the Bank's present customers,
- In the corporate segment, focus on the diversification of the loans portfolio — an increase in the number of customers faster than the growth in the value of the portfolio. Reduction of the financing of large transactions related to the financing of real property and syndicated loans; expansion of the cooperation with the present customers,
- An increase in the share of commission income in total income of the corporate segment (including income from foreign exchange, trade finance and from transactional banking). Acquisition of new customers and an increase in income from the SME segment (including the growth in commission income from transactional banking and foreign exchange),
- Implementation and improvement of a comprehensive staff management system: from recruitment, through development and appraisal, to the aspects of the incentive system and payroll structure,
- Cooperation with entities of KBC Group in Poland to provide the customers with a complete, professional and up to date offer of financial services with limited costs of its development.

4. Organisation and capital relations of Kredyt Bank S.A.

4.1. Equity investments, related party transaction

Equity investments of Kredyt Bank S.A. can be divided into investments in subsidiaries of Kredyt Bank S.A. Capital Group, investments in infrastructural companies of the financial sector and shares acquired in the debt recovery and restructuring processes.

The Group's companies and ownership structure as at 31.12.2011 was as follows:



Investment plans, including equity investments

According to the Bank's development strategy which provides for the incorporation of a universal banking model, the Bank will focus on operations other than investment banking.

As at 31.12.2011, equity investments made by the Bank were mainly exposures towards the interests of such companies as KIR S.A., BIK S.A., GPW w Warszawie S.A., SWIFT and of the companies acquired as a result of debt recovery and restructuring processes. As at 31.12.2011, their share in the Bank's balance sheet was immaterial.

Related party transactions

In 2011, there were no significant non-standard transactions with related parties whose nature and terms were not related to the current operations. All transactions were concluded on market terms, without any exceptional or non-standard terms or conditions. Transactions volumes and related income and expenses are presented in Note 50 to the annual financial statements of Kredyt Bank S.A. for the year ended on 31.12.2011.

4.2. Shareholding structure of Kredyt Bank S.A.

As at 31.12.2011, 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 the Bank's shares are admitted to public trading on the regulated market. In comparison to the share capital as at 31.12.2010, the Bank's share capital did not change.

The table below presents the Shareholders of Kredyt Bank S.A. holding over 5% of total votes at the General Meeting of Shareholders of Kredyt Bank S.A. as at 31.12.2011.

Shareholder	Line of business	Number of shares and votes at the Bank's GMS	Share in votes and in share capital (in %)
KBC Bank NV – an entity from KBC Group*	Banking	217 327 103	80.00
Pioneer Fundusz Inwestycyjny Otwarty**	Investment fund	20 040 203	7.38

* By the Resolution of the Commission for Banking Supervision No. 81/KNB/01 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.
*** as per the notice of 15.04.2010 received from Pioneer Pekao Investment Management S.A. See also Note 43 and Note 56 to the annual financial statements.*

According to the information received from KBC Bank NV and KBC Group NV on 8 February 2011 and 15 February 2011:

- KBC Securities NV – a subsidiary of KBC Bank NV – sold all the shares of Kredyt Bank S.A. held by it. Prior to the sale, KBC Securities NV held 11,751,771 shares, which accounted for 4.33% in the capital and votes at the General Meeting of Shareholders of Kredyt Bank S.A. Following the sale, KBC Securities NV does not hold any shares of Kredyt Bank S.A.
- KBC Insurance NV – an entity from KBC Group NV – sold all the shares of Kredyt Bank S.A. held by it. Prior to the sale, KBC Insurance NV held 7,860,918 shares, which accounted for 2.89% in the capital and votes at the General Meeting of Shareholders of Kredyt Bank S.A. Following the sale, KBC Insurance NV does not hold any shares of Kredyt Bank S.A.

KBC Bank NV still holds 217,327,103 shares accounting for 80% of votes.

On 26.01.2012, the Bank received a notice from Pioneer Pekao Investment Management S.A. ('PPIM') about the decline in its total commitment to 4.29% of the total votes at the General Meeting of Shareholders concerning the financial instruments included in the portfolios managed by PPIM. Pursuant to the said notice, the commitment of Pioneer Fundusz Inwestycyjny Otwarty decreased to 4.16% of the total votes at the General Meeting of Shareholders.

Investor relations

Kredyt Bank S.A., appreciating the influence of a coherent information strategy upon the company's market value, pays a lot of attention to the quality of broadly-understood investor relations activities.
At the level of the Bank, the activities are coordinated by the Investor Relations Office located in the Finance Division and reporting directly to the Vice President of the Bank's Management Board.

The tasks of the Investor Relations Office of Kredyt Bank S.A. are focused primarily on the ongoing informing about all material changes taking place in the company affecting the valuation of its shares and, which is equally important, organizing contacts of the Bank's Management Board and of the Bank's senior management staff with analysts, shareholders or potential investors.

The said contacts, usually in the form of meetings or telephone conversations with the members of the Bank's Management Board, aim primarily at the accurate presentation of the operation strategy and the present financial standing of Kredyt Bank S.A.

Organized meetings are both in the form of periodic meetings held to discuss quarterly financial results as well as occasional meetings held upon a specific request of the representatives of institutional capital market players.

In the case of Kredyt Bank S.A., the Investor Relations page on the Bank's website (www.kredytbank.pl) updated on an ongoing basis is a crucial tool of the communication with the participants of the capital market. It offers such information as a financial calendar, shareholding structure, published current and periodic reports (quarterly, semi-annual and annual reports), quarterly presentations of financial results, and ratings prepared upon the Bank's order.

In addition, the Investor Relations page on the Bank's website contains the 'General Meeting' section which offers a wide selection of information and documents concerning the most recent / the next announced General Meeting of Shareholders of the Bank, and the 'Corporate Governance' section which offers, among other things, the internal regulations of Kredyt Bank S.A. deemed as the most important from the point of view of investors (i.e. the Statutes, the Regulations of the General Assembly, the Supervisory Board Regulations, the Regulations of the Audit, Risk and Compliance Committee, the Regulations of the Remuneration Committee of Kredyt Bank S.A., the Management Board Regulations of Kredyt Bank S.A., an excerpt from the National Court Register (KRS)).

The quotations of shares of Kredyt Bank S.A. at the Warsaw Stock Exchange in 2011

From the beginning of January 2011 until the end of the first decade of March 2011, the price of the Bank's share was rising fast, reaching, on 10 March, its local maximum of PLN 17.46 per share (an increase by 18.7%). Until the end of the second decade of May 2011, the share price of Kredyt Bank S.A. remained in the sideways trend at the level of PLN 16.90 – PLN 17.40 per share.

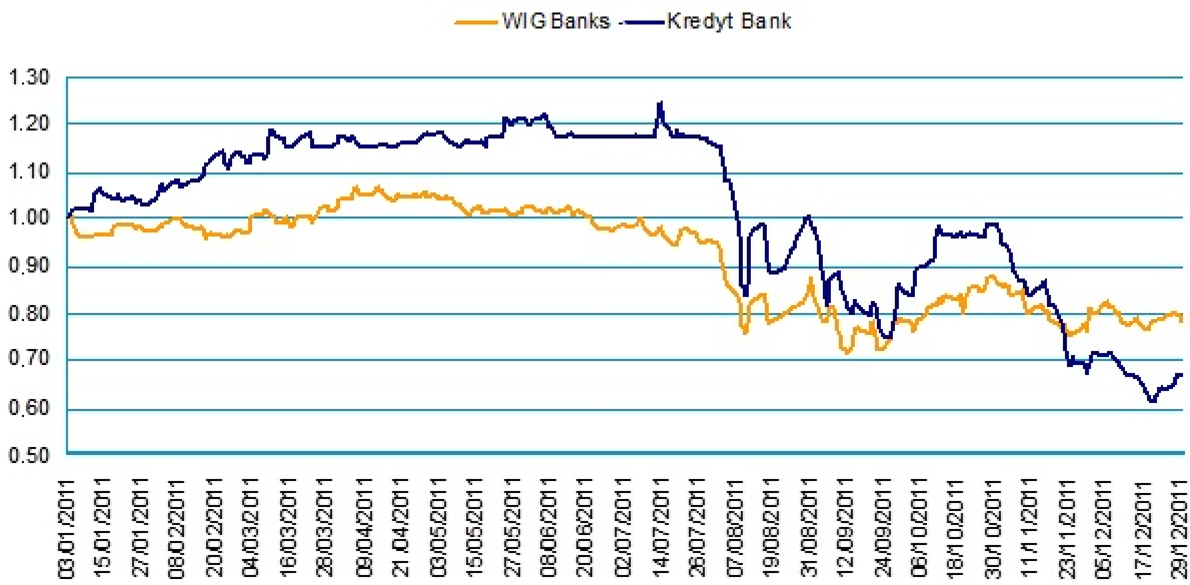
Towards the end of May 2011, we witnessed a short-term upward trend, which jacked up the price of the Bank's share to PLN 17.94 per share. The upward trend transformed into the sideways trend again in June. Within this trend, towards the end of June, the price of the Bank's share oscillated at PLN 17.30 per share. From the beginning of July until the end of the year, the Bank's shares were in a downward trend with a local peak in October, which brought the Bank's share price for the period of ca. 3 weeks to the level of over PLN 14 per share.
As at 30 December 2011, the Bank's share price was at the level of PLN 9.80 per share.

The market value of the Bank at the closing price at the last stock exchange session in 2011 (30 December) amounted to PLN 2,662.3 million, and the P/BV was at the level of 0.88. For comparison purposes, at the last session in December 2010, the Bank's shares were valued at the total of PLN 3,996.1 million with P/BV of 1.42.
Thus, the market value of KB S.A. decreased by slightly more than 33% annually. For comparison purposes, WIG index was over 20% below the quotations from the end of 2010, and WIG Banks index lost 21.7% in this period.

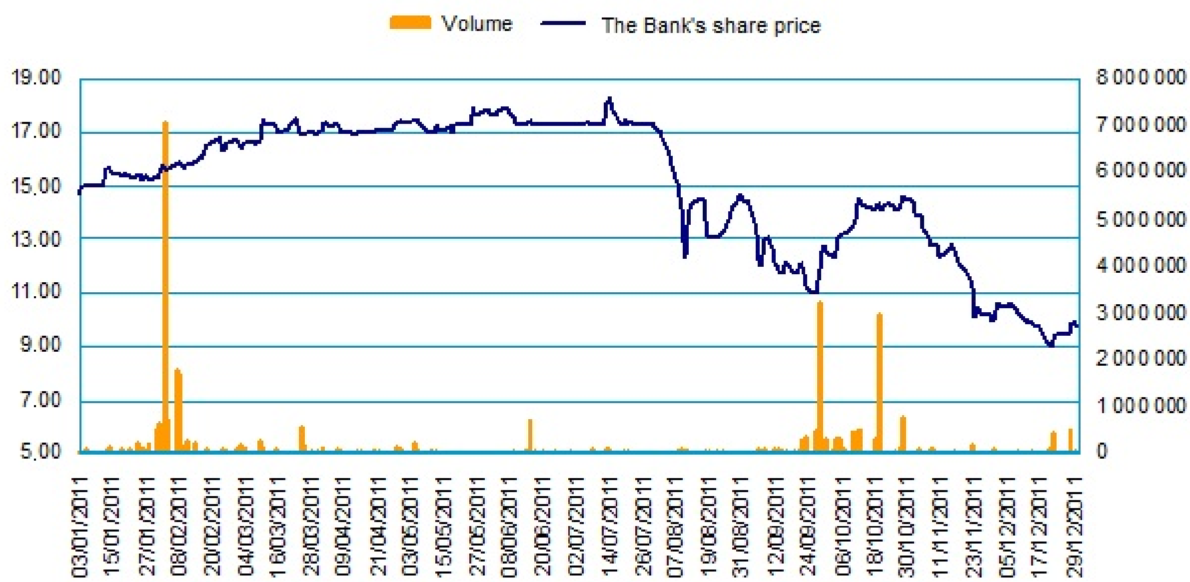
	30.12.2011	31.12.2010	Change (%)
KB S.A. share price (PLN)	9.80	14.71	-33.4%
WIG	37 595	47 490	-20.8%
WIG Banks	5 421	6 921	-21.7%
Earnings per share* in PLN	1.20	0.68	76.5%
Book value per share* in PLN	11.28	10.41	8.5%

* computed on the basis of consolidated figures

The volatility of the share price of Kredyt Bank against WIG Banks index in 2011



The Bank's share price (in PLN) and the trading volume (in pcs) in 2011



4.3. The authorities of Kredyt Bank S.A.

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

On 4 April 2011, the Chairman of the Supervisory Board of Kredyt Bank S.A. received a letter informing that Gert Rammeloo, due to his decision about his return to Belgium, does not intend to run for the position of a member of the Bank's Management Board for the term of office beginning after the date of the closest Ordinary General Meeting of Shareholders of the Bank.

The Supervisory Board of Kredyt Bank S.A., at its meeting on 25 May 2011, appointed the Bank's Management Board for the new term of office. Maciej Bardan was appointed the President of the Management Board of Kredyt Bank S.A. The following persons were appointed Vice Presidents of the Bank's Management Board: from 25 May 2011: Umberto Arts, Zbigniew Kudaś, Piotr Sztrauch, Jerzy Śledziewski; and from 1 July 2011: Mariusz Kaczmarek.

Gert Rammeloo and Krzysztof Kokot, who were members of the previous Management Board of the Bank, were not appointed for the new term of office.

As at 31.12.2011, the Management Board of Kredyt Bank S.A. was composed of:

Name	Position
Maciej Bardan	President of the Management Board
Umberto Arts	Vice President of the Management Board
Mariusz Kaczmarek	Vice President of the Management Board
Zbigniew Kudaś	Vice President of the Management Board
Jerzy Śledziewski	Vice President of the Management Board
Piotr Sztrauch	Vice President of the Management Board

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

On 25 May 2011, the Chairman of the Supervisory Board of Kredyt Bank S.A. received the information about Dirk Mampaey's resignation from his membership in the Supervisory Board, as from 25 May 2011.
Furthermore, on 25 May 2011, by virtue of Resolution No. 29/2011 concerning amendments in the composition of the Supervisory Board of Kredyt Bank S.A., the Ordinary General Meeting of Shareholders of Kredyt Bank S.A. appointed Guy Libot as a member of the Bank's Supervisory Board (as from 25 May 2011).
As a result, as at 31.12.2011, the Supervisory Board of Kredyt Bank S.A. was composed of:

Name	Position
Andrzej Witkowski	Chairman of the Supervisory Board
Adam Noga	Vice Chairman of the Supervisory Board
Marko Voljč	Member of the Supervisory Board
Ronny Delchambre	Member of the Supervisory Board
Guy Libot	Member of the Supervisory Board
Stefan Kawalec	Member of the Supervisory Board
Jarosław Parkot	Member of the Supervisory Board

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

As at the publication date of this report, i.e. 22.02.2012, the Members of the Bank's Management Board and of the Bank's Supervisory Board did not hold any Bank's shares, or shares or interests in the Bank's subsidiaries and associates.
As compared to the situation as at the publication date of the annual consolidated financial report for 2010, the number of the Bank's shares held by members of the Bank's Management Board did not change.

Remunerations of persons managing and supervising Kredyt Bank S.A.

Details of the remunerations of persons managing and supervising the Group's parent company are presented in Note 53 to the annual financial statements of Kredyt Bank S.A. for the year ended 31.12.2011.

Contracts of employment concluded with the members of the Management Board stipulate that:

1. Each party may terminate the contract upon a six-months' term of notice.
2. An Employee is entitled to the death in service benefit in the case of the Employee's death during the employment in the Bank amounting to three average monthly remunerations.

Non-competition agreements concluded with the members of the Management Board provide for an obligation of not engaging in any activities competitive towards the Bank during the employment in the Bank and for six months following the termination of the employment in the Bank. In the case of one member of the Management Board, the Supervisory Board may oblige him not to engage in competitive activities for twelve months following the termination of employment.
In the period of the ban on carrying out competitive activities following the date of terminating the employment in the Bank, a Member of the Management Board will be entitled to a monthly compensation amounting to 100% of the average monthly remuneration comprising the contractual remuneration, the remuneration for the participation in the Management Board. The non-competition provision will not apply when a Member of the Management Board is employed in a position in another entity of KBC Group.

Other agreements concluded in 2011 with the members of the Bank's Management Board

Not applicable to one of the Management Board members.
In the case of the disposal, in any legal form, of a controlling interest in the Company (over 50%) to an entity or entities from outside KBC Group, if, in the period of twelve months from the date of granting the last consent of a state administration authority allowing for the effective exercising of the rights from the Company's shares to sell the Company, a Member of the Company's Management Board is dismissed from the Company's Management Board or dismissed from the position of the President of the Company's Management Board, or the Company unilaterally amends, to the disadvantage of the Member of the Management Board, the amount of or the principles concerning the payment of particular components of the remuneration due to the Member of the Management Board under any legal title, then the Member of the Company's Management Board will be entitled to an one-off compensation in the amount equal to six average monthly remunerations."

4.4. Events and contracts material for Kredyt Bank S.A.'s activity in 2011

The following events were material for the Bank's operations in 2011:

- At the beginning of February 2011, the Bank signed with the European Investment Bank based in Luxembourg two agreements under which Kredyt Bank S.A. gained two credit lines in the amounts representing the equivalent of EUR 50 million and of EUR 100 million.

Within the framework of these credit lines, the Bank can acquire funds in tranches with maturities of seven years in the case of the single repayment and up to ten years in the case of the repayment in installments. The interest rate on the funds will be based, depending on the drawing currency, on 3-month WIBOR/EURIBOR/LIBOR rates.

The funds acquired by the Bank are secured with a financial pledge on the Treasury bonds held by the Bank.

The funds acquired under the agreement in the amount representing the equivalent of EUR 100 million are allocated for the financing of loan transactions concluded with small and medium-sized enterprises. And, the funds acquired under the agreement in the amount representing the equivalent of EUR 50 million are allocated to the financing of institutional entities implementing investment projects, inter alia, in the following areas: infrastructure, renewable energy, environmental protection.

- On 26 April 2011, Kredyt Bank and BEST III Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (‘BEST III NSFIZ’), with BEST Towarzystwo Funduszy Inwestycyjnych S.A. acting on its behalf, concluded the agreement on the sale of debts.
  The agreement regarded the retail debts portfolio of Kredyt Bank S.A. (‘Portfolio’) which included 423,849 debts with the total nominal value as of 31.03.2011 equal to PLN 1,169.7 million.
  The net book value of the Portfolio in the books of Kredyt Bank S.A. as of 31.03.2011 amounted to PLN 137.2 million.
  The Portfolio was transferred in two parts, including: Debts Batch A and Debts Batch B. The Portfolio was transferred upon the payment by BEST III NSFIZ to the Bank an amount on account of the final price.
  The positive impact of the transaction upon the net result of Kredyt Bank S.A. recognized in the results for the first quarter of 2011, on the basis of the data available as at 31.03.2011, amounted to PLN 51 million. The positive impact of the transaction upon the net result of Kredyt Bank S.A. for 2011 amounted to PLN 62,722 thousand.
- In May 2011, the Bank launched a marketing campaign under the motto “Finances with Principles” aiming at the improvement of the brand recognition and the promotion of a new ‘Ekstrakonto Plus’ account (a savings & settlement account with the interest rate of 7% on the amount up to PLN 3,000).The new offer is a result of the works on the brand repositioning and aims at supporting the accomplishment of the objectives of Kredyt Bank’s strategy. It is also a symbol of image changes taking place in the Bank.
- Pursuant to Resolution No. 4/2011 of the Ordinary General Meeting of Shareholders of Kredyt Bank S.A. concerning the distribution of profit for 2010 adopted on 25 May 2011, Kredyt Bank S.A. allocated for the payment of the dividend to shareholders the gross amount of PLN 0.37 per share. The total amount of the dividend was PLN 100,513,785.60. The dividend was distributed among 271,658,880 shares of Kredyt Bank S.A., A to W series inclusive. The right to dividend was established on 14 June 2011, and the dividend was paid on 30 June 2011.
- In June 2011, the offer of Kredyt Bank was expanded with a new World MasterCard credit card with a broad free package of additional services: ‘Przedłużona Gwarancja’ (‘Extended Guarantee’) insurance, the package of Travel Insurance Policies, Assistance and Concierge.
- On 13 July 2011, KBC and the Belgian Authorities formally applied to the European Commission for its approval to replace the planned IPOs of a minority stake of CSOB Bank (Ceskoslovenska obchodni banka, a. s., Czech Republic) and K&H Bank Zrt. (Keresekedelmi es Hitelbank, Hungary) and the sale and lease back of KBC's headquarter offices in Belgium by the divestment of KBC’s Polish banking and insurance subsidiaries, Kredyt Bank S.A. (‘Kredyt Bank’) and Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A. (‘Warta’) (and their subsidiaries) and the sale or unwind of selected ABS and CDO assets.
- On 27 July 2011, KBC Group received the approval from the European Commission to amend its strategic plan from 2009. They involve the replacement of the planned IPOs of a minority stake of CSOB Bank in the Czech Republic and K&H Bank in Hungary and the sale and lease back of KBC's headquarter offices in Belgium by the divestment of KBC's Polish banking and

insurance subsidiaries, Kredyt Bank and Warta, and the sale or unwind of selected ABS and CDO assets.

