Financial Statements
of Kredyt Bank S.A.
for the Year Ended 31.12.2012

On 04.01.2013 Kredyt Bank S.A.

was merged with Bank Zachodni WBK S.A.

CONTENTS

I. Income Statement

in PLN '000'	Note	01.01.2012-31.12.2012	01.01.2011-31.12.2011 comparable data
Interest income	7	2 260 642	2 349 630
Interest expense	8	-1 524 901	-1 223 441
Net interest income		**735 741**	**1 126 189**
Fee and commission income	9	416 993	403 340
Fee and commission expense	10	-78 163	-88 866
Net fee and commission income		**338 830**	**314 474**
Dividend income	11	3 876	4 075
Net trading income	12	303 708	78 653
Net result on derivatives used as hedging instruments and hedged items	13	-4 115	-1 714
Net gains from investment activities	14	60 336	1 162
Other operating income	16	53 657	87 717
Total operating income		**1 492 033**	**1 610 556**
General and administrative expenses	17	-925 805	-954 849
Other operating expenses	18	-31 515	-53 476
Total operating expenses		**-957 320**	**-1 008 325**
Net impairment losses on financial assets, other assets and provisions	19	-730 190	-193 711
Profit (loss) before tax		**-195 477**	**408 520**
Income tax expense (credit)	20	11 446	-98 202
Net profit (loss)		**-184 031**	**310 318**

II. Statement of Comprehensive Income

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Net profit (loss) for the period	**-184 031**	**310 318**
Other comprehensive income		
Valuation of financial assets available-for-sale	155 106	2 087
- including deferred tax	-36 382	-489
Effects of valuation of derivatives designated for cash flow hedge	-12 900	8 584
- including deferred tax	3 026	-2 014
Other comprehensive income (loss) recognized directly in equity	**142 206**	**10 671**
Total comprehensive income (loss)	**-41 825**	**320 989**

III. Balance Sheet

in PLN '000'	Note	31.12.2012	31.12.2011
Assets			
Cash and balances with Central Bank	21	963 374	784 626
Gross loans and advances to banks	22	1 179 730	1 188 012
Impairment losses on loans and advances to banks	23	0	0
Receivables arising from repurchase transactions	24	117 700	0
Financial assets designated upon initial recognition as at fair value through profit or loss	25	38 380	79 944
Financial assets held for trading (excluding derivatives)	26	325 080	60 493
Derivatives, including:	27	1 155 201	1 071 089
- derivatives used as hedging instruments	28	118 610	95 592
Gross loans and advances to customers	29	29 298 815	30 209 994
Impairment losses on loans and advances to customers	29, 30	-1 581 716	-1 369 625
Investment securities:	31	7 973 785	8 676 019
- available-for-sale		5 425 195	5 259 345
- held-to-maturity		2 548 590	3 416 674
Investments in subsidiaries and jointly controlled entities	32	64 531	64 626
Property, plant and equipment	33	225 404	261 609
Intangible assets	34	95 161	60 472
Deferred tax assets	20	307 042	242 881
Current tax receivable		0	116 870
Investment properties	35	14 430	17 536
Non-current assets held for sale	36	2 819	2 047
Other assets	37	78 870	84 787
Total assets		**40 258 606**	**41 551 380**

Balance Sheet (cont.)

in PLN '000'	Note	31.12.2012	31.12.2011
Liabilities			
Amounts due to Central Bank	38	0	32
Amounts due to banks	39	3 763 727	8 060 178
Liabilities arising from repurchase transactions	40	94 937	0
Financial liabilities held for trading (excluding derivatives)		115 424	0
Derivatives, including:	27	1 227 462	982 916
- derivatives used as hedging instruments	28	62 366	1 669
Amounts due to customers	41	30 480 113	28 094 775
Current tax liability		6 681	0
Provisions	42	358 764	91 126
Other liabilities	43	244 072	248 125
Subordinated liabilities	44	971 533	1 036 510
Total liabilities		**37 262 713**	**38 513 662**

in PLN '000'	Note	31.12.2012	31.12.2011
Equity			
Share capital	45	1 358 294	1 358 294
Supplementary capital	45	1 128 181	898 072
Revaluation reserve	45	212 298	70 092
Other reserves	45	481 151	400 942
Current net profit (loss)		-184 031	310 318
Total equity		**2 995 893**	**3 037 718**
Total equity and liabilities		**40 258 606**	**41 551 380**

Capital adequacy ratio (%)	**47**	**12.80**	**12.72**

IV. Statement of Changes in Equity

Changes in the period 01.01.2012 - 31.12.2012

in PLN '000'	Note	Share capital	Supple-mentary capital	Revaluation reserve	Other reserves	Retained earnings (losses)	Net profit (loss) for the period	Total equity
Equity at opening balance – as of 01.01.2012		**1 358 294**	**898 072**	**70 092**	**400 942**	**310 318**	**0**	**3 037 718**
Valuation of financial assets available-for-sale	45			191 488				191 488
Effects of valuation of derivatives designated for cash flow hedge	45			-15 926				-15 926
Deferred tax on items recognized in other comprehensive income	45			-33 356				-33 356
Other comprehensive income (loss) recognized directly in equity				**142 206**				**142 206**
Net profit (loss) for the period							-184 031	-184 031
Total comprehensive income (loss)				**142 206**			**-184 031**	**-41 825**
Profit distribution	45		230 109		80 209	-310 318		0
Equity at the end of period – as of 31.12.2012		**1 358 294**	**1 128 181**	**212 298**	**481 151**	**0**	**-184 031**	**2 995 893**

Changes in the period 01.01.2011 - 31.12.2011

in PLN '000'	Note	Share capital	Supple-mentary 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	45			2 576				2 576
Effects of valuation of derivatives designated for cash flow hedge	45			10 598				10 598
Deferred tax on items recognized in other comprehensive income	45			-2 503				-2 503
Other comprehensive income (loss) recognized directly in equity				**10 671**				**10 671**
Net profit (loss) for the period							310 318	310 318
Total comprehensive income (loss)				**10 671**			**310 318**	**320 989**
Profit distribution	45		10 725			-10 725		0
Dividend payment						-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**

V. Cash Flow Statement

in PLN '000'	Note	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Cash flow from operating activities			
Net profit (loss)		**-184 031**	**310 318**
Adjustments to net profit (loss) and net cash from operating activities, and net increase/decrease in assets and liabilities:		**769 811**	**-552 860**
Current and deferred tax recognized in financial result	20	-11 446	98 202
Non-realized profit (loss) from currency translation differences	48b	-26 882	82 443
Depreciation	17	66 241	82 403
Net increase/decrease in impairment	48c	212 779	-503 580
Dividends	11	-3 876	-4 075
Interest	48d	-317 257	-202 084
Net increase/decrease in provisions		267 638	20 248
Profit (loss) on disposal of investments	48e	-66 235	-10 792
Net increase/decrease in assets (excluding cash)		**535 308**	**-384 065**
Net increase/decrease in gross loans and advances to banks	48f	45 233	-22 731
Net increase/decrease in receivables arising from repurchase transactions		-117 700	87 218
Net increase/decrease in financial assets designated upon initial recognition as at fair value through profit or loss		41 564	18 905
Net increase/decrease in financial assets held for trading (excluding derivatives)	48g	-279 280	1 546 245
Net increase/decrease in derivatives (except for derivatives used as hedging instruments)		-61 094	-586 678
Net increase/decrease in gross loans and advances to customers		911 179	-1 308 458
Net increase/decrease in current tax receivables/liabilities other than paid/received income tax	48l	0	-116 870
Net increase/decrease in other assets	48h	-4 594	-1 696
Net increase/decrease in liabilities		**113 541**	**268 440**
Net increase/decrease in amounts due to Central Bank		-32	26
Net increase/decrease in amounts due to banks	48i	-2 372 528	-934 270
Net increase/decrease in liabilities arising from repurchase transactions		94 937	-228 693
Net increase/decrease in financial liabilities held for trading (excluding derivatives)		115 424	0
Net increase/decrease in derivatives (except for derivatives used as hedging instruments)		183 849	-148 557
Net increase/decrease in amounts due to customers	48j	1 997 206	1 702 699
Net increase/decrease in other liabilities	48k	57 205	45 995
Paid/received income tax	48l	37 480	-168 760
Net cash flow from operating activities		**585 780**	**-242 542**

in PLN '000'	Note	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Cash flow from investing activities			
Inflows		**88 418 933**	**92 531 471**
Disposal of property, plant and equipment, intangible assets and investment properties		3 754	1 264
Disposal of interests in equity investments		36	0
Disposal of investment securities	48m	88 055 290	92 283 935
Dividends	11	3 876	4 075
Interest received	48m	355 977	242 197
Outflows		**-87 110 327**	**-91 400 433**
Acquisition of property, plant and equipment, intangible assets and investment properties		-90 241	-55 951
Acquisition of interests in equity investments		-5	0
Acquisition of investment securities	48m	-87 020 081	-91 344 482
Net cash flow from investing activities		**1 308 606**	**1 131 038**
Cash flow from financing activities			
Inflows		**1 219 616**	**688 007**
Proceeds from loans and advances		1 219 616	688 007
Outflows		**-2 898 303**	**-3 036 416**
Dividend payment	57	0	-100 514
Repayment of loans and advances		-2 826 919	-2 833 472
Other financial outflows	48n	-71 384	-102 430
Net cash flow from financing activities		**-1 678 687**	**-2 348 409**
Net increase/decrease in cash		**215 699**	**-1 459 913**
Cash at the beginning of the period		**941 465**	**2 401 378**
Cash at the end of the period, including:	**48a**	**1 157 164**	**941 465**
Restricted cash*		1 154 616	1 059 021

** 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*
*** details presented in Note 48*

VI. Additional information to the financial statements

1. General information on Kredyt Bank S.A.

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 in the register of entrepreneurs maintained by the District Court for the Capital City of Warsaw under No. KRS 0000019597.

On the date of making the entry to the National Court Register concerning the merger of Kredyt Bank S.A. and Bank Zachodni WBK S.A. (‘BZ WBK S.A.’), i.e. 04.01.2013, Kredyt Bank S.A. ceased to be an autonomous business entity and was deleted from the National Court Register.

Kredyt Bank S.A. was a universal bank which provided banking services addressed and tailored to the needs of all customer groups. A wide range of the Bank’s services was addressed to individual customers, business entities and local authorities. The Bank provided 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. was 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 31.12.2012, KBC Group held 80.0% of shares of Kredyt Bank S.A. 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 a sole shareholder of KBC TFI S.A. and PTE Warta S.A.

On 27.02.2012, KBC Bank NV and Banco Santander S.A. signed an investment agreement in which the parties expressed their intention to merge Kredyt Bank S.A. and BZ WBK S.A.. On the same day, Kredyt Bank S.A., BZ WBK S.A., KBC Bank NV and Banco Santander S.A. signed an agreement on starting work to merge Kredyt Bank S.A. and BZ WBK S.A.

On 04.12.2012, the Polish Financial Supervision Authority issued a decision pursuant to Article 124 clause 1 of the Banking Law granting consent to the Bank’s merger with Bank Zachodni WBK S.A.

On 04.01.2013, an entry was made in the National Court Register concerning the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A.

Further information concerning the said issue is presented in Note 58.

2. Basis of preparation of the financial statements

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 Bank’s financial statements 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’).

The Bank’s financial statements for the year ended on 31.12.2012 have been prepared in accordance with the IAS and the IFRS in force as at 31.12.2012 approved by the EU. Matters not governed by the above-mentioned standards are regulated by the Act and executive regulations thereto.

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 have been prepared based on the assumption that the Bank would remain a going concern in the foreseeable future of at least 12 months from the balance sheet date. Due to the merger of Kredyt Bank S.A. and BZ WBK S.A., the Bank's operations will be continued as part of the business of BZ WBK S.A. As at the approval date of the financial statements, the existence of circumstances which could threaten the continuation of the Bank's business is not confirmed.

On 20.12.2012, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (the 'Warsaw Stock Exchange', 'WSE') adopted Resolution No. 1326/2012 concerning the suspension of the trade in the shares of Kredyt Bank S.A. on the Main Market of the WSE due to the upcoming date of its merger with Bank Zachodni WBK S.A.

As at 31.12.2012, the Bank was in the process of the merger with Bank Zachodni WBK S.A., and on 04.01.2013, an entry was made in the National Court Register concerning the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A.

In the second half of 2012 Polish Financial Supervision Authority carried out the comprehensive inspection based on the data as at 30.06.2012. Issues identified during the inspection did not have material impact on the net result reported in the Interim Financial Statement for the First Half of 2012 ended on 30.06.2012.

These financial statements of Kredyt Bank S.A. were approved for publication by the Management Board of Bank Zachodni WBK S.A. on 07.03.2013. On the same date, the Management Board of Bank Zachodni WBK S.A. approved the consolidated financial statements of Kredyt Bank S.A. Capital Group for publication.

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 the national auditing standards issued by the National Council of Statutory Auditors

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

Financial Statements have been prepared on the basis of historical costs except for the financial assets and liabilities at fair value through profit or loss, receivables from customers and financial assets measured at amortized cost taking into account impairment losses, deposits measured at amortized cost, financial instruments available for sale and measured at fair value through revaluation reserve and non-current assets classified as held for sale measured at the lower of its carrying amount as at the date of its classification to this category or at fair value less costs to sell.

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

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

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

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

- Amendments to IFRS 7 *Financial Instruments: Disclosures: Transfer of Financial Assets* – applicable to annual periods beginning on 1 July 2011 or later;

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 19 *Employee benefits* – applicable to annual periods beginning on 1 January 2013 or later;
- 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;
- 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 starting from annual periods beginning on 1 January 2013 or later;
- Amendments to IAS 12 *Income Taxes - Deferred Tax: Recovery of Underlying Assets* – applicable starting from annual periods beginning on 1 January 2013 or later;
- IFRS 10 *Consolidated Financial Statements* – applicable starting from annual periods beginning on 1 January 2014 or later;
- IFRS 11 *Joint Arrangements* – applicable starting from annual periods beginning on 1 January 2014 or later;
- IFRS 12 *Disclosure of Interests in Other Entities* − applicable starting from annual periods beginning on 1 January 2014 or later;
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* – 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;
- IAS 27 *Separate Financial Statements* – applicable starting from annual periods beginning on 1 January 2014 or later;
- IAS 28 *Investments in Associates and Joint Ventures* − applicable starting from annual periods beginning on 1 January 2014 or later;
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* − applicable to annual periods beginning on 1 January 2013 or later;
- Amendments to IFRS 7 *Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on 1 January 2013 or later;
- Amendments to IAS 32 *Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on 1 January 2014 or later;
- Amendments to IFRS 1 *First-time Adoption of the International Financial Reporting Standards: Government Loans* – 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 resulting from the IFRS review (published in May 2012) – 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 10, IFRS 12 and IAS 27 *Investment Entities* (published in October 2012) – applicable to annual periods beginning on 1 January 2014; by the date of the approval of these financial statements, not approved by the EU.

The Bank does not predict that the introduction of the above standards and interpretations will materially affect the Bank's accounting principles (policy), except for the changes which will result from the implementation of IFRS 9. With reference to the planned amendments to the published part of IFRS 9 (related to the so-called Phase 1) and the drafts of IFRS 9 (concerning the so-called Phase 2 and Phase 3), the Bank withheld the works on the estimation of the impact of IFRS 9 upon the financial statements.

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/losses 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's average rates of exchange applied by the Bank to translate balance sheet items at the ends of particular periods.

	31.12.2012	31.12.2011
EUR	4.0882	4.4168
USD	3.0996	3.4174
CHF	3.3868	3.6333

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.

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 or 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 losses are 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. Financial assets available for sale

Financial assets available for sale 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/losses 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.

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 loss.

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 losses are recognized in the income statement in correspondence with accounts of provisions which adjust assets value and in case of equity instruments are not subject to reversal..

3.5.5. Financial liabilities other than measured at fair value through profit or loss

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 other than measured at fair value through profit or loss 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 recognized 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 income and expenses on derivatives used as hedging instruments are recognized in the income statement in interest income/expense lines 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 realize 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

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. They 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 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.

3.8.1. 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 the Bank will generate greater future economic benefits associated with this asset 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.

3.8.2. Depreciation

Items of 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. Items of 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 term of the contract or 10 years
Motor vehicles	6 years
Plant and machinery	3 – 10 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 accumulated amortization and impairment losses.

The Bank's costs incurred to internally generated intangible assets for own use from which, according to expectations, the entity will generate future economic benefits and which meet other recognition criteria specified in IAS 38, 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 the Bank will generate greater future economic benefits associated with this asset 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 losses.

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 generally equal to 5 years, but may be adjusted when the Bank estimates that a given asset will be used for a different period of time.

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.

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 loss 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 are 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 loss may be reversed only up to the carrying amount of an asset, which, having regard for accumulated depreciation, would have been determined if the impairment 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, an 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 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 utilized.

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 utilization 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 realized 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 Labor Fund and the Guaranteed Employee Benefits Fund. These payments are a part of short-term employee benefits, including, as main components remunerations 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 assets 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

Other 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; 'Banking Law') 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 from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not totally 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 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; 'CSBF Act'). The objective of the Fund is to finance social benefits for employees. The Fund's liabilities are accumulated write-downs made by the Bank for CSBF less non-returnable expenditure from CSBF. The Bank has no social assets; all CSBF liabilities are expressed in cash deposited in a separate banking account.

For the purpose of the presentation in these financial statements, the Bank set off assets and liabilities of CSBF, as they do not constitute the Bank's assets nor liabilities.

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 rate method:

- loans and receivables;
- held-to-maturity investments;
- non-derivative financial liabilities other than measured at fair value through profit or loss;
- 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 the expected flow of future 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 rate method or the 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 the 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 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 loss, and 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 realization 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, except for the presentation changes described in Note 5.

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 cost or at amortized 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.

In the second quarter of 2012, the Bank implemented new models estimating the level of impairment losses for exposures assessed collectively. The said changes aimed at the better reflection of the level and specific nature of the risk for particular customer segments.

- Corporate Segment and SMEs (maintaining comprehensive bookkeeping)

  The implemented models estimating the level of impairment losses, unlike the product-oriented approach applied so far, assume the customer-oriented approach. It results in the assignment of the most conservative risk parameters to a customer's total exposure: days of default and PD rating.

  PD model: The customers from the non-impaired portfolio are divided into baskets comprising both the information about their PD rating and days of default. Expected probabilities of the impairment in the Loss Identification Period (LIP) are determined on that basis.In the previous methodology, the baskets comprised only information about days of default. The PD model is implemented separately for the Corporate Segment and for SMEs (maintaining comprehensive bookkeeping).

  LGD model: The model allows for the calculation of expected future recoveries from the exposures in the impaired portfolio on the basis of historical cash flows. Accumulated recoveries in breakdown into months after the occurrence of impairment are determined. Unlike in the PD model, the recovery ratios are calculated collectively for the customers from the Corporate Segment and SMEs (maintaining comprehensive bookkeeping).

- Retail Segment (except for the exposures granted via the sale network of Żagiel).

  PD model: Implemented models are based on the architecture of the rating system, which is applied to assess the credit risk upon the extension of loans and to assess the parameters complying with the foundation internal-ratings based (FIRB) approach. The application of scoring models, which are the basis for the rating system, allows for more precise quantification of the risk than in the segmentation based on past due days applied so far, and directly links the amount of the impairment loss to the most important criterion (rating) on the basis of which the Bank makes the decision concerning the extension of a loan.

LGD model: The model allows for the calculation of expected future recoveries from the exposures in the impaired portfolio on the basis of historical cash flows. Accumulated recoveries in breakdown into months after the occurrence of impairment are determined.

- Retail Segment (exposures granted via Żagiel).

PD/LGD model: The models assessing the impairment loss for customers assessed collectively are based on the properties of the so-called Markov chains. The portfolio is divided into three categories of homogenous states: accounts without default, accounts in default prior to the termination of the agreement and accounts terminated (the division based on the months after the termination of the agreement).

