Kredyt Bank

Interim Consolidated Financial Report of Kredyt Bank S.A. Capital Group for the Fourth Quarter of 2011 Prepared in Accordance with the International Financial Reporting Standards

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I. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF KREDYT BANK S.A. CAPITAL GROUP

1. Consolidated Income Statement

in PLN '000'	4th quarter of 2011 01.10.2011 – 31.12.2011	Four quarters of 2011 01.01.2011 – 31.12.2011	4th quarter of 2010 01.10.2010 – 31.12.2010	Four quarters of 2010 01.01.2010 – 31.12.2010
Interest income	601 876	2 386 873	560 343	2 204 572
Interest expense	-334 025	-1 236 777	-263 378	-1 076 806
Net interest income	**267 851**	**1 150 096**	**296 965**	**1 127 766**
Fee and commission income	98 007	403 791	114 218	426 889
Fee and commission expense	-23 287	-88 871	-25 018	-97 016
Net fee and commission income	**74 720**	**314 920**	**89 200**	**329 873**
Dividend income	56	1 699	0	1 841
Net trading income	55 005	80 136	21 020	121 555
Net result on derivatives used as hedging instruments and hedged items	-544	-1 714	422	887
Net gains from investment activities	776	1 162	79	6 486
Other operating income	32 113	133 188	24 093	100 930
Total operating income	**429 977**	**1 679 487**	**431 779**	**1 689 338**
General and administrative expenses	-247 120	-999 500	-241 415	-928 103
Other operating expenses	-14 436	-54 035	-19 986	-57 781
Total operating expenses	**-261 556**	**-1 053 535**	**-261 401**	**-985 884**
Net impairment losses on financial assets, other assets and provisions	-114 491	-198 784	-111 424	-471 971
Net operating income	**53 930**	**427 168**	**58 954**	**231 483**
Share in profit (loss) of associates	1 087	3 973	1 081	3 224
Profit before tax	**55 017**	**431 141**	**60 035**	**234 707**
Income tax expense	-10 473	-103 897	-2 938	-48 771
Net profit	**44 544**	**327 244**	**57 097**	**185 936**
including:				
Attributable to the Shareholders of the Bank	**44 544**	**327 244**	**57 097**	**185 936**
Attributable to non-controlling interests	0	0	0	0
Weighted average number of ordinary shares	271 658 880	271 658 880	271 658 880	271 658 880
Earnings per ordinary share (in PLN)	**0.16**	**1.20**	**0.21**	**0.68**

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

2. Consolidated Statement of Comprehensive Income

in PLN '000'	**4th quarter of 2011 01.10.2011 – 31.12.2011**	**Four quarters of 2011 01.01.2011 – 31.12.2011**	**4th quarter of 2010 01.10.2010 – 31.12.2010**	**Four quarters of 2010 01.01.2010 – 31.12.2010**
Net profit for the period	**44 544**	**327 244**	**57 097**	**185 936**
Other comprehensive income				
Valuation of financial assets available-for-sale	-9 615	2 087	-34 997	42 542
- including deferred tax	2 256	-489	8 209	-9 979
Effects of valuation of derivatives designated for cash flow hedge	-2 127	8 584	-10 158	11 163
- including deferred tax	499	-2 014	2 383	-2 618
Other comprehensive income (loss) recognized directly in equity	**-11 742**	**10 671**	**-45 155**	**53 705**
Total comprehensive income (loss)	**32 802**	**337 915**	**11 942**	**239 641**
including:				
Attributable to the Shareholders of the Bank	**32 802**	**337 915**	**11 942**	**239 641**
Attributable to non-controlling interests	0	0	0	0