- In November 2011, the Bank launched a programme called 'Program Concerto – Nowa Bankowość Osobista' ('Concerto Programme – New Personal Banking'). Concerto Programme is a set of the highest standard products and services addressed to affluent customers.
  Concerto Programme is a rich deposits, investment and loans offer, which comprises such products as a unique 'Ekstrakonto Concerto' account with the interest rate of 7% on the amount up to PLN 5 thousand; prestigious credit cards, i.e. MasterCard Platinum, Kredyt Bank World MasterCard, Visa Gold; and 'Concerto Duo' term deposit with the interest rate of 10% for buyers of investment products.
- On 29 December 2011, the Bank's Management Board decided to create a provision in the amount of PLN 35 million for the potential liability related to the resale of Żagiel S.A. by KBC Group for the price lower than the price obtained by Kredyt Bank S.A.
  According to the agreement concluded on 16 December 2009 between Kredyt Bank S.A. and KBC Bank N.V., the sale price for 100% of the shares of Żagiel S.A. amounted to PLN 350 million. The said agreement provided that the risk of Kredyt Bank would be limited to 10% of the sale price, i.e. PLN 35 million, if KBC sold the shares of Żagiel to an outside entity for the price lower than PLN 350 million. The decision to create the said provision reflects the current assessment of the probability of satisfying the condition described above.

In 2011, the Bank did not enter into any material agreements with the central bank or the regulatory authorities.

Major post-balance sheet events

- On 17 January 2012, Kredyt-Trade Sp. z o.o., a wholly-owned (indirectly and directly) subsidiary of Kredyt Bank S.A., signed an agreement on the sale of its 30% stake in KBC TFI S.A. to KBC Asset Management NV.
  The sale price for 30% of the shares of KBC TFI S.A. held by Kredyt-Trade Sp. z o.o. amounts to PLN 37.5 million. The completion of the said transaction is subject to no objection from the Polish Financial Supervision Authority.
  According to the received independent opinion prepared by KPMG Advisory upon the order of Kredyt-Trade Sp. z o.o., the proposed financial terms of the sale of 30% of the shares of KBC TFI S.A. are included in the range, estimated by KPMG Advisory, of the fair value of KBC TFI S.A. shares and, with reference to the above, in the opinion of KPMG Advisory, they are fair from the point of view of the interests of Kredyt-Trade Sp. z o.o. and, hence, from the perspective of Kredyt Bank S.A., which is the sole shareholder of Kredyt-Trade Sp. z o.o. (it holds, directly and indirectly, 100% of the company's shares). The Management Board of Kredyt Bank S.A. anticipates that the estimated, as at 31.12.2011, positive impact of the planned transaction of the sale of 30% of the shares of KBC TFI S.A. upon the net financial result of Kredyt Bank S.A. Capital Group will amount to ca. PLN 12.8 million. The said amount will be recognized in the books of account as soon as the sale is completed.
- According to the information of 20 January 2012, all the Customers of Pioneer Pekao Investment Management S.A. hold the total of 4.29% of the votes at the General Meeting of Shareholders of Kredyt Bank S.A.

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

On 6 June 2011, the Bank entered into an agreement with Ernst&Young Audit Sp. z o.o. in Warsaw, an entity authorized to audit financial statements. The agreement concerned a review of the semi-annual standalone and consolidated financial statements of the Bank and of the Group along with the semi-annual reporting package for the first half of 2011, and the audit of the standalone and consolidated financial statements of the Bank and of the Group along with the annual reporting package for 2011, as well as the procedures regarding the correct calculations of capital requirements related to credit and operational risks as well as to the interest rate risk as at 30 June 2011 and 31 December 2011. The net remuneration under this agreement amounted to PLN 772 thousand, PLN 990 thousand and PLN 45 thousand respectively (for 2010: PLN 750 thousand, PLN 962 thousand and PLN 36 thousand; the contract as of 14.06.2010).

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

5.1. Retail banking

The Retail Segment in Kredyt Bank S.A. is defined as a group of individual customers as well as micro- and small companies whose annual sales revenue does not exceed PLN 1 million.
The network of own outlets is the core distribution channel through which Kredyt Bank reaches retail customers with its offer. At the end of 2011, the Bank operated the network of 373 retail network units, including 99 branches and 274 affiliates and other customer service outlets.
Financial brokers were the distribution channel supporting the sales of mortgages. At the end of December, the Bank cooperated with 18 major Polish financial intermediaries, who offer their services throughout Poland, and 1097 local intermediaries. KB24, an electronic banking system, and Call Center supplement the traditional distribution channel. Owing to them, our customers have access to products and services 24 hours a day, seven days a week.

The acquisition of new customers and the expansion of the customer base in the medium-affluent and affluent segments is an important element of the strategy of Kredyt Bank S.A. adopted in the previous year. In May 2011, the Bank launched the marketing campaign under the motto "Finances with Principles" aiming at the improvement of the brand recognition and the promotion of a new 'Ekstrakonto Plus' account (a savings & settlement account with the interest rate of 7% on the amount up to PLN 3,000). The campaign in the mass media was launched in May 2011. The advertisements were broadcast on TV and radio, published in the Internet and in the press. On local markets, the campaign was supported with marketing activities (large-format meshes, advertisements on large outdoor screens and in the public transport) and selling activities (customer service on selected Saturdays, advertising stands in shopping malls and at local events).

Within the Retail Segment, the Bank also provides services to micro- and small companies, i.e. enterprises with annual revenue up to PLN 1 million, which are a crucial element of the strategy of Kredyt Bank. In 2011, the Bank introduced organizational alterations and changes in the product offer for this customer group. In 2011, the sales of products and the basic customer service for this group were carried out in the outlets of Kredyt Bank. Consultants dedicated solely to the provision of services to micro-enterprises were appointed and trained. The distribution model also comprised the customer service via Call Centers which carry out the majority of x-sell and up-sell campaigns, and via the Internet banking.

In 2011, the Bank developed and implemented a complete product offer in response to the lending, transactional and savings needs of the customers from the micro-enterprises segment. The Bank launched the profiling of the offer for sub-segments, creating three basic product packages: 'Pakiet Profesjonalista' ('Professional Package') for professionals; 'Pakiet Wspólnota' ('Housing Cooperative Package') for housing cooperatives; and 'Pakiet Przedsiębiorca' ('Entrepreneur Package'). In the cooperation with Kredyt Lease, the Bank implemented 'Leasing dla Profesjonalisty' ('Leasing for a Professional'), a new flexible product for professionals.

As at the end of 2011, Kredyt Bank S.A. (except for the customers sourced via Żagiel S.A.) provided services to 1,141 thousand individual customers and micro- and small enterprises, which means an increase by 45 thousand as compared to the end of 2010.

in PLN '000'	31.12.2011	31.12.2010	31.12.2009
Individual customers	1 077	1 032	1 020
Micro- and small enterprises	64	63	41
Total customers	**1 141**	**1 095**	**1 061**

At the end of 2011, the number of KB24 users amounted to over 490 thousand, i.e. over 88 thousand more than at the end of 2010. The number of bank transfers made in the Internet banking system rose substantially. The figures explicitly demonstrate that the customers are willing to use cheaper and faster access channels.

in '000'	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Number of KB24 users	490	402	356	334
Number of transfers via KB24 in the year	19 551	18 223	16 959	14 932

In November 2011, Kredyt Bank S.A. launched a programme called 'Program Concerto – Nowa Bankowość Osobista' ('Concerto Programme – New Personal Banking'). The programme is dedicated to affluent customers and, having them and their individual needs in mind, the Bank created services and products of the highest quality.

Concerto Programme is a rich deposits, investment and loans offer, including:

- a unique 'Ekstrakonto Concerto' account with the interest rate of 7% on the amount up to PLN 5 thousand,
- prestigious credit cards, i.e. MasterCard Platinum, Kredyt Bank World MasterCard, Visa Gold,
- 'Concerto Duo' term deposit with the interest rate of 10% for buyers of investment products,
- 'Concerto' savings account with a bonus for the declaration of maintaining a specific balance in it,
- 'Concerto' term deposits, including negotiated ones, with higher interest rates,
- a dedicated investment offer,
- 'Concerto' cash loans and special-purpose loans with attractive price terms.

Besides the product offer, Concerto Programme comprises:

- services provided by a dedicated trained consultant,
- invitations to meetings concerning savings and investment issues,
- invitations to the most interesting concerts and musical events recommended by Wojciech Mann.

In 2011, the segment's operating income before tax (including micro- and small companies) amounted to PLN 870,354 thousand and was higher than the result generated in 2010 by PLN 28,559 thousand, i.e. 3.4%. The increase resulted from the improvement of net interest income from depositing activities, generated upon the increase of the deposits portfolio and the improvement of margins.

In 2011, largely due to the reviews and verifications of the loans granting and debt recovery processes, the costs of the credit risk of the Retail Segment decreased substantially. Net impairment losses on financial assets, other assets and provisions amounted to -PLN 147,583 thousand as compared to -PLN 386,205 thousand in 2010. As a result, the net operating income of the Retail Segment in 2011 amounted to PLN 13,214 thousand (more by PLN 245,566 thousand than in 2010).

Payments and cards

In the Payments and Cards area, the key products include savings and settlement accounts, credit cards and credit limits.
In 2011, the number of savings and settlement accounts increased by 8.7%, i.e. by 55 thousand. This high growth rate is primarily an effect of the marketing campaign introducing a new 'Ekstrakonto Plus' account (a savings and settlement account with the interest rate of 7% on the amount up to PLN 3,000) launched in May 2011. The campaign resulted in:

- the sales of 94,505 new 'Ekstrakonto Plus' accounts,
- the acquisition of 50 thousand new customers,
- an increase in the average monthly sales of ROR current accounts by 64%, from 6.4 thousand accounts a month in 2010 to 10 thousand in 2011.

ROR current accounts	31.12.2011	31.12.2010	31.12.2009	31.12.2008
No. of ROR accounts (in '000')	689	634	612	588
Carrying amount (in PLN '000')	1 403 577	1 156 413	1 123 428	1 216 932

To implement the strategy of focusing the Bank's activities on the key segments of customers in the area of credit cards, the following measures were taken:

- The offer of credit cards for mass customers was simplified. In the fourth quarter, three credit cards were withdrawn from the offer, leaving only Visa Classic card dedicated to these customers,
- The offer of credit cards for medium-affluent and affluent customers was made more attractive, by introducing MasterCard World card with an insurance package and a loyalty programme unique in Poland under which customers are awarded for full relations with the Bank. The sales of the card exceeded the plan by 50%. The total average monthly sales of the card since its introduction increased three times as compared to the first half of 2011. The introduction of the card was supported with a media campaign in the Internet and the press; two promotions were held for customers in the cooperation with MasterCard,
- In December, the Bank implemented a discount scheme, under which customers are able to buy cheaper products and which increases the competitiveness of KB's card products.
- To support the cross-selling, the Bank implemented the functionality of offering customers a combined limit for the credit card and the limit in the account.

Credit cards (in '000')	31.12.2011	31.12.2010	31.12.2009
No. of credit cards sold in the Bank's network and via Żagiel S.A. (in '000')	189	205	228

Savings and Investments

In 2011, the Savings Account in PLN was the key product in this area. Towards the end of the year, the Bank made the offer of term deposits more attractive. An increase in the deposit base in the segment of individual customers was supported with direct marketing and low-cost ATL activities, and was adapted to the development of the lending activities. The total volume of the deposits of retail customers, including also the cash in savings and settlement accounts, increased during 2011 by PLN 1,872,302 thousand to PLN 17,876,440 thousand. The interest margins on deposit products increased during the year.

Savings accounts	31.12.2011	31.12.2010	31.12.2009	31.12.2008
No. of savings accounts (in '000')	775	617	496	370
Carrying amount (in PLN '000')	8 721 838	9 850 124	7 626 000	4 245 387

Changes in the offer:

- Implementation of new functions for owners of Savings Accounts that were focused on the increase in the cross-selling with ROR accounts. The owners of ROR accounts may withdraw money from their savings accounts using a debit card issued to their ROR accounts,
- Loyalty promotions during which new deposited funds were subject to higher interest rates,
- New 6-month 'eConstans' term deposits with the interest accrued on an ongoing basis and the interest accrued after the expiry of the saving period,
- Affluent customers are offered negotiated term deposits, 'Concerto' savings account with a bonus for maintaining a specific amount, declared by the customer, in the account, as well as 'Concerto' term deposits.

In 2011, customers could subscribe for the following investment products:

- KBC TFI Closed-end Investment Funds (three subscriptions), in which the customers invested nearly PLN 179.3 million. The auto-call jumper fund, i.e. KBC Poland Jumper 4, generated the biggest sales of ca. PLN 120 million,
- Global Partners capital guaranteed foreign funds which, apart from attractive interest rates, ensure tax optimization to investors. The Bank offered the total of seven products in which the customers invested over PLN 140 million,
- Investment insurance, including products exempt from the capital gains tax, with the possibility of generating higher than average profits, with a full capital guarantee and insurance cover. There were seven subscriptions in 2011, for which the total volume amounted to PLN 255.5 million.

The Open-end Investment Funds offered on a continuous basis were dominated by the sales of money market funds.
Throughout 2011, the Bank also sold 1,083 'Stabilna Przyszłość' ('Stable Future') individual savings insurance policies.

Investment funds	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Net assets of funds (excluding non-registered funds) sold via the Bank's distribution network (in PLN '000')	4 396 763	4 491 634	3 390 735	2 789 563

Mortgages

In 2011, the value of mortgages granted (new loans) by Kredyt Bank amounted to PLN 1.33 billion. The portfolio of the Bank's mortgages at the end of December 2011 amounted to just under PLN 18.0 billion, which resulted in the Bank's market share at the level of 5.6%.

One should remember that both as regards the value of signed agreements and paid loans, the volumes grew systematically each quarter. The gradual increase in the production of mortgages in 2011 was a result of the growth following a temporary decline in the sales which had taken place towards the end of 2010 due to the Bank's strategic decision concerning the implementation of a new operating model based on the Mortgage Factory concept with a fully centralized and standardized process of granting loans to individual customers. In the fourth quarter of 2011, the sales exceeded the result from the fourth quarter of 2010 (y/y growth by 62% in the category of signed agreements).

The exceptionally good result in the last three months of 2011 was an effect of the autumn advertising campaign for mortgages launched in September, with a purpose, apart from supporting the implementation of the sales plans, to continue the building of the awareness of the Bank's image in the context of the new positioning of the 'respected and important' brand (based on the motto: 'Finances with Principles'). It was a nationwide campaign carried out with the participation of Wojciech Mann and Krzysztof Materna, in a wide range of the mass media: the TV, press, radio, Internet (including social media and VOD), local marketing, outdoor campaigns and BTL.
The promotional offer prepared for the period of the campaign (0% commission, 0% customer's own funds in a loan in PLN and EUR, the margin lower by 0.5 p.p. for active customers) was extremely popular with customers. The Bank recorded an increase in the total number of mortgage applications filed in the last three months of 2011 by 126% (12,755 applications) as compared to the third and second quarters of 2010, and an increase in the sales of loans in terms of the value of signed agreements against the previous quarter by 68% (PLN 636.75 million in the fourth quarter vs. PLN 378.15 million in the third quarter of 2011).

An attractive and available product was of key importance for such good results. In 2011, the Bank launched a number of initiatives aiming at the provision of a universal and competitive offer to the customers interested in meeting their housing needs. It optimized the parameters in all product categories (mortgage, mortgage loans, mortgage consolidation loans); expanded the product offer with a subsidized loan with subsidies to the interest under 'Rodzina na swoim' ('Own house for a family') programme (25% new applications in August, in the period of the greatest interest in the product); made available to all the borrowers the possibility of lowering the cross-sell margin; made the parameters of the products in the cross-selling offer more attractive (a lower premium in life insurance, the catalogue of additional products expanded with a debit card).

At the same time, works were underway to provide easier access to KB products and ensure the higher quality of their servicing to the mortgage customers. The most significant measures are as follows: a new model of the after-sales service in the case of mortgage products; development of the cooperation with brokers; a new formula for the cooperation with local intermediaries; a programme of intensive training courses for the employees from internal and external sales channels. The changes introduced in the mortgage banking function since the end of 2010 also aimed at ensuring effective and safe sales of mortgages in the future. A very high quality of the new sales is one of the accomplishments of the Mortgage Factory. All loans granted under the new centralized and standardized loans granting process (i.e. from 10 January 2011) are being repaid in almost 100% (at the end of December, there was only one loan with the repayment installments delayed more than 30 days).

Very high positions of KB in rankings published by experts from the real estate and mortgages market in 2011 — only in the last quarter, the offer of Kredyt Bank was included seven times in the TOP3 of mortgage rankings (three times as number one) — confirm the high level of the satisfaction of the customers and of financial intermediaries with the cooperation with Kredyt Bank (the percentage of brokers in concluded agreements grew from 2% in January to 58% in December). Only during one month, the mortgage promotion of Kredyt Bank was described in as many as 125 press publications.

One should emphasize that the exceptionally high interest of customers in the offer of Kredyt Bank at the end of the year certainly resulted also from the market situation and the perspective of greater difficulties from 2012 as regards the access to loans in foreign currencies. The year 2012 will pose a substantial challenge to the mortgage banking. The crisis in the euro area observed since autumn 2011 will exert the biggest impact upon the change in the industry's and the Bank's environment. Due to significant fluctuations of exchange rates and the growing costs of financing lending activities, at the end of the previous year, the access to loans in foreign currencies was more limited due to the banks' decisions about withdrawing or limiting the offer of such loans, particularly of loans in EUR. Since 2 January 2012, Kredyt Bank has ceased to grant such loans as well. The concerns about the further development of the economic situation in Poland and abroad also gradually translate into a higher level of fees, commissions and margins on loans in PLN.
A more limited access to mortgages is also an effect of the implementation, from the beginning of the new year, of further provisions of the amended S2 Recommendation, and of substantial restrictions concerning the use of government subsidies to the interest in the case of subsidized loans under 'Rodzina na swoim' ('Own house for a family') programme.

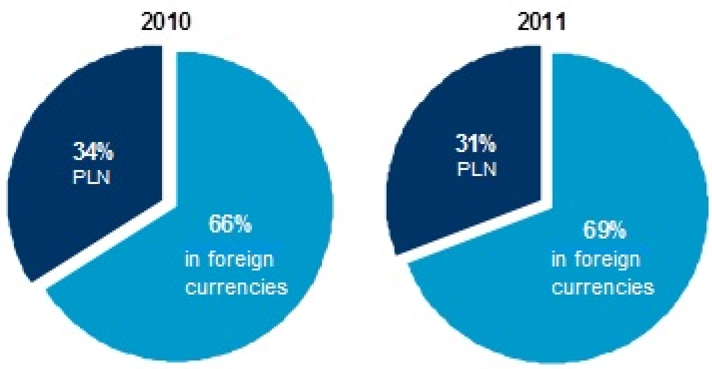
Withdrawing loans in EUR from the offer (whose share in 2011 amounted to 53% of the volume of the loans granted by KB), the higher cost of financing the lending activities and considerable volatility of the markets will definitely adversely affect the accomplishment of the objectives established for 2012. However, despite the above-mentioned hindrances, the mortgage loan will definitely remain one of the pillars of the strategy for Kredyt Bank, crucial from the point of view of the development of relations with retail customers, and the Mortgage Factory will endeavor to identify new development opportunities. Taking over, by the mortgage banking of KB, the products and services from the micro-enterprises segment (the project assumes e.g. the centralization and standardization of the process as well as product changes in the offer) is one of the most crucial undertakings planned for 2012. In addition, the Mortgage Factory will continue to strive to improve the present offer and processes by, among others:

- implementation of a new IT application to handle loan applications, which will allow for the effective and independent modeling of lending processes by the business,
- development of an attractive bancassurance offer, e.g. by signing a new framework agreement with TU Warta S.A. in the area of insurance of the real properties of borrowers.

Mortgages (in PLN '000')	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Gross value of the portfolio at the end of the period	17 984 863	16 183 199	13 685 315	12 854 847
No. of loans extended in the year (in '000')	5.9	11.6	7.0	38.5
Value of loans extended in the year*	1 329 529	2 393 361	1 319 869	6 000 699

* new loans

Portfolio currency structure



Consumer loans

Cash loans and installment loans are an important element of the Bank's offer addressed to individual customers. They are sold mainly through two distribution channels, i.e. the network of own outlets and via Żagiel S.A.

Installment and cash loans (in '000')	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Gross value of the portfolio at the end of the period, including:	**2 843 264**	**3 864 194**	**3 871 947**	**3 795 099**
Loans granted via Żagiel*:				
Gross value of the portfolio at the end of the period	1 625 642	2 451 907	2 579 558	2 811 786
No. of loans extended in the year (in '000')	653	676	752	1 205
Value of loans extended in the year**	1 479 727	1 428 831	1 728 572	3 234 233

* includes the consolidation adjustment due to EIR
** related to installment and cash loans

Żagiel is the chief distribution channel for consumer loans. On the market, it plays a role of a lending intermediary and offers customers cash loans, installment loans and credit cards. Cash loans are sold in the distribution network composed of: own 'Kredyt Punkt' outlets, agency-based 'Kredyt Punkt' outlets, and Multi-agencies, which also offer products of other banks. Installment loans are distributed by agents and the regional proprietary structure, which manages relations with cooperating shops. The shops may be divided into: network shops, medium-sized and small shops, online shops and the direct sales network.

The sales of cash loans in the network of the Bank's outlets was lower in 2011 than in the previous year. It resulted mainly from the modification of the lending policy, which aimed at the reduction of the credit risk, particularly in the case of extending loans to new customers.
In April and in the holiday period, the Bank carried out two marketing campaigns supporting the sales of cash loans with insurance (0% commission). Also in April, the Bank implemented the offer for selected professional groups: professionals, employees of state administration institutions and farmers. The offer involves a simplified loan application process and a lower interest rate.
In July, the Bank made the offer of cash loans more attractive by eradicating the requirement of having a guarantor, by amending the conditions regarding the requirement of having a joint borrower, by increasing the amount from which a spouse's consent is required, and by extending the maximum lending period to 84 months.
In November, the offer of cash loans was enriched with products for the affluent customers segment, which are characterized by a lower margin and a zero commission upon the purchase of an insurance policy.
In November and December 2011, the Bank carried out marketing campaigns for the cash loans: 'Nowy Kredyt Gotówkowy' ('New Cash Loan') and 'Kredyt Celowy' ('Special-Purpose Loan'). The campaigns resulted in the sales of 13 thousand loans for the total amount of PLN 135 million. The level of the penetration of the volume of cash loans with insurance policies was 94%, and 40% with credit cards.
In December 2011, the Bank implemented a pilot version of the debt consolidation loan offer, which makes it possible to repay a few debts towards various banks.