The application of the segmentation described above allows for more precise quantification of the risk than in the segmentation applied so far based only on past due days, and links the amount of the impairment loss with the life cycle of a loan product. In addition, due to the specific structure of the model, PD/LGD parameters can be determined simultaneously.

In order to verify the pertinence of obtained parameters, the said models are tested on a monthly or quarterly basis through related back-test procedures.

The estimated positive impact of the said change of the methodology upon the Bank's profit before tax as at the date of its implementation amounted to PLN 64,355 thousand and was presented in 'Net impairment losses on financial assets, other assets and provisions'. Determining the impact of this change on the results of 2012 and 2011, with technical and financial reasons, is impracticable.

The Management Board of Bank Zachodni WBK S.A., after the merger with Kredyt Bank S.A., reviewed the judgment related to the impairment of individually significant credit exposures with evidence of impairment as of 31.12.2012. Effective from the review, the level of impairment and provisions for off-balance sheet items were calculated based on new scenarios for loan recovery (weighted with the probability of their realisation) and significantly higher discount factors for collaterals. Also new circumstances were taken into account that emerged after the balance sheet date and affected the previous estimations. As a result, the total adjustment to the level of impairment, provisions for off-balance sheet items and accrued interest for individually significant exposures amounted to PLN 319 million (of which PLN 28.6 million related to interests and adjusted Interest income line).

Key evidence that influenced the review of the valuation, for the four most significant credit exposures include:

Debtor 1 and 2 from construction sector: total adjustment to the impairment in the amount of PLN 116 million

- Significant decrease in value of assets taken as collateral resulting from deterioration of the situation in road construction sector, as a consequence of the increase supply of the raw materials. Over the recent period of time in Poland new investments have been made to expand existing and built completely new stone mines for extraction of stone aggregate, therefore total production capacity seem to be excessive in comparison to maximum demand, that has been observed in Poland in the period 2009 to 2011. Meanwhile, since the beginning of 2012 the demand has dropped dramatically;
- A decrease of forecasted financial surplus to be generated for the purpose of debt servicing for the debtors;
- Additional legal disputes have emerged in the conducted insolvency proceedings for debtors, that will limit the available financial resources that may be used for debt repayment to the Bank;
- For the purpose of the estimation of the impairment allowance two scenarios have been accepted: restructuring and liquidation;
- Under liquidation scenario the value of collaterals compared to the external valuation has been adjusted by the ratio of 0.3, that according to the Bank is reflecting the situation at the market for such assets and internal valuation of those assets;
- Under restructuring scenario discounted cash flows from operating activity over the period of 10 years for the repayment schedule for principal and interest have been accepted.

Debtor 3 from property sector: total adjustment to the impairment and accrued interest in the total amount of PLN 45 million

- A decrease of value of assets accepted as collaterals reflecting a new updated valuation and also accounting for the evidence of a decrease of the current market rates for rental of commercial property, comparing to those contracted in the existing agreements with tenants, also reflecting the rights recently acquired by tenants to early terminate the rental contracts, as the result of the company being put under liquidation insolvency status;
- Termination of the rental contract by one major tenant;
- Increased probability assessment for the legal dispute to emerge with other creditors of that customer, that might limit the ability of the Bank to utilise collaterals or significant deferral in the timing of the execution of the allocation plan for the bankruptcy assets;
- For the purpose of the estimation of the impairment allowance only bankruptcy scenario has been accepted with the two sub scenarios: (a) forced sale of assets at the level of 0.67 of external valuation over the period of 2 years and partial requirement to repay other creditors from the bankruptcy assets, (b) sale of assets at the price of 0.85 of external valuation.

Debtor 4 from metallurgy sector: total adjustment to the impairment in the amount of PLN 30 million

- On the basis of 2012 results the following facts were identified: lack of meeting the financial forecast and breach of covenants for minimum financial ratios included in the loan agreement;
- Lack of payment of commission for the Bank in the month of December 2012 and simultaneously a notification on the lack of financial capacity to service interest and principal of the debt;
- Increase of leverage ratio compared to financial surplus significantly above the acceptable level at the market and the industry average;
- Loss generated as a result of decreased market share and lower steel prices resulting from re-exporting of products without VAT;
- For the purpose of the calculation of the impairment allowance 3 scenarios have been accepted: (a) liquidation, (b) restructuring - balanced, (c) restructuring - optimistic;
- The adjusting ratio for the value of collaterals has been decreased from 0.7 to 0.3 considering lack of liquidity for the specialist equipment requiring high capital expenditures and large storage space;
- Under restructuring scenarios there is an assumption about partial conversion of debt into shares and partial redemption of the debt covered by restructuring scenario that resulted in the lower net present value of the expected operating cash flows.

Moreover, the Management Board of Bank Zachodni WBK S.A. after the merger with Kredyt Bank S.A. has performed an analysis of the impairment allowance for the retail and SME credit exposures calculated on the portfolio basis that were included in the balance sheet of Kredyt Bank S.A. for both non-impaired portfolio and portfolio of receivables with evidence for impairment. As a result of the performed analysis changes have been introduced to the existing approach for calculation of parameters, in particular for length of the period considered for historical data used for LGD determination, and also for selected IBNR portfolios introducing adjustments to the values of PD and LIP.

Resulting from the above changes the impairment allowance for portfolio calculated loans has been increased by the amount of PLN 258 million that can be broken down as follows:

Type of exposure (in PLN million)	Impairment losses IBNR	Impairment losses for receivables with evidence for impairment	Total
Mortgage housing loans and other mortgage loans	34.3	142.9	177.2
Cash loans	7.3	26.4	33.7
Credit cards	3.7	4.1	7.8
Overdraft facilities	3.5	3.9	7.4
Other loans	9.3	22.5	31.8
Total	**58.1**	**199.8**	**257.9**

The Bank has disclosed the impairment allowance for portfolio calculated loans as presented in the table above as a liability in the line item Provisions in correspondence with the line item Net impairment losses on financial assets, other assets and provisions in the profit and loss statement.

Furthermore, the level of provision for litigations has been increased by the amount of PLN 22.5 million.

Apart from the described above issues the Bank did not introduce any other material changes in the applied methods of performing accounting estimates as compared to the principles and methods described in the Bank's published financial statements as of 31.12.2011.

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 instruments 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 cost or at amortized cost

At each balance sheet date (at least once per quarter), the Bank analyzes whether there is an objective 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 a 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 reorganization;

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 collateral on the basis of historical data collected by the Bank concerning the duration of the debt collection process, recovered amounts from collateral 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

Objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

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 realizing 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. Comparable data

The comparable data for previous periods included in these financial statements take account of the following presentation changes as regards the data presented in the financial statements prepared as at 31.12.2011.

In 2012 the Bank changed the presentation of expenses incurred by the Bank within particular expense categories from net terms to gross terms (including VAT). The Board's intention was more transparent presentation of expenses. Therefore the values of the items presented in the income statement for 2011 have changed.

	Published data	**Changes**	**Comparable data**
in PLN '000'	**01.01.2011-31.12.2011**		**01.01.2011-31.12.2011**
General and administrative expenses	-963 986	9 137	-954 849
Other operating expenses	-44 339	-9 137	-53 476

Below, we present a note showing the changes in the presentation of particular items of 'General and administrative expenses' and 'Other operating expenses' for 2011 (in additional notes, unlike in the income statement, the expenses are stated with '+').

General and administrative expenses	Published data	Changes	Comparable data
in PLN '000'	**01.01.2011-31.12.2011**		**01.01.2011-31.12.2011**
Staff costs	**430 728**	**1 291**	**432 019**
- remunerations	309 130	1 282	310 412
- deductions from remunerations	46 339	0	46 339
- bonuses	66 786	0	66 786
- other staff costs	8 473	9	8 482
General expenses	**450 855**	**-10 428**	**440 427**
- costs of buildings lease	86 882	17 376	104 258
- IT and telecommunications fees	80 069	17 118	97 187
- costs of buildings maintenance and renovations	18 695	3 802	22 497
- energy costs	15 072	3 220	18 292
- advisory and specialist services costs	22 112	4 557	26 669
- postal fees	25 277	952	26 229
- transportation services	15 505	3 313	18 818
- property protection expenses	8 252	1 291	9 543
- taxes and fees	112 139	-74 600	37 539
- promotion and advertising services	41 040	8 155	49 195
- purchase of other materials	3 749	801	4 550
- training expenses	5 436	1 162	6 598
- business trips	2 177	465	2 642
- other	14 450	1 960	16 410
Depreciation	**82 403**	**0**	**82 403**
- property, plant and equipment	66 542	0	66 542
- investment properties	205	0	205
- intangible assets	15 656	0	15 656
Total	**963 986**	**-9 137**	**954 849**

Other operating expenses	Published data	Changes	Comparable data
in PLN '000'	**01.01.2011-31.12.2011**		**01.01.2011-31.12.2011**
Written-off receivables	2	0	2
Debt recovery expenses	34 681	7 410	42 091
Other impairment – loans and advances to various debtors	791	0	791
Disposal or liquidation of property, plant and equipment and intangible assets	1 392	298	1 690
Indemnities, penalties and fines paid	1 110	237	1 347
Other expenses	6 363	1 192	7 555
Total	**44 339**	**9 137**	**53 476**

6. 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 segments: retail, corporate, treasury.

The Bank's operations were not diversified in geographical terms. Operations were focused on the Polish market; the main customer base was 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 entailed 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 was 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, and 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 were offered specialist services. They were 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 in 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, as well as interest rate, currency, discounted and commodity options, except for write-downs for credit risk. Besides the trading activities carried by the Bank on its own account, the segment was 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 the sale 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 comprises:

- 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 following 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).

The Bank's general and administrative expenses – since the beginning of 2012, the Bank has been allocating general and administrative expenses in line with the Activity-based Costing (ABC) system; the comparable data have been restated according to it as well.

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

- *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.
- *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.
- *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 result for 2012 by operating segments (breakdown according to management reporting)

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Net interest income, including:	**578 658**	**251 266**	**-46 906**	**-2 657**	**780 361**
- lending activities	436 890	145 625	0	-3 688	578 827
- depositing activities	153 345	113 423	0	1 057	267 825
- the cost of financing cash kept in the Bank's branches	-11 577	-7 782	19 385	-26	0
Net commission income and other net income	**197 744**	**90 381**	**0**	**19 406**	**307 531**
- commissions for keeping accounts and transactions	78 428	51 392	0	858	130 678
- commissions related to cards	64 183	5 189	0	2 881	72 253
- commissions related to shares in investment funds societies	54 623	2 861	0	74	57 558
- commissions related to insurance products	-1 591	3	0	193	-1 395
- commissions related to foreign transactions	48	22 239	0	411	22 698
- other	2 053	8 697	0	14 989	25 739
Net income from treasury transactions	**53 611**	**66 909**	**185 553**	**-1 179**	**304 894**
- exchange transactions	53 534	60 812	173 208	-3 913	283 641
- derivatives and securities	77	6 097	12 345	2 734	21 253
Net gains from investment activities	**0**	**0**	**55 819**	**8 393**	**64 212**
Gross operating income	**830 013**	**408 556**	**194 466**	**23 963**	**1 456 998**
Net impairment losses on financial assets, other assets and provisions	**-365 920**	**-355 148**	**0**	**-8 728**	**-729 796**
Bank's general and administrative expenses	**-629 753**	**-272 992**	**-19 934**	**0**	**-922 679**
- the costs of the operation of business functions (direct costs)	-345 705	-98 323	-16 559	0	-460 587
- allocated expenses	-237 142	-156 917	-1 792	0	-395 851
- depreciation (direct costs)	-29 022	-3 523	-1 469	0	-34 014
- depreciation (allocated costs)	-17 884	-14 229	-114	0	-32 227
Net operating income	**-165 660**	**-219 584**	**174 532**	**15 235**	**-195 477**
Income tax expense					11 446
Net profit (loss)					**-184 031**

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**	**20 897**	**276 910**
- commissions for keeping 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	15 352	16 303
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**	**17 952**	**1 543 663**
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	**-666 051**	**-257 119**	**-16 663**	**0**	**-939 833**
- the costs of the operation of business functions (direct costs)	-328 810	-103 528	-15 196	0	-447 534
- allocated expenses	-267 836	-140 932	-1 127	0	-409 895
- depreciation (direct costs)	-67 064	-2 859	-109	0	-70 032
- depreciation (allocated costs)	-2 341	-9 800	-231	0	-12 372
Net operating income	**56 720**	**165 177**	**200 964**	**-14 341**	**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 − it was a single event*

The allocation of assets by operating segments as at 31.12.2012

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Loans and advances to banks	0	0	1 178 511	0	1 178 511
Loans and advances to customers	20 129 816	7 480 942	0	0	27 610 758
Securities	0	0	8 337 245	0	8 337 245
Other	0	0	1 155 201	1 976 891	3 132 092
Total	**20 129 816**	**7 480 942**	**10 670 957**	**1 976 891**	**40 258 606**

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 liabilities and equity by operating segments as at 31.12.2012

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Inter-bank deposits	0	0	2 946 915	0	2 946 915
Borrowed loans and advances	0	0	812 815	0	812 815
Amounts due to customers	18 463 192	11 904 440	0	0	30 367 632
Subordinated liabilities	0	0	971 010	0	971 010
Other liabilities and total equity	269 751	73 914	1 227 462	3 589 107	5 160 234
Total	**18 732 943**	**11 978 354**	**5 958 202**	**3 589 107**	**40 258 606**

The allocation of liabilities and equity 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	40 809	982 916	3 399 533	4 423 258
Total	**17 247 467**	**10 834 138**	**10 070 242**	**3 399 533**	**41 551 380**

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

in PLN '000'	**01.01.2012-31.12.2012**
Net interest income – management information	**780 361**
- commissions on loans and other commissions included in net fee and commission income	52 828
+ operating expenses (interest on finance lease)	-244
+ operating income (the collection of statutory interest)	8 117
+ commissions related to foreign transactions	336
- structured deposit – interest adjustment	1 191
+ net income from commissions on cards	1 109
+ other	81
Net interest income – financial statements	**735 741**

Net commission income and other net income – management information	**307 531**
+ commissions on loans and other commissions included in net fee and commission income	52 828
- operating expenses (interest on finance lease)	-244
- operating income (the collection of statutory interest)	8 117
- commissions related to foreign transactions	336
- the valuation of shares and of an embedded instrument related to the operations of the enterprises function	-7 132
+ reversal of provisions related to incentive programmes	2 800
- net income from commissions on cards	1 109
- other	1
Net commission income and other net income – financial statements – presented as:	**360 972**
Net fee and commission income	338 830
Other operating income	53 657
Other operating expenses	-31 515

Net income from treasury transactions – management information	**304 894**
+ net increase/decrease in provisions for potential losses related to active derivatives	640
+ the valuation of shares and of an embedded instrument related to the operations of the enterprises function	-7 132
+ structured deposit – interest adjustment	1 191
Net trading income and net result on derivatives used as hedging instruments – financial statements – presented as:	**299 593**
Net trading income	303 708
Net result on derivatives used as hedging instruments and hedged items	-4 115

Net gains from investment activities – management information	**64 212**
Net gains from investment activities and dividend income – financial statements – presented as:	**64 212**
Net gains from investment activities	60 336
Dividend income	3 876

Gross operating income – management information	**1 456 998**
+ net increase/decrease in provisions for potential losses related to active derivatives	640
+ reversal of provisions related to incentive programmes	2 800
+ other	80
Gross operating income – financial statements – presented as:	**1 460 518**
Total operating income	1 492 033
Other operating expenses	-31 515

Net impairment losses on financial assets, other assets and provisions – management information	**-729 796**
- net increase/decrease in provisions for potential losses related to active derivatives	640
+ charges related to provisions for employee benefits	326
- other	80
Net impairment losses on financial assets, other assets and provisions – financial statements	**-730 190**

Bank's general and administrative expenses – management information	**-922 679**
- charges related to provisions for employee benefits	326
- reversal of provisions related to incentive programmes	2 800
General and administrative expenses – financial statements	**-925 805**

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 net 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	**276 910**
+ commissions on loans and other commissions included in net 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 incentive programmes	16 603
- other	-2
Net commission income and other net income – financial statements – presented as:	**348 715**
Net fee and commission income	314 474
Other operating income	87 717
Other operating expenses	-53 476

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 – management information	**1 543 663**
+ net increase/decrease in provisions for potential losses related to active derivatives	-3 186
+ reversal of provisions related to incentive programmes	16 603
Gross operating income – financial statements – presented as:	**1 557 080**
Total operating income	1 610 556
Other operating expenses	-53 476

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	**-939 833**
- charges related to provisions for employee benefits	-1 587
- reversal of provisions related to incentive programmes	16 603
General and administrative expenses – financial statements	**-954 849**

in PLN '000'	Management information	Interest	Financial statements (net value)
31.12.2012			
Loans and advances to banks	1 178 511	1 219	1 179 730
Loans and advances to customers	27 610 758	106 341	27 717 099
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

in PLN '000'	31.12.2012
Securities – management information	**8 337 245**
Securities – financial statements – presented as:	**8 337 245**
Financial assets designated upon initial recognition as at fair value through profit or loss	38 380
Financial assets held for trading (excluding derivatives)	325 080
Investment securities	7 973 785

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'	Management information	Interest	Financial statements
31.12.2012			
Amounts due to customers	30 367 632	112 481	30 480 113
Subordinated liabilities	971 010	523	971 533
31.12.2011			
Amounts due to customers	28 040 796	53 979	28 094 775
Subordinated liabilities	1 035 985	525	1 036 510

in PLN '000'	**31.12.2012**
Inter-bank deposits – management information	**2 946 915**
Borrowed loans and advances - management information	**812 815**
+ interest	3 997
- other amounts due to the National Bank of Poland	0
Amounts due to banks - financial statements	**3 763 727**

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**

7. Interest income

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
On account of:		
Loans and advances to banks	115 446	111 640
Loans and advances to customers:	1 480 277	1 506 625
- financial sector	12 483	12 979
- non-financial sector	1 454 364	1 483 239
- budgetary sector	13 430	10 407
Securities:	518 661	612 001
- measured upon initial recognition as at fair value through profit or loss	1 971	2 766
- held-for-trading	14 634	75 265
- available-for-sale	336 528	356 908
- held-to-maturity	165 528	177 062
Receivables arising from repurchase transactions	18 026	16 964
Interest on hedging instruments	128 232	102 400
Total	**2 260 642**	**2 349 630**

Interest income comprises, e.g. cash interest and interest calculated on an accrual basis on receivables for which evidence for impairment was identified. Interest calculated on an accrual basis 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 31.12.2012 amounted to PLN 48,366 thousand, and as at 31.12.2011 to PLN 40,975 thousand. Accrued interest was taken into consideration when estimating impairment losses on such receivables.

8. Interest expense

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
On account of:		
Amounts due to banks	88 250	98 262
Amounts due to customers:	1 200 429	942 226
- financial sector	127 797	125 885
- non-financial sector	989 670	745 119
- budgetary sector	82 962	71 222
Liabilities arising from repurchase transactions	78 867	66 606
Subordinated liabilities	42 206	39 914
Interest on hedging instruments	115 149	76 433
Total	**1 524 901**	**1 223 441**

Net interest income	**735 741**	**1 126 189**

9. Fee and commission income

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Fees and commissions related to lending activities	46 627	40 249
Fees and commissions on deposit-related transactions with a customer	130 657	135 756
Fees and commissions due for payment cards processing and ATMs maintenance	117 237	118 346
Commissions on foreign clearing operations	18 454	16 136
Commissions on guarantee commitments	25 478	22 708
Commissions on the distribution and management of combined investment and insurance products	69 071	59 329
Commissions on other custodian services	2 205	3 514
Other fees and commissions	7 264	7 302
Total	**416 993**	**403 340**

10. Fee and commission expense

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Fees related to insurance for granted loans	12 929	20 733
Fees of credit reference agency	7 167	6 233
Fees and commissions due for payment cards processing and ATMs maintenance	44 773	48 871
Brokerages	981	1 834
Other fees and commissions	12 313	11 195
Total	**78 163**	**88 866**

Net fee and commission income	**338 830**	**314 474**

11. Dividend income

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Equity instruments	3 876	4 075
Total	**3 876**	**4 075**

In 2012, the Bank received PLN 2,185 thousand of dividend from subsidiaries consolidated with the full method and PLN 1,691 thousand from other entities. In 2011, the Bank received PLN 2,426 thousand of dividend from subsidiaries consolidated with the full method and PLN 1,649 thousand from other entities.