3. Consolidated Balance Sheet

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Assets				
Cash and balances with Central Bank	784 668	2 386 028	1 943 636	1 114 487
Gross loans and advances to banks	1 188 012	1 191 099	1 466 249	1 328 016
Impairment losses on loans and advances to banks	0	0	-2 260	-2 260
Receivables arising from repurchase transactions	0	292 903	87 218	410 900
Financial assets designated upon initial recognition as at fair value through profit or loss	100 684	99 945	118 562	127 097
Financial assets held for trading (excluding derivatives)	60 493	769 474	1 601 283	1 986 818
Derivatives, including:	1 071 089	1 161 220	463 159	486 001
- derivatives used as hedging instruments	95 592	96 613	74 340	90 505
Gross loans and advances to customers	30 493 915	30 189 459	29 108 520	28 606 727
Impairment losses on loans and advances to customers	-1 408 161	-1 325 461	-1 914 000	-1 851 543
Investment securities:	8 678 712	9 327 967	9 467 240	9 954 132
- available-for-sale	5 262 038	5 904 528	6 219 461	6 665 451
- held-to-maturity	3 416 674	3 423 439	3 247 779	3 288 681
Investments in associates valued using the equity method	19 152	18 066	15 179	14 098
Property, plant and equipment	259 797	249 647	290 444	309 749
Intangible assets	59 711	55 649	50 201	44 581
Deferred tax asset	263 257	266 175	350 387	239 957
Current tax receivable	116 870	79 232	0	0
Non-current assets held for sale	12 128	12 160	7 070	0
Investment properties	209 065	210 126	225 668	230 134
Other assets	93 692	110 688	95 690	96 394
Total assets	**42 003 084**	**45 094 377**	**43 374 246**	**43 095 288**

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Liabilities				
Amounts due to Central Bank	32	2	6	6
Amounts due to banks	8 486 491	11 739 962	12 150 706	11 747 582
Liabilities arising from repurchase transactions	0	1 775 215	228 693	678 323
Financial liabilities held for trading (excluding derivatives)	0	0	0	34 982
Derivatives, including:	982 916	901 402	1 131 078	773 527
- derivatives used as hedging instruments	1 669	2 827	1 274	0
Amounts due to customers	28 043 157	26 247 446	25 660 758	25 758 006
Current tax liability	182	84	155 197	63 878
Provisions	116 402	78 095	92 811	71 308
Deferred tax liability	725	789	869	1 006
Other liabilities	271 044	286 594	214 804	283 912
Subordinated liabilities	1 036 510	1 031 965	911 100	866 476
Total liabilities	**38 937 459**	**42 061 554**	**40 546 022**	**40 279 006**

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Equity				
Share capital	1 358 294	1 358 294	1 358 294	1 358 294
Supplementary capital	900 065	900 065	889 340	889 340
Revaluation reserve	70 092	81 834	59 421	104 576
Other reserves	400 942	400 942	400 942	400 942
Retained earnings (loss)	8 988	8 988	-65 709	-65 709
Current net profit (loss) attributable to the Shareholders of the Bank	327 244	282 700	185 936	128 839
Total equity attributable to shareholders of the Bank	**3 065 625**	**3 032 823**	**2 828 224**	**2 816 282**
Attributable to non-controlling interests	0	0	0	0
Total equity	**3 065 625**	**3 032 823**	**2 828 224**	**2 816 282**
Total equity and liabilities	**42 003 084**	**45 094 377**	**43 374 246**	**43 095 288**

Capital adequacy ratio (%)	12.51	12.14	12.51	12.34
Number of shares	271 658 880	271 658 880	271 658 880	271 658 880
Book value per share (in PLN)	11.28	11.16	10.41	10.37

4. Statement of Changes in Consolidated Equity

Changes in the period 01.01.2011 – 31.12.2011

in PLN '000'	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings (losses)	Net profit (loss) for the period	Equity attributable to the Shareholders of the Bank	Equity attributable to non-controlling interests	Total equity
Equity at opening balance – as of 01.01.2011	**1 358 294**	**889 340**	**59 421**	**400 942**	**120 227**	**0**	**2 828 224**	**0**	**2 828 224**
Valuation of financial assets available-for-sale			2 576				2 576		2 576
Effects of valuation of derivatives designated for cash flow hedge			10 598				10 598		10 598
Deferred tax on items recognized in other comprehensive income			-2 503				-2 503		-2 503
Other comprehensive income (loss) recognized directly in equity			**10 671**				**10 671**		**10 671**
Net profit (loss) for the period						327 244	327 244		327 244
Total comprehensive income (loss)			**10 671**			**327 244**	**337 915**		**337 915**
Profit distribution		10 725			-10 725		0		0
Dividend payment					-100 514		-100 514		-100 514
Equity at the end of the period – as of 31.12.2011	**1 358 294**	**900 065**	**70 092**	**400 942**	**8 988**	**327 244**	**3 065 625**	**0**	**3 065 625**