5.2. Enterprises Banking

The criteria for the division of customers, pursuant to the approach to the SME segment adopted since 2010, are as follows:

- SOHO Segment – customers with annual revenue of up to PLN 1 million; this business line is managed by the Retail Banking Department.
- SME Segment – customers with annual revenue from PLN 1 million to PLN 25 million; a separate business line of SME customers managed by the SME Network Department within the Enterprises Banking function.
- Corporate Segment – customers with annual revenue of over PLN 25 million; an existing business line managed by the Corporate Network Department within the Enterprises Banking function.

The Enterprises Banking Function manages business lines of the SME Customer and of the Corporate Customer, and comprises the product support for both business lines (product managers teams in Warsaw, with full mobility.) The operating support and the after-sales service are provided by the Business Service Centre in Lublin and the Loans Centre in Warsaw (which assumed the responsibility for the whole lending process, earlier dispersed in six regional units). In addition, within the function, there is the sales management information team that provides required MIS data and manages the CRM system.

In 2011, the operating income before tax of the Enterprises Segment amounted to PLN 437,730 thousand and was higher than the income generated in 2010 by PLN 16,891 thousand, i.e. by 4.0%, despite a lower, by PLN 27,390 thousand, result from the valuation of securities measured at fair value through profit or loss due to the decline in quotations at the Warsaw Stock Exchange. It resulted from the improvement of loan and deposit margins and an increase in the net interest income as well as in the net income from treasury transactions.
In 2011, the costs of the credit risk of the Enterprises Segment decreased. Net impairment losses on financial assets, other assets and provisions amounted to -PLN 15,434 thousand as compared to -PLN 52,508 thousand in 2010. As a result, the net operating income of the Enterprises Segment in 2011 amounted to PLN 232,327 thousand (more by PLN 26,312 thousand than in 2010).

SME Segment

The services to the SME customers are provided by ten Macroregions of Small and Medium-Sized Enterprises (SME). The sales model in the SME segment is based on mobile SME Consultants, who acquire new customers and manage the portfolio of their existing customers. The SME Consultants, located in nearly fifty towns and cities throughout Poland, have a direct contact with their customers in a given region. Cash services are provided in branches and retail affiliates of KB S.A. throughout Poland. Day-to-day transactional services and after-sales services are rendered by professional Business Service Center located in Lublin. In the case of specialized services, the SME Consultants are supported by product specialists located in Warsaw, and in the case of the products of the Treasury Function, also by dealers in regions. In addition, a crucial part of the product offer is provided by the companies of Kredyt Bank Group and KBC Group in Poland, including: in the case of leasing services — Kredyt Lease S.A. which offers complete services to companies leasing fixed assets and real properties; KBC Autolease S.A. — long-term lease and fleet services; and KBC TFI S.A. — an offer of investment funds for SMEs.

The key areas of activities and accomplishments of the SME Segment in 2011:

- Focus of the activities on the acquisition of new customers and record-high results in this area: in 2011, the Bank acquired the total of 3,500 new customers with annual revenue from PLN 1 million to PLN 25 million. For comparison purposes, in 2010, the number of acquired customers amounted to 2,050,
- Implementation, in the first quarter of 2011, of an electronic customer file: this is a centralized base of customers' documents, including specimen signatures cards and authorization forms, which allows for the complete 'de-location' of cash and counter services (i.e. availability in each outlet of KB S.A.),
- Centralization of the process of approving transactions, making lending decisions, preparing loan agreements and loan management: the Loans Center was established in place of six existing regional units. It provides complete services within the lending process for SME customers, what resulted in the significantly shorter time of granting the financing,
- Making the product offer of 'Szybki Kredyt' ('Fast Loan') more attractive. The main elements are as follows: an increase in an available loan amount for SME customers to PLN 350 thousand; a lending decision made in 24 hours / a loan agreement signed in 48 hours; a bonus for customers taking out a loan under promotion; interest rate lower by 1 p.p.,
- A cooperation agreement signed with Bank Gospodarstwa Krajowego, under which Kredyt Bank offers the sales of loans with a technology bonus (Technology Credits),
- Credit lines obtained, on attractive terms, from the European Investment Bank, for the total amount of EUR 150 million. The funds from the EIB were allocated to the financing of loan and leasing transactions for entrepreneurs, and loan transactions and municipal bonds for local government units. The customers of Kredyt Bank benefit from the EIB's financing due to a lower cost of the loan,
- Making the offer of the business account more attractive: creation of modern business packages, i.e. the sets of products and services, including the access to the applications, such as Autodeadling (foreign currency exchange and making term deposits online) and Flexims (ordering and handling guarantees, letters of credit and cash collections), and a number of additional services supporting the process of carrying out business activities, available for a single flat-rate monthly fee. Each package responds to specific needs of businesses, depending on their stage of development, scale of operations and their business profile. The product was awarded with 'The Best Product of the Year for Business' title in the category of banks,
- Launch of the term deposits negotiation module through KB Autodealing platform,
- As supplementation of the offer of existing Visa Business charge and debit cards – introduction of Bank's first credit card for companies, i.e. MasterCard BusinessCard Silver card with an insurance package. The card gives businesses an opportunity to take out an interest free loan for a period of up to 56 days, without any commission for non-cash transactions and without any fees for the issue and use of the card in the first year,
- An over two-months' integrated promotional campaign of the fast deposit & credit line, a currency package and factoring - in nationwide and regional press, on the radio and in the Internet. The campaign also comprised two direct marketing campaigns, which greatly supported the process of acquiring new customers.
- Participation of Kredyt Bank, as a strategic partner, in the 11th edition of 'Gazele Biznesu' contest for the fastest growing small and medium-sized enterprises in particular provinces, extended to further editions of the contest (2012-2013),
- Continuation of the project called 'An Entrepreneur's Academy' with the aim to strengthen the relationships with entrepreneurs and the local position of Kredyt Bank,

- Since September 2010, as part of the Academy, the Bank has carried out as many as three editions of the project, which were focused on various topics that entrepreneurs might find useful. As many as 124 meetings, with the participation of almost 6.5 thousand entrepreneurs, were held in the total of 50 cities and town throughout Poland. The following subjects have been presented so far to entrepreneurs as part of the Academy:
  - 'Your Company's Capital and Safety – Opportunities, Solutions, Chances' (in the cooperation with the following partners: the Warsaw Stock Exchange, the Polish Chamber of Commerce, the National Debt Register and the National Chamber of Statutory Auditors as well as Warta S.A. and KBC TFI SA),
  - 'Receivables Management in a Company' (in the cooperation with the National Debt Register),
  - 'Market Risk Management in a Company' (in the cooperation with KUKE S.A.),
  - 'Strategic Management vs. HR Management in a Company' (in the cooperation with Brian Tracy International training company),
  - 'Innovation and Modern Technologies in Business' (in the cooperation with T-Mobile),
  - 'Change Strategy or Strategy Change' (in the cooperation with Brian Tracy International training company, T-Mobile, and with the participation of special guests, i.e. experts from the world of finances, economy and management).

  In addition, as part of the Academy, a conference was held concerning the sales management conducted by famous Brian Tracy, an international business guru. Over 700 participants took part in it, and entrepreneurs invited by Kredyt Bank constituted over half of them. As a consequence of outstanding reviews and opinions of entrepreneurs, the Bank decided to organize another venture with the participation of Brian Tracy in spring 2012.

The most important areas in which the measures in the SME Segment will be focused in 2012 are as follows:

- Continuation of the acquisition of new customers along with the focus on the cross-sell and on the further activation of the customers acquired in 2010 and 2011, using new products and the streamlined organization and processes,
- An increase in the volume of deposits combined with the pressure on the increase in the profitability in this area,
- Further focus on the areas of the receivables discount (factoring) and treasury products,
- Further development of Autodealing application (e.g. the addition of transactions hedging the currency risk),
- Incorporation of the Business Service Center in selling and cross-selling campaigns,
- Emphasis on the highest quality of customer service,
- Continuation of 'An Entrepreneur's Academy' project and other initiatives with a purpose to ensure added value for entrepreneurs.

Corporate Segment

The services to Corporate customers are rendered by 13 Corporate Banking Centers located in: Białystok, Bydgoszcz, Gdańsk, Katowice, Kraków, Lublin, Łódź, Poznań, Rzeszów, Szczecin, Warsaw (two Centers) and in Wrocław. The Centers covering the largest geographical areas have their additional representative outlets in smaller towns (Ciechanów, Jelenia Góra, Kielce, Koszalin, Legnica, Leszno, Łomża, Olsztyn, Piła, Radom, Siedlce, Zielona Góra).

Direct contact with customers and the management of the whole cooperation is performed by Customer Assistants. In the event of specializes services, they are supported by product specialists, who are employees of the Enterprises Banking Department in the Bank's Head Office in Warsaw. In addition, a crucial part of the product offer is provided by the companies of Kredyt Bank Group and KBC Group in Poland, including: in the case of leasing services - Kredyt Lease S.A. which offers complete services to companies leasing fixed assets and real properties; KBC Autolease S.A. - long-term lease and fleet services; and KBC TFI S.A. - an offer of investment funds for Corporate Customers. In the case of investment banking, the services to corporate customers are provided in the cooperation with KBC Securities S.A.

The ongoing transactional services and after-sales service for all Corporate Customers are provided by the Business Service Center located in Lublin. Cash services are provided in branches and retail affiliates of KB S.A. throughout Poland.

The key areas of activities and accomplishments of the Corporate Segment in 2011:

- Focus of the activities in the area of new customer acquisition and record-high results in this area: In 2011, the Bank acquired the total of 632 new customers with annual revenue of over PLN 25 million. As compared to 303 new customers in 2010, the growth rate is 209%. Such a significant increase in the growth rate was accompanied by the simultaneous implementation of the strategy of improving assets profitability, assuming the withdrawal from substantial loan commitments,
- A lot of pressure on the activation of new customers and cross-sell, having regard for the accomplishment of the return on equity. The income generated from the customers acquired in 2011 only exceeded PLN 10 million,
- Implementation, in the first quarter of 2011, of an electronic customer file: this is a centralized base of customers' documents, including specimen signatures cards and authorization forms, which allows for the complete 'de-location' of cash and counter services (i.e. availability in each outlet of KB S.A.),
- Implementation of improvements which will significantly reduce the time in the approving process and in the process of making credit decisions through: the elimination of six regional Risk Centers and the appointment, in each of 13 Corporate Banking Centers, of Senior Lenders as the persons making credit decisions on behalf of the Risk Function; the centralization of the processes of verifying, signing and launching loan transactions within the central loans management process,
- Making the product offer of 'Szybki Kredyt' ('Fast Loan') more attractive: a lending decision made in 24 hours / a loan agreement signed the in 48 hours; a decrease in the interest rate under the promotion by 1 p.p.,
- A cooperation agreement signed with Bank Gospodarstwa Krajowego, under which Kredyt Bank offers the sales of loans with a technology bonus (Technology Credits),
- Credit lines obtained, on attractive terms, from the European Investment Bank, for the total amount of EUR 150 million. The funds from the EIB were allocated to the financing of loan and leasing transactions for entrepreneurs, and loan transactions and municipal bonds for local government units. The customers of Kredyt Bank benefit from the EIB's financing due to a lower cost of the loan,
- Launch of the term deposits negotiation module through KB Autodealing platform,
- As supplementation of the offer of existing Visa Business charge and debit cards – introduction of Bank's first credit card for companies, i.e. MasterCard BusinessCard Silver card with an insurance package. The card gives businesses an opportunity to take out an interest free loan for a period of up to 56 days, without any commission for non-cash transactions and without any fees for the issue and use of the card in the first year.

The most important areas in which the measures in the Corporate Segment will be focused in 2012 are as follows:

- Activation of new customers (acquired in 2011 and 2010 and those being acquired on an ongoing basis) and higher cross-sell,
- Continuation of the acquisition of new customers, focus on the acquisition of customers from FX and Trade Finance areas, including factoring, and an increase in the share in the market and in the income from these lines,
- Maintenance of the good quality of the loans portfolio,
- Further development of Autodealing application (including transactions hedging the currency risk),
- An increase in the volume of deposits due to the introduction of new products and periodical promotions as well as through the acquisition of new deposit customers,
- An increase in the profitability of the Cash Management line,
- Emphasis of the highest quality of customer service,
- Continuation of 'An Entrepreneur's Academy' project and other initiatives aiming at ensuring added value to entrepreneurs.

5.3. Treasury Segment and the cooperation with international financial institutions

The Bank performs transactions on the inter-bank market, both domestic and international, on own account and on behalf of customers. Active participation in the inter-bank market makes it possible to obtain competitive quotations, which is the basis of stabilization and development of existing corporate customers' base. The Bank is the Treasury Securities Dealer and Money Market Dealer. The treasury products offer is constantly expanded and ensures appropriate services both to Private Banking customers and medium-sized and large companies. It entails, among other things, the conclusion, for customers, of transactions hedging the market risk, the currency risk, the interest rate risk and the risk of raw materials prices.
Kredyt Bank S.A. established active relations with domestic and foreign banks providing FX/MM, Custody, Trade Finance and payment services. They are supplemented by cooperation agreements with global foreign institutions, e.g. the European Investment Bank, the European Reconstruction and Development Bank, Visa International.
Due to the base of 35,000 SWIFT keys exchanged with other institutions, the Bank is able to exchange correspondence with banks and service foreign trade in the majority of countries worldwide. As at 31 December 2011, Kredyt Bank maintained 10 LORO accounts in foreign currencies and 28 LORO accounts in PLN for 30 correspondent banks (25 foreign banks and 5 Polish banks). The network of NOSTRO accounts included 16 accounts in 16 banks and it fully satisfied the clearing needs of Kredyt Bank.

5.4. Custodian services and investment activities

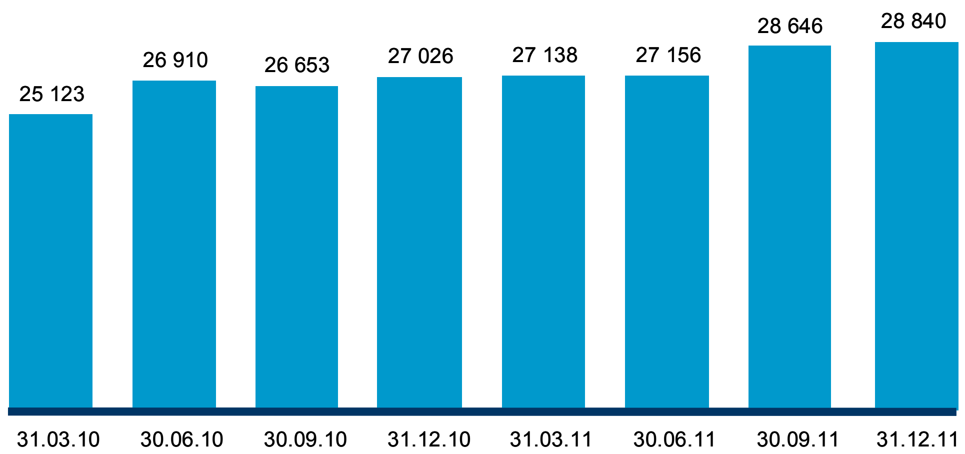
An offer of the Bank's custodian services entails maintaining securities accounts for domestic and foreign, both institutional and individual, customers. For the special group of customers, i.e. investment funds, the Bank also plays a role of a custodian bank and issue sponsor. The Bank holds an authorization of the Polish Financial Supervision Authority to maintain securities accounts; it is also a direct participant of the National Depository for Securities as a Custodian Bank and a participant of the Securities Register managed by the National Bank of Poland (NBP). On this basis, the Bank maintains accounts for securities, deposited in the National Depository for Securities or the Securities Register. The Financial Transactions Clearing Office in the Bank's Head Office is the Bank's unit responsible for the above-mentioned tasks.

6. Financial results of Kredyt Bank S.A. in 2011

6.1. Assets structure

The Bank's total assets as at 31.12.2011 amounted to PLN 41,551,380 thousand against PLN 43,000,255 thousand as at 31.12.2010 and were lower by 3.4%. Net loans and advances to customers and investment securities were the items with the greatest shares in the assets structure; as at the end of 2011, they jointly accounted for 90.3% of total assets. The major changes in assets structure as compared to the end of 2010 were as follows:

- An increase in the share of net loans and advances to customers from 62.9% to 69.4% at the end of 2011. It was mainly a result of the depreciation of the Polish zloty and of the revaluation of the portfolio of mortgages in foreign currencies as well as of the lower growth rate for the whole balance sheet total. The chart below presents net loans and advances on a quarterly basis in thousands of PLN.



- A decrease in the share of financial assets held for trading (excluding derivatives) in total assets from 3.7% to 0.1% at the end of 2011 and the decrease in the share of receivables related to investment securities from 22.0% to 20.9%. The changes resulted from the decline in the mass short-term financing invested in liquid assets related to the policy of increasing the share of customers' deposits in the structure of financing sources.
- A decrease in the share of cash and balances with Central Bank in total assets from 4.5% to 1.9% at the end of 2011.

The depreciation of the Polish zloty against CHF, due to the large share of mortgages in foreign currencies in the portfolio, was a factor which influenced the changes in the volume and in the structure of assets in 2011 as compared to 2010. At the end of 2011, the CHF exchange rate was PLN 3.63 as compared to PLN 3.16 at the end of 2010, and EUR exchange rate was PLN 4.42 as compared to PLN 3.96 at the end of 2010. At the end of 2011, net loans and advances to customers in CHF accounted for 26.8% of assets, and loans and advances to customers in EUR accounted for 7.4%.

in PLN '000'	31.12.2011	31.12.2010	Change (%)
Cash and balances with Central Bank	784 626	1 943 571	-59.6%
Gross loans and advances to banks	1 188 012	1 466 249	-19.0%
Impairment losses on loans and advances to banks	0	-2 260	-100.0%
Receivables arising from repurchase transactions	0	87 218	-100.0%
Financial assets designated upon initial recognition as at fair value through profit or loss	79 944	98 849	-19.1%
Financial assets held for trading (excluding derivatives)	60 493	1 601 283	-96.2%
Derivatives including:	1 071 089	463 159	131.3%
- derivatives used as hedging instruments	95 592	74 340	28.6%
Gross loans and advances to customers	30 209 994	28 901 536	4.5%
Impairment losses on loans and advances to customers	-1 369 625	-1 875 759	-27.0%
Investment securities	8 676 019	9 464 547	-8.3%
- available-for-sale	5 259 345	6 216 768	-15.4%
- held-to-maturity	3 416 674	3 247 779	5.2%
Investments in subsidiaries and jointly controlled entities	64 626	64 626	0.0%
Property, plant and equipment	261 609	291 922	-10.4%
Intangible assets	60 472	51 827	16.7%
Deferred tax asset	242 881	327 776	-25.9%
Current tax receivable	116 870	0	
Non-current assets classified as held for sale	2 047	7 070	
Investment properties	17 536	18 217	-3.7%
Other assets	84 787	90 424	-6.2%
Total assets	**41 551 380**	**43 000 255**	**-3.4%**

Credit portfolio quality

At the end of 2011, in Kredyt Bank S.A., the share of loans and advances with evidence for impairment in total gross loans and advances to customers amounted to 8.6%, i.e. less by 1.5 p.p. than at the end of 2010. In the analyzed period, the value of non-performing receivables, i.e. those for which evidence for impairment was identified, decreased by 10.4%. The decrease was related mainly to the receivables due to consumer loans and was associated with the sale of retail debts to BEST III Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ('BEST III NSFIZ'), which took place in the first half of 2011.

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

As at 31.12.2011, the coverage of loans and advances with evidence for impairment with impairment losses was at the level of 48.3% and decreased by 12.0 p.p. as compared to 31.12.2010.

The value of loans and advances with evidence for impairment and basic ratios describing the quality of the loans portfolio in 2011 and 2010 are presented in the table below:

in PLN '000'	31.12.2011	31.12.2010	Change (%)
Loans and advances with no evidence for impairment, including interest	27 599 678	25 987 747	6.2%
Loans and advances with evidence for impairment, including interest	2 610 316	2 913 789	-10.4%
including: loans and advances for which no impairment losses were established	37 103	17 263	114.9%
Total gross loan and advances to customers (including interest)	**30 209 994**	**28 901 536**	**4.5%**
Impairment losses on loans and advances to customers	1 369 625	1 875 759	-27.0%
including: impairment losses on loans and advances with evidence for impairment	1 261 937	1 757 450	-28.2%
Total net loans and advances to customers	**28 840 369**	**27 025 777**	**6.7%**
The share of loans and advances with evidence for impairment in total gross loans and advances	**8.60%**	**10.1%**	**-1.5 p.p.**
Coverage of loans and advances with evidence for impairment with impairment losses	**48.30%**	**60.3%**	**-12.0 p.p.**

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

In 2011, in the course of debt collection measures aimed at recovering debts from non-paying customers, the Bank issued 60,689 banking executory titles for the total amount of PLN 442.7 million. In 2010, the Bank issued 139,095 banking executory titles for the total amount of PLN 1,028.0 million.

In the case of receivables assessed individually, the total fair value of the collateral approved by the Bank taken into consideration in estimated future cash flows, as at 31.12.2011 amounted to PLN 499,995 thousand. As at 31.12.2010, this value was equal to PLN 401,823 thousand.