12. Net trading income

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Debt securities:	403	-10 325
- held for trading	460	-9 468
- measured upon initial recognition as at fair value through profit or loss	-57	-857
Equity instruments	-7 132	-22 538
Derivatives	452 363	77 761
Foreign exchange	-141 926	33 755
Total	**303 708**	**78 653**

The increase of the net trading income in 2012 as compared to 2011 results primarily from the change in the Bank's financing structure, i.e. the greater financing of currency assets through FX swaps — their valuation is presented in net trading income.

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

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Result on cash flows hedge		
- on hedging derivatives*	-4 115	-1 714
Total *	**-4 115**	**-1 714**

** 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*

14. Net gains from investment activities

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Available-for-sale assets:	**60 243**	**867**
- equity instruments	4 517	0
- debt instruments	55 726	867
Held-to-maturity assets:	**93**	**295**
- debt instruments	93	295
Total	**60 336**	**1 162**

15. Result for particular categories of financial assets and liabilities

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Designated upon initial recognition as at fair value through profit or loss	-5 218	-20 629
Held for trading*	467 457	143 558
Repurchase transactions	-60 841	-49 642
Hedging instruments	8 968	24 253
Available-for-sale	396 771	357 775
Held-to-maturity	165 621	177 357
Loans and advances to banks and to customers	1 629 927	1 642 113
Amounts due to banks and customers	-1 074 777	-829 686
Subordinated liabilities	-42 206	-39 914
Other	90 724	79 824
Total**	**1 576 426**	**1 485 009**

** 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*

16. Other operating income

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Sale or liquidation of property, plant and equipment, non-current assets held-for-sale and assets to be disposed	6 983	11 027
Recovered bad debts, including reimbursed debt recovery costs	19 601	26 133
Indemnities, penalties and fines received	82	59
Side income	247	5 363
Reversal of impairment losses on receivables from other debtors	581	326
Lease income	3 142	4 600
Other income*	23 021	40 209
Total	**53 657**	**87 717**

** the item comprises the reversal of unused provisions established in previous years related to incentive programmes amounting to PLN 2,800 thousand in 2012 and PLN 16,603 thousand in 2011*

17. General and administrative expenses

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011 comparable data
Staff costs	**438 836**	**432 019**
- remunerations	319 463	310 412
- deductions from remunerations	51 989	46 339
- bonuses	59 146	66 786
- other staff costs	8 238	8 482
General expenses	**420 728**	**440 427**
- costs of buildings lease	111 490	104 258
- IT and telecommunications fees	77 609	97 187
- costs of buildings maintenance and renovations	21 985	22 497
- energy costs	18 494	18 292
- advisory and specialist services costs	31 281	26 669
- postal fees	22 224	26 229
- transportation services	19 760	18 818
- property protection expenses	14 113	9 543
- taxes and fees	40 006	37 539
- promotion and advertising services	27 945	49 195
- purchase of other materials	5 968	4 550
- training expenses	6 474	6 598
- business trips	2 133	2 642
- other	21 246	16 410
Depreciation	**66 241**	**82 403**
- property, plant and equipment	47 869	66 542
- investment properties	183	205
- intangible assets	18 189	15 656
Total	**925 805**	**954 849**

Operating lease rental

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 acted as the lessee were mainly related to the lease of real estate and movables used by the Bank in the normal course of business. All contracts were 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:

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Leasing payments	123 982	115 965

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

The total amount of future minimum gross 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'	31.12.2012	31.12.2011
Future minimum gross lease payments (with VAT)		
- not later than 1 year	107 041	103 870
- later than 1 year and not later than 5 years	190 985	193 917
- over 5 years	24 626	14 764
Total	**322 652**	**312 551**

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. The sale transactions were executed on market terms. Contracts of lease are also executed on market terms. The contracts do not meet the criteria of financial leasing and, therefore, are classified as operating leasing contracts.

18. Other operating expenses

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011 comparable data
Written-off receivables	4	2
Debt recovery expenses	23 579	42 091
Other impairment – loans and advances to various debtors	265	791
Disposal or liquidation of property, plant and equipment and intangible assets	1 083	1 690
Indemnities, penalties and fines paid	623	1 347
Other expenses	5 961	7 555
Total	**31 515**	**53 476**

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

Recognition of impairment losses on assets and provisions

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Recognition of impairment losses on assets		
Impairment losses on loans and advances	2 487 988	2 043 369
Impairment losses on non-current assets held for sale, property, plant and equipment, intangible assets and investment properties	5 273	6 581
Total impairment losses	**2 493 261**	**2 049 950**
Provision recognized		
Provisions for severance pays	0	1 287
Provisions for employee benefits	0	300
Provisions for liabilities	29 714	39 334
Provision for credit risk	257 858	0
Provisions for off-balance sheet items	400 885	261 881
Total provisions	**688 457**	**302 802**
Total	**3 181 718**	**2 352 752**

Reversal of impairment losses on assets and provisions

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Reversal of impairment losses on assets		
Impairment losses on loans and advances	2 069 315	1 873 157
Impairment losses on non-current assets held for sale, property, plant and equipment, intangible assets and investment properties	710	1 068
Total impairment losses	**2 070 025**	**1 874 225**
Reversal of provisions		
Provisions for employee benefits	326	0
Provisions for liabilities	4 055	9 913
Provisions for off-balance sheet items	377 122	274 903
Total provisions	**381 503**	**284 816**
Total	**2 451 528**	**2 159 041**

Net impairment losses on financial assets, other assets and provisions	**-730 190**	**-193 711**

20. Taxation

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Profit (loss) before tax	**-195 477**	**408 520**
Income tax expense (credit) at basic tax rate (19%)	**-37 141**	**77 619**
Permanent differences:	**25 695**	**20 583**
- dividends received	-730	-772
- provisions and impairment losses	11 888	11 228
- thin capitalization	13 011	11 111
- other permanent differences	1 526	-984
Actual deductions from (crediting to) net profit	**-11 446**	**98 202**
Effective tax rate	**5.9%**	**24.0%**

Income tax expense (credit) in the income statement	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Current income tax	86 071	15 810
Net increase/decrease in deferred income tax	-97 517	82 392
Deductions from (crediting to) net profit	**-11 446**	**98 202**

Deferred tax on the valuation of available-for-sale securities, cash flow hedge instruments, charged to revaluation reserve	**31.12.2012**	**31.12.2011**
Debt instruments	45 988	9 606
Cash flow hedge instruments	3 809	6 835
Total	**49 797**	**16 441**

in PLN '000'	31.12.2012		31.12.2011		Impact upon result/equity for 2012
Deferred tax asset/liability	**Asset**	**Liability**	**Asset**	**Liability**	
Cash and balances with Central Bank	0	0	0	-779	779
Gross loans and advances to banks	0	-2 114	0	-2 027	-87
Receivables arising from repurchase transactions	0	-11	0	0	-11
Financial assets designated upon initial recognition as at fair value through profit or loss	31 066	0	18 837	0	12 229
Financial assets held for trading (excluding derivatives)	4 509	0	3 919	0	590
Derivatives	0	-223 241	0	-213 059	-10 182
Gross loans and advances to customers	0	-21 580	0	-19 748	-1 832
Impairment losses on loans and advances to customers	178 343	0	142 231	0	36 112
Investment securities:	693	-46 304	2 489	-11 408	-36 692
- available-for-sale	317	-46 304	1 803	-11 408	-36 382
- held-to-maturity	376	0	686	0	-310
Property, plant and equipment	12 906	0	12 305	0	601
Intangible assets	0	-1 931	0	-4 107	2 176
Other assets	3 885	0	5 524	0	-1 639
Total assets	**231 402**	**-295 181**	**185 305**	**-251 128**	**2 044**

in PLN '000'	31.12.2012		31.12.2011		Impact upon result/equity for 2012
Deferred tax asset/liability – cont.	**Asset**	**Liability**	**Asset**	**Liability**	
Amounts due to banks	759	0	1 685	0	-926
Liabilities arising from repurchase transactions	10	0	0	0	10
Financial liabilities held for trading (excluding derivatives)	0	0	0	-58	58
Derivatives	239 790	0	196 219	0	43 571
Amounts due to customers	21 371	0	10 256	0	11 115
Provisions	62 244	0	16 850	0	45 394
Other liabilities	15 330	0	21 804	0	-6 474
Subordinated liabilities	99	0	100	0	-1
Total liabilities	**339 603**	**0**	**246 914**	**-58**	**92 747**
Asset on tax loss	**31 218**	**0**	**61 848**	**0**	**-30 630**

Total asset/liability	**602 223**	**-295 181**	**494 067**	**-251 186**	**64 161**
Asset/liability recognized with the income statement (in the period and in previous periods)	586 992	-230 153	491 655	-232 333	97 517
Asset/liability recognized in revaluation reserve (in the period and in previous periods)	15 231	-65 028	2 412	-18 853	-33 356

Presented as	**31.12.2012**	**31.12.2011**
Deferred tax asset	307 042	242 881

21. Cash and balances with Central Bank

By types

in PLN '000'	31.12.2012	31.12.2011
Cash in hand	599 377	668 956
Current account in the Central Bank	363 997	70 663
Deposits in the Central Bank	0	45 007
Total	**963 374**	**784 626**

22. Gross loans and advances to banks

By types

in PLN '000'	31.12.2012	31.12.2011
Current accounts	24 160	7 601
Term deposits in other banks	169 819	149 251
Loans and advances to banks	35 832	61 054
Purchased debt	2 565	10 988
Other receivables	48 307	60 300
Debt securities classified as loans and receivables	899 047	898 818
Total	**1 179 730**	**1 188 012**

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2012	31.12.2011
- up to 1 month	245 351	221 502
- 1-3 months	1 881	3 710
- 3-6 months	5 024	10 623
- 6 months to 1 year	11 644	10 194
- 1-3 years	663 356	683 878
- 3-5 years	0	5 647
- 5-10 years	252 474	252 458
Total	**1 179 730**	**1 188 012**

Classification due to impairment

in PLN '000'	31.12.2012	31.12.2011
Loans and advances with no evidence for impairment	1 179 730	1 188 012
Loans and advances with evidence for impairment	0	0
Total	**1 179 730**	**1 188 012**

23. Impairment losses on loans and advances to banks

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Period beginning	0	2 260
a) increase	0	176
b) decrease	0	176
- reversal of impairment losses	0	176
c) utilization	0	2 260
- written off in the period as bad debts	0	2 260
Period end	**0**	**0**

24. Receivables arising from repurchase transactions

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2012	31.12.2011
- up to 1 month	117 700	0
Total	**117 700**	**0**

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

in PLN '000'	31.12.2012	31.12.2011
Treasury securities	**27 253**	**26 944**
- bonds	27 253	26 944
Other securities	**0**	**34 741**
- bonds	0	34 741
Equity securities	**11 127**	**18 259**
Total	**38 380**	**79 944**

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

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

in PLN '000'	**31.12.2012**	**31.12.2011**
Listed	**38 380**	**45 203**
- shares	11 127	18 259
- bonds	27 253	26 944
Non-listed	**0**	**34 741**
- bonds	0	34 741
Total	**38 380**	**79 944**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2012**	**31.12.2011**
- 3-6 months	0	34 741
- 6 months to 1 year	27 253	0
- 1-3 years	0	26 944
- with unspecified maturity dates	11 127	18 259
Total	**38 380**	**79 944**

26. Financial assets held for trading (excluding derivatives)

in PLN '000'	**31.12.2012**	**31.12.2011**
Treasury securities (listed)	**325 080**	**60 493**
- bonds	323 947	49 304
- bills	1 133	11 189
Total	**325 080**	**60 493**

All securities classified as financial assets held for trading were measured at fair value on the basis of market quotations, except for Treasury Eurobonds.

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

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2012	31.12.2011
- up to 1 month	112	12 434
- 1-3 months	2 174	11 439
- 3-6 months	1 616	1 442
- 6 months to 1 year	930	14 350
- 1-3 years	149 281	8 852
- 3-5 years	23 146	2 286
- 5-10 years	113 628	6 963
- 10-20 years	34 193	2 727
Total	**325 080**	**60 493**

27. Derivatives

By types

	31.12.2012		31.12.2011	
in PLN '000'	Assets	Liabilities	Assets	Liabilities
Interest rate transactions	**1 042 544**	**1 087 298**	**783 209**	**825 085**
Options purchased	113	0	330	0
Options sold	0	113	0	330
IRS	985 038	1 052 459	757 953	795 129
FRA	57 393	34 726	24 926	29 626
Foreign exchange transactions	**110 556**	**137 864**	**287 880**	**157 156**
FX swap	81 557	56 103	239 052	118 854
CIRS	14 116	63 720	6 938	19 298
Forward	4 783	9 450	29 087	6 663
Options purchased	9 506	0	11 500	0
Options sold	0	7 910	0	11 110
Spot	594	681	1 303	1 231
Transactions concerning precious metals and commodities	**1 302**	**601**	**0**	**0**
Embedded instruments	**799**	**1 699**	**0**	**675**
Total	**1 155 201**	**1 227 462**	**1 071 089**	**982 916**

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2012 Assets	31.12.2012 Liabilities	31.12.2011 Assets	31.12.2011 Liabilities
Interest rate transactions (nominal value)	**61 455 925**	**69 087 322**	**76 462 551**	**94 255 522**
- up to 1 month	2 968 400	2 501 416	2 614 977	3 389 110
- 1-3 months	11 670 807	12 386 180	9 564 914	9 010 500
- 3-6 months	17 853 372	24 789 445	13 137 852	21 733 937
- 6 months to 1 year	21 627 863	21 898 248	22 084 837	29 126 011
- 1-3 years	4 744 000	4 175 018	25 562 138	25 836 646
- 3-5 years	2 539 305	3 028 710	3 304 841	4 664 198
- 5-10 years	52 178	308 305	192 992	495 120
Foreign exchange transactions (nominal value)	**16 424 222**	**16 378 803**	**14 200 231**	**14 064 252**
- up to 1 month	6 448 916	6 427 622	6 400 252	6 373 843
- 1-3 months	2 838 806	2 833 198	3 108 431	2 985 832
- 3-6 months	1 256 924	1 240 126	2 249 299	2 256 243
- 6 months to 1 year	309 964	309 668	2 317 601	2 330 146
- 1-3 years	109 403	119 222	124 648	118 188
- 3-5 years	2 059 309	2 048 067	0	0
- 5-10 years	3 400 900	3 400 900	0	0
Transactions concerning precious metals and commodities (nominal value)	**13 933**	**13 218**	**0**	**0**
- up to 1 month	2 232	2 080	0	0
- 1-3 months	6 048	5 807	0	0
- 3-6 months	3 392	3 186	0	0
- 6 months to 1 year	2 261	2 145	0	0
Total nominal value*	**77 894 080**	**85 479 343**	**90 662 782**	**108 319 774**

** figures as at 31.12.2011 do not take account of the data concerning embedded instruments; the item 'Liabilities related to the sale/purchase transactions' in Note 46 comprises in addition current currency exchange transactions and transactions on securities*

28. Financial assets subject to hedge accounting

As at 31.12.2012 and 31.12.2011, the Bank applied loans-related cash flow hedge using IRS's, the aim of which was 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 involved swap transactions in which the Bank, on the whole, paid cash flows based on a variable WIBOR 3M and EURIBOR 3M interest rate matched to the interest rate of the loans portfolio, and received interest flows at a fixed interest rate with required maturity. The above structure made 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 31.12.2012, the Bank applied cash flow hedge related to loans and deposits using CIRS's, the aim of which was to hedge the interest rate risk and the currency risk. The hedge involved swap transactions in which the Bank paid cash flows in CHF and interest based on LIBOR 3M rate, and received cash flows in PLN and interest based on WIBOR 3M rate.

As at 31.12.2012 and 31.12.2011, 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.

As at 31.12.2012

Financial assets subject to cash flow hedge accounting

- loans portfolio

Hedged assets – mortgage loans of PLN 1,696,764 thousand.

IRS's hedging cash flows

Principal amount	Maturity date	Interest rate: Coupon received	Interest rate: Coupon paid	Coupon rate payment: Coupon received	Coupon rate payment: Coupon paid	Balance sheet valuation with interest	Valuation in the income statement*
30 000	17.12.2014	fixed 5.90%	WIB 3M	annually	every quarter	1 497	32
75 000	10.01.2013	fixed 5.94%	WIB 3M	annually	every quarter	3 524	8
85 000	08.02.2013	fixed 5.63%	WIB 3M	annually	every quarter	3 765	0
85 000	20.02.2015	fixed 5.85%	WIB 3M	annually	every quarter	8 280	0
100 000	04.03.2013	fixed 6.01%	WIB 3M	annually	every quarter	4 840	0
70 000	05.03.2015	fixed 5.90%	WIB 3M	annually	every quarter	6 972	0
50 000	15.04.2013	fixed 5.92%	WIB 3M	annually	every quarter	1 809	0
50 000	17.04.2013	fixed 5.85%	WIB 3M	annually	every quarter	1 794	16
75 000	16.05.2013	fixed 6.01%	WIB 3M	annually	every quarter	2 886	0
60 000	02.10.2013	fixed 5.54%	WIB 3M	annually	every quarter	931	0
60 000	23.12.2013	fixed 4.30%	WIB 3M	annually	every quarter	477	0
50 000	10.02.2014	fixed 5.35%	WIB 3M	annually	every quarter	3 055	0
100 000	10.03.2014	fixed 5.41%	WIB 3M	annually	every quarter	6 405	0
75 000	02.03.2016	fixed 5.61%	WIB 3M	annually	every quarter	8 450	87
120 000	04.05.2016	fixed 5.60%	WIB 3M	annually	every quarter	12 301	0
100 000	13.05.2013	fixed 5.10%	WIB 3M	annually	every quarter	2 924	0
120 000	02.06.2016	fixed 5.43%	WIB 3M	annually	every quarter	11 603	0
25 000	03.06.2019	fixed 5.50%	WIB 3M	annually	every quarter	3 758	0
25 000	05.08.2019	fixed 5.27%	WIB 3M	annually	every quarter	3 143	0
81 764	12.08.2016	fixed 1.99%	EURIB 3M	annually	every quarter	5 222	278
50 000	02.09.2019	fixed 4.65%	WIB 3M	annually	every quarter	4 370	0
25 000	04.10.2019	fixed 4.91%	WIB 3M	annually	every quarter	2 311	0
25 000	04.11.2019	fixed 4.83%	WIB 3M	annually	every quarter	2 205	0
25 000	02.12.2019	fixed 5.01%	WIB 3M	annually	every quarter	2 502	0
25 000	03.01.2020	fixed 4.80%	WIB 3M	annually	every quarter	3 098	0
50 000	03.04.2020	fixed 4.87%	WIB 3M	annually	every quarter	5 937	0
60 000	04.06.2013	fixed 5.10%	WIB 3M	annually	every quarter	1 809	0
					Total	**115 868**	**421**

** excluding interest presented in net interest income*

Hedged assets – loans of CHF 1 billion

CIRS's hedging cash flows

		Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in the income statement*
Principal amount	Maturity date	Coupon received	Coupon paid	Coupon received	Coupon paid		
84 670	22.11.2013		CHF LIBOR 3M		every quarter	1 427	-1
85 825	22.11.2013	WIB 3M		every quarter			
338 680	07.06.2016		CHF LIBOR 3M		every quarter	400	94
341 500	07.06.2016	WIB 3M		every quarter			
508 020	03.06.2016		CHF LIBOR 3M		every quarter	915	123
512 250	03.06.2016	WIB 3M		every quarter			
564 467	14.01.2013**					-19 161	619
569 167	14.01.2013**						
564 467	14.07.2022		CHF LIBOR 3M		every quarter		
569 167	14.07.2022	WIB 3M		every quarter			
564 467	21.01.2013**					-18 134	837
569 167	21.01.2013**						
564 467	21.01.2022		CHF LIBOR 3M		every quarter		
569 167	21.01.2022	WIB 3M		every quarter			
564 467	04.02.2013**					-19 955	13
569 167	04.02.2013**						
564 467	06.02.2023		CHF LIBOR 3M		every quarter		
569 167	06.02.2023	WIB 3M		every quarter			
338 680	28.02.2013**					-3 789	160
341 500	28.02.2013**						
338 680	28.02.2017		CHF LIBOR 3M		every quarter		
341 500	28.02.2017	WIB 3M		every quarter			
508 020	27.12.2016		CHF LIBOR 3M		every quarter	-1 327	-26
512 250	27.12.2016	WIB 3M		every quarter			
					Total	**-59 624**	**1 819**

** excluding interest presented in net interest income*
*** the date of the first flow of the principal amount falling after 31.12.2012*

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

Principal amount	Maturity date	Interest rate: Coupon received	Interest rate: Coupon paid	Coupon rate payment: Coupon received	Coupon rate payment: Coupon paid	Balance sheet valuation with interest	Valuation in the income statement*
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*

In the case of cash flow hedge, the amount recognized in equity as at 31.12.2012 was PLN 20,050 thousand (disregarding the tax effect). The amount derecognized from equity related to income and costs associated with the valuation of IRS's (CFH) and CIRS's (CFH) and recognized in the income statement (the ineffective part) amounted to PLN 2,240 thousand. The amount derecognized from equity related to currency translation differences from CIRS's (CFH) and recognized in the income statement in the result on foreign exchange amounted to PLN 12,435 thousand.