Changes in the period 01.01.2010 – 31.12.2010

in PLN ‘000’	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings (losses)	Net profit (loss) for the period	Equity attributable to the Shareholders of the Bank	Equity attributable to non-controlling interests	Total equity
Equity at opening balance – as of 01.01.2010	**1 358 294**	**784 039**	**5 716**	**340 942**	**99 592**	**0**	**2 588 583**	**0**	**2 588 583**
Valuation of financial assets available-for-sale			52 521				52 521		52 521
Effects of valuation of derivatives designated for cash flow hedge			13 781				13 781		13 781
Deferred tax on items recognized in other comprehensive income			-12 597				-12 597		-12 597
Other comprehensive income (loss) recognized directly in equity			**53 705**				**53 705**		**53 705**
Net profit (loss) for the period						185 936	185 936		185 936
Total comprehensive income (loss)			**53 705**			**185 936**	**239 641**		**239 641**
Profit distribution		105 301		60 000	-165 301		0		0
Equity at the end of the period – as of 31.12.2010	**1 358 294**	**889 340**	**59 421**	**400 942**	**-65 709**	**185 936**	**2 828 224**	**0**	**2 828 224**

5. Consolidated Cash Flow Statement

in PLN '000'	4th quarter of 2011 01.10.2011 – 31.12.2011	Four quarters of 2011 01.01.2011 – 31.12.2011	4th quarter of 2010 01.10.2010 – 31.12.200	Four quarters of 2010 01.01.2010 – 31.12.2010
Cash flow from operating activities				
Net profit (loss)	**44 544**	**327 244**	**57 097**	**185 936**
Adjustments to net profit (loss) and net cash from operating activities, and net increase/decrease in assets and liabilities	**-529 417**	**-609 201**	**395 724**	**3 955 162**
Current and deferred tax recognized in financial result	10 473	103 897	2 938	48 771
Non-realised profit (loss) from currency translation differences	2 292	82 443	86 257	40 712
Depreciation	18 946	89 760	24 498	100 954
Share in profit (loss) of associates	-1 087	-3 973	-1 081	-3 224
Net increase/decrease in impairment	89 277	-505 190	69 129	339 568
Dividends	-56	-1 699	0	-1 841
Interest	-33 193	-189 321	-46 113	-183 128
Net increase/decrease in provisions	38 307	23 591	21 503	38 894
Profit (loss) on disposal of investments	-1 791	-4 636	334	-5 088
Net increase/decrease in assets (excluding cash)	**757 890**	**-470 531**	**209 479**	**-1 623 296**
Net increase/decrease in loans and advances to banks	10 090	-22 731	31 389	-834 117
Net increase/decrease in receivables arising from repurchase transactions	292 903	87 218	323 682	244 657
Net increase/decrease in financial assets designated upon initial recognition as at fair value through profit or loss	-739	17 878	8 535	36 838
Net increase/decrease in financial assets held for trading	710 677	1 546 245	386 028	-356 002
Net increase/decrease in derivatives (except for derivatives used as hedging instruments)	89 110	-586 678	6 677	126 850
Net increase/decrease in gross loans and advances to customers	-304 456	-1 385 395	-501 793	-1 810 776
Net increase/decrease in current tax receivable	-37 638	-116 870	0	0
Net increase/decrease in other assets	-2 057	-10 198	-45 039	969 254
Net increase/decrease in liabilities	**-1 410 475**	**266 458**	**28 780**	**5 202 840**
Net increase/decrease in amounts due to Central Bank	30	26	0	-1 321 796
Net increase/decrease in amounts due to banks	-1 490 512	-934 333	333 944	2 749 793
Net increase/decrease in liabilities arising from repurchase transactions	-1 775 215	-228 693	-449 630	228 693
Net increase/decrease in financial liabilities held for trading (excluding derivatives)	0	0	-34 982	0
Net increase/decrease in derivatives (except for derivatives used as hedging instruments)	82 672	-148 557	356 277	591 902
Net increase/decrease in amounts due to customers	1 798 462	1 700 327	-97 264	2 994 605
Net increase/decrease in other liabilities	-21 331	52 108	-68 203	31 533
Paid/received income tax	-4 581	-174 420	-11 362	-71 890
Net cash flow from operating activities	**-484 873**	**-281 957**	**452 821**	**4 141 098**