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

Gross loans and advances to customers – item-by-item structure

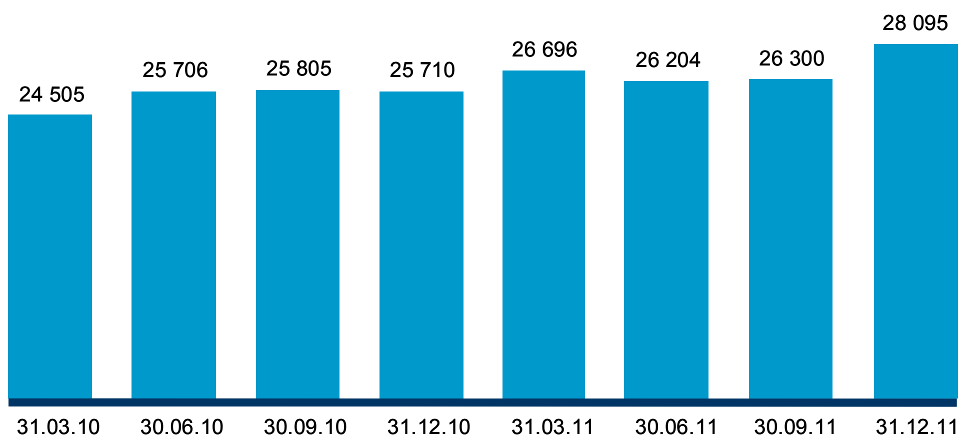
There were no significant changes in 2011 from the point of view of the shares of particular customer segments in the total loans portfolio. The following issues were noticeable: an increase in the share of mortgages combined with a decrease in the share of cash loans and installment loans in the structure of loans and advances to natural persons; bigger significance of overdraft facilities in the portfolio of loans for corporate and SME customers, and a greater share of debt securities in loans and advances to the budgetary sector.

	31.12.2011	31.12.2010	Change (%)
Natural persons*	**76.5%**	**76.8%**	**-0.3%**
- overdraft facilities	4.3%	3.9%	0.5%
- term loans**	3.5%	3.6%	-0.1%
- cash and instalment loans, and cards	12.3%	17.4%	-5.1%
- mortgage housing loans	77.8%	72.9%	4.9%
- other mortgage loans***	1.8%	2.1%	-0.2%
- purchased debt	0.1%	0.1%	0.0%
- realized guarantees	0.0%	0.0%	0.0%
- other receivables	0.2%	0.1%	0.0%
Corporate customers and SMEs	**22.8%**	**22.5%**	**0.3%**
- overdraft facilities	29.3%	25.0%	4.4%
- term loans**	66.0%	72.2%	-6.3%
- purchased debt	3.1%	1.8%	1.3%
- realized guarantees	0.5%	0.0%	0.5%
- other receivables, including leasing fees	0.3%	0.2%	0.0%
- debt securities classified as loans and receivables	0.8%	0.7%	0.1%
Budget	**0.7%**	**0.6%**	**0.0%**
- overdraft facilities	2.4%	1.5%	0.9%
- term loans**	53.4%	87.8%	-34.3%
- purchased debt	10.0%	0.0%	10.0%
- debt securities classified as loan receivables	34.2%	10.8%	23.4%
Total	**100.0%**	**100.0%**	**0.0%**

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.
** The item contains mainly: in the case of natural persons – investment loans and working capital loans for individual entrepreneurs and mortgage loans, and in the case of corporate and budgetary customers – investment and working capital loans.
*** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages

6.2. The structure of liabilities and equity

At the end of 2011, as in the previous year, amounts due to customers were the main category of liabilities. Over the last 12 months, their value increased by 9.3%. The share of amounts due to customers in total liabilities and equity amounted at the end of 2011 to 67.6% (an increase by 7.8 p.p.). The chart below presents the value of amounts due to customers on a quarterly basis in thousands of PLN:



As a consequence of good results of the acquisition of customers' funds and the lower current financing from KBC Group, the share of amounts due to banks (including the Central Bank) in total liabilities and equity declined. At the end of 2011, it was at the level of 19.4% against 27.4% at the end of 2010. The majority of them were funds sourced from KBC Group's entities.

At the end of 2011, the value of loans and advances as well as of term deposits obtained from entities of KBC Group amounted (including subordinated liabilities) to PLN 8,962,724 thousand, which accounted for 21.6% of total liabilities and equity. In addition, at the end of 2011, KB S.A. obtained, from the entities of KBC Group, PLN 69,746 thousand of cash in current accounts (at the end of 2010, it amounted to PLN 2,809,093 thousand; the funds were used to finance short-term assets).

The value of particular liabilities and equity items is presented in the table below (in PLN '000'):

	31.12.2011	31.12.2010	Change (%)
Amounts due to Central Bank	32	6	433.3%
Amounts due to banks	8 060 178	11 771 404	-31.5%
Liabilities arising from repurchase transactions	0	228 693	-100.0%
Derivatives, including:	982 916	1 131 078	-13.1%
- derivatives used as hedging instruments	1 669	1 274	31.0%
Amounts due to customers	28 094 775	25 710 004	9.3%
Current tax liability	0	152 959	-100.0%
Provisions	91 126	70 878	28.6%
Other liabilities	248 125	206 890	19.9%
Subordinated liabilities	1 036 510	911 100	13.8%
Total equity	3 037 718	2 817 243	7.8%
Total liabilities and equity	**41 551 380**	**43 000 255**	**-3.4%**

Amounts due to customers – structure by items and types

In 2011, there were no substantial changes in the item-by-item structure of amounts due to customers. The changes in the structure by types are related to the greater popularity of term deposits. Term deposits of corporate customers include the funds of TUnŻ WARTA sourced from the sales of 'WARTA GWARANCJA' insurance term deposit; as at 31.12.2011, they amounted to PLN 424,011 thousand (as compared to PLN 706,509 thousand at the end of 2010).

Loans and advances of corporate customers comprise cash loans from the European Investment Bank (according to the segmentation of the National Bank of Poland, they are presented in the corporate segment).

Amounts due to the Group's customers	31.12.2011	31.12.2010	Change in p.p.
Natural persons*	**63.6%**	**62.2%**	**1.4%**
- in current account	65.3%	78.3%	-13.0%
- term deposits	33.7%	20.9%	12.8%
- other	1.0%	0.8%	0.2%
Corporate customers	**31.2%**	**30.0%**	**1.2%**
- in current account	45.1%	49.5%	-4.4%
- term deposits	44.8%	47.9%	-3.1%
- loans and advances**	10.0%	2.6%	7.5%
- other	0.0%	0.1%	0.0%
Budget	**5.2%**	**7.7%**	**-2.5%**
- in current account	72.4%	68.4%	4.0%
- term deposits	27.5%	31.6%	-4.1%
- other	0.1%	0.0%	0.1%
Total	**100.0%**	**100.0%**	**0.0%**

* amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households

** comprises cash loans from the European Investment Bank, which, according to the segmentation of the National Bank of Poland, is presented in the corporate customers segment.

6.3. Off-balance sheet items

The value of particular off-balance sheet items is presented in Note 45 of the annual financial statements of Kredyt Bank S.A. for the year ended 31.12.2011.

Guarantees and sureties issued, including those granted to the Issuer's related parties

As of 31.12.2011, the Bank issued guarantees with the total value of at least 10% of the Bank's equity to one company, amounting in total to PLN 418,597 thousand.

As of 31.12.2010, the Bank issued guarantees with the total value of at least 10% of the Bank's equity, to one company, amounting in total to PLN 456,494 thousand.

The principles regarding the issue of guarantees and the fee for their issuing were based on market terms.

6.4. Income statement structure

The Bank's net profit in 2011 amounted to PLN 310,318 thousand and was higher by 179.0% in comparison to 2010. The deduction of net impairment losses on financial assets, other assets and provisions from the result for 2011 with an amount lower than in 2010 (-PLN 193,711 thousand vs. -PLN 464,578 thousand respectively), was the most important factor which influenced the differences between the compared periods. The sale of the portfolio of retail debts made in the first half of 2011 was positive for this category (the impact upon the balance of impairment losses amounted to +PLN 84,964 thousand).

In 2011, the operating profit (understood as profit before tax, less net impairment losses and the share in profit of associates) amounted to PLN 602,231 thousand and was lower than the operating profit for 2010 by 0.9% (PLN 607,547 thousand). The level of operating results in 2011 was affected primarily by:

- a lower than in 2010, by PLN 27,390 thousand, the result from the valuation of securities measured at fair value through profit or loss due to the decline in quotations at the Warsaw Stock Exchange.

- an increase by PLN 97,191 thousand, as compared to 2010, in net interest income, which was the result of the improvement of loan and deposit margins,
- an increase by PLN 72,964 thousand in general and aministrative expenses, which was the result of higher staff costs, higher costs of taxes and fees (including fee for the Bank Guarantee Fund), as well as an increase in marketing costs.

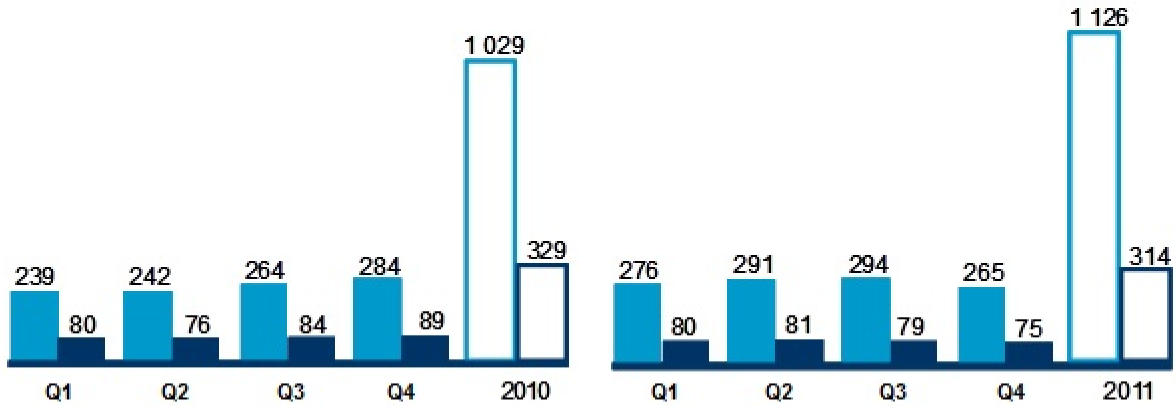
The main items of the Kredyt Bank S.A.'s income statement are presented below.

in PLN '000'	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010	Change (%)
Net interest income	1 126 189	1 028 998	9.4%
Net commission income	314 474	329 091	-4.4 %
Net gains from trading and investing activities (including dividends and net result on derivatives used as hedging instruments and hedged items)	82 176	134 725	-39.0%
Net gains from other operating income/expenses	43 378	5 755	653.7%
Total income	**1 566 217**	**1 498 569**	**4.5%**
General and administrative expenses, and depreciation	-963 986	-891 022	8.2%
Net impairment losses on financial assets, other assets and provisions	-193 711	-464 578	-58.3%
Profit before tax	408 520	142 969	**185.7%**
Income tax expense	-98 202	-31 730	209.5%
Net profit (attributable to the shareholders of the Bank)	**310 318**	**111 239**	**179.0%**

Net interest income and net fee and commission income generated by the Bank in 2011 amounted to PLN 1,440,663 thousand and was higher by 6.1% than the figure in 2010 (PLN 1,358,089 thousand). The factors which positively affected the interest income and commission income were as follows: greater acquisition of new customers and the improvement of the profitability of the cooperation with existing customers in the Enterprises Segment and in the Retail Segment.

Net interest income in 2011 amounted to PLN 1,126,189 thousand and, as compared to 2010, increased by 9.4%. An increase in deposit margins in both most important segments of customers, as well as the improvement of loan margins in the Enterprises Segment were positive for the net interest income. Higher margins were related, among other things, to the increase in interest rates and the diversification of the loans portfolio of the Enterprises Segment implemented according to the strategy.

Net fee and commission income in 2010 and 2011, in millions of PLN, is presented in the chart below (the net commission income is marked dark blue):



Net fee and commission income in 2011 amounted to PLN 314,474 thousand and, as compared to 2010, decreased by 4.4%. The decline was a result of, primarily, the lower income related to payment cards processing and ATMs maintenance and a lower net commission income related to insurance products.

Worse results of the Retail Segment were partially set-off with an improvement of the enterprises banking results. The increase was mainly a result of the greater acquisition of new customers and of the expansion of the cooperation with existing customers, what resulted in the growth of the commission income from guarantees and foreign transactions.

The table below presents the structure of commission income in 2010 and 2011.

	01.01.2011 - 31.12.2011	Structure %	01.01.2010 - 31.12.2010	Structure %
Fees and commissions on deposit transactions with customers	135 756	33.7%	138 166	32.4%
Fees and commissions due for payment cards processing and ATMs maintenance	118 346	29.3%	138 057	32.4%
Commissions on distribution and management of combined investment and insurance products	59 329	14.7%	65 754	15.4%
Fees and commissions related to lending activities	40 249	10.0%	40 003	9.4%
Commissions on guarantee commitments	22 708	5.6%	18 899	4.4%
Commissions on foreign clearing operations	16 136	4.0%	15 638	3.7%
Commissions on other custodian services	3 514	0.9%	3 316	0.8%
Other	7 302	1.8%	6 251	1.5%
Total	**403 340**	100.00%	**426 084**	**100.00%**

Net gains from trading and investing activities (including dividend income and net result on derivatives used as hedging instruments and hedged items) in 2011 amounted to PLN 82,176 thousand and were lower by 39.0% than the result generated in 2010 (PLN 134,725 thousand). Net trading income decreased by 34.7% and amounted to PLN 78,653 thousand (as compared to PLN 120,466 thousand in 2010). It was affected by lower, by PLN 27,390 thousand, result from the valuation of securities measured at fair value through profit or loss due to the decline in quotations at the Warsaw Stock Exchange, and the lower, by PLN 11,700 thousand, net trading income from debt securities.

Net gains from other operating income/expenses in 2011 amounted to PLN 43,378 thousand, i.e. were higher by 653.7% (by PLN 5,755 thousand) than in 2010. It was mainly a result of the reversal, in the second quarter of 2011, through other operating income, of provisions related to last year's incentive programmes amounting to PLN 17,061 thousand, as well as higher net income from the sale or liquidation of items of property, plant and equipment by PLN 6,615 thousand, higher income related to recovered debts (previously derecognized from the balance sheet) by PLN 4,330 thousand, and lower by PLN 5,741 thousand, costs of debt recovery.

The Bank's general and administrative expenses in 2011 amounted to PLN 963,986 thousand and, as compared to 2010 (PLN 891,022 thousand), increased by 8.2%. The increase was related to both staff costs (+6.0%) and general expenses (+14.6%); however, the costs of depreciation were lower by 9.9% (PLN 82,403 thousand as compared to PLN 491,504 thousand).

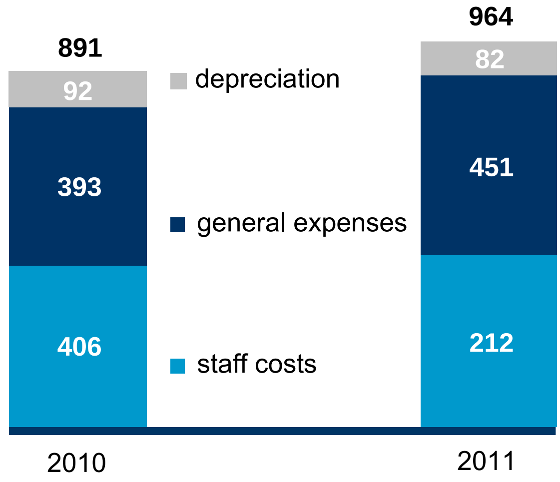
The general expenses in 2011 amounted to PLN 450,855 thousand and, as compared to 2010, they were higher by PLN 57,601 thousand (by 14.6%). The change resulted mainly from the increase in:

- costs of taxes and fees (by PLN 25,511 thousand), mainly due to a higher fee for the Bank Guarantee Fund (by PLN 15,305 thousand) and an increase in VAT costs,

- costs of promotion and advertising services (PLN 22,016 thousand), mainly due to the implementation of a wide-scale marketing campaign,
- IT and telecommunications costs (by PLN 5,610 thousand), due to, inter alia, the infrastructural projects being implemented in the Bank.
- The decline in the costs of postal charges (by PLN 4,319 thousand) was positive.

Staff costs in 2011 amounted to PLN 430,728 thousand and were higher as compared to 2010 by PLN 24,464 thousand (by 6.0%), what was mainly an effect of higher costs of basic remunerations.

General and administrative expenses in 2010 and 2011, in millions of PLN, are presented in the chart below:



The cost/income ratio (CIR) in 2011 amounted to 61.5% and was higher by 2.1 p.p. than in 2010.

Net impairment losses on financial assets, other assets and provisions in 2011 were negative and amounted to -PLN 193,711 thousand as compared to -PLN 464,578 thousand in 2010. Disregarding the impact of the sale of retail debts in the first half of 2011, this category would burden the Bank's results in 2011 with the amount of -PLN 278,675 thousand (the impact of the transaction amounts to +PLN 84,964 thousand), less by 40.0% than in 2010.

As compared to 2010, the cost of the credit risk decreased for each segment. The improvement in the Retail Segment related, among other things, to the fact of the reorganization of the process of granting loans and of debt recovery in the case of the portfolio of mortgages and mortgage loans, should be highlighted here.

In addition, net impairment losses on financial assets, other assets and provisions in 2011 include, in 'Other provisions', a charge of PLN 35 million for the potential liability related to the resale of Żagiel S.A. by KBC Group below the price obtained by Kredyt Bank S.A. in 2009.

The structure of net impairment losses on financial assets, other assets and provisions in incremental terms has been presented in the table below:

in PLN '000'	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010	Change in PLN '000'	Change %
Retail Segment	-144 713	-386 205	241 492	-62.5%
Enterprises Segment	-12 477	-56 022	43 545	-77.7%
Other provisions	-36 521	-22 351	-14 170	63.4%
Total	**-193 711**	**-464 578**	**270 867**	**-58.3%**
Disregarding the impact of one-off transactions				
Retail Segment	-233 677	-386 205	152 528	-39.5%
Enterprises Segment	-12 477	-56 022	43 545	-77.7%
Other provisions	2 479	-22 351	24 830	-
Total	**-243 675**	**-464 578**	**220 903**	**-47.5%**

Income tax expense: the deduction of the income tax from the Bank's result in 2011 amounted to PLN 98,202 thousand, as compared to the deduction from the Bank's result in 2010 of PLN 31,730 thousand. The effective tax rate in 2011 was distorted mainly due to the writing off of a deferred tax asset related to the impairment of receivables which would not become deductible expenditure, and non-tax financial expenses arising due to 'thin capitalization'.

7. Risk management

The Bank's supervisory bodies, explicitly the Management Board and the Supervisory Board, play the most important roles in the risk management process. The Bank's Supervisory Board, through the Audit, Risk and Compliance Committee, is informed about the most vital decisions and gives opinions about the actions of the Management Board in this respect.
On 8.02.2011, the Bank's Management Board appointed the Risk and Capital Committee which replaced the following existing committees: the Assets and Liabilities Management Committee, the Operational Risk Committee, and the Credit Risk Committee. The new Committee will become a forum for the integrated review of all types of risk and capital management. It supports the Bank's Management Board in the area of risk management, control and monitoring. The works of the Risk and Capital Committee are directed by the member of the Bank's Management Board responsible for risk and capital management.

All types of risk in Kredyt Bank are measured and monitored by the departments in the Risk and Capital Management Function, which is supervised by the Member of the Management Board accountable for the risk and capital management, i.e.

- Capital Management Department,
- Corporate and SME Loans Risk Department,
- Retail Loans Risk Department,
- Operational Risk Department,
- Market Risk Department.

These units monitor and report all risk-related aspects, at the same time being fully independent of the Bank's business units. In the process of the identification, measurement and risk management, the Bank applies techniques relevant to a given type of risk. The overriding objectives of the risk management policy concerning mainly the observance of internal and external limits and optimizing and mitigating risk in the process of ongoing monitoring are being systematically implemented. The risk management process is strictly related to the capital management process. The main objective of the capital management process in the Bank is to optimize it and, at the same time, to meet external capital requirements. To achieve this goal, in 2008, the Bank implemented ICAAP (Internal Capital Adequacy Assessment Process).

Details of the risk management system and applied risk metrics are presented in Note 66 to the annual financial statements of Kredyt Bank S.A. for the year ended 31.12.2011.

7.1. Credit risk

Credit policy and credit risk management process

Credit risk in Kredyt Bank S.A. Capital Group is defined as the potential shortfall relative to the value expected for a financial instrument consequent on non-payment or non-performance of liabilities by a borrower, guarantor or counter-guarantor, counterparty (in relation to treasury transactions) or an issuer (of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by political or monetary authorities of a particular country. Credit risk is managed taking into account the credit risk aspect corresponding to individual transactions and from the portfolio perspective.

Kredyt Bank S.A. follows a prudent credit risk policy. The main objective is to prevent impairment of loans portfolio and minimize the share of receivables for which premises of impairment were identified in total loan receivables. The primary assumptions of the credit policy are as follows:

- clear-cut division between sales and credit risk management functions,
- ongoing monitoring and early identification of hazards,
- centralization of decision-making powers in the credit process and in the process of the management of impaired loans portfolio,
- risk diversification and limited financing of higher-risk business activities.

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

Having regard for the existing macroeconomic situation, which is characterized by a high level of uncertainty as regards the future development, the Bank focused on the monitoring of credit risk with the use of cyclical and provisional reports and analyses in order to quickly response to disadvantageous trends in the quality of the loans portfolio. The Group established early warning signs within portfolio limits, principles for their monitoring and a procedure in the case they are exceeded. On the basis of the findings of the analyses, the Bank introduced changes in the credit policy aiming at improving the quality of the loans portfolio.