As at 31.12.2011, the amount recognized in equity was PLN 35,976 thousand (disregarding the tax effect), and the amount derecognized from equity and recognized in the income statement (the ineffective part) amounted to -PLN 1,138 thousand.

Summary of valuations of hedging derivatives

in PLN '000'	**31.12.2012**	**31.12.2011**
Total positive valuations (with interest)	118 610	95 592
Total negative valuations (with interest)	-62 366	-1 669
Total	**56 244**	**93 923**

29. Gross loans and advances to customers

By types

in PLN '000'	**31.12.2012**	**31.12.2011**
Loans and advances	28 813 829	29 743 920
Purchased debt	189 783	251 080
Realized guarantees	93 093	37 592
Other receivables	61 968	56 837
Debt securities classified as loans and receivables	140 142	120 565
Total	**29 298 815**	**30 209 994**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2012**	**31.12.2011**
- up to 1 month	813 479	809 201
- 1-3 months	1 428 381	1 230 727
- 3-6 months	1 811 736	1 427 405
- 6 months to 1 year	3 290 462	3 398 839
- 1-3 years	3 712 337	4 594 800
- 3-5 years	2 317 498	2 515 758
- 5-10 years	4 114 556	4 248 688
- 10-20 years	6 642 900	6 845 128
- over 20 years	3 420 454	3 939 155
- past due*	1 747 012	1 200 293
Total	**29 298 815**	**30 209 994**

** comprises only the value of installments with delayed payment*

Receivables by classes

in PLN '000'	31.12.2012	31.12.2011
Natural persons*	**22 077 726**	**23 117 855**
- overdraft facilities	927 069	1 004 576
- term loans**	593 817	810 165
- cash loans, installment loans and cards	2 685 823	2 843 264
- mortgage housing loans	17 418 621	17 984 863
- other mortgage loans***	392 036	421 838
- purchased debt	17 503	14 421
- realized guarantees	1 182	1 472
- other receivables	41 675	37 256
Corporate customers and SME	**7 023 650**	**6 891 980**
- overdraft facilities	2 350 003	2 019 967
- term loans**	4 341 511	4 547 504
- purchased debt	172 280	216 696
- realized guarantees	91 911	36 120
- other receivables	20 293	19 581
- debt securities classified as loans and receivables	47 652	52 112
Budgetary sector	**197 439**	**200 159**
- overdraft facilities	7 313	4 787
- term loans**	97 636	106 956
- purchased debt	0	19 963
- debt securities classified as loans and receivables	92 490	68 453
Total	**29 298 815**	**30 209 994**

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

Table 'Receivables in breakdown by classes and by impaired and non-impaired receivables as at 31.12.2012' presented on the next page does not include created, according to the description in Note 4, provision in the amount of PLN 257.9 million for the credit risk concerning exposures assessed collectively.

Receivables in breakdown by classes and by impaired and non-impaired receivables as at 31.12.2012

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*	Total non-impaired gross receivables	
Natural persons**	**22 077 726**	**1 435 125**	**796 972**	**19 118 938**	**1 283 335**	**178 395**	**61 933**	**0**	**20 642 601**	**114 185**
- overdraft facilities	927 069	139 163	88 682	638 074	135 631	9 526	4 675	0	787 906	9 583
- term loans***	593 817	59 936	33 891	470 270	61 062	2 123	426	0	533 881	1 879
- cash loans, installment loans and cards	2 685 823	350 282	272 011	2 171 812	128 496	22 874	12 359	0	2 335 541	17 497
- mortgage housing loans	17 418 621	821 388	359 120	15 492 282	923 747	138 655	42 549	0	16 597 233	82 181
- other mortgage loans****	392 036	55 459	34 600	295 274	34 162	5 217	1 924	0	336 577	2 884
- purchased debt	17 503	2 055	2 055	15 211	237	0	0	0	15 448	161
- realized guarantees	1 182	1 182	1 002	0	0	0	0	0	0	0
- other receivables	41 675	5 660	5 611	36 015	0	0	0	0	36 015	0
Corporate customers and SME	**7 023 650**	**1 507 486**	**647 589**	**5 292 881**	**211 440**	**9 896**	**1 947**	**0**	**5 516 164**	**22 546**
- overdraft facilities	2 350 003	261 386	147 360	2 006 196	75 835	5 499	1 087	0	2 088 617	9 679
- term loans***	4 341 511	1 124 261	406 540	3 076 613	135 380	4 397	860	0	3 217 250	12 297
- purchased debt	172 280	9 796	7 032	162 259	225	0	0	0	162 484	570
- realized guarantees	91 911	91 911	73 994	0	0	0	0	0	0	0
- other receivables	20 293	20 132	12 663	161	0	0	0	0	161	0
- debt securities classified as loans and receivables	47 652	0	0	47 652	0	0	0	0	47 652	0
Budgetary sector	**197 439**	**0**	**0**	**191 880**	**5 559**	**0**	**0**	**0**	**197 439**	**424**
- overdraft facilities	7 313	0	0	7 113	200	0	0	0	7 313	98
- term loans***	97 636	0	0	92 277	5 359	0	0	0	97 636	326
- purchased debt	0	0	0	0	0	0	0	0	0	0
- debt securities classified as loans and receivables	92 490	0	0	92 490	0	0	0	0	92 490	0
Total	**29 298 815**	**2 942 611**	**1 444 561**	**24 603 699**	**1 500 334**	**188 291**	**63 880**	**0**	**26 356 204**	**137 155**

** in the case of a delay in payment of at least one installment, the total debt is presented as delayed*
*** comprises amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
**** comprises 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						Impairment losses IBNR
				no delay	up to 30 days*	31 - 60 days*	61 - 90 days*	over 90*	Total non-impaired gross receivables	
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
- realized 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
- realized 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*

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

**** comprises 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 62,891 thousand as at 31.12.2012, and PLN 70,735 thousand as at 31.12.2011. The amounts have already been recognized in total gross loans and advances.

Receivables assessed individually

in PLN '000'	**31.12.2012**	**31.12.2011**
Gross receivables	1 360 973	1 100 453
Impairment losses	598 925	409 364
Net receivables	762 048	691 089

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'	**31.12.2012**	**31.12.2011**
Value of accepted collateral for loans and advances assessed individually	838 684	499 995

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 did not apply any other loan collateral, e.g. credit derivatives.

The Bank assessed 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 were the most important collateral. The Bank constantly monitored the value of approved mortgage collateral, e.g. by analyzing LtV (Loan-to-Value) ratios. As at 31.12.2012, 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 15,763 million, and as at 31.12.2011 it amounted to PLN 15,149 million.

30. Impairment losses on loans and advances to customers

in PLN '000'	**Impairment 31.12.2011**	**Recognized**	**Reversed**	**Written off**	**Other changes**	**Impairment 31.12.2012**
Natural persons*	**954 659**	**1 222 739**	**-1 119 524**	**-23 893**	**-122 824**	**911 157**
- overdraft facilities	131 491	184 972	-167 530	-4 265	-46 403	98 265
- term loans**	79 150	31 569	-25 752	-525	-48 672	35 770
- cash loans, installment loans and cards	340 785	392 098	-416 460	-13 919	-12 996	289 508
- mortgage housing loans	361 087	579 468	-483 080	-3 533	-12 641	441 301
- other mortgage loans***	31 221	30 767	-23 276	-643	-585	37 484
- purchased debt	2 268	808	-686	0	-174	2 216
- realized guarantees	918	2 180	-1 089	0	-1 007	1 002
- other receivables	7 739	877	-1 651	-1 008	-346	5 611
Corporate customers and SME	**414 894**	**1 263 085**	**-947 956**	**-5 218**	**-54 670**	**670 135**
- overdraft facilities	95 950	268 507	-201 262	-301	-5 855	157 039
- term loans**	303 709	799 913	-634 772	-4 917	-45 096	418 837
- purchased debt	6 374	20 278	-15 849	0	-3 201	7 602
- realized guarantees	1 119	165 519	-92 126	0	-518	73 994
- other receivables	7 742	8 868	-3 947	0	0	12 663
Budgetary sector	**72**	**2 164**	**-1 835**	**0**	**23**	**424**
- overdraft facilities	45	1 453	-1 419	0	19	98
- term loans**	25	711	-414	0	4	326
- purchased debt	2	0	-2	0	0	0
Total******	**1 369 625**	**2 487 988**	**-2 069 315**	**-29 111**	**-177 471**	**1 581 716**

** comprises amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
*** comprises mainly investment loans and working capital loans*
**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*
***** the table does not include created, according to the description in Note 4, provision in the amount of PLN 257.9 million for the credit risk concerning exposures assessed collectively*

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
- realized 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
- realized 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**

** comprises amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
*** comprises 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 among other to the sales of debts.

IBNR

Impairment losses on incurred but not reported (IBNR) credit losses – excluding IBNR impairment losses described in Note 4 – for homogenous balance sheet and off-balance sheet receivables portfolios as at 31.12.2012 amounted to PLN 155,394 thousand, including PLN 18,239 thousand related to off-balance sheet liabilities; and as at 31.12.2011, amounted to PLN 110,695 thousand, including PLN 3,007 thousand related to off-balance sheet liabilities.

31. Investment securities

in PLN '000'	31.12.2012	31.12.2011
Available-for-sale financial assets	**5 425 195**	**5 259 345**
Treasury securities	5 424 349	4 849 562
- bonds	5 424 349	4 849 562
Central Bank securities	0	99 953
- bills	0	99 953
Other securities	0	307 126
- bonds	0	307 126
Equity securities	846	2 704
Held-to-maturity financial assets	**2 548 590**	**3 416 674**
Treasury securities	2 548 590	3 416 674
- bonds	2 548 590	3 416 674
Total	**7 973 785**	**8 676 019**

All investment securities classified in the portfolio of available-for-sale financial assets were 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 was determined by discounting cash flows from the bonds with PLN-BOND curve having regard for the credit spread. The bonds were with fixed coupon.

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

The money bills of the National Bank of Poland were valued with the application of PLN-SWAP curve, disregarding the credit spread.

in PLN '000'	31.12.2012	31.12.2011
Available-for-sale financial assets	**5 425 195**	**5 259 345**
Listed	**5 424 387**	**4 849 600**
- shares	38	38
- bonds	5 424 349	4 849 562
Non-listed	**808**	**409 745**
- shares	808	2 666
- bonds	0	307 126
- bills	0	99 953
Held-to-maturity financial assets	**2 548 590**	**3 416 674**
Listed	**2 548 590**	**3 416 674**
- bonds	2 548 590	3 416 674
Total	**7 973 785**	**8 676 019**

Maturities of available-for-sale investment financial assets

in PLN '000'	**31.12.2012**	**31.12.2011**
- up to 1 month	0	99 953
- 1-3 months	145 164	83 439
- 3-6 months	697 968	384 609
- 6 months to 1 year	533 704	168 489
- 1-3 years	2 047 933	1 609 647
- 3-5 years	700 677	1 713 662
- 5-10 years	1 298 903	1 196 842
- with unspecified maturity dates	846	2 704
Total	**5 425 195**	**5 259 345**

Maturities of held-to-maturity investment securities financial assets

in PLN '000'	**31.12.2012**	**31.12.2011**
- up to 1 month	32 191	109 657
- 1-3 months	0	0
- 3-6 months	124 756	0
- 6 months to 1 year	257 272	741 928
- 1-3 years	1 215 642	980 536
- 3-5 years	627 757	1 076 220
- 5-10 years	290 972	508 333
Total	**2 548 590**	**3 416 674**

32. Investments in subsidiaries and jointly controlled entities

in PLN '000'	**31.12.2012**	**31.12.2011**
In financial sector entities	2 530	2 629
In non-financial sector entities	62 001	61 997
Total	**64 531**	**64 626**

33. Property, plant and equipment

in PLN '000'	**31.12.2012**	**31.12.2011**
Property, plant and equipment:	216 287	231 502
- land	21 898	22 046
- buildings and premises	110 877	121 749
- plant and machinery	51 752	50 644
- motor vehicles	1 062	1 294
- other property, plant and equipment	30 698	35 769
Construction in progress (expenditure)	9 117	30 107
Total	**225 404**	**261 609**

Movement on property, plant and equipment

For the period of 12 months ended 31.12.2012

in PLN '000'	**Land**	**Buildings and premises**	**Plant and machinery**	**Motor vehicles**	**Other property, plant and equipment**	**Construction in progress (expenditure)**	**Total property, plant and equipment**
a) gross property, plant and equipment as at 01.01.2012	22 233	209 104	392 809	1 583	172 761	30 312	828 802
b) increase	0	265	30 524	0	9 979	12 490	53 258
- purchase	0	65	18 811	0	8 610	12 282	39 768
- other increases*	0	200	11 713	0	1 369	208	13 490
c) decrease	155	5 068	29 589	140	11 933	33 685	80 570
- sale	132	2 621	271	130	0	0	3 154
- liquidation	0	0	28 609	10	11 045	0	39 664
- other decreases**	23	2 447	709	0	888	33 685	37 752
d) gross property, plant and equipment as at 31.12.2012	22 078	204 301	393 744	1 443	170 807	9 117	801 490
e) accumulated depreciation as at 01.01.2012	187	54 818	341 749	286	136 449	0	533 489
f) changes in depreciation	-7	2 304	119	95	3 388	0	5 899
- depreciation	0	4 269	29 033	232	14 335	0	47 869
- sale	-6	-1 114	-269	-130	0	0	-1 519
- liquidation	0	0	-27 938	-7	-10 412	0	-38 357
- other changes	-1	-851	-707	0	-535	0	-2 094
g) accumulated depreciation as at 31.12.2012	180	57 122	341 868	381	139 837	0	539 388
h) impairment as at 01.01.2012	0	32 537	416	3	543	205	33 704
- increases	0	3 765	0	0	0	0	3 765
- decreases	0	0	292	3	271	205	771
i) impairment as at 31.12.2012	0	36 302	124	0	272	0	36 698
j) net property, plant and equipment as at 01.01.2012	22 046	121 749	50 644	1 294	35 769	30 107	261 609
Net property, plant and equipment as at 31.12.2012	**21 898**	**110 877**	**51 752**	**1 062**	**30 698**	**9 117**	**225 404**

** 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 31.12.2011

in PLN '000'	**Land**	**Buildings and premises**	**Plant and machinery**	**Motor vehicles**	**Other property, plant and equipment**	**Construction in progress (expenditure)**	**Total property, plant and equipment**
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*

34. Intangible assets

in PLN '000'	**31.12.2012**	**31.12.2011**
Internally developed computer software	0	0
Acquired computer software	68 927	26 152
Other intangible assets, including capital expenditure	26 234	34 320
Total	**95 161**	**60 472**

Movement on intangible assets

For the period of 12 months ended 31.12.2012

in PLN '000'	**Internally developed computer software**	**Acquired computer software**	**Other intangible assets, including capital expenditure**	**Total intangible assets**
a) gross intangible assets as at 01.01.2012	0	300 746	42 494	343 240
b) increase	0	73 147	7 222	80 369
- purchase	0	50 465	8	50 473
- other increases*	0	22 682	7 214	29 896
c) decrease	0	17 858	23 403	41 261
- sale	0	0	0	0
- liquidation	0	12 145	63	12 208
- other decreases**	0	5 713	23 340	29 053
d) gross intangible assets as at 31.12.2012	0	356 035	26 313	382 348
e) accumulated amortization as at 01.01.2012	0	269 385	136	269 521
f) amortization in the period	0	6 074	-57	6 017
- amortization	0	18 183	6	18 189
- sale	0	0	0	0
- liquidation	0	-12 109	-63	-12 172
- other changes	0	0	0	0
g) accumulated amortization as at 31.12.2012	0	275 459	79	275 538
h) impairment as at 01.01.2012	0	5 209	8 038	13 247
- increases	0	6 697	0	6 697
- decreases	0	257	8 038	8 295
i) impairment as at 31.12.2012	0	11 649	0	11 649
j) net intangible assets as at 01.01.2012	0	26 152	34 320	60 472
Net intangible assets as at 31.12.2012	**0**	**68 927**	**26 234**	**95 161**

** 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 31.12.2011

in PLN '000'	**Internally developed computer software**	**Acquired computer software**	**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*

35. Investment properties

The table below presents changes in investment properties in 2012 and in 2011:

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Gross value as at the beginning of the period	**21 600**	**22 296**
Increases	80	0
Decreases	4 353	696
Gross value as at the end of the period	**17 327**	**21 600**
Depreciation as at the beginning of the period	**2 203**	**2 218**
Changes in depreciation	**-459**	**-15**
Depreciation	183	205
Decreases	642	220
Depreciation as at the end of the period	**1 744**	**2 203**
Impairment as at the beginning of the period	**1 861**	**1 861**
Increases	32	0
Decreases	740	0
Impairment as at the end of the period	**1 153**	**1 861**
Net value as at the beginning of the period	**17 536**	**18 217**
Carrying amount as at the end of the period	**14 430**	**17 536**

In 2012, income from rent related to the investment properties amounted to PLN 149 thousand. The direct operating expenses related to the investment properties and incurred in the period amounted to PLN 126 thousand.

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.

The buildings classified as investment properties were depreciated on a straight-line basis for 40 years (the annual depreciation rate was 2.5%).

36. Non-current assets held for sale

in PLN '000'	31.12.2012	31.12.2011
Fixed assets held for sale	**2 819**	**2 047**
Gross fixed assets	2 819	2 047
Impairment losses	0	0
Total	**2 819**	**2 047**

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 selling price reasonable in relation to their present fair value. The Bank expects 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.