in PLN '000'	4th quarter of **2011** **The period 01.10.2011 – 31.12.2011**	**Four quarters of 2011 The period 01.01.2011 – 31.12.2011**	**4th quarter of 2010 The period 01.10.2010 – 31.12.2010**	**Four quarters of 2010 The period 01.01.2010 – 31.12.2010**
Net cash flow from investing activities				
Inflows	**22 235 285**	**92 530 230**	**12 532 092**	**55 428 362**
Disposal of property, plant and equipment, intangible assets and investment properties	1 052	2 399	4 542	4 711
Disposal of interests in equity investments	0	0	0	1 450
Disposal of investment securities	22 068 708	92 283 935	12 391 215	55 205 555
Dividends	56	1 699	0	1 841
Interest received	165 469	242 197	136 335	214 805
Outflows	**-21 527 962**	**-91 402 859**	**-12 025 780**	**-56 761 607**
Acquisition of property, plant and equipment, intangible assets and investment properties	-22 575	-58 377	-15 194	-51 988
Acquisition of interests in equity investments	0	0	-50	-50
Acquisition of investment securities	-21 505 387	-91 344 482	-12 010 536	-56 709 569
Net cash flow from investing activities	**707 323**	**1 127 371**	**506 312**	**-1 333 245**
Cash flow from financing activities				
Inflows	**21 735**	**735 080**	**64 104**	**325 764**
Proceeds from loans and advances	21 735	735 080	64 104	325 764
Outflows	**-1 838 542**	**-3 040 430**	**-24 466**	**-1 923 315**
Dividends	0	-100 514	0	0
Repayment of loans and advances	-1 806 651	-2 833 472	0	-1 825 104
Other financial outflows	-31 891	-106 444	-24 466	-98 211
Net cash flow from financing activities	**-1 816 807**	**-2 305 350**	**39 638**	**-1 597 551**

Net increase/decrease in cash	**-1 594 357**	**-1 459 936**	**998 771**	**1 210 302**
Cash at the beginning of the period	**2 535 864**	**2 401 443**	**1 402 672**	**1 191 141**
Cash at the end of the period, including:	**941 507**	**941 507**	**2 401 443**	**2 401 443**
Restricted cash*	1 059 021	1 059 021	1 078 101	1 078 101

Interest paid **	267 178	950 620	338 759	991 685
Interest received**	606 336	1 829 133	586 334	1 678 815

** 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 maintained in the period from 30.11.2011 to 1.01.2012; the requirement was met by the Bank, despite the fact that the balance as at 31.12.2011 was lower than the declared amount.*
***refers to the items presented in 'Interest income' and 'Interest expense' lines.*

6. Basis of preparation

Under Article 55 clause 5 of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2009, No. 152, item 1223) as amended ('the Act'), starting from 01.01.2005, the consolidated financial statements of Kredyt Bank S.A. Capital Group ('the Group') have been prepared in compliance with the International Accounting Standards ('IAS') and the International Financial Reporting Standards ('IFRS') that were approved by the European Commission.

Under Article 45 clause 1c of the Act and under the decision of the General Meeting of Shareholders of Kredyt Bank S.A. of 25.04.2005, from 01.01.2005, also standalone financial statements of Kredyt Bank S.A. ('the Bank') have been prepared in accordance with the IAS/IFRS.

The interim consolidated financial report for the fourth quarter of 2011 has been prepared in line with the IAS/IFRS as in force at the date of this report. Specifically, this report has been prepared in accordance with IAS 34 Interim Financial Reporting, and matters not governed by the IAS/IFRS must comply with the Act and the provisions of the Ordinance by the Minister of Finance dated 19 February 2009 on current and interim information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2009, No. 33, item 259, as amended).

7. The Group's financial standing at the end of the fourth quarter of 2011

7.1. Income Statement

The Group's net profit/loss

In 2011, the Group generated net profit amounting to PLN 327,244 thousand, while net profit in 2010 amounted to PLN 185,936 thousand. The significant difference between the net profit generated in 2011 as compared to 2010 results from:

- the decrease in net impairment losses on financial assets, other assets and provisions by PLN 273,187 thousand;
- the increase in net gains from other operating income/expenses by PLN 36,004 thousand;
- the increase in net interest income by PLN 22,330 thousand;

all of which have been partially set off with:

- the decrease in net gains from trading and investment activities by PLN 49,486 thousand, including net result on derivatives used as hedging instruments and hedged items;
- the increase in net fee and commission income by PLN 14,953 thousand;
- the decrease in general and administrative expenses by PLN 71,397 thousand;
- the increase in the income tax burden by PLN 55,126 thousand;

Two one-off events had a substantial impact upon the Group's net result in 2011, i.e. the recognition, in the consolidated income statement, of the result in the amount of PLN 62,722 thousand related to the sale of retail debts and the creation of a provision for the potential liability related to the resale of Żagiel S.A. by KBC Group for the price lower than the price obtained by the Bank, which resulted in the decrease in the net profit by PLN 28,350 thousand. Disregarding the impact of the above-mentioned events, the Group's result for 2011 would amount to PLN 292,872 thousand, which means an increase against the result for 2010 by 57.5%.