The main changes in the credit risk management policy include:

- full implementation of 'T Recommendation',
- changes in the methodology of calculating maintenance costs implemented at the customer level (uniform for all products),
- expansion of the principles of the lending policy in the case of individual customers who borrow mortgages in a foreign currency (EUR) to 100% LtV,
- establishment of the cooperation with the provider of insurance (TU Europa) in the area of insuring borrowers' low own funds in a loan for mortgage loans,
- addressing the product offer mainly at existing customers with a good behavioral assessment,
- expansion of the stress-testing methodology and its use in the process of establishing concentration limits,
- reorganization of the lending process, in the case of the portfolio of corporate and SME customers, and definition of new liability scopes for particular participants in this process, including the following issues:
  - determination of the business liability for the total lending process,
  - appointment of professional decision-makers in the independent risk function focused on the process of making credit decisions and liable for the management of the credit risk of the assigned loans subportfolio,
  - centralization of the lending process for SME customers in specialized units.

As at 31.12.2011 and as at 31.12.2010, the concentration limits regarding a customer/a group of related customers were not exceeded.

The Group's exposure towards 10 major corporate customers

31.12.2011		31.12.2010	
Company	Share (%) in the portfolio	Company	Share (%) in the portfolio
Customer 1	3.2	Customer 1	3.8
Customer 2	2.4	Customer 2	3.5
Customer 3	2.2	Customer 3	2.9
Customer 4	2.0	Customer 4	2.7
Customer 5	1.8	Customer 5	2.0
Customer 6	1.6	Customer 6	2.0
Customer 7	1.5	Customer 7	1.8
Customer 8	1.4	Customer 8	1.8
Customer 9	1.4	Customer 9	1.8
Customer 10	1.4	Customer 10	1.5
Total	**18.9**	**Total**	**23.8**

The Bank's exposure in industrial segments (excluding natural persons)

Industry	Exposure % 31.12.2011	Exposure % 31.12.2010
Commerce	24.3	21.2
Commercial real estate	13.6	17.5
Building industry	12.6	8.1
Natural resources, metals, chemicals	9.8	13.8
Agriculture and foodstuff production	7.8	7.8
Services	7.1	6.8
Automotive industry, shipyards, aviation	7.0	7.2
Local government units and financial institutions	5.7	6.6
Timber and papermaking	5.3	4.3
Electrical engineering	3.3	3.2
Transport	2.0	2.3
Gas, energy and water suppliers	0.9	0.5
Media, telecommunications, IT	0.6	0.7
Total	**100.0**	**100.0**

The Group's geographical exposure

Province	Gross loans structure (%) 31.12.2011	Gross loans structure (%) 31.12.2010
Mazowieckie	20.4	21.1
Dolnośląskie	10.7	10.6
Wielkopolskie	9.3	8.9
Lubelskie	9.2	11.8
Pomorskie	8.7	8.7
Małopolskie	7.6	7.3
Śląskie	6.7	6.3
Łódzkie	5.2	4.3
Zachodniopomorskie	5.2	5.2
Kujawsko-pomorskie	3.3	3.2
Podlaskie	3.2	3.1
Podkarpackie	2.6	2.6
Warmińsko-mazurskie	2.6	2.4
Lubuskie	2.3	2
Świętokrzyskie	1.8	1.2
Opolskie	1.1	1.2
Non-resident	0.1	0.1
Total	**100.0**	**100.0**

7.2. Liquidity risk

The liquidity risk is strictly associated with activities of any bank. It results, among other things, from the mismatch of assets and liabilities in terms of maturity dates, which is a natural effect of varied customers' needs as regards banking deposit and loan services.
The 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 by correcting the surplus or shortage of liquid cash by operations conducted on the interbank money market. The Bank's safety is ensured through the maintenance of liquid reserves as well as of the proper term structure and quality structure of the whole balance sheet. The decisions concerning the liquidity risk management are made by the Risk and Capital Committee. The Market Risk Department measures and monitors strategic (long-term) liquidity. The Bank hedges the liquidity risk by:

- maintenance of an appropriate level of cash, taking into account the volume of statutory provisions,
- possession of a proper volume of portfolios of liquid securities (government bonds),
- execution of transactions on derivatives,
- maintenance of a diversified portfolio of deposits as regards maturities and customers,
- diversification of the sources of long-term financing,
- an access to the inter-bank market and open market transactions,
- an access to the lombard loan.

An analysis of the Bank's liquidity situation is performed mainly on the basis of the assessment of the deposits base stability, the liquidity gap report by, among others, monitoring the mismatch of the maturity dates of assets and liabilities, what makes it possible to forecast the demand for liquid assets and avoid excessive concentration of cash disbursements on a close date. In addition, the Bank regularly carries out stress tests for the liquidity and monitors the level of liquidity buffers in stress conditions. The Bank's financial liquidity is also monitored on the basis of a system of ratios reflecting the structure of liabilities and receivables for time ranges from 7 days to 10 years:

- the ratio of the coverage of the 5- and 30-day liquidity gap with liquid assets – Short Term Liquidity Surplus (STLS) – short-term liquidity ratio (up to 5 and 30 working days respectively);
- the liquidity buffer in the liquidity stress-test (within a 30-day horizon);
- Liquidity Mismatch Ratio (LMR) – medium-term liquidity ratio (up to 3, 6 months);
- Coverage Ratio (CR) – liquidity ratio which informs about a degree of financing long-term assets with long-term liabilities (1, 2, 3, 5 and 10 years).

The Bank's liquidity is also monitored through a set of regulatory liquidity ratios pursuant to the requirements of Resolution No. 386/2008 of the Polish Financial Supervision Authority.
Details concerning these ratios are presented in Note 66 to the annual financial statements of Kredyt Bank S.A. for the year ended 31.12.2011.

The support of KBC Group, the strategic investor, is a crucial factor affecting the safety of the Bank's operations. The Bank finances the lending activities not only with deposits, but also with the financing made available by the Bank's major shareholder. The loans in foreign currencies granted by Kredyt Bank are, to a large extent, financed with loans in foreign currencies received from KBC Group, deposits in foreign currencies made by entities from KBC Group and customers' deposits in foreign currencies.
At the same time, the diversification of the deposits base means that the Bank is not clearly dependent on any specific market segment, customer group or specific deposit type.

Sources of financing – amounts due to banks and subordinated liabilities

in PLN '000'	31.12.2011	31.12.2010
Loans and advances from KBC Group	2 808 513	5 271 691
- including loans and advances in foreign currencies	2 808 513	5 271 691
Term deposits	5 160 973	2 922 345
- including term deposits from KBC Group	5 117 701	2 909 169
Current accounts	83 795	3 573 391
- including term deposits from KBC Group	69 746	2 809 093
Other liabilities	6 897	3 977
Total amounts due to banks	**8 060 178**	**11 771 404**
Subordinated liabilities (from KBC Group)	1 036 510	911 100
Total	**9 096 688**	**12 682 504**

Amounts due to customers by maturity dates

in PLN '000'	31.12.2011	31.12,2010
- up to 1 month	20 262 724	19 765 682
- 1-3 months	2 371 382	1 978 829
- 3-6 months	3 301 389	2 169 911
- 6 months to 1 year	1 075 710	1 044 007
- 1-3 years	268 711	535 003
- 3-5 years	47 190	17 585
- 5-10 years	767 668	198 242
- 10-20 years	1	745
Total	**28 094 775**	**25 710 004**

Gross loans and advances to customers by maturity dates

in PLN '000'	31.12.2011	31.12.2010
- up to 1 month	730 255	667 444
- 1-3 months	1 019 108	921 420
- 3-6 months	1 149 013	1 011 620
- 6 months to 1 year	3 107 661	2 765 354
- 1-3 years	4 098 899	3 866 771
- 3-5 years	2 495 955	2 649 944
- 5-10 years	4 251 841	3 926 722
- 10-20 years	6 846 200	6 152 841
- over 20 years	3 940 668	3 686 473
- past due	2 570 394	3 252 947
Total	**30 209 994**	**28 901 536**

7.3. Market risk

Market risk is defined as a degree of the hazard to the Bank's financial standing resulting from adverse changes in market parameters (interest rates, exchange rates and prices of shares) and their market volatility.
The Bank is not active on the stock market (investments in shares are long-term investments or strategic investments in subsidiaries). The Bank does not trade on commodity markets either. In the Bank, among all types of market risks, we deal with the interest rate risk (including the basis risk) and the currency risk.
The Bank's activity is divided into two parts: Trading Book and Banking Book. Due to different nature of opened positions, the risk is monitored in each book separately.

Trading Book

The Trading Book is a separated part of the Bank's portfolio, where the Bank intends to generate income resulting from short-term changes in prices, interest rates, exchange rates or other market parameters. The main activity of the Trading Book is associated with financial instruments in PLN, and, to a lesser extent, also in USD and EUR.
Value at Risk (VaR) is the basic metric of risk in the trading portfolio. Value at Risk means such an amount that the probability of the Bank's loss exceeding this value amounts to 1% (with the assumed 99% level of significance). Value at Risk (VaR) in the Bank is calculated by historical method in the time horizon of 10 days, taking into account market figures for the previous 500 days. VaR limit for the Trading Book overlaps Global VaR, which includes both the currency risk and the interest rate risk. All the presented calculations of the risk metrics for the Trading Book refer to the Bank's position.
The Bank does not maintain interest rate options or currency options for its own account, i.e. it does not pursue speculative activities. Therefore, the market risk in the portfolio of option transactions does not exist.

Trading Book – interest rate risk

Interest rate risk reflects a degree of a hazard to the Bank's financial standing arising from adverse changes in market interest rates.
The level of the interest rate risk and of the basis risk is monitored and limited (by the establishment of limits) against BPV (basis point value - price sensitivity to parallel shifts in interest rates on the yield curve). All above-mentioned limits concern the total Trading Book. The Trading Book Unit, in the Cash Processing Department, that manages the Trading Book is divided into two sections: the Short Term Desk and the Long Term Desk. The activities of the Trading Book Unit in the area of the interest rate risk are limited by an internal limit on VaR for the interest rate positions and stop-loss limits (the maximum acceptable value of the loss). Interest rate risk VaR is calculated using the same parameters as Global VaR, i.e. the significance level of 99%, 10-day time horizon and 500-day observation horizon. The interest rate risk analysis is supplemented by stress-testing which is the amount of possible loss due to extremely adverse (critical) changes in interest rates.
Global HVaR limit was not exceeded in 2011. At the same time, in the first quarter of the year, the internal HVaR limit for the interest rate was exceeded occasionally, which resulted from the maintenance of substantial positions in PLN.

Trading Book – currency risk

Currency risk is a degree of the risk for the Bank's financial standing resulting from adverse changes in exchange rates on the market. This risk covers income on foreign exchange transactions and measurement of open position in currencies resulting from the difference between the value of assets and liabilities in a given currency. The Bank's position in currencies is managed for the Trading Book and the Banking Book jointly. The Bank's position in currencies is managed in the Trading Book.
The daily analysis of the sensitivity of the total Trading Book position to currency risk is performed through the calculation of currency risk VaR (with the same parameters as Global VaR, i.e. the

significance level of 99%, 10-day time horizon and 500-day observation horizon). In the event of the currency risk, 'value at risk' method is supplemented daily by stress-testing which is the amount of possible loss due to extremely adverse (critical) changes in exchange rates.

Banking Book

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

Banking Book – interest rate risk

The Bank actively manages the interest rate risk in the main currencies of the balance sheet, including PLN, EUR, USD, CHF.
An interest rate gap prepared separately for each currency is the basic measurement and risk-limiting tool in the banking portfolio. The following risk metrics are calculated on that basis:

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

An analysis of the interest rate gap applied in the interest rate risk management of the Banking Book is based on information on particular items of the Bank's balance sheet as well as off-balance items sensitive to changes of interest rates. In the case of financial instruments without defined maturity date (according to stability analyses for each type of product), the Bank implemented the model of periodic deposits rollover, which replicate the behavior of particular products. This approach allows for more effective management of the risk associated with this type of instruments and for the generation of constant income from investments of these assets.
Stress-testing and VaR calculations are additional interest rate risk monitoring tools in the Banking Book. The Bank also analyzes BPV of the Bank, with the simultaneous upward shift of interest rates by 10 b.p. in breakdown into particular currencies.
The Bank actively mitigates the risk resulting from the mismatch between balance sheet assets and liabilities, closing the positions with derivatives and applying hedge accounting.

Average interest rates in Kredyt Bank S.A. in 2011

Average interest rates of customers' deposits, calculated as the ratio of interest expenses to average deposits volume in the year, for major currencies, were as follows:

	2011	2010
PLN	3.8%	3.8%
EUR	0.8%	0.7%
CHF	0.2%	0.2%
USD	0.5%	0.6%

The average interest rates of customers' loans, calculated as the ratio of interest income from the total loans portfolio to the average volume of loans and advances in the year, for major currencies, were as follows:

	2011	2010
PLN	7.6%	7.0%
EUR	3.2%	2.5%
CHF	1.5%	1.6%
USD	2.1%	2.0%

Banking Book – currency risk

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

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

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

- determined the value of the highest monthly interest and principal repayment installment for the applied loan with the assumption that the principal of the applied loan is higher by 20%,
- determined the maximum level of LtV (Loan To Value) ratio at a lower level than for loans in PLN (LtV ratio should be understood as the loan value/collateral value ratio),
- additionally, the applicant was informed about the foreign exchange risk.

In May 2010, the Bank withdrew from its offer mortgages denominated in CHF, focusing on the development of the offer in PLN and EUR. In January 2012, the mortgages denominated in EUR were withdrawn from the offer.

Details of the values of particular risk metrics and the application of hedge accounting for the Trading Book and the Banking Book are presented in Note 66 to the annual financial statements of Kredyt Bank S.A. for the year ended 31.12.2011.

7.4. Operational risk

The Bank defines the operational risk as a possibility of an unexpected influence upon the financial result, as a consequence of maladjustment or unreliability of internal processes, people, technical systems as well as a consequence of external incidents.
To calculate the capital requirement for operational risk in pillar I, the Bank applies the Standardized Approach.

As a result, the Bank, inter alia:

- has defined specific roles and responsibilities of the employees within the operational risk management system,
- keeps a record of operational events and of losses resulting from the operational risk,
- has in place the operational risk management system, which is regularly and independently reviewed by auditors.

As per the requirements concerning the application of the Standardized Approach, the Bank strengthened the operational risk assessment system. Risk self-assessment (RSA) is carried out systematically in particular business areas, action plans to reduce the risk are implemented and the level of risks is measured with the applications of key risk indicators (KRI). Once a year, the Bank identifies key operational risks (Risk Scan).

Business units play a significant role in the implementation of operational risk management tools and techniques, as the direct accountability for operational risk management is on the managers of particular business lines.
The infrastructure of management and methodology are coherent within the Bank and its subsidiaries. Identification and operational risk rating tools are identical. The whole process is supervised by the Risk and Capital Committee and the Bank's Management Board.

8. Financial ratings for Kredyt Bank S.A.

As at 31 December 2011, Kredyt Bank S.A. had the following financial rating prepared upon its order by Fitch Ratings:

- Long-term Issuer Default Rating (IDR): 'A-' with Rating Watch Evolving (RWE) maintained,
- Short-term Issuer Default Rating (IDR): 'F2' with Rating Watch Evolving (RWE) maintained,
- Viability rating: 'bb+',
- Individual Rating: 'C/D',
- Support Rating: '1' with Rating Watch Negative (RWN) maintained.
    - On 22 June 2011, Fitch Ratings assigned the following ratings to Kredyt Bank S.A.: Long-term Issuer Default Rating (IDR): 'A-' (with Stable Outlook); Short-term Issuer Default Rating (IDR): 'F2'; Support Rating: '1'; Individual Rating: 'C/D'.
      Fitch Ratings paid attention to the fact that long-term and short-term ratings reflect a very high potential support that the Bank could obtain from KBC Group, its majority shareholder.
      When assigning the Individual Rating, Fitch Ratings took into consideration, among other things, the fast growth of the value of the loan portfolio before the launch of the financial crisis, the risks embedded in the substantial exposure to foreign currency mortgage loans and the quality of the loans portfolio as well as the solvency level.
      In the opinion of the Agency, these factors are balanced by the adequate liquidity and improved financing structure.
    - On 14 July 2011, Fitch Ratings placed the Long-term Issuer Default Rating (IDR) and the Short-term Issuer Default Rating (IDR) of Kredyt Bank S.A. on Rating Watch Evolving (RWE). At the same time, Fitch placed the Bank's Support Rating on Rating Watch Negative (RWN).
      Placing the Long-term Issuer Default Rating (IDR) and the Short-term Issuer Default Rating (IDR) of Kredyt Bank S.A. on Rating Watch Evolving (RWE) reflects Fitch Ratings' view that the entity's ratings could be upgraded if Kredyt Bank S.A. is bought by an entity with the rating higher than the rating of KBC.
      If Kredyt Bank S.A. is sold to a buyer with a weaker ability to support the Bank, the entity's Ratings could be downgraded.

Placing the Support Rating on Rating Watch Negative (RWN) reflects the fact that this rating can be downgraded if the Bank is purchased by an entity with a lower rating than KBC. If the entity is bought by an entity with a higher rating than KBC or the sale is not effected, the rating may be affirmed at its current level.

- On 20 July 2011, Fitch Ratings changed the method of presenting Individual Ratings by introducing the so called Viability Rating (VR), which for Kredyt Bank S.A. was set at 'bb+'.
  According to the information received from Fitch Ratings, the Viability Rating assesses the same basic risks as the Individual Rating, but the ratings are assigned on a much wider, i.e. 19-point rating scale, corresponding to the scale used for the Long-term Issuer Default Rating (IDR).
  The Viability Rating represents the assessment of the internal and intrinsic creditworthiness of the Bank. In the end, the Viability Rating will replace the existing Individual Rating; however, in the transitory period, i.e. by the end of 2011, Fitch will publish both ratings on a parallel basis.

- On 3 February 2012, Fitch Ratings downgraded the Bank's Long-term Issuer Default Rating (IDR) to 'BBB' from 'A-'. Fitch also maintained the said rating on Rating Watch Evolving (RWE).
  This rating decision is the consequence of downgrading the rating of KBC Bank to 'A-' from 'A' on 31 January 2012.
  The downgrading of the Long-term Issuer Default Rating (IDR) reflects the reduced probability of KBC being able to support Kredyt Bank. Fitch has reassessed the difference between the ratings of KBC and of Kredyt Bank, and, in the light of KBC's intention to sell its stake in KB and the fact that the investment in Kredyt Bank is not now of strategic nature, it widened this difference between the ratings of KBC Bank and of Kredyt Bank S.A. to two notches. At the same time, in the opinion of Fitch, KB's rating reflects a strong commitment on the part of KBC to support Kredyt Bank as long as it remains its majority shareholder.
  The RWE on the Long-term Issuer Default Rating (IDR) and on the Support Rating reflects the potential for these ratings to be upgraded, if the Bank is bought by an entity with a greater ability to provide support than KBC. The said ratings may be downgraded, if the buyer is an entity with a smaller ability to support the Bank.

  Below, Kredyt Bank presents the ratings it has at the moment (i.e. as of the date of the publication of the annual financial statements for 2011), indicating the changes made by Fitch Ratings on 3 February 2012:

  - Long-term Issuer Default Rating (IDR): downgraded to 'BBB' from 'A-' with Rating Watch Evolving (RWE) maintained,
  - Short-term Issuer Default Rating (IDR): downgraded to 'F3' from 'F2' with Rating Watch Evolving (RWE) maintained,
  - Viability rating: 'bb+', no change,
  - Support Rating: downgraded to '2' from '1', Rating Watch revised to Evolving from Negative.

9. Corporate governance and social commitment

Corporate Governance rules

Since the implementation of Corporate Governance principles (for the first time, they were incorporated by the authorities of the Warsaw Stock Exchange in 2002), Kredyt Bank S.A. declared its adherence to them and made every effort to apply recommendations and corporate governance principles to the largest possible extent.

On 1 January 2008, Corporate Governance rules enlisted in the document entitled 'The Code of Best Practice for WSE Listed Companies' came into force (Resolution of the Stock Exchange Board No. 12/1170/2007 of 4 July 2007).
In further years, the Best Practice was revised by virtue of Resolution No. 17/1249/2010 of 19 May 2010, effective from 1 July 2010.

On the basis of above rules, reports on their applications in the years 2007 – 2011 were prepared; they constitute a part of annual financial statements.

In 2011, the Warsaw Stock Exchange made amendments by virtue of Resolution No. 15/1282/2011 of 31 August 2011 and Resolution No. 20/1287/2011 of 19 October 2011. The principles came into force on 1 January 2012.

The Bank approved of the corporate governance rules by virtue of the resolutions of the Ordinary General Meeting of Shareholders of Kredyt Bank S.A. No. 25/2008 of 28 May 2008 and No. 26/2011 of 25 May 2011.

According to the rules of the corporate governance, the Bank applies the By-laws of the Supervisory Board and of the Management Board, as well as the By-laws of the General Meeting of the Bank's Shareholders. The Members of the Supervisory Board have proper education and many-years' experience in the area of business management.

The Audit, Risk and Compliance Committee and the Remunerations Committee operate in the Supervisory Board. If need be, the Supervisory Board may also appoint other Committees, defining their scope and operating mode. The Audit, Risk and Compliance Committee supervises the coherence, effectiveness and performance of the internal control system, compliance rules and the risk management systems functioning in the Bank. The Remunerations Committee supervises employee issues and salaries, especially the salaries of the Bank's Management Board Members. The By-laws of the General Meeting of Shareholders of the Bank define detailed rules of the meeting procedure and of adopting resolutions.

On 14 July 2011, Kredyt Bank S.A. was classified in RESPECT index of responsible companies, as a company meeting the highest responsible management standards among the companies listed on the Warsaw Stock Exchange. The assessment of company's corporate governance practices was one of the elements of a given company's classification in the index.

The Bank presents the information concerning the observance of Corporate Governance rules on its corporate website: www.kredytbank.pl in Polish and English language versions.

Business ethics

Kredyt Bank considers ethics and honesty as the fundamental values to its business activity. Our corporate values, which form the acronym PRO (Professional, Respectful and Open), form a guideline for us in our daily activities. Jointly, they form a consistent unit and involve: courtesy towards customers, efficiency, entrepreneurship and innovation.