37. Other assets

in PLN '000'	31.12.2012	31.12.2011
Various debtors*	58 207	69 038
- gross various debtors	59 129	70 729
- impairment losses	-922	-1 691
Prepaid expenses	20 663	15 654
Other	0	95
Total	**78 870**	**84 787**

** comprises: 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*

38. Amounts due to Central Bank

By types

in PLN '000'	31.12.2012	31.12.2011
Other liabilities	0	32
Total	**0**	**32**

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2012	31.12.2011
- up to 1 month	0	32
Total	**0**	**32**

39. Amounts due to banks

By types

in PLN '000'	31.12.2012	31.12.2011
Current accounts	73 967	83 795
Term deposits	2 872 054	5 160 973
Borrowed loans and advances	813 408	2 808 513
Other liabilities	4 298	6 897
Total	**3 763 727**	**8 060 178**

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2012	31.12.2011
- up to 1 month	1 326 622	2 905 234
- 1-3 months	723 718	2 214
- 3-6 months	304 867	330
- 6 months to 1 year	1 408 520	3 968 482
- 1-3 years	0	1 183 918
Total	**3 763 727**	**8 060 178**

in PLN '000'	**31.12.2012**	**31.12.2011**
- up to 1 month	94 937	0
Total	**94 937**	**0**

40. Liabilities arising from repurchase transactions

By maturity dates (as at the balance sheet date)

41. Amounts due to customers

By types

in PLN '000'	**31.12.2012**	**31.12.2011**
Current accounts, including:	16 203 306	16 686 063
- savings account	7 932 128	8 721 838
Term deposits	12 931 054	10 352 291
Borrowed loans and advances*	1 215 508	879 406
Other liabilities	130 245	177 015
Total	**30 480 113**	**28 094 775**

** 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*

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2012**	**31.12.2011**
- up to 1 month	20 356 877	20 262 724
- 1-3 months	3 200 610	2 371 382
- 3-6 months	3 785 166	3 301 389
- 6 months to 1 year	1 732 865	1 075 710
- 1-3 years	281 726	268 711
- 3-5 years	263 255	47 190
- 5-10 years	859 613	767 668
- 10-20 years	1	1
Total	**30 480 113**	**28 094 775**

Liabilities by classes

in PLN '000'	**31.12.2012**	**31.12.2011**
Natural persons*	**18 989 741**	**17 876 440**
- current accounts (including savings account)	10 854 564	11 677 122
- term deposits	8 029 144	6 026 092
- other liabilities	106 033	173 226
Corporate customers and SME	**9 906 292**	**8 759 565**
- current accounts	4 364 650	3 952 993
- term deposits	4 319 953	3 925 148
- borrowed loans and advances**	1 215 508	879 406
- other liabilities	6 181	2 018
Budgetary sector	**1 584 080**	**1 458 770**
- current accounts	984 092	1 055 948
- term deposits	581 957	401 051
- other liabilities	18 031	1 771
Total	**30 480 113**	**28 094 775**

** comprises 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*

42. Provisions

in PLN '000'	**31.12.2012**	**31.12.2011**
Employee benefits provision	1 232	1 699
Provision for off-balance sheet items	63 298	41 615
Provision for litigations	28 961	8 977
Provision for credit risk*	257 858	0
Other	7 415	38 835
Total	**358 764**	**91 126**

** provision for credit risk is described in Note 4*

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. Due to the execution by KBC Bank NV of the sale of 100% of the shares of Żagiel S.A. to Santander Consumer Finanse S.A. for the price of PLN 10 million, on 31.07.2012, the Bank received a call to pay PLN 35 million to KBC Bank NV. Due to the establishment in December 2011 of a provision for the said obligation, its satisfaction did not affect the income statement of the Bank in 2012.

The litigations with the highest value claims are described in Note 66.

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

Net increase/decrease in provisions

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Period beginning	**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
- provision for credit risk	0	0
- other	38 835	650
a) recognition	**688 457**	**302 802**
- employee benefits provision	0	300
- provision for off-balance sheet items	400 885	261 881
- restructuring provision/severance pays	0	1 287
- provision for litigations	25 664	4 334
- provision for credit risk	257 858	0
- other	4 050	35 000
b) utilization	**-36 595**	**-4 163**
- employee benefits provision	-141	-148
- restructuring provision/severance pays	0	-1 287
- provision for litigations	0	-2 728
- provision for credit risk	0	0
- other	-36 454	0
c) reversal	**-381 503**	**-248 816**
- employee benefits provision	-326	0
- provision for off-balance sheet items	-377 122	-274 903
- provision for litigations	-2 776	-9 913
- provision for credit risk	0	0
- other	-1 279	0
d) other changes	**-2 721**	**6 425**
- provision for off-balance sheet items	-2 080	3 240
- provision for litigations	-2 904	0
- provision for credit risk	0	0
- other	2 263	3 185
Period end (by items)	**358 764**	**91 126**
- employee benefits provision	1 232	1 699
- provision for off-balance sheet items	63 298	41 615
- restructuring provision/severance pays	0	0
- provision for litigations	28 961	8 977
- provision for credit risk	257 858	0
- other	7 415	38 835
Period end	**358 764**	**91 126**

43. Other liabilities

in PLN '000'	**31.12.2012**	**31.12.2011**
Amounts due to the State Treasury	25 415	20 787
Various creditors	95 208	65 584
Expenses and income settled over time	107 598	139 978
- income collected in advance	7 012	20 483
- expenses to be paid	38 015	47 699
- provision for bonuses*	46 604	58 855
- provision for unused annual leaves	15 967	12 941
Lease payables	561	3 549
Inter-bank clearings	15 290	18 227
Total	**244 072**	**248 125**

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

44. Subordinated liabilities

in PLN '000'	**31.12.2012**	**31.12.2011**
Amount of subordinated liabilities	971 533	1 036 510
Total	**971 533**	**1 036 510**

As at 31.12.2012

	Loan value				
Entity	**by currency**	**in '000'**	**Interest rate**	**Maturity date**	**Amount of subordinated liabilities**
KBC Bank NV Dublin Branch	100 000	CHF	3M LIBOR+1.6p.p.	15.06.2018	338 394
KBC Bank NV Dublin Branch	165 000	CHF	3M LIBOR+4.5p.p.	28.06.2019	558 194
KBC Bank NV Dublin Branch	75 000	PLN	1M WIBOR+3.0p.p.	30.01.2019	74 945
Total					**971 533**

As at 31.12.2011

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

45. Equity

Share capital

As at 31.12.2012, the Bank's share capital totaled 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 were registered shares and bearer shares, but not preference shares. Each share entitled its holder to one vote at the Bank's General Meeting of Shareholders. The Bank's shares were admitted to public trading on the main market of the Warsaw Stock Exchange. As described in Note 2.2, on 02.01.2013, the trade in the Bank's shares was suspended until the date of their exclusion from the stock exchange trading. The share capital did not change in 2012 and 2011.

Pursuant to the Resolution of the Management Board of the Warsaw Stock Exchange (WSE) of 24.08.2012 and the Resolutions of the Management Board of the National Depository for Securities of 31.08.2012, 425 ordinary bearer shares created as a result of the conversion of 425 F series registered shares of Kredyt Bank S.A. marked with code PLKRDTB00029 were assimilated with 271,593,016 ordinary bearer shares marked with code PLKRDTB00011. The shares subject to the assimilation were marked with code PLKRDTB00011.

The said shares were introduced by the Warsaw Stock Exchange, in an ordinary manner, to the stock exchange trading on the primary market on 31.08.2012.

On 31.08.2012:

1) 9,734 shares were marked with code PLKRDTB00029;
2) 271,593,441 shares were marked with code PLKRDTB00011.

The analysis of registered shares and bearer shares presented below was prepared as at 31.12.2012.

Registered shares

The Bank's shareholders held 65,439 registered shares, which accounted for 0.02% of the share capital. Below, we present the registered shares as at 31.12.2012.

Series	Number of shares
A, C, F	9 734
P	29 042
S1	26 663
Total	**65 439**

A, C and F series shares were admitted to stock exchange trading after meeting requirement of converting them into bearer shares, and P and S1 series shares were admitted to stock exchange trading after obtaining respective authorizations.

Bearer shares

The Bank's shareholders held 271,593,441 bearer shares, which accounted 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, as at 31.12.2012, there were 7,389,091 bearer shares.

Below, we present the bearer shares as at 31.12.2012.

Bearer shares (original)		Converted registered shares into bearer shares	
Series	**Number of shares**	**Series**	**Number of shares**
B	2 500 000	A, C, F	2 904 981
D	100 000	P	3 660 640
E	1 580 425	S1	823 470
G	480 000		
H	3 777 350		
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**	**7 389 091**
Total bearer shares			**271 593 441**

The table below presents the list of major shareholders of Kredyt Bank S.A. as at 31.12.2012.

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

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 said issue is available in the current report dated 26.01.2012.

On the date of making the entry to the National Court Register concerning the merger of Kredyt Bank S.A. and Bank Zachodni WBK S.A., i.e. 04.01.2013, Kredyt Bank S.A. ceased to be an autonomous business entity and was deleted from the National Court Register.

Further information concerning the said issue is presented in Note 1 and Note 58.

Supplementary capital

in PLN '000'	31.12.2012	31.12.2011
From the distribution of retained profit	1 128 181	898 072
Total supplementary capital	**1 128 181**	**898 072**

Revaluation reserve

in PLN '000'	31.12.2012	31.12.2011
Valuation of available-for-sale financial assets	242 045	50 557
Valuation of derivatives designated for cash flow hedge	20 050	35 976
Deferred tax	-49 797	-16 441
Total revaluation reserve	**212 298**	**70 092**

Other reserves

in PLN '000'	31.12.2012	31.12.2011
General banking risk reserve created from profit	481 151	400 942
Total other reserves	**481 151**	**400 942**

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

The Bank's net profit for 2011 amounting to PLN 310,318,322.72 was allocated to:

- a charge for the general banking risk reserve amounting to PLN 80,209,000.00 presented in other reserves;
- the remaining amount, i.e. PLN 230,109,322.72 to the Bank's supplementary capital.

46. Off-balance sheet items

in PLN '000'	31.12.2012	31.12.2011
Liabilities granted and received		
Liabilities granted:	**5 615 929**	**6 690 987**
- financial	3 928 143	4 494 703
- guarantees	1 687 786	2 196 284
Liabilities received:	**1 147 842**	**882 927**
- financial	327 020	41 421
- guarantees	820 822	841 506
Liabilities related to the sale/purchase transactions	**164 752 569**	**199 278 505**
Collateral received	**9 502 974**	**8 437 525**

Granted off-balance sheet liabilities by types

in PLN '000'	31.12.2012	31.12.2011
Financial	**3 928 143**	**4 494 703**
- undrawn credit lines	1 206 086	2 955 640
- undrawn overdraft facilities	1 830 635	849 092
- limits on credit cards	574 698	456 222
- opened import letters of credit	143 385	181 712
- term deposits to be released	173 339	52 037
Guarantees	**1 687 786**	**2 196 284**
- guarantees granted	1 682 960	2 190 953
- export letters of credit	4 826	5 331
Total	**5 615 929**	**6 690 987**

Financial off-balance sheet liabilities (by maturity dates)

in PLN '000'	31.12.2012	31.12.2011
- up to 1 month	740 785	386 213
- 1-3 months	536 945	428 821
- 3-6 months	543 065	463 408
- 6 months to 1 year	1 100 126	1 708 678
- 1-3 years	455 982	665 554
- 3-5 years	39 085	70 949
- over 5 years	512 155	771 080
Total	**3 928 143**	**4 494 703**

Guarantees off-balance sheet liabilities (by maturity dates)

in PLN '000'	31.12.2012	31.12.2011
- up to 1 month	159 861	47 588
- 1-3 months	144 079	77 042
- 3-6 months	104 638	187 230
- 6 months to 1 year	234 004	259 454
- 1-3 years	512 578	926 242
- 3-5 years	277 141	253 574
- over 5 years	255 485	445 154
Total	**1 687 786**	**2 196 284**

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

The Bank treated 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 was 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 were at the same time analyzed for the occurrence of the impairment indicators and the required level of allowance for impairment.

As at 31.12.2012, the estimated provision for the guarantees granted and unconditional financing liabilities amounted to PLN 63,298 thousand; and as at 31.12.2011 it amounted to 41,615 thousand. This amount is presented in Note 42 as ‘Provision for off-balance sheet items’.

47. Capital adequacy ratio

in PLN ‘000’	**31.12.2012**	**31.12.2011**
Capital requirement:	**2 408 456**	**2 356 196**
- credit risk	2 161 087	2 102 918
- market risk	30 568	31 068
- operational risk	216 801	222 210
Own funds and short-term capital	3 854 454	**3 745 195**
Primary funds:	**2 686 934**	**2 585 156**
- share capital	1 358 294	1 358 294
- supplementary capital	1 128 181	898 072
- revaluation reserve included in basic equity	-1 399	-7 683
- other reserves	481 151	400 942
- net profit (loss) included in the calculation of capital adequacy ratio	-184 031	212 167
- dividends predicted	0	-212 167
- intangible assets	-95 161	-60 472
- shares in financial entities (50%)	0	-3 828
- other	-101	-169
Supplementary funds:	**1 167 520**	**1 082 031**
- revaluation reserve included in supplementary equity	195 018	48 034
- subordinated liabilities included in equity	972 502	1 037 825
- shares in financial entities (50%)	0	-3 828
Short-term capital	**0**	**78 008**
Capital adequacy ratio (%)	**12.80**	**12.72**
Ratio calculated based on the Primary funds (%)	**8.93**	**8.78**

As at 31.12.2012 and 31.12.2011, the 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 31.12.2012

in PLN '000'	**Carrying amount**	**Granted liabilities and the principal amount of derivatives****	**Risk weighted value**	**Capital requirement**
Total:	**40 258 606**	**150 244 585**	**27 013 590**	**2 161 087**
- central governments and central banks	9 898 005	150	0	0
- regional governments and local authorities	145 625	6 754	29 565	2 365
- administrative bodies and non-commercial undertakings	101 433	39 126	97 860	7 829
- multilateral development banks	47 644	0	0	0
- international organizations	0	0	0	0
- institutions – banks	1 941 279	143 820 151	1 123 679	89 894
- corporates	3 337 467	4 419 591	4 713 964	377 117
- retail exposures	6 241 295	1 423 979	5 419 780	433 582
- exposures secured by real estate property	16 625 421	534 313	14 329 250	1 146 340
- past due exposures	782 592	521	891 950	71 356
- exposures belonging to regulatory high-risk categories	846	0	1 269	102
- covered bonds	0	0	0	0
- securitization 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	1 136 999	0	406 273	32 502

** estimated on the basis of the Standardized Approach, not taking into account created, according to the description in Note 4, provisions (in the amount of PLN 257.9 million) for credit risk concerning exposures assessed collectively*
*** the net amount of off-balance-sheet liabilities and the principal amount of derivatives included in the Capital Adequacy Account*

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

in PLN '000'	**Carrying amount**	**Granted liabilities and the principal amount 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 organizations	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
- securitization 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 principal amount 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'	**31.12.2012**	**31.12.2011**
The amount of the capital requirement for credit risk	**30 568**	**31 068**
- currency risk	0	0
- commodity price risk	0	0
- equity securities price risk	0	0
- price risk of debt instruments	20	11
- general interest rate risk	30 548	31 057

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**	**2012**
Result*	2009	1 488 182
Result*	2010	1 543 923
Result*	2011	1 614 003
Capital Charge	2009	206 391
Capital Charge	2010	217 821
Capital Charge	2011	226 192
Operational risk requirement**		**216 801**

** 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**	**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*

As at 31.12.2012 and 31.12.2011, 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 was strictly related to the capital management process. According to the industry standards, the amount of the internal capital was defined from the economic point of view. In consequence, the internal capital of Kredyt Bank S.A. was estimated by applying the internal capital model of KBC Group, which encompasses all material types of risk.

48. Cash flow statement – additional information

a) Cash and cash equivalents

in PLN '000'	**31.12.2012**	**31.12.2011**
Cash and balances with Central Bank	963 374	784 626
Due from other banks (up to 3 months)*	193 790	156 839
Cash and cash equivalents	**1 157 164**	**941 465**

** presented in the balance sheet in 'loans and advances to banks'*

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

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Currency translation differences on investment securities	23 427	-37 395
Currency translation differences on financial assets held for trading	11 515	-922
Currency translation differences on financial assets designated upon initial recognition as at fair value through profit or loss	3 178	-4 533
Currency translation differences on subordinated liabilities	-65 002	125 293
Total	**-26 882**	**82 443**

c) Operating activities – net increase/decrease in impairment

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Net increase/decrease in impairment of loans and advances to banks	0	-2 260
Net increase/decrease in impairment of loans and advances to customers	212 091	-506 134
Net increase/decrease in impairment of property, plant and equipment, intangible assets and investment properties	688	4 814
Total	**212 779**	**-503 580**

d) Operating activities – interest

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Interest on investment securities	-459 617	-350 838
Interest on borrowed loans	99 174	107 313
Interest on leasing	980	1 527
Interest on subordinated liabilities	42 206	39 914
Total	**-317 257**	**-202 084**

e) Operating activities – gains (losses) from the sale of investments

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Profit/loss on the sale of equity investments	64	0
Profit/loss on the sale of available-for-sale investment securities	-60 306	-867
Profit/loss on the sale of held-to-maturity investment securities	-93	-295
Profit/loss on the sale of property, plant and equipment and intangible assets	-5 900	-9 630
Total	**-66 235**	**-10 792**

f) Loans and advances to banks

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Net balance sheet change	8 282	275 977
Change in Nostro accounts – cash	16 559	-12 103
Change in term deposits up to 3 months – cash	20 392	-288 865
Impairment	0	2 260
Total	**45 233**	**-22 731**

g) Financial assets held for trading

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Balance sheet change in financial assets held for trading	-264 587	1 540 790
Currency translation differences in operating activities	-14 693	5 455
Total	**-279 280**	**1 546 245**

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

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Balance sheet change in other assets	5 917	5 637
Net increase/decrease in property, plant and equipment held for sale	-772	5 023
Other net increase/decrease in investment properties	1 512	0
Net increase/decrease in held-to-maturity investments	-875	319
Other net increase/decrease in property, plant and equipment and intangible assets	28 568	-551
Balance sheet change in hedging derivatives (presented in assets)	-23 018	-21 252
Other changes	-15 926	9 128
Total	**-4 594**	**-1 696**

i) Amounts due to banks

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Balance sheet change in amounts due to banks	-4 296 451	-3 711 226
Proceeds from loans/advances	-812 832	0
Repayment of borrowed loans/advances	2 808 212	2 827 397
Interest on borrowed loans in operating activities	-88 247	-98 245
Paid interest on borrowed loans – presentation in financing activities	16 790	47 804
Total	**-2 372 528**	**-934 270**

j) Amounts due to customers

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Balance sheet change in amounts due to customers	2 385 338	2 384 771
Proceeds from loans/advances	-406 784	-688 007
Repayment of borrowed loans/advances	18 707	6 075
Interest on borrowed loans in operating activities	-10 927	-9 068
Paid interest on borrowed loans – presentation in financing activities	10 872	8 928
Total	**1 997 206**	**1 702 699**

k) Operating activities – net increase/decrease in other liabilities

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Balance sheet change in other liabilities	-4 053	41 235
Payment of lease payables from financing activities	561	4 374
Balance sheet change in hedging derivatives (presented in liabilities)	60 697	395
Other changes	0	-9
Total	**57 205**	**45 995**

l) Paid/received income tax

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Net increase/decrease in current tax receivables/liabilities	123 551	-269 829
Accrual of current tax	-86 071	-15 810
Other changes	0	9
Total cash flows due to income tax, presented as:	**37 480**	**-285 630**
Net increase/decrease in current tax receivable	0	-116 870
Paid/received income tax	37 480	-168 760

m) Net increase/decrease in investment securities

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Balance sheet change in investment securities	702 234	788 528
Net increase/decrease in interest receivables in operating activities	459 617	350 838
Net increase/decrease in available-for-sale financial assets in operating activities	251 794	4 913
Net increase/decrease in held-to-maturity investments in operating activities	968	-24
Currency translation differences in operating activities	-23 427	37 395
Total net increase/decrease, presented as:	**1 391 186**	**1 181 650**
Acquisition in investment activity	-87 020 081	-91 344 482
Disposal in investment activity	88 055 290	92 283 935
Interest received in investment activity	355 977	242 197

n) Financing activities – other financial expenses

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Repayment of interest on loans received	-27 662	-56 732
Repayment of interest on subordinated liabilities	-42 181	-39 797
Payment of lease payables	-1 541	-5 901
Total	**-71 384**	**-102 430**

o) Subordinated liabilities

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Repayment of interest on subordinated liabilities − presentation in financing activities	42 181	39 797
Accrued interest on subordinated liabilities − presentation in operating activities	-42 206	-39 914
Currency translation differences on subordinated liabilities − presentation in operating activities	65 002	-125 293
Balance sheet change in subordinated liabilities	-64 977	125 410
Proceeds from a subordinated loan	**0**	**0**

49. 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 as at 31.12.2012
Financial assets held for trading				
Debt securities	322 458	2 622	0	325 080
Derivatives, different from derivatives used as hedging instruments	0	1 036 591	0	1 036 591
Financial assets designated upon initial recognition as at fair value through profit or loss				
Debt securities	27 253	0	0	27 253
Equity securities	0	11 127	0	11 127
Available-for-sale financial assets*				
Debt securities	5 156 127	268 222	0	5 424 349
Hedging instruments				
Derivatives	0	118 610	0	118 610
Total	**5 505 838**	**1 437 172**	**0**	**6 943 010**

** except for equity securities measured at cost*

Liabilities measured at fair value	Level 1	Level 2	Level 3	Total as at 31.12.2012
Financial liabilities held for trading				
Debt securities (short selling)	115 424	0	0	115 424
Derivatives, different from derivatives used as hedging instruments	0	1 165 096	0	1 165 096
Hedging instruments				
Derivatives	0	62 366	0	62 366
Total	**115 424**	**1 227 462**	**0**	**1 342 886**

Assets measured at fair value	Level 1	Level 2	Level 3	Total as at 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 as at 31.12.2011
Financial liabilities held for trading				
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**

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

50.1. 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.