The main categories of the Group's income statement are presented in the table below.

in PLN '000'	4th quarter of 2011	4th quarter of 2010	Change (%)	Four quarters of 2011	Four quarters of 2010	Change (%)
Net interest income	267 851	296 965	-9.8%	1 150 096	1 127 766	2.0%
Net fee and commission income	74 720	89 200	-16.2%	314 920	329 873	-4.5%
Net gains from trading and investment activities*	55 293	21 521	156.9%	81 283	130 769	-37.8%
Net gains from other operating income/expenses	17 677	4 107	330.4%	79 153	43 149	83.4%
Total	**415 541**	**411 793**	**0.9%**	**1 625 452**	**1 631 557**	**-0.4%**
General and administrative expenses	-247 120	-241 415	2.4%	-999 500	-928 103	7.7%
Net impairment losses on financial assets, other assets and provisions	-114 491	-111 424	2.8%	-198 784	-471 971	-57.9%
Total	**-361 611**	**-352 839**	**2.5%**	**-1 198 284**	**-1 400 074**	**-14.4%**
Share in profit (loss) of associates	1 087	1 081	0.6%	3 973	3 224	23.2%
Profit (loss) before tax	**55 017**	**60 035**	**-8.4%**	**431 141**	**234 707**	**83.7%**
Income tax expense	-10 473	-2 938	256.5%	-103 897	-48 771	113.0%
Net profit (loss)	**44 544**	**57 097**	**-22.0%**	**327 244**	**185 936**	**76.0%**

** including net result on derivatives used as hedging instruments and hedged items as well as dividend income*

In the fourth quarter of 2011, the Group generated net profit amounting to PLN 44,544 thousand, while net profit in 2010 amounted to PLN 57,097 thousand. The difference between the net profit generated in the fourth quarter of 2011 as compared to the fourth quarter of 2010 results from:

- the decrease in net interest income by PLN 29,114 thousand;
- the decrease in net fee and commission income by PLN 14,480 thousand;
- the increase in general and administrative expenses by PLN 5,705 thousand;
- the increase in net impairment losses on financial assets, other assets and provisions by PLN 3,067 thousand;
- the increase in the income tax burden by PLN 7,535 thousand;

all of which have been partially set off with:

- the increase in net gains from trading and investment activities by PLN 33,772 thousand, including net result on derivatives used as hedging instruments and hedged items;
- the increase in net gains from other operating income/expenses by PLN 13,570 thousand;

Net interest, fee and commission income

Net interest income generated by the Group in 2011 amounted to PLN 1,150,096 thousand and was higher, by PLN 22,330 thousand (2.0%), than the net interest income generated in 2010 mainly due to the increase in the net interest income from securities by PLN 83,463 thousand, set off with the decrease in the net income from repurchase transactions by PLN 42,984 thousand and the decrease in the net interest income from loans and advances to/amounts due to customers (excluding leasing) by PLN 17,844 thousand.

The difference in the net interest income generated by the Group as compared to the net interest income generated by the Bank results primarily from the amortization to the net interest income, at the consolidated level, of the commission income from the sales of loans by Żagiel S.A. generated by December 2009 (i.e. by the time of the sale of the company outside Kredyt Bank S.A. Group). As compared to 2010, the related Group's interest income in 2011 was lower by PLN 65,701 thousand.

Net interest income generated by the Group in the fourth quarter of 2011 amounted to PLN 267,851 thousand and was lower, by PLN 29,114 thousand (9.8%), than the net interest income generated in the fourth quarter of 2010, mainly due to the decrease in the net income from repurchase transactions by PLN 10,412 thousand, in the net interest income from loans and advances to/amounts due to customers (excluding leasing) by PLN 7,603 thousand, in the net interest income from securities by PLN 6,627 thousand, and in the net interest income from derivatives used as hedging instruments by PLN 4,505 thousand.