The overriding rule of the credit policy involves the financing of transactions complying with ethical standards and the rules of law. Financing criminal activities within the meaning of the criminal code and of socially unacceptable activities is excluded. Kredyt Bank does not finance production and trade in weapons, gambling, erotic business, bio-engineering projects, avoids financing companies showing higher ecological risk.

The Bank introduced an anti-corruption and anti-bribery policy, which presents the official position of the Bank concerning the eradication and prevention of corruption in all forms and variants.
The preventative measures in this area are supplemented by the Bank's policy of accepting gifts and presents by employees, including an absolute ban on corruption, bribery, accepting money and

extorting gifts as a condition of the positive case solution. In addition, it stipulates that gifts in the form of bribes or hidden commissions are always prohibited.

The Bank's policy on whistleblowers reporting abuses, irregularities and negligence in the operations of Kredyt Bank S.A. gives the opportunity of reporting abuses or other negligence by employees at a very early stage, without the fear of repression. At the same time, whistleblowers can enjoy the guarantee of fair treatment and the cases reported by them are examined objectively and with confidence.

The Bank applies the policy concerning the prevention of money laundering and terrorism financing. On the Bank's website, there is a questionnaire confirming the implementation by the Bank of the said policy and the meeting of its requirements.

Corporate Social Responsibility (CSR)

The concept of the Corporate Social Responsibility is an inherent part of the motto of Kredyt Bank and, hence, a very essential approach for the company to its business activities. The Bank has already gained a lot of experience in this area in such domains as, e.g. responsible management, community involvement and employee volunteering, financial education of entrepreneurs, employee development or taking advantage of renewable energy in outlets. Last year, we also launched the implementation of a new philosophy of KB brand: "Finances with Principles", which complies in many dimensions with the principles of the Corporate Social Responsibility.

Our activities as a responsible company were appreciated by the market. In July 2011, Kredyt Bank was positively verified by independent experts from the Warsaw Stock Exchange, the Polish Association of Listed Companies and Deloitte, and was classified in the stock exchange index of the companies with the highest CSR standards in the 3rd edition of RESPECT Index project.

Community involvement

Pursuant to the community involvement strategy titled 'Przyjazny rozwój Dziecka' ('Child's Favorable Development'), Kredyt Bank, implementing a variety of social projects, participates in the establishment of the friendly environment for the development of local communities in which it operates, with a special support as regards the safe development of children.

In the 2010/2011 school year, the first edition of 'Kabecjanie dają radę' ('The Kabecjans can make it') educational project was carried out. Over 20,000 pupils from 116 primary schools from three provinces: Śląskie province, Łódzkie province and Dolnośląskie province, participated in the project. The programme aims at educating children and consolidating their knowledge about the safety rules at home, at school, in the playground and in the streets. The series of 13 lessons were carried out by teachers and rescuers: policemen and firefighters as well as volunteers from the Polish Red Cross, who taught children about basic first aid rules. The children were also examined to check their sight, hearing and lateralization (handedness). The educational activities were addressed to pupils, but also to parents and teachers, who were able to participate in free first aid courses run by the Polish Red Cross.

In the 2011/2012 school year, the second edition of the programme is being implemented in three other provinces: Mazowieckie province, Małopolskie province and Wielkopolskie province. Ca. 20,000 pupils from ca. 140 schools are participating in it.

The Bank is implementing the project in the cooperation with WARTA, the Foundation of WARTA and Kredyt Bank, Stowarzyszenie Laboratorium Troski (The Care Laboratory Association) and the Polish Red Cross. It is carried out under the honorary auspices of the Ministry of the Interior and Administration, the National Headquarters of the State Fire Service and the Polish Police Headquarters. Media sponsorship: TVP Info and Radio Kolor.

To promote safe behavior among the youngest children and their parents, just before summer holidays, we organized an open 'Kabecjan' Family Picnic. The rescuers from the Polish Red Cross taught first aid rules and the firefighters talked about fire hazards. Moreover, everyone could test their knowledge about safety rules playing the Grand 'Kabecjan' Game.

The Bank got involved in 'Szczęśliwej szkoły, bezpiecznej drogi' ('Happy school, safe journey'), the social campaign of Radio Kolor and of Warsaw Police addressed to drivers from Warsaw. The aim of the initiative, carried out at the beginning of the school year, was to remind drivers that, when the new school year starts, they should be particularly careful driving near schools, as the safety of children depends also on them.

Owing to the Bank's involvement, from September to December, 4,800 pupils from classes 1-3 from 37 schools participated in 'Akademia Zielonego Architekta – zaprojektuj i zbuduj EKOmiasteczko' ('Green Architect Academy – design and build an ECOtown') project which comprises ecological workshops conducted in an entertaining way and concerning the tradition of building facilities from natural materials and contemporary solutions in the ecological architecture. It is another campaign in which the Bank, through entertainment, introduces and explains difficult issues to pupils.

In 2011, under the Employee Volunteering Programme called 'TAK od serca' ('YES from the heart'), the employees launched competency volunteering projects, which involve sharing professional competencies with others. Volunteers from Kraków conducted a series of seminars concerning banking education for senior citizens under the 'Nie trzymaj pieniędzy w skarpecie. Seniorzy w nowoczesnych systemach bankowych' ('Don't keep your money in a sock. Senior citizens in modern banking systems') project, held by Stowarzyszenie 'Akademia Pełni Życia' ('Fullness-Of-Life Academy' Association). They gave similar lectures also at the University of the Third Age in Kraków and Wieliczka. And a volunteer from Leszno shared her passion with children - she conducted free workshops of circus skills in the local community center.
The employees also participated in the 'Otwarta Firma' ('Open Company') project during the Global Entrepreneurship Week (14-20 November). Pupils from primary schools visited the Bank's outlets and the employees held banking classes in high schools. Mr. M. Bardan, the President of the Management Board, held one of such lessons in a high school in Warsaw.
The action-based short-term volunteering, i.e. repair and cleaning works in children's homes, hospitals, nursing homes or private houses of hospice patients, is still very popular among employees. Several such initiatives were conducted throughout Poland in 2011.

Blood donation campaigns with the participation of the employees organized cyclically in the Bank's head office have become a permanent element of the company's social activities. In 2011, 41 employees donated 18 liters of blood.

During the initiative called 'Dzień Dawcy Szpiku w Kredyt Banku' ('Bone Marrow Donor Day in Kredyt Bank') in the head office of KB, 79 employees enrolled in the base of DKMS Polska Foundation and, as a result, they were added to the list of potential marrow donors. The Corporate Foundation covered the costs of the donors' medical examinations.

Kredyt Bank was a partner of 'Dzień Wolontariatu Pracowniczego' ('The Corporate Volunteering Day') held in Warsaw as a part of the European Year of Volunteering 2011. The employees of the Bank and of the Foundation of WARTA and Kredyt Bank got involved in the organization of the event, sharing their knowledge and experience on volunteering in the company with others. As panel members in specialized debates, they provided consultations about the implementation, management and promotion of the programme.

The activities of the volunteers from the Bank were appreciated by Centrum Wolontariatu ('Volunteer Center' Association). In 2011, the *Volunteer of the Month* title was awarded to three employees: Marcin Salwerowicz, Agata Pietraszko-Bartkowiak and Adam Agacki. This title is awarded by the Center once a month to the volunteers whose campaigns are supported by their companies. Since 2009, this title has been granted to as many as eight employees.

For the third time, the Bank participated in 'Qurier Św. Mikołaja' ('Santa Claus's Qurier'), a Christmas initiative organized by Fundacja 'Przyjaciółka' ('Female Friend' Foundation) for poor children from community day care centers. The involvement of the Bank's employees in 2011 turned out to be record-high. Both individually and in teams, they bought and prepared dream presents for 375 children from 13 community day care centers throughout Poland. The campaign was coordinated by 10 volunteers, who were local coordinators of the campaign in regions.

Also, the Foundation of WARTA and Kredyt Bank carried out social projects. It implemented its own programmes and supported the NGOs fostering education, culture and health protection, and institutions acting for the people in need. In 2011, to implement its projects, the Foundation spent the total of over PLN 700 thousand.
'Czytelnia Uśmiechu' ('The Reading Room of Smile') is a nationwide programme addressed to young children and teenagers who undergo difficult medical treatment and long hospitalization. The objective of the programme was to grant, to oncology and hematology hospital wards, sets of 177 paper and audio books, being worthful entertainment for the children staying in these wards. Owing to the efforts and involvement of over 80 volunteers from the branches of Kredyt Bank and WARTA in this action, since September 2011 such Reading Rooms have been operating in 18 cities and towns in Poland.
The Foundation encouraged employees to act for the sake of local communities, by introducing the employee volunteering support programme called 'Chcę pomagać!' ('I want to help!'). The employees who work as volunteers in NGOs, schools, children's homes, etc. may request co-financing for their projects. In 2011, the Foundation supported 58 projects for the total amount of PLN 230 thousand. Over 205 volunteers were engaged in their implementation.

Sponsoring

By sponsoring various events, the Bank wishes to develop cultural and sport life of Poles and to foster the passion to spend time actively, as well as build and retain positive relations with customers.

Sport

In 2011, Kredyt Bank launched the cooperation with the Polish Yachting Association regarding the implementation of the strategic sports project: Kredyt Bank Polish Sailing Team. The Bank awarded grants to the best sportsmen from the national team from the following classes: Laser Standard, Laser Radial, Finn, RS:X for women, RS:X for men. The cooperation will focus on the professional preparation of the Polish team for the Olympic Games in London in 2012. In the 2011 sailing season, the sportsmen from KB Polish Sailing Team won two gold medals (Zofia Noceti-Klepacka and Piotr Myszka in RS:X class) and one silver medal of the European Championships (Jonasz Stelmaszyk in Laser Standard class) and two silver medals of the World Championships (Zofia Noceti-Klepacka and Piotr Myszka in RS:X class). During the Polish Sailing Championships in olympic classes (22-25 September), the Team members won as many as 13 medals, including four gold medals (Zofia Noceti-Klepacka, Piotr Myszka, Katarzyna Deberny and Piotr Kula).
Sailing is not a new area of interest for the Bank. The Bank has been supporting the Laser class for a few years now, by sponsoring the Laser Class European Championships in Puck, which, in 2011, took place in August. In May, the Bank also participated, as a sponsor, in the Polish Yachting Association Cup in Puck. During both races, the sailors could participate in a special race for the Cup of the President of Kredyt Bank.

Culture

Cultural projects with a significant social overtone are of special importance in the Bank's sponsoring activities. In 2011, Kredyt Bank was a sponsor of the 3rd edition of the Solidarity of Arts Festival, which took place between 12 August 2011 and 2 September 2011 in the so-called Tri-city (the agglomeration of three Polish cities on the Baltic Sea: Gdańsk, Gdynia and Sopot). It is another project under which the Bank encouraged spectators to commune with high culture, where spectacles and concerts take place in an urban environment. *Marcus* + jazz spectacle was the most important event of the Festival. The following artists performed on open-air stages: Marcus Miller with his band Sinfonia Varsovia, Leszek Możdżer and Tomasz Stańko, as well as eminent jazz musicians, including Trilok Gurtu (India) and Angelique Kidjo (Benin).

In the cooperation with the Belgian Business Chamber, the Bank got involved in the cultural initiative promoting Belgian culture called 'Belgian Escapade', which took place between 13 and 19 April 2011 in Sopot.
The Bank was involved in a series of local cultural projects. In cooperation with the Museum of History in Katowice, the Bank supported, for the third time, a highly popular cultural event 'The Night in a Museum' in Katowice. The Bank also sponsored the concert of Wojciech Kamiński, a jazz pianist, and Irena Gałązka, a singer, organized in the cooperation with the Polish Bank Association.

10. The outlook and growth drivers for Kredyt Bank S.A.

External drivers

We anticipate that the economic growth rate in Poland in 2012 will decrease noticeably as compared to 2011, which will result from the overlapping of a few factors. First, in the fourth quarter of the previous year, the euro area, i.e. Poland's biggest business partner, entered a period of recession. It will adversely affect the foreign demand for the goods manufactured in Poland, especially for the intermediate goods processed in the countries of the monetary union and exported as final products to third countries. As a result, at the beginning of 2012, one should expect a lower growth rate for the Polish export, which will adversely affect the GDP growth rate in the first half of the year. In addition, the soaring inflation rate in 2011, combined with the relatively low growth rate of wages and salaries, contributed to the decline in the real growth rate of household income. Such a situation caused a decrease in the consumption growth rate, which should continue also in the first quarters of 2012. It will be affected by the continued difficult conditions on the labor market, including the further increase in the unemployment rate, and more limited growth of salaries in the public sector. The decrease in the growth rate of capital expenditure is the final key factor that will affect the economic growth rate in Poland, particularly in the second half of the year. It will result, on the one hand, from the lower growth rate of investments in the private sector due to greater uncertainty as regards the level of the future demand, and, on the other hand, from the reduction of capital expenditure from public funds due to lower deficits of local government units, the termination of the projects prepared for EURO 2012 and the termination of projects co-financed from the EU budget for 2007-2013.

The fiscal condition of the euro area countries will be the most crucial external risk driver for financial markets. Any possible escalation of the problems concerning the financing of credit needs of the marginal countries of the monetary union and a lack of the political consensus regarding the assistance to these economies, may bring about the deterioration in investors' sentiments and, as a result, lead to the global increase in the cost of money. Such a scenario would force the countries of the euro area to reduce their budgetary expenditure even more, which would contribute to the deepening of the recession in the euro area and the slower economic growth in the case of its most important business partners, including Poland. The escalation of the European fiscal crisis and the related drop in the prices of government debt securities would adversely affect the capital adequacy ratios in the banks with a relatively high exposure to credit risk associated with the government bonds held by them. In the context of a low market valuation of the banking sector, discouraging the rise in the capital, limited availability of loans to the private sector would be a probable effect of the decrease in the prices of government bonds. The limitation of the lending activities in the euro area would be an additional negative factor for the business conditions in the EU states, including Poland.

The maintenance of the low exchange rate of the Polish zloty will be an indirect effect of political and economic tensions in Western countries and of the associated higher risk aversion on financial markets. The expected slower economic growth in Poland will also contribute to the undervaluation of the Polish currency. In the context of the persisting difficult situation on the labor market, the low exchange rate of the Polish zloty, both against the euro and the Swiss franc, will result in the increased credit risk of the portfolio of mortgage loans due to the greater burden for households related to the payment of loan installments.

The strong depreciation of the Polish zloty recorded in 2011 will delay the return of the inflation rate to the inflation target of the Monetary Policy Council (2.5% +/- 1 p.p.). The delay will lessen the inclination of the Monetary Policy Council to reduce interest rates, despite the slower growth of consumption and investments in Poland and the persisting low wage pressure. As a result, the first decrease in the interest rates of the National Bank of Poland may be expected not earlier than in the second half of 2012. The stabilization of interest rates, maintenance of higher risk aversion on the inter-bank market and the fierce competition on the retail deposits market will lead to the increase in the interest rates of bank term deposits at the beginning of 2012. On the one hand, it will result in the higher growth rate of term deposits, and, on the other hand, will contribute to the further slowdown of the growth of consumption in Poland.

Internal drivers

As compared to the end of December 2010 and to the end of June 2011, the internal drivers for the operations of Kredyt Bank S.A. did not change materially. The intention of KBC Group, the major shareholder, announced in summer 2011, to sell its stake in Kredyt Bank S.A. does not result in the change in the existing strategic objectives. Improved operating effectiveness expressed with the decline in the cost/income ratio, combined with the maintenance of a relatively low level of the costs of credit risk, will be the most crucial issues in 2012.

The ability to acquire new customers in the Retail Segment and the maintenance of the pace of the new customers acquisition process in the Enterprises Segment will be an important driver for the growth of income. To support the process, in May 2011, the Bank launched marketing activities to reinforce and reposition the brand of Kredyt Bank S.A. In the second half of the year, the Bank implemented successive focused product campaigns for the personal account, the mortgage and the consumer loan. The promotion of the new retail banking offer addressed to more affluent segment of individual customers called 'Program Concerto – Nowa Bankowość Osobista' ('Concerto Programme – New Personal Banking') commenced in 2012 was the continuation of the activities. The efforts aim at the increase in the Bank's share in higher segments of the retail market, resulting from the present strategy.

The Bank continues works with a purpose to review and optimize the existing distribution channels (including the network of outlets, call centers and service centers) and to further develop and improve the cooperation with brokers operating on the mortgages market. Under strategic projects, the Bank continues works aimed at the rebuilding of the existing electronic banking system, simplification of processes, integration of the sales support applications as well as the modernization of the Bank's central IT system. The infrastructural projects in the area of IT and in the areas of the organization and of operating processes are to ensure better adaptation of institutions to market requirements, improved efficiency and better use of existing resources, as well as greater possibilities as regards the introduction of new products and services and improved and greater reliability of the customer service.

An increase in and the maintenance of the share in the market of individual customers' deposits and an increase in the acquisition of customers through the sales of deposit products and mortgages will remain an objective for the Retail Segment in 2012. The Bank will strive to regain and maintain its position on the market of mortgages and, at the same time, improve the quality of the loans portfolio, and also to further increase the cross-selling of investment and insurance products.

In the Enterprises Segment, selling activities will be focused on the segment of smaller and medium-sized companies. Expanding the cooperation with existing customers, development of the deposit base and greater diversification of the loans portfolio remain the core objectives. The process of reducing large, non-profitable exposures will continue. Acquiring new customers from the SME segment and an increase in income, including an increase in the commission income from transactional banking and foreign exchange, will remain the main objectives for 2012. Ultimately, customers and income generated from the SME subsegment are to become the most vital part of the enterprises banking business line.

11. Statements of the Management Board of Kredyt Bank S.A.

Under § 90 clause 1 items 4 and 5 of the Ordinance by the Minister of Finance of 19 February 2009 on current and interim information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws No. 2009, No. 33 item 259), the Management Board of Kredyt Bank S.A. hereby makes the following statements:

11.1. True and fair view presented in the financial statements

According to the best knowledge of the Management Board of Kredyt Bank S.A., the financial statements of Kredyt Bank S.A. for the year ended 31.12.2011 along with the comparable data, were prepared according to the accounting principles effective in the Bank and present a true and fair view of the financial standing and assets of Kredyt Bank S.A. as well as of its financial result. In addition, the Management Board of Kredyt Bank S.A. hereby declares that the annual Management Board's report presents a true picture of the development and accomplishments, as well as the situation (including the description of basic risks and threats) of Kredyt Bank S.A. in 2011.

11.2. The 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 financial statements of Kredyt Bank S.A. for the year ended 31.12.2011 was appointed as required by law. This entity and certified auditors performing the review 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	22.02.2012	Maciej Bardan	President of the Management Board	....
date	22.02.2012	Piotr Sztrauch	Vice President of the Management Board	....
date	22.02.2012	Umberto Arts	Vice President of the Management Board	....
date	22.02.2012	Jerzy Śledziewski	Vice President of the Management Board	....
date	22.02.2012	Zbigniew Kudaś	Vice President of the Management Board	....
date	22.02.2012	Mariusz Kaczmarek	Vice President of the Management Board	....

Report Corporate Governance – 2011

(statement on complying with the corporate governance principles)

This Report was prepared pursuant to § 29 section 5 of the Warsaw Stock Exchange Regulations and pursuant to the Resolutions 12/1170/2007of the Warsaw Stock Exchange Supervisory Board of July 4, 2007, the Resolution 17/1249/10 of May 19, 2010 of the Warsaw Stock Exchange Supervisory Board, as well as the resolutions 1013/2007 and 1014/2007 of December 11, 2007, 718/2009 of December 16, 2009 of the Warsaw Stock Exchange Management Board and pursuant to § 91 section 5 point 4 of the Regulation of the Minister of Finance on current and periodical information of February 19, 2009, (Journal of laws of 2009 No. 33 item 259)

Contents of the report:

1. The principles of corporate governance.
2. Application of corporate governance principles by Kredyt Bank S.A.
3. Description of basic features of the systems of internal audit and risk management applied in Kredyt Bank S.A.
4. Shareholders and the information on the shares of Kredyt Bank S.A.
5. Principles of appointing and dismissing as well as composition of the governing and supervisory bodies of Kredyt Bank S.A.
6. Principles of amending the By-laws of Kredyt Bank S.A.
7. Principles of activities of the General Assembly of Kredyt Bank S.A.

1. The principles of the corporate governance

The Management Board of Kredyt Bank S.A. has been declaring adherence to the principles of corporate governance from the moment of their entering into force and has expended every effort so the recommendations and corporate governance principles would be applied to the broadest extent.

On December 23, 2002 the Management Board of Kredyt Bank declared, for the first time, an intention to implement corporate governance principles, included in the document „Best practices in the publicly quoted companies in 2002", which were adopted by the authorities of the Warsaw Stock Exchange.

Starting from 2003 the Bank's Management Board has been submitting statements on complying with the corporate governance principles. Best practices were adopted and approved for application by the Extraordinary General Assembly in the resolution 5/2003 of June 25, 2003.

After two years the principles had been in effect, the Stock Exchange updated the corporate governance provisions, introducing the document „Best practices in the publicly quoted companies in 2005". On April 25, 2005 the document in a form of a declaration was approved by the resolution no. 25/2005 by the Ordinary General Assembly.

On July 4, 2007 the Supervisory Board of the Warsaw Stock Exchange by its resolution no. 12/1170/2007 adopted new principles of corporate governance included in the document "Best Practices of the WSE listed Companies" – and they became effective as of January 1, 2008.

The Bank's Management Board – in accordance with the new principles – prepared "2007 Corporate Governance Report". The above-mentioned report included the provisions that envisaged by the resolution no. 1013/2007 of December 11, 2007 passed by the Warsaw Stock Exchange, and also concerned the principles that were in force in 2007 (i.e. "Best practices in the publicly quoted companies in 2005").