*As at 31.12.2012*******

in PLN '000'	**Carrying amount**	**Fair value**
Assets		
Cash and balances with Central Bank	**963 374**	**963 374**
Net loans and advances to banks*	**1 179 730**	**1 240 342**
Net loans and advances to customers:	**27 717 099**	**27 184 716**
Natural persons**	**21 166 569**	**20 784 955**
- overdraft facilities	828 804	828 804
- term loans***	558 047	556 858
- cash loans, installment loans and cards	2 396 315	2 365 894
- mortgage housing loans	16 977 320	16 623 893
- other mortgage loans****	354 552	358 134
- purchased debt	15 287	15 128
- realized guarantees	180	180
- other receivables	36 064	36 064
Corporate customers and SME	**6 353 515**	**6 202 838**
- overdraft facilities	2 192 964	2 192 964
- term loans***	3 922 674	3 778 774
- purchased debt	164 678	157 311
- realized guarantees	17 917	17 917
- other receivables	7 630	7 589
- debt securities classified as loans and receivables	47 652	48 283
Budgetary sector	**197 015**	**196 923**
- overdraft facilities	7 215	7 123
- term loans***	97 310	97 310
- debt securities classified as loans and receivables	92 490	92 490
Held-to-maturity investment securities	**2 548 590**	**2 712 956**

** comprises debt securities classified as loans and receivables*
*** comprises amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
**** comprises mainly investment loans and working capital loans*
***** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*
******the table does not include created, according to the description in the Note 4, provision in the amount of PLN 257.9 million for the credit risk concerning exposures assessed collectively – refers to carrying amount and fair value.*

in PLN '000'	**Carrying amount**	**Fair value**
Liabilities		
Amounts due to banks and Central Bank	3 763 727	3 735 924
Amounts due to customers	30 480 113	30 471 088
Other financial liabilities recognized in the balance sheet at amortized cost*	971 533	971 533

** subordinated liabilities*

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**	**1 200 858**
Net loans and advances to customers:	**28 840 369**	**27 333 254**
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
- realized guarantees	554	483
- other receivables	29 517	29 655
Corporate customers and SME	**6 477 086**	**6 403 405**
- overdraft facilities	1 924 017	1 921 219
- term loans***	4 243 795	4 183 034
- purchased debt	210 322	208 914
- realized guarantees	35 001	25 631
- other receivables	11 839	11 155
- debt securities classified as loans and receivables	52 112	53 452
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**	**3 443 481**

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

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*

50.2. 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 sale of loan collateral) discounted with the original effective interest rate.

Poland does not have an active market on which loans and receivables may be traded, therefore, it is not possible to reliably determine the market price of these assets. Estimates performed on the basis of the models of measurement relying on discounted expected cash flows of the principal and interest 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, and also taking into account appropriate for Bank cost of liquidity and cost of capital. The expected cash flows take into account potential overpayment of capital based on historical prepayment rates.

Calculation of the fair value as at 31.12.2012 is based on the estimated market interest rates. Due to the extinction of the active market for housing mortgages in CHF and EUR in Poland in 2012 it was crucial to estimate the market interest rate for such loans. Market interest rates were established on the basis of LIBOR interbank market and IRS market and adjusted for the credit risk margin attributable to given currency, and also taking into account appropriate for bank cost of liquidity and cost of capital. The valuation was made using the discounted cash flows method with the interest rate curves which were determined in accordance with the description above. The estimated cash flows include potential overpayments of capital determined based on historical prepayments.

The calculation of the fair value as at 31.12.2012 is based on estimated market interest rates. Estimating the market rate for mortgage housing 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.

Data as at 31.12.2011 have not been restated for comparability.

50.3. 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.

50.4. Financial liabilities not held for trading

As stated in Note 39 and Note 41, 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.

51. Assets pledged as collateral

As at 31.12.2012, 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 179,000 thousand and of the carrying amount of PLN 180,295 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 1,480,000 thousand and of the carrying amount of PLN 1,607,067 thousand as security for the loan extended by the European Investment Bank.

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.

52. Related party transactions

In 2012 and 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.

As at 31.12.2012

Assets	**Subsidiaries**	**Parent company KBC Bank NV**	**KBC Group (without KBC Bank NV)**	**Total as at 31.12.2012**
Loans and advances to banks	0	23 166	1 678	24 844
Derivatives	0	282 600	1 366	283 966
Loans and advances to customers	153 021	0	0	153 021
Other assets	1 419	13	4 645	6 077
Total assets	**154 440**	**305 779**	**7 689**	**467 908**

Liabilities	**Subsidiaries**	**Parent company KBC Bank NV**	**KBC Group (without KBC Bank NV)**	**Total as at 31.12.2012**
Amounts due to banks	0	3 617 817	5 437	3 623 254
Derivatives	0	279 471	6 262	285 733
Amounts due to customers	87 483	4 647	218 437	310 567
Other liabilities	781	50	403	1 234
Subordinated liabilities	0	971 533	0	971 533
Total liabilities	**88 264**	**4 873 518**	**230 539**	**5 192 321**

Off-balance sheet items	**Subsidiaries**	**Parent company KBC Bank NV**	**KBC Group (without KBC Bank NV)**	**Total as at 31.12.2012**
Granted financing liabilities	164 586	312	20 207	185 105
Guarantees granted	0	51 094	21 160	72 254
Received financing liabilities	0	14 839	0	14 839
Guarantees received	0	722 892	33 329	756 221
Derivatives	0	34 070 586	757 238	34 827 824
Total off-balance sheet items	**164 586**	**34 859 723**	**831 934**	**35 856 243**

Income	Subsidiaries*	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)**	01.01.2012-31.12.2012
Interest income	18 665	53 929	784	73 378
Fee and commission income	99	198	66 082	66 379
Net trading income	0	292 829	-48 783	244 046
Dividend income	2 185	0	0	2 185
Other operating income	762	0	1 385	2 147
Total income	**21 711**	**346 956**	**19 468**	**388 135**

** including Reliz Sp. z o.o. until its deconsolidation*
*** including WARTA Group by the date of the sale of its shares by KBC Group*

Expenses	Subsidiaries*	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)**	01.01.2012-31.12.2012
Interest expense	3 559	159 719	19 233	182 511
Commission expense	0	410	11 981	12 391
General and administrative expenses as well as other operating expenses***	4 936	2 221	22 012	29 169
Total expenses	**8 495**	**162 350**	**53 226**	**224 071**

** including Reliz Sp. z o.o. until its deconsolidation*
*** including WARTA Group by the date of the sale of its shares by KBC Group*
**** in 2012, general and administrative expenses as well as other operating expenses were presented in gross terms (including VAT)*

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	241 917	390 238
Guarantees granted	5 222	51 491	40 717	97 430
Guarantees received	0	133 676	33 005	166 681
Derivatives	0	36 921 954	1 292 845	38 214 799
Collateral received	82 880	0	1 400	84 280
Total off-balance sheet items	**236 423**	**37 107 121**	**1 609 884**	**38 953 428**

** 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*

53. Disposal of subordinated companies

No subordinated companies were sold in 2012 and 2011.

54. Changes in the Management Board and in the Supervisory Board of Kredyt Bank S.A. in 2012

In 2012, the composition of the Management Board of Kredyt Bank S.A. did not change and as at 31.12.2012 it was as follows:

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

The Ordinary General Meeting of Shareholders of Kredyt Bank S.A. appointed, as of 25.05.2012, Mrs. Lidia Jabłonowska-Luba as a Member of the Bank's Supervisory Board.

In addition, the Chairman of the Supervisory Board of Kredyt Bank S.A. received Mr. Jarosław Parkot's resignation from his membership in the Supervisory Board as from 25.05.2012.

As at 31.12.2012, 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
Mrs. Lidia Jabłonowska-Luba	- Member of the Supervisory Board
Mr. Guy Libot	- Member of the Supervisory Board
Mr. Stefan Kawalec	- Member of the Supervisory Board
Mr. Marko Voljč	- Member of the Supervisory Board

The Management Board and the Supervisory Board of Kredyt Bank S.A. performed their functions until 04.01.2013.

Due to the Bank's merger with Bank Zachodni WBK S.A., the composition of the Management Board of the merged Bank as at the date of the approval of these financial statements was as follows:

Mr. Mateusz Morawiecki	- President of the Management Board
Mr. Andrzej Burliga	- Member of the Management Board
Mr. Michael McCarthy	- Member of the Management Board
Mr. Piotr Partyga	- Member of the Management Board
Mr. Marcin Prell	- Member of the Management Board
Mr. Mirosław Skiba	- Member of the Management Board
Mr. Feliks Szyszkowiak	- Member of the Management Board
Mr. Juan de Porras Aguirre	- Member of the Management Board
Mr. Eamonn Crowley	- Member of the Management Board
Mr. Marco Antonio Silva Rojas	- Member of the Management Board

Due to the Bank's merger with Bank Zachodni WBK S.A., the composition of the Supervisory Board of the merged Bank as at the date of the approval of these financial statements was as follows:

Mr. Gerry Byrne	- Chairman of the Supervisory Board
Mr. José Antonio Alvarez	- Member of the Supervisory Board
Mr. Witold Jurcewicz, Ph.D.	- Member of the Supervisory Board
Mr. José Luis De Mora	- Member of the Supervisory Board
Mr. John Power	- Member of the Supervisory Board
Mr. José Manuel Varela	- Member of the Supervisory Board
Mr. Jerzy Surma	- Member of the Supervisory Board
Mr. David R. Hexter	- Member of the Supervisory Board
Mr. Guy Libot	- Member of the Supervisory Board

55. Remunerations of the Members of the Management Board and of the Supervisory 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	01.01.2012 – 31.12.2012				
		Basic remune-ration	Bonus*	Other benefits	Severa-nce pay	Total
Maciej Bardan	01.01.2012-31.12.2012	1 344	1 587	56	0	2 987
Umberto Arts	01.01.2012-31.12.2012	1 414	0	484	0	1 898
Zbigniew Kudaś	01.01.2012-31.12.2012	1 212	1 238	70	0	2 520
Piotr Sztrauch	01.01.2012-31.12.2012	858	745	55	0	1 658
Jerzy Śledziewski	01.01.2012-31.12.2012	960	692	49	0	1 701
Mariusz Kaczmarek	01.01.2012-31.12.2012	924	545	74	0	1 543
Total		**6 712**	**4 807**	**788**	**0**	**12 307**

** comprises the payment of the bonus for 2011, a partial payment of the bonus for 2010 and a partial payment of the transactional bonus*

Bank's Management Board	Term on the Board	01.01.2011 – 31.12.2011				
		Basic remune-ration	Bonus*	Other benefits	Severan-ce pay	Total
Maciej Bardan	01.01.2012-31.12.2012	1 345	317	31	0	1 693
Umberto Arts	01.01.2012-31.12.2012	1 304	0	366	0	1 670
Zbigniew Kudaś	01.01.2012-31.12.2012	1 209	232	47	0	1 488
Piotr Sztrauch	01.01.2012-31.12.2012	827	60	29	0	916
Jerzy Śledziewski	25.05.2011-31.12.2012	582	0	25	0	607
Mariusz Kaczmarek	01.07.2011-31.12.2012	464	0	8	0	472
Gert Rammeloo	01.01.2012-25.05.2011	655	0	254	0	909
Krzysztof Kokot	01.01.2012-25.05.2011	411	260	34	1 546	2 251
Total		**6 797**	**869**	**794**	**1 546**	**10 006**

** partial payment of the bonus for 2010*

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

Bank's Supervisory Board	Term on the Board	01.01.2012 – 31.12.2012			
		Basic remuneration	Bonus	Other benefits	Total
Andrzej Witkowski	01.01.2012-31.12.2012	385	370	16	771
Ronny Delchambre	01.01.2012-31.12.2012	0	0	0	0
Stefan Kawalec	01.01.2012-31.12.2012	289	0	16	305
Adam Noga	01.01.2012-31.12.2012	337	323	16	676
Marko Voljč	01.01.2012-31.12.2012	0	0	0	0
Guy Libot	01.01.2012-31.12.2012	0	0	0	0
Jarosław Parkot	01.01.2012-25.05.2012	0	0	0	0
Lidia Jabłonowska-Luba	25.05.2012-31.12.2012	0	0	0	0
Total		**1 011**	**693**	**48**	**1 752**

Bank's Supervisory Board	Term on the Board	01.01.2011 – 31.12.2011		
		Basic remuneration	Other benefits	Total
Andrzej Witkowski	01.01.2012-31.12.2012	369	14	383
Ronny Delchambre	01.01.2012-31.12.2012	0	0	0
Stefan Kawalec	01.01.2012-31.12.2012	277	9	286
Adam Noga	01.01.2012-31.12.2012	323	14	337
Jarosław Parkot	01.01.2012-31.12.2012	0	0	0
Marko Voljč	01.01.2012-31.12.2012	0	0	0
Dirk Mampaey	01.01.2012-25.05.2011	0	0	0
Guy Libot	25.05.2011-31.12.2012	0	0	0
Total		**969**	**37**	**1 006**

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	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Short-term employee benefits	14 059	9 466
Benefits paid after employment termination	0	0
Severance pays	0	1 546
Total	**14 059**	**11 012**

In 2012 and 2011, 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 paid remunerations of the Members of the Bank's Management Board and of the Members of the Bank's Supervisory Board are presented in this Note and no other paid material remuneration-related benefits for the Members of the Management Board and the Members of the Supervisory Board were paid in 2012 and 2011.

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

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

As at 31.12.2012, the value of loans and cash loans extended by the Bank to the Members of the Bank's Management Board and the Members of the Bank's Supervisory Board amounted to PLN 261 thousand. There were no past due receivables.

As at 31.12.2011, there were no receivables from the Members of the Bank's Management Board and the Members of the Bank's Supervisory Board.

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.

57. Dividends paid and declared

Due to the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A., merger issue shares allotted to the shareholders of Kredyt Bank will participate in the dividend on equal terms with all other shares of BZ WBK from 1 January 2012, i.e. in profits for the financial year ended 31 December 2012.

Pursuant to the Resolution of the Ordinary General Meeting of Shareholders of Kredyt Bank S.A. concerning the distribution of profit for 2011 adopted on 25.05.2012, the dividend for 2011 was not paid.

58. Significant events

58.1. The merger with Bank Zachodni WBK S.A.

On 27.02.2012, KBC Bank NV and Banco Santander S.A. signed an investment agreement in which the parties expressed their intention to merge Kredyt Bank S.A. and Bank Zachodni WBK S.A. ('BZ WBK S.A.'). On the same day, Kredyt Bank S.A., BZ WBK S.A., KBC Bank NV and Banco Santander S.A. signed an agreement on starting work to merge Kredyt Bank S.A. and BZ WBK S.A.

The Merger Plan agreed on and signed by Kredyt Bank S.A. and BZ WBK S.A. on 11.05.2012 provided that the merger would be carried out pursuant to Article 492 § 1 item 1 of the Code of Commercial Companies through the transfer of all the assets and liabilities of Kredyt Bank S.A., being the target entity, to BZ WBK S.A., being the surviving entity, with the simultaneous increase in the share capital of BZ WBK S.A. through the issue of up to 18,907,458 J series ordinary bearer shares in Bank Zachodni WBK S.A. with the nominal value of PLN 10.00 each, which were allocated by BZ WBK S.A. to all existing shareholders of Kredyt Bank S.A. As a result of the merger, these shareholders became the shareholders of BZ WBK S.A. on the date of the merger, i.e. on the date of the registration of the merger in the register relevant to the registered seat of Bank Zachodni WBK S.A.

The parties agreed that the exchange ratio of the shares of Kredyt Bank S.A. into the shares of Bank Zachodni WBK S.A. will be as follows: for 100 shares of Kredyt Bank, the shareholders of Kredyt Bank S.A. will be granted 6.96 Merger Issue Shares, i.e. for one share of Kredyt Bank S.A., 0.0696 shares of Bank Zachodni WBK S.A. will be allocated.

The merger depended on the following conditions which were met:

- obtaining the permit of the Polish Financial Supervision Authority to the merger;

- obtaining the permit of the Polish Financial Supervision Authority to the amendments to the statutes of BZ WBK S.A.;
- issuing by the European Commission of a decision declaring that the concentration of Kredyt Bank S.A. and Bank Zachodni WBK S.A. is in line with the common market;
- confirming by the Polish Financial Supervision Authority that both the form and content of BZ WBK S.A.'s information memorandum are equivalent to the information required to be included in a prospectus;
- the failure to object by the Polish Financial Supervision Authority to the acquisition by KBC Asset Management NV of the shares of KBC TFI S.A.;
- adopting by the Bank's General Meeting of Shareholders a resolution concerning the merger with BZ WBK S.A.;
- adopting by the General Meeting of Shareholders of BZ WBK S.A. a resolution concerning the merger with Kredyt Bank S.A.

In addition, if Article 25 clause 1 of the Banking Law applied, the exceeding by KBC Bank of the 10% limit of the votes at the General Meeting of Shareholders of BZ WBK depended on the issue by the Polish Financial Supervision Authority of a decision confirming the absence of grounds for an objection to the exceeding by KBC Bank of the 10% limit of the votes at the General Meeting of Shareholders of BZ WBK or the lapse of the statutory deadline for the delivery of the decision containing such an objection.

The Opinion of a certified auditor (KPMG Audyt Sp. z o.o.) issued on 20.06.2012 from the audit of the Merger Plan for BZ WBK S.A. and Kredyt Bank S.A. claims, among other things, that:

- the Merger Plan of BZ WBK S.A. with Kredyt Bank S.A. was prepared, in all material aspects, in an accurate and proper manner;
- the share exchange ratio was properly determined in all material aspects;
- the methods applied to determine the ratio of the exchange of the shares of Kredyt Bank S.A. for the shares of Bank Zachodni WBK S.A., as proposed in the Merger Plan, are justified;
- no special difficulties were identified as regards the valuation of the shares in the merging Banks.

The Polish Financial Supervision Authority, at the meeting held on 19.06.2012, found no reason to object to the planned, direct acquisition of the shares of KBC Towarzystwo Funduszy Inwestycyjnych S.A. by KBC Asset Management NV in the number resulting in exceeding the 50% limit of votes at the General Meeting of Shareholders.

On 28.06.2012, the Management Board of Kredyt Bank S.A., acting pursuant to Article 504 § 1 and 2 of the Code of Commercial Companies, in relation to Article 402[1] of the Code of Commercial Companies, issued the first notice concerning the merger of BZ WBK S.A. with Kredyt Bank S.A. At the same time, the Management Board of Kredyt Bank S.A. convened the Extraordinary General Meeting of Shareholders to adopt the resolution on the merger of Kredyt Bank S.A. with BZ WBK S.A.