Net fee and commission income generated by the Group in 2011 amounted to PLN 314,920 thousand and was lower, by PLN 14,953 thousand (4.5%), than the result of 2010, mainly due to the decrease in the net income related to payment cards processing and ATMs maintenance by PLN 13,864 thousand, and the decrease in the net income from the sales and management of combined investment and insurance products by PLN 6,425 thousand, set-off with the increase in the net commission income from guarantee commitments by PLN 3,809 thousand.

Net fee and commission income generated by the Group in the fourth quarter of 2011 amounted to PLN 74,720 thousand and was lower, by PLN 14,480 thousand (16.2%), than the result generated in the fourth quarter of 2010, mainly due to the decrease in the net income related to payment cards processing and ATMs maintenance by PLN 5,698 thousand, the decrease in the net income from the sales and management of combined investment and insurance products by PLN 4,794 thousand, and the decrease in the income from deposit transactions with a customer by PLN 2,967 thousand.

The decrease in the net income from the sales and management of combined investment and insurance products results, among other things, from the change, introduced at the beginning of 2011, in the method of settling certain income and expenses related to the sales of loan products, including income from the sales of insurance policies related to cash loans and expenses resulting from the cooperation with local lending intermediaries. At present, the above income and expenses are settled using the effective interest rate method, while, in previous years, they were recognized once.

Net gains from trading and investment activities

Net gains from trading and investment activities, including the net result on derivatives used as hedging instruments and hedged items as well as dividend income, in 2011 amounted to PLN 81,283 thousand and were lower, by PLN 49,486 thousand (37.8%), than the result generated in 2010, what resulted from the decrease in the net income from the securities measured at fair value through profit or loss by PLN 39,214 thousand (mainly due to the valuation of the shares classified in this portfolio), in the result on derivatives by PLN 5,421 thousand, and in the net gains from investment activities by PLN 5,324 thousand.

Net gains from trading and investment activities, including the net result on derivatives used as hedging instruments and hedged items and dividend income, in the fourth quarter of 2011 amounted to PLN 55,293 thousand and were higher, by PLN 33,772 thousand (156.9%), than the result generated in the fourth quarter of 2010, what resulted mainly from the increase in the result on foreign exchange by PLN 23,787 thousand, and in the result on derivatives by PLN 9,648 thousand.

Net gains from other operating income/expenses

Net gains from other operating activities in 2011 amounted to PLN 79,153 thousand and were higher, by PLN 36,004 thousand (83.4%), than the net gains in 2010, what was mainly a result of the reversal, in the second quarter of 2011, through other operating income, of the provisions related to the last year's incentive programmes amounting to PLN 17,061 thousand, as well as of higher net income from the sales or liquidation of property, plant and equipment by PLN 4,892 thousand, of higher income related to recovered debts (previously derecognized from the balance sheet) by PLN 4,330 thousand, and of lower, by PLN 5,616 thousand, costs of debt recovery.

Net gains from other operating activities in the fourth quarter of 2011 amounted to PLN 17,677 thousand and were higher, by PLN 13,570 thousand (330.4%), than the net gains in the corresponding period of 2010, which was mainly a result of the higher income related to recovered debts (previously derecognized from the balance sheet) by PLN 5,275 thousand, and of lower, by PLN 5,336 thousand, costs of debt recovery.

General and administrative expenses

in PLN '000'	4th quarter of 2011	4th quarter of 2010	Change (%)	Four quarters of 2011	Four quarters of 2010	Change (%)
Staff costs	**107 394**	**108 557**	**-1.1%**	**443 138**	**416 688**	**6.3%**
Administrative expenses	**120 780**	**108 360**	**11.5%**	**466 602**	**410 461**	**13.7%**
- costs of buildings lease	22 163	21 326	3.9%	86 192	83 904	2.7%
- IT and telecommunications fees	20 764	20 514	1.2%	81 228	75 236	8.0%
- costs of buildings maintenance and renovations	5 737	6 133	-6.5%	21 382	20 875	2.4%
- energy costs	4 954	4 519	9.6%	19 691	18 793	4.8%
- advisory and specialist services costs	4 854	5 745	-15.5%	23 612	21 781	8.4%
- postal fees	6 432	7 409	-13.2%	25 440	29 868	-14.8%
- transportation services	4 074	3 627	12.3%	15 529	14 061	10.4%
- property protection expenses	2 179	2 194	-0.7%	8 850	9 055	-2.3%
- taxes and fees	27 851	21 734	28.1%	114 622	89 244	28.4%
- promotion and advertising services	15 016	8 152	84.2%	41 432	19 410	113.5%
- purchase of other materials	1 234	940	31.3%	3 472	3 519	-1.3%
- training expenses	2 568	1 385	85.4%	5 611	3 249	72.7%
- business trips	628	724	-13.3%	2 354	1 958	20.2%
- other	2 326	3 958	-41.2%	17 187	19 508	-11.9%
Depreciation	**18 946**	**24 498**	**-22.7%**	**89 760**	**100 954**	**-11.1%**
Total	**247 120**	**241 415**	**2.4%**	**999 500**	**928 103**	**7.7%**