The "Report Corporate Governance 2007" was attached to the Bank's "2007 Annual Report" and made public on February 29, 2008 as well as published on the Bank's internet website.

On May 28, 2008 the Ordinary General Assembly of Kredyt Bank S.A. by its resolution no. 25/2008 approved the application in the Bank's activity of the document "Best Practices of the Companies Quoted on the WSE"

The "2008 Corporate Governance Report" was attached to the Bank's "2008 Annual Report" and made public on February 19, 2009 as well as published on the Bank's internet website.

Report Corporate Governance 2009 includes the provisions envisaged by the Regulation on information obligations and in the Resolutions of the Warsaw Stock Exchange no. 718/2009 of December 16, 2009 on transferring, by the publicly quoted companies, of the reports concerning the application of corporate governance principles.

After the revisions to the Regulation on information obligations entered into force on March 15, 2009, and revisions to the Code of Commercial Partnerships and Companies on August 3, 2009, some of the provisions concerning the principles were included into the provisions of the absolutely binding law. It was then necessary to update the “Best Practices of the Companies Quoted on the WSE”, which was conducted by the Warsaw Stock Exchange Management Board by adoption of the Resolution 17/1/249/2010 in force since July 1, 2010.

The content of the Report Corporate Governance 2010 and 2011 constitute separate documents attached to the Annual Reports. The above-mentioned documents take into consideration the principles stemming from the Resolutions of the Warsaw Stock Exchange 12/1170/2007 which had been in force until June 31, 2010 and 17/1/249/2010 in force since July 1, 2010.

The year 2011 brought further amendments to “Best pracitces”. Modifications introduced by the resolutions of the Warsaw Stock Exchange No. 15/1282/2011 of August 31, 2011 and No. 20/1287/2011 of October 19, 2011 came into force on January 1, 2012.

On May 25, 2011 the Ordinary General Assembly of Kredyt Bank S.A. by the means of resolution No. 26/2011 adopted the modified document “Best Practices of WSE listed Companies” to application in the course of Bank’s activities.

All the information concerning the corporate governance principles in the Bank is available on the Bank’s website in Polish language version:

http://www.kredytbank.pl/o_banku/relacje_z_inwestorami/corporate_governance/corporate_governance.html

in English language version:

http://www.kredytbank.pl/en/investor_relations/corporate_governance/corporate_governance.html

2. Application of Corporate Governance Principles by Kredyt Bank S.A.

In accordance with the preamble to the “Best Practices of the WSE listed Companies” that entered into force as of July 1, 2010, the compliance with principles specified in parts I – IV is the subject of annual reports. Since July 1, 2010, the revised corporate governance principles have been in force introduced by the Resolution 17/1/249/2010 of May 19, 2010.

2.1. Recommendations concerning best practices of the quoted companies

Kredyt Bank S.A. conducts a transparent and reliable information policy and respects the law and best practices in its activity. In its activity, Kredyt Bank is headed by the clients’ fair interests.

The Bank’s information policy is directed to:

› mass media through the press conferences, press information, and contact with the press spokesman as well as the information on the www websites,

› employees through an internal magazine and mailing as well as recurrent meetings of the management with employees,

› the public by publishing information on the internet website.

The Bank prepares and makes publicly known the current and periodical reports by publishing them on www websites. Moreover, on its internet website the Bank publishes also the schedule and quarterly presentations of the Bank's financial results as well as other information about the Bank's activity both in Polish and English languages.

The Bank expends every effort so that the communication with the financial market participants would be based on the principle of equal access to information and its truthfulness and that each person or institution interested in obtaining information is treated with care and commitment.

The basic principle of providing information is ensuring the equal access to precise, reliable and current information about the Bank and the Capital Group in accordance with the principles and regulations applicable to the publicly quoted companies. The text of the Information Policy is available on the Bank's internet website.

The Bank prepares quarterly presentations of its financial results and arranges the meetings with the analysts and investors, securing in this way a broad access to information as well as the opportunity of a direct meeting of the Bank's management with the active investors.

In order to secure an effective information policy in a crisis situation, the Physical and Technical Safety Policy as well as the Business Continuity Plans have been implemented by the Bank.

Kredyt Bank has a remuneration policy in place, which is addressed to all employees.

Kredyt Bank S.A. strictly adheres to the provisions of the Labour Code concerning the equal treatment in employment. Due to the structure of employment in Kredyt Bank, in reference to gender and the number of women employed on managerial positions, women have a significant influence on the Bank's functioning and taking material decisions.

2.2. Best practices followed by the management boards of quoted companies

Kredyt Bank S.A. maintains a corporate internet website in two language versions: Polish and English at the address: www.kredytbank.pl. The binding language version is the Polish language version thereof.

The internet website includes basic corporate documents of the Bank: the By-laws of the Bank, Regulations of the General Assembly, Regulations of the Supervisory Board, Regulations of the Audit, Risk and Compliance Committee, Regulations of the Remuneration Committee, Regulations of the Management Board (/About_the_Bank/Corporate Governance/)

The website also includes the curricula vitae of the Management Board Members and Supervisory Board Members. Curricula vitae of the newly appointed members of the supervisory and managing bodies are promptly published on the internet website (/About_the_Bank/Bank_Management_Board/, (About_the_Bank/Supervisory_Board/):

On May 25, 2011 the Supervisory Board of Kredyt Bank S.A. appointed for a new term of office the President of the Management Board Mr. Maciej Bardan and upon his motion the Members of the Management Board. Curriculla Vitae of the newly appointed Members of the Management Board were announced publicly by the means of a current report No. 16/2011 of May 25, 2011 and published on the Bank's website.

Ordinary General Assembly of Kredyt Bank S.A. appointed as of May 25, 2011 Mr. Guy Libot as a Member of the Supervisory Board. Curricullum Vitae of Mr. Libot announced publicly by the means of a current report No. 15/2011 of May 25, 2011.

The current and periodical reports in the Polish language version together with their translations into English are published on the Bank's website (/Investor_Relations/Current_Reports/ and /Investor_Relations/Periodic_Reports/).

The candidature to the composition of the Supervisory Board was made public on May 19, 2011 by the means of the corporate report No. 1/2011 and one candidature was proposed during the Ordinary General Assembly on May 25, 2011.

The Supervisory Board during its meeting on April 4, 2011 approved the report on its activities for 2011. Pursuant to the binding corporate governance principles the report included the evaluation of activities of the Supervisory Board, internal audit system, risk management system together with the information on the company's condition. It embraced the information concerning the activities of the Audit, Risk and Compliance Committee and the Remuneration Committee. The report was subjected to examination by the Ordinary General Assembly and subsequently approved by the Resolution no. 3/2011 on May 25, 2011. (/Investor_Relations/Corporate_Govertance/).

The following information concerning the dividend was made public and published on the website (/About_the_Bank/Investor_Relations/Corporate_Govertance/General_Meeting):

On March 22, 2011 the current report no. 8/2011 was published informing on the approval of the proposal concerning the distribution of profit for 2010 by the Management Board and submission thereof for examination by the Supervisory Board of Kredyt Bank S.A. The above-mentioned proposal for 2010 envisaged the payment of dividend to shareholders.

On April 4, 2011 the current report no. 10/2011 was published concerning the approval by the Supervisory Board of the draft Resolution on the distribution of profit for 2010 for the Ordinary General Assembly of Kredyt Bank S.A. The above-mentioned draft Resolution on the distribution of profit for 2010 envisaged the payment of dividend.

On May 25, 2011 the current report no. 14/2011 was published concerning the decision on the distribution of profit. In accordance with the Resolution no. 4/2011 of the Ordinary General Assembly of Kredyt Bank S.A. on the distribution of profit for 2010 passed on May 25, 2011, for the payment of dividend for the year 2010 the amount of 37 groszys per one share would be designated to be paid. The total amount of dividend was PLN100.513.785,60. 271 658 880 shares of Kredyt Bank S.A. series A to W inclusive participated in the distribution of dividend. The dividend day was established on June 14, 2011 and the day of payment of dividend on June 30, 211.

The statements of the Members of the Supervisory Board presented to the Management Board on the links with the shareholders holding shares representing not less than 5% of the overall number of votes at a General Assembly are available in the form of a table on the Bank's website. (/Investor_Relations/Corporate_Govertance/).

The report on application of principles together with the 2011 Annual Report was published on February 24, 2011 as well as announced on the Bank's website (/Investor_Relations/Periodic_Reports/ and /Investor_Relations/Corporate_Govertance/).

In accordance with the Regulation of the Management Board in case of conflict of interest the Members of the Management Board are obliged to inform the Management Board about the existing conflict and refrain from participating in the deciding about the matters where the conflicts exists.

During the Ordinary General Assembly of May 25, 2011 and the Members of the Supervisory Board as well as the Members of the Management Board participated. The representative of the chartered public accountant was present during the Ordinary General Assembly.

The information concerning the principle of change of an entity authorized to examine financial statements was made available on Bank's internet website.

2.3. Best practices applied by the supervisory boards members.

Supervisory Board and the Management Board Regulations as well as the Regulations of the Bank's General Assembly are in force at the Bank. The Supervisory Board members are adequately educated and have a long-standing experience in the business management.

The Bank's Supervisory Board, in accordance with its competences, examines and gives its opinions on all the issues to be further dealt with by the General Assembly.

The Supervisory Board at its meeting held on April 4, 2011 examined the materials and documents to be submitted to the Ordinary General Assembly convened on May 25, 2011. The announcement, draft resolutions along with their justifications and attachments were made available in a form of current reports as well as on the internet website:

› on April 27, 2011 - current report No. 13/2011 – announcement together with draft resolutions,

› on May 25, 2011 - current report No. 17/2011 – resolutions passed.

The Supervisory Board of Kredyt Bank S.A. prepared the 2010 report on its activity together with the report on the activity of the Audit, Risk and Compliance Committee as well as the Remuneration Committee. Other items were also included in the report and these were as follows:

› assessment of the Supervisory Board's activity,

› brief assessment of the Bank's situation,

› assessment of the internal audit system,

› assessment of the system of managing the risk crucial for the company.

The report on Supervisory Board's activity for 2010 together with the materials for the General Assembly were approved by the Supervisory Board at its meeting on April 4, 2011 and were submitted to the Ordinary General Assembly on May 25, 2011.

The Supervisory Board Members once every quarter submit to the Bank's Management Board their declarations on the links with the shareholders, representing not less than 5% of the overall number of votes at the General Assembly.

The Supervisory Board members participated in the General Assembly in the composition that allowed to give specific answers in case any questions were asked. The attendance of the Supervisory Board members at the General Assembly is determined by the Regulation of the General Assembly.

On May 25, 2011 the Ordinary General Assembly of Kredyt Bank S.A. appointed the new Member of the Supervisory Board Mr. Guy Libot. The aforesaid took place in connection with the resignation of Mr. Dirk Mampaey from the function of a Member of the Supervisory Board as of 25 May 2011 (current report No. 15/2011 of May 25, 2011).

There are two committees that function within the structure of the Supervisory Board: the Audit, Risk and Compliance Committee and the Remuneration Committee. In the case of a need the Supervisory Board may also establish other committees, defining the scope and manner of their functioning. The Audit, Risk and Compliance Committee supervises the activity of the Bank's organizational units responsible for the internal audit, risk management and compliance function. The tasks of the Remuneration Committee include: the supervision of the employees' issues and the salaries, in particular those of the Management Board members.

The independent members also have seats on the Bank's Supervisory Board as well as the Audit, Risk and Compliance Committee and the Remuneration Committee.

The By-laws of Kredyt Bank S.A., the Regulation of the Supervisory Board of Kredyt Bank S.A. as well as the Regulation of the Audit, Risk and Compliance Committee and Regulation of the Remuneration Committee determine the principles of activity of the Bank's Supervisory Board Members.

2.4. Best practices applied by the shareholders

The Regulation of the General Assembly includes the provisions of binding law. Pursuant thereto mass media are entitled to be present during a General Assembly.

Resolutions of the General Assembly concerning the rights of shareholders include the terms enabling making of an investment decision.

The process of determining and paying out a dividend as well as determining the shareholders' rights stemming from the corporate events, takes place pursuant to the binding provisions of law, and the necessary time intervals are kept.

The Ordinary General Assembly decided to pay out the dividend for 2010 where a necessary time period was included pursuant to the legal regulations.

The Ordinary General Assembly of May 25, 2011 was being live-broadcasted as well as a recording thereof was made available on the website of the Bank.

3. Description of the basic features of the internal audit and risk management systems applied in the Bank

The internal audit system functioning at Kredyt Bank is of vital importance for the Bank's safe activity and is a crucial element of the operational risk management. The Management Board and the management supervise the individual areas of activity, processes or products, are responsible for the creation, implementation, operating and monitoring of an effective and efficient internal audit system as well as the identification and adequate control of the risk incurred. The Audit and Inspection Department independently appraises the internal audit system and informs the Management Board and Audit, Risk and Compliance Committee about its reliability, effectiveness and efficiency.

3.1. Appraisal of the internal audit system

The appraisal of the internal audit system functioning in Kredyt Bank S.A. as well as the entities of the Group of Kredyt Bank S.A. is performed on a regular basis by the Audit and Inspection Department. The appraisal of the internal audit system is presented to the members of the Audit, Risk and Compliance Committee, while the Chairman of the Audit, Risk and Compliance Committee informs other members of the Supervisory Board about the appraisal's outcome.

The appraisal is performed on the basis of audits and inspections performed, including the monitoring of already issued recommendations of the Audit and Inspection Department, the recommendations of the external auditor and post-audit recommendations of the regulatory bodies.

In 2011, 19 business processes at the Bank and 4 processes in the subsidiaries were appraised. The key processes that exert a significant impact on the functioning of the internal audit systems were as follows:

- Crediting,
- Value, risk and capital management,
- Electronic banking,
- Cards,
- Information risk management.

3.2. Appraisal of risk management system

There is a multi-level risk management system at the Bank. The Bank's governing bodies, i.e. the Management Board and the Supervisory Board, play the most important part in this system.

The Chairman of the Audit, Risk and Compliance Committee presents to the Supervisory Board the appraisal of the risk management process as well as the opinion on the actions taken by the Bank's Management Board in this area.

The measurement and monitoring of all types of risks at the Bank, maintaining absolute independence from the business units, is tackled by the departments comprised in the Risk and Capital Management Division.

- Capital Management Department,
- Corporate and SME Credits Risk Department,
- Retail Credits Risk Department,
- Operational Risk Department,
- Market Risk Department, Department.

In the process of risk identification, measurement and management the Bank applies the techniques adequate for a given type of risk. The techniques and principles were elaborated in co-operation with the Majority Shareholder.

In Kredyt Bank there are policies and procedures in place ensuring the framework for effective risk and capital management. The documents of primary importance are the following:

- Risk Management System in the Capital Group of Kredyt Bank S.A., and

› Capital Policy of the Capital Group of Kredyt Bank S.A.

Commencing as of 2011 the direct management of certain type of risk was entrusted with the Capital and Risk Operational Committee (CROC) headed by the Member of the Management Board responsible for the Capital Management Division – a body supporting the Management Board of the Bank in the capital and risk management, monitoring and control processes.

Within the Capital Group of Kredyt Bank S.A. the primary goals of risk management policy are consequently being pursued, concerning, in the first place, the observance of the external and internal limits and also optimizing and mitigating the risk in the form of continuous monitoring process.

The risk management process is closely related to the process of managing the capital. The most important goal to achieve in the process of managing the capital in the Bank is its optimizing with the simultaneous meeting of the external capital requirements.

4. Shareholder and information about shares of Kredyt Bank S.A.

4.1. Shareholders holding over 5% of shares

Shareholders of Kredyt Bank S.A. as of December 31, 2011.

Shareholder	Line of business	Number of shares and votes at GSM	Share in votes and in share capital (in %)
KBC Bank NV – an entity of the KBC Group*	Banking	217 327 103	80,00
Pioneer Open Investment Fund	Investment fund	20 040 203	7,38

*/ By the Resolution of the Commission for Banking Supervision No. 81/KNB/01 of 17 September 2001, KBC Bank N.V. is entitled to exercise no more than 75% of votes at the General Assembly of Kredyt Bank S.A.

According to the information received from KBC Bank NV and KBC Group NV on February 8, 2011 and February 15, 2011:

› KBC Securities NV – a subsidiary of KBC Bank NV – sold all the shares of Kredyt Bank S.A. held by it.

  Prior to the sale, KBC Securities NV held 11,751,771 shares, which accounted for 4.33% in the capital and votes at the General Meeting of Shareholders of Kredyt Bank S.A. Following the sale, KBC Securities NV does not hold any shares of Kredyt Bank S.A.

› KBC Insurance NV – an entity from KBC Group NV – sold all the shares of Kredyt Bank S.A. held by it.

  Prior to the sale, KBC Insurance NV held 7,860,918 shares, which accounted for 2.89% in the capital and votes at the General Meeting of Shareholders of Kredyt Bank S.A. Following the sale, KBC Insurance NV does not hold any shares of Kredyt Bank S.A.

KBC Bank NV still holds 217,327,103 shares accounting for 80% of votes.

4.2. Information on shares

A conversion of registered shares into bearer shares may be accomplished upon the approval of the Supervisory Board in accordance with the By-laws of the Bank. Alienation and establishing a pledge of the registered shares is subject to the Bank's approval. The approval to alienate the registered shares is granted by the Management Board.

Registered shares

The Bank's Shareholders hold 65,864 of registered shares, which amount to 0.02% of the share capital. The following table presents the registered shares as of December 31, 2011.

Series	Number of shares
A	2 942
C	1 425
F	5 792
P	29 042
S1	26 663
Total	**65 864**

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

Bearer shares

The Bank's dominant entity's Shareholders hold 271,593,016 bearer shares, which amount to 99.98% of the share capital. Originally, the number of bearer shares amounted to 264,204,350. In addition, as a result of the conversion of registered shares into bearer shares, there are 7,388,666 bearer shares. Bearer shares as of December 31, 2011:

(Original) bearer shares		Following the conversion of registered shares into bearer shares	
Series	**Number of shares**	**Series**	**Number of shares**
B	2 500 000	A	2 497 058
D	100 000	C	98 575
E	1 580 425	F	308 923
G	480 000	P	3 660 640
H	3 777 350	S1	823 470
I	5 600 000		
J	4 400 000		
K	2 278 814		
L	2 000 000		
M	10 000 000		
N	847 000		
O	25 000 000		
R	32 583 993		
T	49 301 056		
U	63 387 072		
W	60 368 640		
Total	**264 204 350**	**Total**	**7 388 666**
Total bearer shares			**271 593 016**

5. Principles of appointing and dismissing and the composition of the Governing and Supervisory Bodies of Kredyt Bank S.A.

5.1. Principles of appointing and dismissing, the composition and principles of activity of the Management Board of Kredyt Bank S.A. in 2011

Appointment and dismissal of the President of the Management Board of Kredyt Bank S.A., and, upon his motion or upon his approval the Deputy Presidents of the Bank's Management Board with the adherence to the requirements provided for by the Banking Law Act, is vested in the Supervisory Board. The Management Board of Kredyt Bank S.A. acts pursuant to:

- By-laws of Kredyt Bank S.A. – Uniform wording, Warsaw, March 2010 including the amendments envisaged by the Resolutions by the Extraordinary General Assembly of Kredyt Bank S.A. on December 16, 2009, registered by the National Court Register by the rulings WA.XII.NS-REJ.KRS/4473/10/139 of February 26, 2010 in force since March 23, 2010 to October 14, 2011,
- By-laws of Kredyt Bank S.A. – Uniform wording, Warsaw, October 2011 including the amendments envisaged by the Resolutions by the Ordinary General Assembly of Kredyt Bank S.A. on May 25, 2011, registered by the National Court Register by the ruling WA.XII.NS-REJ.KRS/28174/11/538 of Octocer 7, 2011 in force since October 14, 2011.
- The Regulation of the Management Board of Kredyt Bank S.A. – the Resolution of the Supervisory Board of April 26, 2010 in force since April 26, 2010 to April 4, 2011.
- The Regulation of the Management Board of Kredyt Bank S.A. – the Resolution of the Supervisory Board of April 4, 2011 in force since April 4, 2011 to September 19, 2011.
- The Regulation of the Management Board of Kredyt Bank S.A. – the Resolution of the Supervisory Board of September 19, 2011 in force since September 19, 2011.

Members of the Bank's Management Board are appointed by the Supervisory Board upon the motion of the President of the Management Board.

As of January 1, 2011 the composition of the Bank's Management Board was as follows:

Mr. Maciej Bardan	- President of the Management Board, General Director of the Bank,
Mr. Umberto Arts	- Deputy President of the Management Board, Deputy General Director of the Bank,
Mr. Krzysztof Kokot	- Deputy President of the Management Board, Deputy General Director of the Bank,
Mr. Zbigniew Kudaś	- Deputy President of the Management Board, Deputy General Director of the Bank,
Mr. Gert Rammeloo	- Deputy President of the Management Board, Deputy General Director of the Bank.
Mr. Piotr Sztrauch	- Deputy President of the Management Board, Deputy General Director of the Bank,

On April 4, 2011 the Chairman of the Supervisory Board of Kredyt Bank S.A. received a document informing that Mr. Gert Rammeloo, in connection with a decision about the return to Belgium, would not run for an appointment to the Management Board of the Bank for the term of office commencing after the day of holding the next Ordinary General Assembly of the Bank (current report No. 9/2011 of April 4, 2011)

The Supervisory Board during its meeting on May 25, 2011 appointed to the composition of the Management Board of Kredyt Bank S.A. to perform the function of the President of the Management Board Mr. Maciej Bardan. The following persons were appointed to the function of the Deputy Presidents of the Management Board:

as of May 25, 2011 r.:

Mr. Umberto Arts	Deputy President of the Management Board, Deputy General Director of the Bank,
Mr. Zbigniew Kudaś	Deputy President of the Management Board, Deputy General Director of the Bank,
Mr. Piotr Sztrauch	Deputy President of the Management Board, Deputy General Director of the Bank,
Mr. Jerzy Śledziewski	Deputy President of the Management Board, Deputy General Director of the Bank,

and, as of July 1, 2011:

Mr. Mariusz Kaczmarek	Deputy President of the Management Board, Deputy General Director of the Bank,

The Management Board of Kredyt Bank S.A. is composed of six persons and acts in such composition.