The second notice about the planned merger was issued on 16.07.2012.

On 18.07.2012, the European Commission decided not to object to the acquisition of the control over Kredyt Bank S.A. by Banco Santander S.A., and accordingly also by Bank Zachodni WBK S.A., and declared that the planned acquisition of the control was compatible with the common market and with the Agreement on the European Economic Area.

On 30.07.2012, the Bank's Extraordinary General Meeting of Shareholders adopted the resolution concerning the merger with BZ WBK S.A.

On 04.12.2012, the Polish Financial Supervision Authority issued a decision granting consent to the Bank's merger with BZ WBK S.A.

Simultaneously, the Polish Financial Supervision Authority confirmed the absence of grounds for an objection to the planned direct acquisition by KBC Group NV, via KBC Bank NV, of such a number of shares of BZ WBK S.A. which would guarantee exceeding 10% of votes at the General Meeting of Shareholders; however, not resulting in exceeding 20% of votes at the General Meeting of Shareholders.

On 04.12.2012, the Polish Financial Supervision Authority issued a decision granting consent to amendments to the statutes of BZ WBK S.A. that were made in connection to the merger of BZ WBK S.A. with Kredyt Bank S.A.

On 06.12.2012, the Polish Financial Supervision Authority issued a decision confirming that both the form and content of the information included in the information memorandum of Bank Zachodni WBK S.A. prepared for the purpose of the merger of BZ WBK S.A. with the Bank were equivalent to the information required to be included in a prospectus.

From 02.01.2013 until the date of excluding such shares from the stock exchange trading, the trade in the Bank's shares marked with the code PLKRDTB00011 will have been suspended.

On 04.01.2013, the Bank was notified that, on 04.01.2013, the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register registered the merger of Bank Zachodni WBK S.A. with Kredyt Bank S.A. The merger was effected in accordance with Article 492 § 1 item 1 of the Code of Commercial Companies by way of the transfer of all assets of Kredyt Bank S.A. to BZ WBK S.A. (a merger through acquisition) in exchange for newly issued J series shares in BZ WBK S.A. that were allotted to all existing shareholders of Kredyt Bank S.A.

On the date of entering the merger in the court register, the Bank was merged with Bank Zachodni WBK S.A., and hence ceased to be a subsidiary of KBC Group and, as a merged bank, became a part of Santander Group.

The justification as well as the description of strategic reasons and economic benefits related to the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A. can be found in the Bank's Management Board's Report published along with the Merger Plan in the current report dated 11.05.2012.

58.2. Events after the reporting period

As it has been disclosed in the note 4 Accounting estimates, the Management Board of Bank Zachodni WBK S.A., after the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A. has performed a review of judgements in relation to the value of impairment allowance for loan exposures and has made significant changes to those judgements.

Apart from the events described in Notes 4 and 58.1, no other significant events which should be disclosed in the financial statements had place from the balance sheet date to the date of the approval of these financial statements.

59. Employment structure

FTEs	**31.12.2012**	**31.12.2011**
- Head Office	2 083	2 297
- branches and affiliates	2 449	2 578
Total	**4 532**	**4 875**

60. Employee benefits

60.1. Employee Stock Ownership Plan

In 2012 and 2011, no employee stock ownership plan was implemented in the Bank.

60.2. Retirement benefits and other benefits after retirement

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

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Period beginning	1 699	1 547
Provision recognized	0	300
Paid benefits	-141	-148
Provision reversed	-326	0
Other changes	0	0
Period end	**1 232**	**1 699**

60.3. Benefits related to the dissolution of employment

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Period beginning	0	0
Recognized	0	1 287
Reversed	0	0
Utilization	0	-1 287
Period end	**0**	**0**

61. Social assets and the Company Social Benefit Fund

The Bank met the requirements of the CSBF Act, established the CSBF and created periodical charges for this purpose. The Fund had no property, plant and equipment. The objective of the Fund was to subsidize the Company's employee-related operations, loans granted to employees and other employee-related expenses.

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

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

in PLN '000'	**31.12.2012**	**31.12.2011**
Employee cash loans	7 384	8 355
Cash on CSBF's bank accounts	7 837	7 362
Fund-related payables	15 221	15 717
Charges to the Fund in the period	6 000	5 929

62. Seasonality or cyclical nature of operations

The Bank's operations were not of seasonal nature.

63. Non-typical factors and events

In 2012 and 2011, 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.

64. Custodian services

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

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

The Custody Office provided the services of a payer's bank which involved making all financial clearings with the National Depository for Securities on behalf of serviced entities.

As regards the function of the custodian bank for investment funds, the Bank offered the following services:

- maintaining funds' assets registers;
- ensuring the correct calculation of net asset value and net asset value per share/participation unit;
- ensuring the correct settlement of agreements concerning funds' assets;
- controlling funds' investment activities.

The role of an issue sponsor was related to securities admitted to organized trading, including investment certificates of investment funds. It involved keeping records of securities owned by investors, but not deposited in securities accounts. The main tasks of an issue sponsor as regards investment certificates were as follows:

- issuing acknowledgments of the acquisition of certificates, and certificates of the ownership of shares deposited in securities account;
- maintaining and updating registers of funds' shareholders;
- verifying acknowledgments of the acquisition of certificates;
- making payments due to the redemption of certificates on redemption dates to the accounts of the persons listed in the issue sponsor's register;
- making payments of amounts due to shareholders as a result of the liquidation of a fund in the case of persons holding certificates listed the issue sponsor's register.

In 2012, income related to the maintenance of securities accounts and registers as well as the services of the issue sponsor and of the custodian bank amounted to PLN 4,960 thousand as compared to PLN 6,454 thousand in 2011, and is accounted for in the commission income.

65. Discontinued operations

The Bank did not carry out operations which were discontinued in 2012 or in 2011.

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

In 2012, 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 equity.

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

- 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. Pleadings were exchanged. 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. In the second quarter of 2012, the parties submitted comments to the expert's auxiliary opinion. In the third quarter of 2012, the parties requested that the auxiliary opinion be prepared by a different expert. The court issued the decision in which they admitted the expert's opinion, ordered the preparation of the opinion and set the deadline for it. The new opinion will take into consideration the comments made by the parties to the previous opinion. The date of the hearing has not been set.

- 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. ('HSBC') 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 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 03.02.2009, 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 advantageous for the Bank and referred the case to the circuit court to be re-examined. In the first half of 2012, two hearings took place at which no judgment was issued. On 08.05.2012, the court decided to suspend the proceedings upon the request of one of the participants in legal proceedings. By the date of the publication of these financial statements, the proceedings have still been suspended.

- 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. No decisions were made at the hearings held in 2011 and 2012. The date of the next hearing was scheduled for June 2013.
- The plaintiff, i.e. partners in a general partnership, filed a lawsuit against the Bank for a compensation amounting to PLN 3 million. The plaintiff claims that the Bank violated its statutory obligation to keep a banking secret by disclosing, to a partner leaving the partnership, information concerning the bank account maintained for the partnership. The Bank's attorney responded to the lawsuit. No decisions were made at the hearings held at 13.02.2013. The date of the next hearing was scheduled for 14.04.2013.

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.

67. Risk management at Kredyt Bank S.A.

The information disclosed in this Note has been valid by the date of the merger with Bank Zachodni WBK S.A. Details are presented in Note 1.

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

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

In 2012, the Risk and Capital Committee, directed by the member of the Bank's Management Board responsible for risk and capital management, directly managed, controlled and monitored risk.

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

- Financial Risks, Capital and Shared Functions Department;
- Corporate and SME Loans Risk Department;
- Retail Loans Risk Department;
- Operational Risk Department.

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

In the process of the risk identification, measurement and management, the Bank applied 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 through the process of ongoing monitoring were being systematically implemented. The risk management process was strictly related to the capital management process. The main objective of capital management in the Bank was 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).

68. Credit risk

Credit risk in Kredyt Bank S.A. was 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.

The credit risk management process in the Bank entailed 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;
- analyses and formulation of recommendations;
- a decision-making process.

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

- Supervisory Board;
- Audit, Risk and Compliance Committees;
- 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 was 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 entailed 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 played the key role in the process of risk management for individual transactions.

The portfolio risk management was 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 were as follows:

- supporting the Management Board in the following areas:
  - 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

31.12.2012		31.12.2011	
Company	**Share (%) in the portfolio**	**Company**	**Share (%) in the portfolio**
Customer 1	2.5	Customer 1	3.2
Customer 2	1.7	Customer 2	2.4
Customer 3	1.3	Customer 3	2.2
Customer 4	1.3	Customer 4	2.0
Customer 5	1.2	Customer 5	1.8
Customer 6	1.1	Customer 6	1.6
Customer 7	1.1	Customer 7	1.5
Customer 8	1.1	Customer 8	1.4
Customer 9	1.1	Customer 9	1.4
Customer 10	0.9	Customer 10	1.4
Total	**13.3**	**Total**	**18.9**

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

Province	Gross loans structure (%) 31.12.2012	Gross loans structure (%) 31.12.2011
Mazowieckie	21.4	20.4
Dolnośląskie	10.6	10.7
Wielkopolskie	9.8	9.3
Lubelskie	9.3	9.2
Pomorskie	8.4	8.7
Małopolskie	7.3	7.6
Śląskie	5.9	6.7
Łódzkie	5.2	5.2
Zachodniopomorskie	4.8	5.2
Podlaskie	3.4	3.3
Kujawsko-pomorskie	3.2	3.2
Podkarpackie	2.6	2.6
Warmińsko-mazurskie	2.6	2.6
Lubuskie	2.3	2.3
Świętokrzyskie	2.0	1.8
Opolskie	1.1	1.1
Non-resident	0.1	0.1
Total	**100.0**	**100.0**

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

Industry	Exposure (%) 31.12.2012	Exposure (%) 31.12.2011
Trade	28.8	24.3
Commercial real estate	12.2	13.6
Building industry	11.8	12.6
Natural resources, metals, chemicals	10.3	9.8
Agriculture and foodstuff production	8.7	7.8
Services	7.5	7.1
Automotive industry, shipyards, aviation	4.7	7.0
Local government units and financial institutions	4.0	5.7
Timber and papermaking	4.4	5.3
Electrical engineering	3.2	3.3
Transport	2.4	2.0
Gas, energy and water suppliers	1.2	0.9
Media, telecommunications, IT	0.8	0.6
Total	**100.0**	**100.0**

As at 31.12.2012 and 31.12.2011, the concentration limits regarding a customer/a group of related customers were not exceeded.

*The Bank's maximum exposure to credit risk*****

Balance sheet instruments	31.12.2012	31.12.2011
Debt securities:	**8 325 272**	**8 795 493**
- available-for-sale	5 424 349	5 256 641
- held-to-maturity	2 548 590	3 416 674
- financial assets measured upon initial recognition at fair value through profit or loss, and financial assets held for trading (excluding derivatives)	352 333	122 178
Derivatives	**1 155 201**	**1 071 089**
Net loans and advances to banks	**1 179 730**	**1 188 012**
Net loans and advances to customers:	**27 717 099**	**28 840 369**
Natural persons*:	21 166 569	22 163 196
- overdraft facilities	828 804	873 085
- term loans**	558 047	731 015
- cash loans, installment loans and cards	2 396 315	2 502 479
- mortgage housing loans	16 977 320	17 623 776
- other mortgage loans***	354 552	390 617
- purchased debt	15 287	12 153
- realized guarantees	180	554
- other receivables	36 064	29 517
Corporate customers and SME:	6 353 515	6 477 086
- overdraft facilities	2 192 964	1 924 017
- term loans**	3 922 674	4 243 795
- purchased debt	164 678	210 322
- realized guarantees	17 917	35 001
- other receivables	7 630	11 839
- debt securities classified as loans and receivables	47 652	52 112
Budgetary sector:	197 015	200 087
- overdraft facilities	7 215	4 742
- term loans**	97 310	106 931
- purchased debt	0	19 961
- debt securities classified as loans and receivables	92 490	68 453
Various debtors (receivables recognized in other assets)	**58 207**	**69 038**
Total	**38 435 509**	**39 964 001**

***** the table does not include created, according to the description in Note 4, provision in the amount of PLN 257.9 million for the credit risk concerning exposures assessed collectively*

Granted off-balance sheet liabilities	31.12.2012	31.12.2011
Financial	3 928 143	4 494 703
Guarantees	1 687 786	2 196 284
Total liabilities granted	**5 615 929**	**6 690 987**
Total assets and off-balance sheet items	**44 051 438**	**46 654 988**

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

- changing the methodology of establishing impairment losses;
- changing the methodology of calculating household maintenance costs;
- introducing changes for the refinancing mortgage loan in the standard offer;
- limiting the maximum LtV for a portion of new production;
- introducing a new policy concerning the principles of appraising real estates;
- amending the principles of the credit policy for new customers applying for a cash loan;
- expanding the methodology of the behavioral assessment of customers;
- introducing new principles concerning the monitoring of payments to an account in the case of overdraft facilities;
- expanding the stress-testing methodology and its use in the process of establishing concentration limits;

b) for the portfolio of corporate and SME customers:

- introducing more restrictive principles of financing and monitoring agreements for customers from the building industry, i.e. engaged in the completion of building works under contracts and sub-contracts; and
- introducing more restrictive principles of financing non-impaired corporate and SME customers, but characterized, in the Bank's opinion, by a higher lending risk (relatively worse PD ratings);

  Introducing for such customers, depending on the probability of default (PD rating):

  - minimum requirements concerning the coverage of transactions with collateral;
  - a ban on an increase in exposure to customers.

Currency derivatives

	31.12.2012		**31.12.2011***	
in PLN '000'	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Total balance sheet exposure, excluding banks	18 902	15 160	51 267	16 637
Net position aggregated at customer level, excluding banks	15 988	12 246	40 598	5 968

** the figures as at 31.12.2011 do not take account of the data concerning embedded instruments*

As at 31.12.2012, the Bank hedged concluded currency contracts by frozen cash in bank accounts in the total amount of PLN 4.5 million. The valuation of derivatives also entails credit risk. In 2012, write-downs for active derivatives of PLN 0.6 million (presented in net trading income) were created, and write-downs for mature derivatives of PLN 4 million (presented in impairment losses) were reversed, in the Bank's income statement.

As at 31.12.2011, the Bank hedged concluded currency contracts by frozen cash in 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 created, and write-downs for mature derivatives of PLN 10 million (presented in impairment losses) were reversed, in the Bank's income statement.

69. Operational risk

The Bank defined 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 applied the Standardized Approach.

As a result, the Bank, inter alia,:

- had specified roles and responsibilities of employees within the operational risk management system;
- kept a record of operational events and losses resulting from the operational risk;
- had the operational risk management system which was 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 and control self-assessment (CRSA) was carried out systematically in particular business areas, action plans to reduce the risk were implemented and the level of risks was measured with the application of key risk indicators (KRI).

Once a year, for the purpose of operational risk, the Bank identified key operational risks (Risk Scan).

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

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

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

70.1. Trading Book

The Trading Book was a separated part of the Bank's portfolio, where the Bank intended 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 was associated with financial instruments in PLN, and, to a lesser extent, also in USD and EUR.

Value at Risk (VaR) was the basic metric of risk in the trading portfolio. Value at Risk meant such a value that the probability of the Bank's loss exceeding this value amounts to 1% (with assumed 99% level of significance). VaR in the Bank was 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 overlapped Global VaR, which included both the currency risk and the interest rate risk. In the process of market risk management, the Bank took 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 present the level of the risk to which the Bank was exposed in 2012 more fully, the tables below present both VaR on the last day of the year, and the average, minimum and maximum levels in the whole 2012.
- 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 significance level (99%), in the remaining cases the losses may be much higher than the calculated VaR. To control the above-mentioned limitations, the Bank verified 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 historic price changes, it was assumed that the prices in the future will be subject to the same distribution as the prices in the examined period in the past.

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

	Limit	31.12.2012	Data for 2012		
			Average	Minimum	Maximum
VaR	3 000.0	490.28	664.31	251.01	2 356.90

Value at Risk (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

70.1.1. 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 was 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 was 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 Unit in the area of interest rate risk were 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 was calculated using the same parameters as for Global VaR, i.e. the significance level of 99%, 10-day time horizon and 500-day observation horizon.

In 2012, the Bank did not record any exceeded VaR limits, both global and internal interest rate VaR limit in the trading portfolio.

Value at Risk for interest rate positions

in EUR '000'	**Limit**	**31.12.2012**	**Data for 2012**		
			Average	Minimum	Maximum
Trading	2 600.0	448.96	684.49	259.38	2 428.11

Value at Risk for interest rate positions and particular sections

in EUR '000'	**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

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

<u>Interest rate options</u>

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

70.1.2. Currency risk

<u>Position in currencies</u>

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 was managed for the Trading Book and the Banking Book jointly. The Bank's position in currencies was managed in the Trading Book.

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

Currency risk VaR values are as follows:

Value at Risk for the Trading Book – currency risk

in EUR '000'	**31.12.2012**	**Data for 2012**		
		Average	Minimum	Maximum
Trading	85.94	95.95	5.76	411.04

Value at Risk for the Trading Book – currency risk

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

In the event of the currency risk, the 'value at risk' method was 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 offered currency options. The Bank did not maintain an options portfolio for its own account, i.e. it did not pursue speculative activities. Options on the inter-bank market were the options hedging the position resulting from transactions with customers. Therefore, the market risk in the portfolio of FX option transactions did not exist.

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

*Balance sheet by currencies as at 31.12.2012**

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Assets							
Cash and balances with Central Bank	6 104	58 058	12 496	21 907	853 945	10 864	963 374
Gross loans and advances to banks	13 228	94 647	6 822	83 147	962 504	19 382	1 179 730
Receivables arising from repurchase transactions	0	0	0	0	117 700	0	117 700
Financial assets designated upon initial recognition as at fair value through profit or loss	0	0	0	0	38 380	0	38 380
Financial assets held for trading (excluding derivatives)	0	1 347	0	1 280	322 453	0	325 080
Derivatives	3 795	16 506	81	9 378	1 125 156	285	1 155 201
Gross loans and advances to customers	9 830 783	3 312 775	6 483	187 723	15 960 464	587	29 298 815
Impairment losses on loans and advances to customers	-99 372	-72 360	-23	-3 590	-1 406 348	-23	-1 581 716
Investment securities:	0	310 569	0	0	7 663 216	0	7 973 785
- available-for-sale	0	268 222	0	0	5 156 973	0	5 425 195
- held-to-maturity	0	42 347	0	0	2 506 243	0	2 548 590
Investments in subsidiaries and jointly controlled entities	0	0	0	0	64 531	0	64 531
Property, plant and equipment	0	0	0	0	225 404	0	225 404
Intangible assets	0	0	0	0	95 161	0	95 161
Deferred tax assets	0	0	0	0	307 042	0	307 042
Investment properties	0	0	0	0	14 430	0	14 430
Non-current assets held for sale	0	0	0	0	2 819	0	2 819
Other assets	0	8 625	11	82	70 127	25	78 870
Total assets	**9 754 538**	**3 730 167**	**25 870**	**299 927**	**26 416 984**	**31 120**	**40 258 606**

** the table does not include created, according to the description in Note 4, provision in the amount of PLN 257.9 million for the credit risk concerning exposures assessed collectively*

Balance sheet by currencies as at 31.12.2012 (cont.)

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Liabilities							
Amounts due to banks	3 170 512	416 686	355	3 311	164 754	8 109	3 763 727
Liabilities arising from repurchase transactions	0	0	0	0	94 937	0	94 937
Financial liabilities held for trading (excluding derivatives)	0	0	0	0	115 424	0	115 424
Derivatives	580	12 322	1 210	4 932	1 208 180	238	1 227 462
Amounts due to customers	1 044 869	1 879 520	89 737	902 919	26 546 216	16 852	30 480 113
Current tax liability	0	0	0	0	6 681	0	6 681
Provisions	0	23 189	31	5 359	330 157	28	358 764
Other liabilities	15	4 307	85	137	239 521	7	244 072
Subordinated liabilities	896 588	0	0	0	74 945	0	971 533
Total liabilities	**5 112 564**	**2 336 024**	**91 418**	**916 658**	**28 780 815**	**25 234**	**37 262 713**

Off-balance-sheet items as at 31.12.2012

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Off-balance sheet items							
Liabilities granted:	**0**	**941 150**	**8 067**	**289 462**	**4 356 666**	**20 584**	**5 615 929**
- financial	0	382 767	501	282 195	3 262 680	0	3 928 143
- guarantees	0	558 383	7 566	7 267	1 093 986	20 584	1 687 786
Liabilities received:	**0**	**294 200**	**0**	**806**	**837 997**	**14 839**	**1 147 842**
- financial	0	0	0	806	311 375	14 839	327 020
- guarantees	0	294 200	0	0	526 622	0	820 822
Liabilities related to the sale/purchase transactions	**10 868 875**	**5 718 025**	**94 530**	**4 441 951**	**143 481 613**	**147 575**	**164 752 569**

Balance sheet by currencies 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 by currencies 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**

70.1.3. Capital market risk

The Bank did not operate on the stock market within the Trading Book. In 2012, the Bank withdrew from its offer structured products in which the payment depended on the behavior of WIG 20 index; however, it still offered structured deposits in which the payment depended on the behavior of interest rate indices and exchange rates.

70.1.4. Commodity price risk

The Bank was not active on the commodity market within the Trading Book. At the same time, in 2012, the Bank offered commodity derivatives to corporate customers, in which the payment depended on the behavior of commodity prices. As in the case of currency options and interest rate options, the Bank did not have an open position in commodity instruments. Commodity derivatives on the inter-bank market were instruments hedging the position resulting from transactions with customers. Therefore, the commodity price risk did not exist.

70.1.5. Capital requirements

The capital requirements for the Trading Book as of 31.12.2012 and 31.12.2011 are as follows:

Capital requirements for the Trading Book

in PLN '000'	**31.12.2012**	**31.12.2011**
Equity securities price risk	0	0
Specific risk of debt instruments	20	11
General interest rate risk	30 548	31 057
Settlement risk and counterparty risk	37 587	46 940
Currency risk (total for the Trading Book and the Banking Book)	0	0
Total capital requirement in the Trading Book	**68 155**	**78 008**

70.2. 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.

70.2.1. Interest rate risk

The Bank actively managed 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 was the basic measurement and risk-limiting tool in the banking portfolio. The following risk metrics were calculated on that basis:

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

An analysis of the interest rate gap applied in the interest rate risk management of the Banking Book was 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 a product), the Bank implemented the model of periodic deposits rollover, which replicates the behavior of particular products. This approach allowed for more 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 were 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:

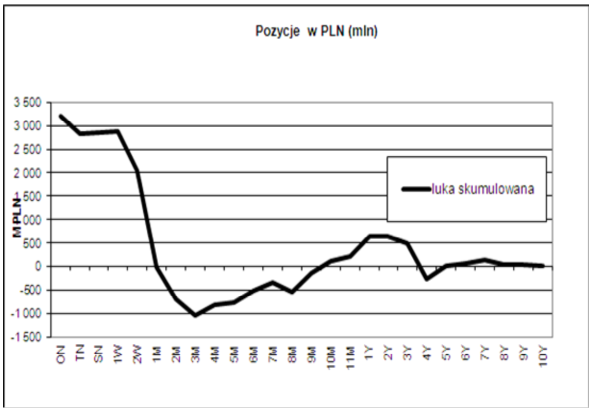
- a stable part of current accounts in PLN and EUR was cyclically invested for the period of:
  1. 8 years for PLN;
  2. 5 years for EUR;
- a stable portion of savings accounts in PLN was invested cyclically (every month) for the periods of 2 to 5 years; in the second half of 2012, to adapt the model interest rate risk profile to the product features through greater correlation between the interest rate on the savings account and the interest rate on short-term term deposits, average duration of assets in the benchmark portfolio of savings accounts was shortened through, among other things, the sale of Treasury bonds from the available-for-sale portfolio with the maturity from 2 to 5 years;
- unstable parts of current accounts in PLN and EUR, and current accounts in other currencies were classified in the shortest time horizon;
- an unstable part of savings accounts in PLN was invested cyclically in terms from 1 to 3 months (every month) and O/N; savings accounts in other currencies were classified in the shortest time horizon;
- free capital approved for the whole year was invested cyclically for the period of 10 years (with 1/120th of the free capital invested monthly); an excess or shortage compared to the present amount of free capital was classified in the shortest time horizon; and the passive portion of the free capital portfolio was deemed as insensitive to changes in interest rates;
- loans were recognized in net terms;
- fixed interest rate loans were accounted for according to the payment schedule, and the floating interest rate loans were presented in the closest revaluation period;
- a gap report, apart from flows related the principal amount, also presented known future interest flows;
- each flow was divided proportionally into two parts which were classified in adjoining nodes of the curve;
- a cumulative gap was calculated from the longest to the shortest term period.

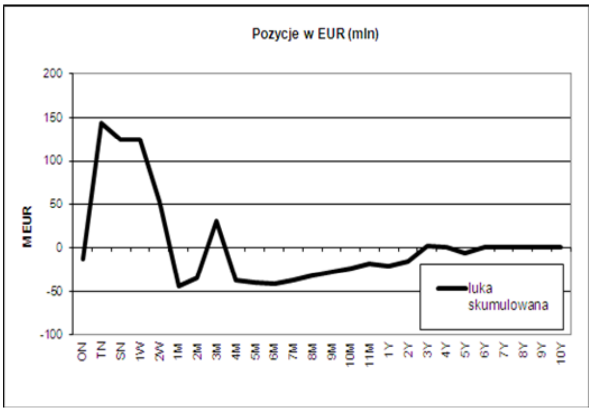
The interest rate gaps diagrams for the position resulting from the operation of branches (including derivatives used as hedging instruments) based on an internal system of transfer rates in particular currencies: PLN, EUR, USD and CHF, are presented below.

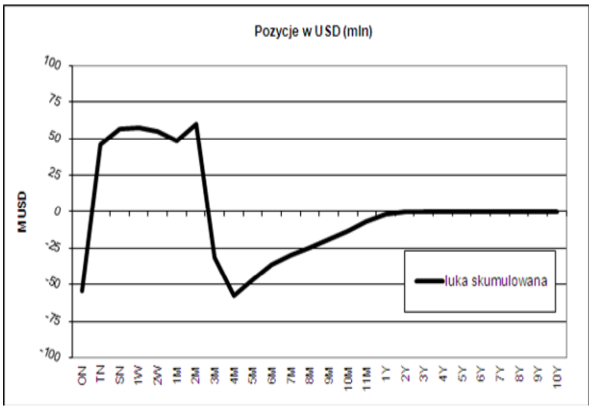
The diagrams present the mismatch between the repricing periods for assets and liabilities in time ranges: from O/N time range (overnight) to 10Y time range (10 years). The cumulative gap presents the total mismatch for a given time horizon; the gaps were accumulated beginning from the most remote date. 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.

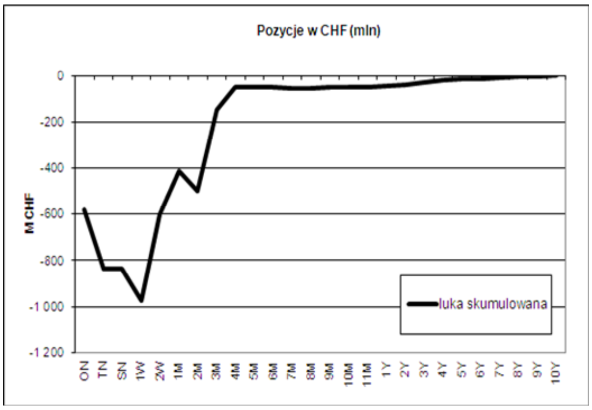
The Bank actively mitigated the risk resulting from the mismatch between balance sheet assets and liabilities, closing the positions with derivatives and applying hedge accounting.

Data as at 31.12.2012 (in original currencies)

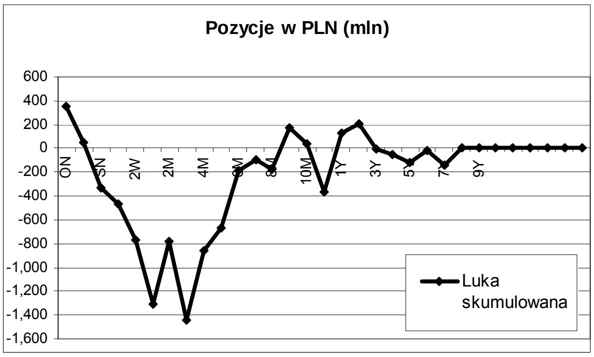


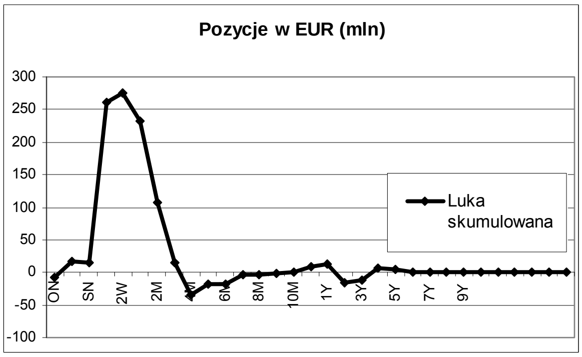


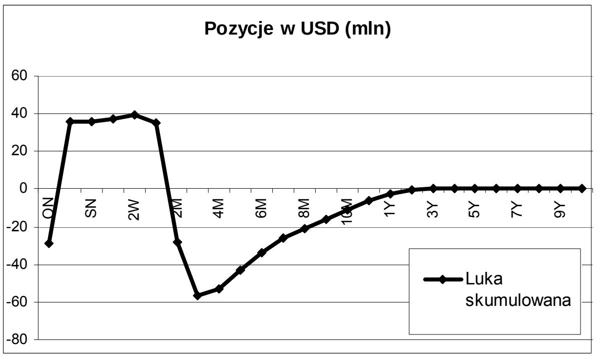


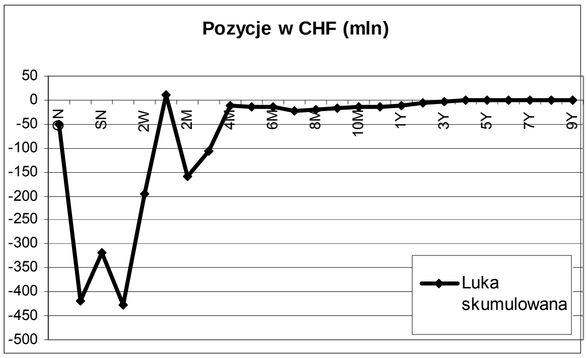


Data as at 31.12.2011 (in original currencies)









The Bank analyzed 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 was 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, was not included in calculations.

in EUR '000'	**31.12.2012**	**31.12.2011**
BPV (calculation to limit)	-2 149	-1 957

In addition, the Bank carried out stress-testing for the sensitivity of the economic value of the Banking Book position to changes in interest rates. The results of stress-testing are shown in the table below:

Change in NPV for the Banking Book position for pre-determined scenarios

in EUR million	**31.12.2012**	**31.12.2011**
Parallel upward shift of the curve by 200 b.p.	-43.6	-36.5
Parallel downward shift of the curve by 200 b.p.	50.4	42.6

70.2.2. Hedge accounting

Fair value hedging accounting

In 2012 and 2011, the Bank did not apply hedge accounting for fair value hedge.

Hedge accounting of cash flows

In 2012, as in 2011, the Bank continued to apply hedge accounting for the part of the mortgage loans portfolio based on 3-month WIBOR rate, which involved the conclusion of IRS's in which the Bank received fixed and paid floating interest rates. Interest rate risk resulting from a change in the 3-month interest rate is the hedged risk in this case.

In 2012, the Bank started to apply hedge accounting prior to changes in cash flows for mortgage loans granted in CHF resulting from changes of market interest rates (CHF LIBOR) and exchange rates (CHF/PLN), and for deposits made in PLN along with their rollover resulting from changes in market interest rates (WIBOR). Cross Currency Interest Rate Swap (CCIRS) was the instrument hedging both relations.

70.2.3. Currency risk

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

It should be noted here that the currency risk at Kredyt Bank was 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 occurred 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 contained clauses on the establishment of additional collateral or permit to translate the loan when the customer did not generate income in the loan currency. Additionally, in order to hedge the exchange rate risk the customer was exposed to, derivatives (forwards, options) were offered to him.

In order to mitigate the currency risk on granting housing purposes mortgages 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 housing purposes mortgages denominated in CHF, focusing on the development of the offer in PLN and EUR. In January 2012, the housing purposes mortgages denominated in EUR were also withdrawn from the offer.

70.3. 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, which 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, was the crucial element of the policy on assets and liabilities management applied by the Bank. The current liquidity was maintained through correcting the surplus or shortage of liquid cash by operations conducted on the interbank money market. The Bank's safety called for the maintenance of liquid reserves and of the proper term and quality structure of the whole balance sheet. Decisions related to liquidity risk management were made by the Risk and Capital Committee. The Market Risk Office measured and monitored strategic (long-term) liquidity.

The Bank hedged 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 was performed mainly on the basis of the assessment of the deposit base stability and the liquidity gap report through, among other things, monitoring the mismatch of the maturity dates of assets and liabilities, which 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 carried out stress-testing for the liquidity and monitored 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 amount and interest). In ranges above 6 months, the Bank presents only cash flows related to principal amounts. 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, which 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 was analyzed by the Bank on an ongoing basis. On this basis, the Bank prepared 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 31.12.2012 (in millions of PLN)

Assets	**up to 1M**	**1 - 3M**	**3 - 6M**	**6M - 1Y**	**1Y - 2Y**	**2Y - 3Y**	**3Y - 5Y**	**over 5Y**	**Total**
Cash in hand	599	0	0	0	0	0	0	0	599
NOSTRO	518	0	0	0	0	0	0	0	518
Loans granted	794	1 953	1 716	2 270	2 762	2 191	2 212	14 615	28 513
Other loans and receivables granted	170	0	0	0	0	0	0	0	170
Liquid bonds, money and Treasury bills	5	186	768	560	1 969	606	635	1 402	6 131
Non-liquid/held-to-maturity bonds	32	2	181	258	500	688	630	363	2 654
Liquid bonds in the Trading Book	223	0	0	0	0	0	0	0	223
Reverse repos/BSB	118	0	0	0	0	0	0	0	118
Equity investments	0	0	0	0	0	0	0	77	77
Other	0	76	0	0	5	0	0	0	81
Derivatives – cash flows to be received									
FX derivatives	5 512	2 182	1 067	130	54	41	0	0	8 986
IR derivatives	143	1 002	696	0	0	0	0	0	1 841
CIRS – cash flows to be received	0	440	13	93	9	0	1 379	0	1 934
Total	**8 114**	**5 841**	**4 441**	**3 311**	**5 299**	**3 526**	**4 856**	**16 457**	**51 845**

Liabilities	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	over 5Y	Total
Current accounts	4 352	4	5	0	0	0	0	0	4 361
Deposits/savings accounts	14 581	2 867	3 738	1 574	83	17	0	2	22 862
Deposits of the budgetary sector	1 372	164	8	7	28	0	0	0	1 579
Inter-bank deposits	505	855	146	27	10	0	0	0	1 543
Perpetual bonds and cash loans	87	28	358	1 445	93	47	1 175	1 726	4 959
LORO	62	0	0	0	0	0	0	0	62
Repos/SBB	95	0	0	0	0	0	0	0	95
Free capital*	0	0	0	0	0	0	0	2 843	2 843
Other	0	142	0	22	0	0	0	0	164
Derivatives – cash flows to be paid									
FX derivatives	5 490	2 181	1 050	132	61	44	0	0	8 958
IR derivatives	102	947	873	0	0	0	0	0	1 922
CIRS – cash flows to be paid	0	417	2	90	8	0	1 367	0	1 884
Total	**26 646**	**7 605**	**6 180**	**3 297**	**283**	**108**	**2 542**	**4 571**	**51 232**

** 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	8 114	5 841	4 441	3 311	5 299	3 526	4 856	16 457
Liabilities	26 646	7 605	6 180	3 297	283	108	2 542	4 571
Liquidity gap	**-18 532**	**-1 764**	**-1 739**	**14**	**5 016**	**3 418**	**2 314**	**11 886**

Data as at 31.12.2011 (in millions of 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/held-to-maturity bonds	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**

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) were recognized in the shortest term range, although the actual/made real maturity for such instruments occurs in further tenors.

At the end of 2012, as compared to the end of 2011, 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 2.7 billion;
- the amount of accepted inter-bank deposits and cash loans on the wholesale market decreased by PLN 4.7 billion.

The Bank's financial liquidity was 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);
- short-term and long-term liquidity ratios according to Basel III (LCR and NSFR).

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

70.3.1. Regulatory liquidity ratios

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

Data as at 31.12.2012

	Assets	*in PLN '000'*
A1	Basic liquidity reserve	8 222 087
A2	Supplementary liquidity reserve	5 632 051
A3	Other transactions on the wholesale financial market	11 170 976
A4	Limited liquidity assets	27 353 696
A5	Non-liquid assets	500 352
	Liabilities and equity	*in PLN '000'*
B1	Own funds less total capital requirements related to market risk, settlement risk and counterparty risk	3 724 512
B2	Stable external financing	28 734 211
B3	Other liabilities on the wholesale financial market	10 056 176
B4	Other liabilities	241 388
B5	Unstable external financing	11 949 643

	Liquidity ratios	Minimum value	Value
M1	Short-term liquidity gap: ((A1+A2)-B5)	0.00	1 904 495
M2	Short-term liquidity ratio: ((A1+A2)/B5)	1.00	1.16
M3	Own funds to non-liquid assets: (B1/A5)	1.00	7.81
M4	Own funds and stable external financing to non-liquid assets and limited liquidity assets: ((B1+B2)/(A5+A4))	1.00	1.17

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, 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	Value
M1	Short-term liquidity gap: ((A1+A2)-B5)	0.00	3 560 783
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

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

in PLN '000'	**31.12.2012**	**31.12.2011**
Loans and advances from KBC Group	813 408	2 808 513
Term deposits, including:	2 872 054	5 160 973
- from KBC Group	2 771 506	5 117 701
Current accounts, including:	73 967	83 795
- from KBC Group	38 340	69 746
Other liabilities	4 298	6 897
Total amounts due to banks	**3 763 727**	**8 060 178**
Subordinated liabilities (from KBC Group)	971 533	1 036 510
Total, including:	**4 735 260**	**9 096 688**
- from KBC Group, including:	4 594 787	9 032 470
- liabilities in the currency other than PLN	4 481 501	8 723 245

The deposits base, with the decreasing share of the financing from the wholesale market in the liabilities structure, was the main source of financing for the loans portfolio. In 2012, the Bank reduced the scale of the financing in foreign currencies sourced directly from KBC Group and, at the same time, to hedge the structural currency gap, greatly increased the exposure to currency derivatives (of swap type).

Due to a high degree of the deposits base diversification and the reduced scale of the financing from the wholesale market, the Bank was not clearly dependent on a particular market segment, group of customers or a specific type of deposits.

The structure of customers' deposits has been presented in Note 41.

Signatures of Members of The Management Board

date	07.03.2013	Mateusz Morawiecki	President	....
date	07.03.2013	Andrzej Burliga	Member	....
date	07.03.2013	Eamonn Crowley	Member	....
date	07.03.2013	Michael McCarthy	Member	....
date	07.03.2013	Piotr Partyga	Member	....
date	07.03.2013	Juan de Porras Aguirre	Member	....
date	07.03.2013	Marcin Prell	Member	....
date	07.03.2013	Marco Antonio Silva Rojas	Member	....
date	07.03.2013	Mirosław Skiba	Member	....
date	07.03.2013	Feliks Szyszkowiak	Member	....

Signature of a person who is responsible for maintaining the book of account

date	07.03.2013	Wojciech Skalski	Financial Accounting Area Director	....