As of December 31, 2011 the composition of the Bank's Management Board was as follows:

Mr. Maciej Bardan	President of the Management Board, General Director of the Bank,
Mr. Umberto Arts	Deputy President of the Management Board, Deputy General Director of the Bank,
Mr. Mariusz Kaczmarek	Deputy President of the Management Board, Deputy General Director of the Bank,
Mr. Zbigniew Kudaś	Deputy President of the Management Board, Deputy General Director of the Bank,
Mr. Piotr Sztrauch	Deputy President of the Management Board, Deputy General Director of the Bank,
Mr. Jerzy Śledziewski	Deputy President of the Management Board, Deputy General Director of the Bank.

5.2. Principles of appointing and dismissing, the composition and principles of activity of the Supervisory Board of Kredyt Bank S.A. in 2011

The Supervisory Board of Kredyt Bank S.A. acts pursuant to:

› By-laws of Kredyt Bank S.A. – Uniform wording, Warsaw, March 2010 including the amendments envisaged by the Resolutions by the Extraordinary General Assembly of Kredyt Bank S.A. on December 16, 2009, registered by the National Court Register by the rulings WA.XII.NS-REJ.KRS/4473/10/139 of February 26, 2010 in force since March 23, 2010 to October 14, 2011.

› By-laws of Kredyt Bank S.A. – Uniform wording, Warsaw, October 2011 including the amendments envisaged by the Resolutions by the Ordinary General Assembly of Kredyt Bank S.A. on May 25, 2011, registered by the National Court Register by the rulings WA.XII.NS-REJ.KRS/28174/11/538 of October 7, 2011 in force since October 14, 2011.

› Regulation of the Supervisory Board of Kredyt Bank S.A. – Resolution no. 25/2010 of the Ordinary General Assembly of Kredyt Bank S.A. of May 26, 2010, in force since May 25, 2011;

› Regulation of the Supervisory Board of Kredyt Bank S.A. – Resolution no. 28/2011 of the Ordinary General Assembly of Kredyt Bank S.A. of May 25, 2011, in force until May 25, 2011;

Members of the Supervisory Board are appointed and dismissed by the General Assembly. The number of Members of the Supervisory Board is ascertained by the General Assembly.

As of January 1, 2011 the seven-person composition of the Bank's Supervisory Board was as follows:

Mr. Andrzej Witkowski	- Chairman of the Supervisory Board,
Mr. Adam Noga	- Deputy Chairman of the Supervisory Board,
Mr. Ronny Delchambre	- Member of the Supervisory Board,
Mr. Stefan Kawalec	- Member of the Supervisory Board,
Mr. Dirk Mampaey	- Member of the Supervisory Board,
Mr. Jarosław Parkot	- Member of the Supervisory Board,
Mr. Marko Voljč	- Member of the Supervisory Board,

On May 25, 2011 the Management Board received and information on the resignation from the function of a Member of the Supervisory Board of Mr. Dirk Mampaey.

On the same day the Ordinary General Assembly of Kredyt Bank S.A. appointed as of May 25, 2011 as the Member of the Supervisory Board Mr. Guy Libot (current report No. 15/211 of May 25, 2011).

As of December 31, 2011 the composition of the Bank's Supervisory Board was as follows.

Mr. Andrzej Witkowski	- Chairman of the Supervisory Board,
Mr. Adam Noga	- Deputy Chairman of the Supervisory Board,

Mr. Ronny Delchambre	- Member of the Supervisory Board,
Mr. Stefan Kawalec	- Member of the Supervisory Board,
Mr. Guy Libot	- Member of the Supervisory Board,
Mr. Jarosław Parkot	- Member of the Supervisory Board,
Mr. Marco Voljc	- Member of the Supervisory Board,

5.2.1 Composition and principles of activity of the Audit, Risk and Compliance Committee of Kredyt Bank S.A. in 2011

The Audit, Risk and Compliance Committee of Kredyt Bank S.A. acts pursuant to:

- Regulation of the Supervisory Board of Kredyt Bank S.A. – Resolution no. 25/2010 of the Ordinary General Assembly of Kredyt Bank S.A. of May 26, 2010, in force until May 25, 2011;
- Regulation of the Supervisory Board of Kredyt Bank S.A. – Resolution no. 28/2011 of the Ordinary General Assembly of Kredyt Bank S.A. of May 25, 2011, in force in force since May 25, 2011,
- Regulation of the Audit, Risk and Compliance Committee of Kredyt Bank S.A. of November 25, 2010 in force until September 19, 2011;
- Regulation of the Audit, Risk and Compliance Committee of Kredyt Bank S.A. of September 19, 2011

As of January 1, 2011 the composition of the Audit, Risk and Compliance Committee of Kredyt Bank S.A. was as follows:

Mr. Dirk Mampaey	- Chairman of the Audit, Risk and Compliance Committee,
Mr. Marko Voljč	- Member of the Audit, Risk and Compliance Committee,
Mr. Adam Noga	- Member of the Audit, Risk and Compliance Committee.

Due to resignation from the function of a Member of the Supervisory Board of Mr. Dirk Mampaey Mr. Guy Libot was appointed to the composition of the Supervisory Board by the Ordinary General Assembly (current report No. 15/2011 of May 25, 2011) which caused the need to supplement the composition of the Audit, Risk and Compliance Committee.

As of December 31, 2011 the composition of the Audit, Risk and Compliance Committee of Kredyt Bank S.A. was as follows:

Mr. Guy Libot	- Chairman of the Audit, Risk and Compliance Committee
Mr. Marco Voljč	- Member of the Audit, Risk and Compliance Committee
Mr. Adam Noga	- Member of the Audit, Risk and Compliance Committee.

The Audit, Risk and Compliance Committee supports the activities of the Bank's Supervisory Board. In order to achieve that the Audit Committee, in the name of the Supervisory Board exerts supervision over the consistency, effectiveness and efficiency of the internal audit system, compliance function and also the risk management connected with the Bank's activity, drawing special attention to the financial reporting. The Audit, Risk and Compliance Committee supervises the processes carried out at the Bank from a point of view of their conformity with the binding laws as well as the Bank's internal regulations. In 2011 Members of the Audit, Risk and Compliance Committee conducted a self-assessment of its activities.

5.2.2 Composition and principles of activity of the Remuneration Committee of Kredyt Bank S.A. in 2011

The Remuneration Committee of Kredyt Bank S.A. acts pursuant to:

- Regulation of the Supervisory Board of Kredyt Bank S.A. – Resolution no. 25/2010 of the Ordinary General Assembly of Kredyt Bank S.A. of May 26, 2010, in force until May 26, 2010;
- Regulation of the Supervisory Board of Kredyt Bank S.A. – Resolution no. 28/2011 of the Ordinary General Assembly of Kredyt Bank S.A. of May 25, 2011, in force in force since May 25, 2011,
- Regulation of the Remuneration Committee of Kredyt Bank S.A of September 15, 2005;

As of January 1, 2010 the composition of the Remuneration Committee of Kredyt Bank S.A. was as follows:

Mr. Marko Voljč	- Chairman of the Remuneration Committee,
Mr. Andrzej Witkowski	- Member of the Remuneration Committee,
Mr. Dirk Mampaey	- Member of the Remuneration Committee.

Due to resignation from the function of a Member of the Supervisory Board of Mr. Dirk Mampaey Mr. Guy Libot was appointed to the composition of the Supervisory Board by the Ordinary General Assembly (current report No. 15/2011 of May 25, 2011) which caused the need to supplement the composition of the Remuneration Committee.

As of December 31, 2011 the composition of the Remuneration Committee of Kredyt Bank S.A. was as follows:

Mr. Marko Voljč	-Chairman of the Remuneration Committee,
Mr. Andrzej Witkowski	- Member of the Remuneration Committee,
Mr. Guy Libot	- Member of the Remuneration Committee.

The tasks of the Remuneration Committee include: the supervision of the employees' issues and the salaries, in particular those of the Management Board members.

The By-laws, the Management Board Regulations and the Supervisory Board Regulations are available on the internet page of Kredyt Bank S.A. in the "Corporate Governance" bookmark.

6. Principles of amending the By-laws of Kredyt Bank S.A.

The By-laws of the Bank are created in accordance with the provisions of the Code of Commercial Partnerships and Companies and the Banking Law Act. The right to introduce the amendments to the By-laws is vested in the General Assembly of the Bank. The amendment to the By-laws requires the permission of the Financial Supervision Commission in the events provided for by the Banking Law Act.

In 2011 two wordings of By-laws were in force:

- By-laws of Kredyt Bank S.A. – Uniform wording, Warsaw, March 2010 including the amendments envisaged by the Resolutions by the Extraordinary General Assembly of Kredyt Bank S.A. on December 16, 2009, registered by the National Court Register by the rulings WA.XII.NS-REJ.KRS/4473/10/139 of February 26, 2010 in force since March 23, 2010 to October 14, 2011,
- By-laws of Kredyt Bank S.A. – Uniform wording, Warsaw, October 2011 including the amendments envisaged by the Resolutions by the Ordinary General Assembly of Kredyt Bank S.A. on May 25, 2011, registered by the National Court Register by the rulings WA.XII.NS-REJ.KRS/28174/11/538 of October 7, 2011 in force since October 14, 2011.

The amendments introduced into the By-laws were passed by the Extraordinary General Assembly of the Bank on May 25, 2011 by the means of the Resolution 27/2011 concerned:

1. Change of § 5 sec. 2 paragraph 2

2) purchase as well as alienate on its own account, or that of third parties, securities and other financial instruments, trade in securities and other financial instruments, accept and transfer the orders to purchase or alienate financial instruments not admitted to organized trade as well as securities issued by the State Treasury or the National Bank of Poland, and perform such orders on the account of the person submitting such an order, operate securities accounts, and act as an intermediary in concluding and performance of securities account agreements,

2. Change to §5 sec. 2 paragraph 4

4) incur liabilities related to issuing securities, offer securities issued by the State Treasury or the National Bank of Poland, and other financial instruments not admitted to organized trade, render services in the course of performance of concluded agreements of investment or service sub-issuances or conclude and perform other agreements of similar nature, provided that securities are comprised by the subject matter thereof,

3. Change to § 5 sec. 2 paragraph 12

12) provide consulting and advisory services in the realm of finance, perform activities of investment advisory within the ambit of securities issued by the State Treasury or the National Bank of Poland, and other financial instruments not admitted to organized trade,

4. Change to §5 sec. 2 paragraph 13

13) intermediate in bank activities for other banks and intermediate in finance ser-vices for other banks, credit and finance institutions, as well as perform the function of an agent of an investment company,

5. Change to §14 paragraph 5

5) examine and approve the Management Board's report on the activities of the capital group and consolidated financial statement of the capital group for the preceding financial year,

6. Change to §15 sec. 3

3. Resolutions of the General Meeting require absolute majority of votes unless the Code of Commercial Companies provides otherwise. In matters listed under § 14 point 7, 8,10,11 and 12 as also p. 9 within the scope of disposal and lease of the business enterprise or its organised part, resolutions should be adopted by a majority of at least three-fourths of cast votes. The resolution on removing a matter placed in the agenda upon the motion of shareholders or on giving up considering such a matter, may be adopted by the General Meeting by a majority of at least three-fourths of cast votes and upon consent of shareholders, upon motion of which such matter was placed in the agenda and being present at General Meeting.

7. Change to § 24 sec. 1 paragraph 3

3) appoint, upon the recommendation of the Audit, Risk and Compliance Committee an entity entitled to examine financial statement, as well as consolidated financial statement of the capital group,

8. Change to § 24 sec. 1 paragraph 5

5) approve the Bank's policy referring to incurring and granting credits, loans and guarantees, acquisition and alienation of debentures, including mode of taking decisions and competences within the above matters of value exceeding 5 % of Bank's own funds,

9. Change to § 24 sec. 1 paragraph 12

12) grant, upon a proposal of Management Board, a consent to incur obligation or to dispose of any assets, which total value in proportion to a single entity will exceed 5% of Bank's own funds with the reservation of point 5) above and § 29 sec. 3 herein below.

10. Change to § 24 sec. 2

2. The Supervisory Board appoints from among its Members the Audit, Risk and Compliance Committee and the Remuneration Committee. The Supervisory Board may establish other Committees, if necessary. The scope, code of conduct and the composition of the Committees shall be determined by the Supervisory Board.

11. Change to § 24 sec. 3

3. The Audit, Risk and Compliance Committee exercises supervision over the activity of organizational units of the Bank responsible for internal audit, risk management and the compliance function. Besides the activities referred to in the preceding sentence the Audit, Risk and Compliance Committee shall be responsible, including but not limited to, for:

1) monitoring of the financial reporting process,

2) monitoring of the effectiveness of the internal control, internal audit as well as risk management systems,

3) monitoring of performance of financial audit,

4) monitoring of independence of a chartered public accountant, as well as the entity entitled to examination of financial statements, including such in the course of performance of services envisaged in the provisions on the chartered public accountants.

12. Change to § 28 sec. 4

4. The President of the Management Board supervises the affairs of the Bank's activity, including but not limited to, in the areas of audit, compliance, human resources, administration as well as legal function.

13. Change to § 29 sec. 3

Addition of § 29 sec. 3

3. 1) The Management Board passes resolutions on:

a) incurring an obligation, within the scope of inter-bank market transactions, also when their aggregate value in relation to a single entity shall exceed 5% of Bank's own funds;

b) disposing assets within the scope of inter-bank market transactions, also when their aggregate value in relation to a single entity shall exceed 5% but shall not exceed 25% of Bank's own funds.

2) The Management Board may by a means of a resolution in the same scope authorize an appropriate person or persons in the Bank to decide on incurring an obligation or disposing assets, within the scope of inter-bank market transactions. The resolution of the Management Board shall define the scope of authorization and mode of making decisions by the authorized appropriate person or persons.

14. Change to § 29 sec. 5 Addition of § 29 sec. 5

5. Acquisition or alienation of real estates the right of perpetual usufruct and share in real estates, does not require passing a resolution by the General Meeting regardless of their value.

15.Change to § 34

1. The Bank is obliged to have its own funds that are adjusted to the scale of the activities conducted.

2. The Bank's own funds comprise:

1) Bank's primary funds (Tier I funds),

2) Bank's supplementary funds (Tier II funds) which can not exceed the Bank's primary funds,

3. The principles of establishing and maintaining the Bank's own funds are defined by the banking law as well as by the specific regulations issued on its basis.

16. Change to § 38

1. The supplementary capital shall be created from capital allowances from the net profit and surpluses attained during issuance of shares above their face value after deduction of cost of such issuance, and it shall be designated for the coverage of loss shown in the financial statement as well as other expenses, including but not limited to payment of dividend.

2. Annual allowances from the net profit for a supplementary capital shall amount at least to 8 % of the net profit for a given financial year, until the said capital amounts to at least one third of the share capital.

17. Change to § 41

1. Reserve capital is created from deductions from net profit in the amount resolved by the General Meeting.

2. Reserve fund is earmarked for covering losses and unexpected expenses related to Bank's activity as well as for the increase of the share capital and payment of dividend.

18. Change to § 44

Shareholders shall be entitled to participate in profit disclosed in the financial statements examined by an entity entitled to examine financial statements and earmarked by the General Meeting for distribution to the shareholders.

19. Change to § 44a section 2

2. The Management Board can adopt a resolution on payment of advances towards the expected dividends, if the approved financial statement of the Bank for the preceding financial year shows a profit. The amount of such advance shall be determined by the Management Board, taking into consideration the amount of the preceding end-of-financial-year profit. The advance shall not exceed one-half of the profit earned since the end of the preceding financial year as shown in a financial statement examined by an entity entitled to examine financial statements, increased by such reserves created out of the profit as the Management Board may employ in paying out advances, and reduced by uncovered losses and owned own shares.

20. Change to § 47

The financial statement for the preceding financial year, consolidated financial statement of the capital group and an annual report of the Management Board shall be prepared not later than within three months from the end of each financial year. The financial year shall be the calendar year.

21. Change to § 48

An entity entitled to examine financial statements referred to in § 24 sec. 1 point 3, shall examine the financial statement for the preceding financial year not later than one month before the date of the General Meeting. An entity entitled to examine financial statements shall present its report on examination of the financial statement and report on examination of the consolidated financial statement of the capital group together with conclusions, with the intermediation of the Management Board, to the Supervisory Board, which shall submit it to the General Meeting.

22. Change to § 49

1. The financial statement for the preceding financial year, the annual report of the Management Board on the Bank's activity and proposals concerning the distribution of profit or coverage of losses shall be submitted by the Management Board to the Supervisory Board for appraisal and in order to present it to the General Meeting for approval.

2. Consolidated financial statement of the capital group for the preceding financial year as well as report of the Management Board on the activities of the capital group, shall submitted by the Management Board to the Supervisory Board in order to present it to the General Meeting for approval.

7. Principles of the activities of General Assembly of Kredyt Bank S.A.

The General Assembly of Kredyt Bank S.A. acts pursuant to:

- Regulation of the General Assembly– Resolution no. 4/2009 of the Extraordinary General Assembly of Kredyt Bank of December 16, 2009 – in force from the subsequent General

Assembly (i.e. May 26, 2010) with the inclusion of the amendment introduced by the Resolution no.24/2010 of the Ordinary General Assembly of May 26, 2010 – uniform wording;

The Regulations of the Bank's General Assembly specifies the detailed principles of conducting the assembly and passing resolutions. Among others, the Regulation defines the principles of shareholders' participation in the General Assembly

The text of the Regulation is available on the internet website of Kredyt Bank S.A. in the bookmark „Corporate Governance".

The General Assemblies of Kredyt Bank S.A. in 2011 was convened on May 25, 2011.

All the documents related to the Assembly were made publicly known and were inserted on the internet page in the bookmark "Corporate Governance/General Assemblies".

The information about the date and place of the Bank's General Assembly were made public on the Bank's website and sent in the current reports (/Investor_Relations/Corporate_Govertance/General_Meeting):

On April 27, 2011 the Bank made public the "The Announcement on convening of the Ordinary General Assembly of Kredyt Bank S.A. to take place on May 25, 2011 including the draft resolutions together with attachments and justifications" in the current report no. 13/2011.

On May 25, 2011 the Bank made public "The resolutions passed by the Ordinary General Assembly of Kredyt Bank S.A. on May 25, 2011" including the justifications of the resolutions in the current report no. 17/2011.

Together with the announcement on convening of the Extraordinary General Assembly the draft resolutions, justifications to the draft resolutions, attachment to the draft resolution were made public. The announcement included:

› Description of procedures relating to participation in general assembly and exercising the voting rights, in particular:

 › Shareholder's right to demand inclusion of certain issues into the agenda for a general meeting.

 › Shareholder's right to submit draft resolutions concerning the issues introduced to the agenda for the general assembly or the issues which are to be introduced to the agenda before the date of the general assembly.

 › Shareholder's right to submit draft resolutions concerning the matters introduced into the agenda of such an assembly.

 › The way of exercising the voting rights by the attorney, particularly by the use of forms applied during voting by the attorney and the way of informing the company with the use of means of electronic communication on the granting of power of attorney.

 › The possibility of participation in the a general assembly with the use of means of electronic communication.

- The way of expression with the use of means of electronic communication during a general assembly.
- The way of exercising the voting rights by the means of correspondence or with the use of the means of electronic communication.

- The record date mentioned in the article 406[1] of the Code of Commercial Partnerships and Companies,
- Information that only the persons being shareholders as of the record date may participate in the General Assembly,
- Indication where and in what way an entitled person to participate in the general assembly could obtain the full text of documentation to be presented to the general assembly as well as the draft resolutions or, in case a passing of a resolution was not envisaged, management board's or the supervisory board's remarks about the issues introduced into the agenda for the general assembly or issues to be introduced into the agenda prior to the general assembly.
- Determination of the internet website where the information concerning the general assembly is available.
- A draft power of attorney.
- A form concerning the exercising of voting rights by an attorney.
- Information on the overall number of shares and the number of votes on such shares.

The Ordinary General Assembly dealt primarily with:

- Approval of Financial Statements of Kredyt Bank for the year 2010 and Consolidated Financial Statements of Kredyt Bank Capital Group for the year 2010,
- The approval of distribution of profit for the year 2010 and non-payment of dividend,
- Approval of the Management Board report and the Bank's Supervisory Board report for the year 2010,
- Approval of the performance of duties by the Members of the Management and Supervisory Board,
- Approval of "Best Practices of the WSE Companies 2010"
- Approval of the amendments to the By-laws of Kredyt Bank S.A.
- Approval of the amendments to the Regulations of the Bank's Supervisory Board,

The Bank's financial statements examined by the Ordinary General Assembly, i.e. 2010 Annual Report of Kredyt Bank S.A., 2010 Consolidated Annual Report of the Capital Group of Kredyt Bank S.A. were published in a form of periodical reports on February 25, 2011 and were made available on the Bank's internet page in the bookmark ""Investor's relations/periodical reports".

The Supervisory Board of Kredyt Bank S.A. prepared its 2010 activity report including parts concerning the activity of its committees, i.e. the Audit, Risk and Compliance Committee and the Remuneration Committee. The said report included also the items concerning the assessment of activity of the Supervisory Board, assessment of the Bank's situation as well as the assessment of the internal audit system and the system of managing the risk crucial for the Bank.

The Ordinary General Assembly was broadcasted in Polish and translated into English. The audio-video recording was made available on the Bank's website in the bookmark „Corporate Governance/ Walne Zgromadzenie".

The Forms making it possible to ask questions are permanently available on the internet website in the Polish and accordingly English Language versions. There were no questions concerning the General Assemblies asked with the use of the Forms.

Management Board of
the Bank