Employment*	**31.12.2011**	**31.12.2010**	**Change**	**Change (%)**
KB	4 875	4 747	128	3%
Other companies	88	87	1	1%
	4 963	**4 834**	**129**	**3%**

** figures in FTEs*

Staff costs in 2011 amounted to PLN 443,138 thousand and were higher, as compared to 2010, by PLN 26,450 thousand (6.3%), what was mainly an effect of higher costs of basic remunerations. In the fourth quarter of 2011, staff costs amounted to PLN 107,394 thousand and were lower, as compared to the fourth quarter of 2010, by PLN 1,163 thousand (1.1%), mainly due to lower costs of incentive programmes, set-off, to a large extent, with the increase in the costs of basic remunerations.

The Group's general expenses, excluding staff costs, in 2011 amounted to PLN 466,602 thousand and, as compared to 2010, they were higher by PLN 56,141 thousand (13.7%).

The change resulted mainly from the increase in:

- costs of taxes and fees (by PLN 25,378 thousand), mainly due to a higher fee for the Bank Guarantee Fund (by PLN 15,305 thousand) and an increase in VAT costs (by PLN 10,913 thousand);
- promotion and advertising services (by PLN 22,022 thousand), mainly due to a wide-scale marketing campaign;
- IT and telecommunications costs (by PLN 5,992 thousand), due to, inter alia, the projects being implemented in the Bank;

set off with the decrease in:

- costs of postal fees (by PLN 4,428 thousand);

The Group's general expenses, excluding staff costs, in the fourth quarter of 2011 amounted to PLN 120,780 thousand and, as compared to the fourth quarter of 2010, they were higher by PLN 12,420 thousand (11.5%).

The change resulted mainly from the increase in:

- promotion and advertising services (by PLN 6,864 thousand), mainly due to a wide-scale marketing campaign;
- costs of taxes and fees (by PLN 6,117 thousand), mainly due to a higher fee for the Bank Guarantee Fund (by PLN 3,826 thousand) and an increase in VAT costs (by PLN 2,974 thousand);

Cost/income ratio (CIR)

In 2011, the cost/income ratio (CIR) was equal to 61.5% and increased from 56.9% recorded in the previous year. The cost/income ratio (CIR) in the fourth quarter of 2011 was equal to 59.5%, and increased from 58.6% recorded in the corresponding period of the previous year. The higher ratios result largely from the increase in the general and administrative expenses described above.

Net impairment losses on financial assets, other assets and provisions

in PLN '000'	**4th quarter of 2011**	**4th quarter of 2010**	**Four quarters of 2011**	**Four quarters of 2010**
Retail Segment*	-47 821	-73 833	-144 713	-386 827
Corporate Segment*	-24 974	-30 316	-15 378	-62 362
Other provisions*	-41 696	-7 275	-38 693	-22 782
Result on provisions	**-114 491**	**-111 424**	**-198 784**	**-471 971**

** Due to the differences in the segmentation and the recognition of net impairment losses on financial assets, other assets and provisions between the financial reporting and the management information, the above note does not reconcile directly with the note concerning operating segments. The explanation concerning the differences has been presented in Note I.7.8 of this report.*

In 2011, the Group recorded a negative balance of net impairment losses on financial assets, other assets and provisions of PLN 198,784 thousand, as compared to the negative balance in 2010 amounting to PLN 471,971 thousand.

The result of the Retail Segment for 2011 comprises the reversal of impairment losses amounting to PLN 84,964 thousand related to the sale of debts.

The lower level of impairment losses for assets in the Enterprises Segment in 2011 is mainly an effect of the improved financial condition of corporate customers and of effective debt rescheduling and debt recovery measures taken by the Bank.

The balance of other provisions in 2011 comprises mainly the provision of PLN 35,000 thousand for the potential liability related to the resale of Żagiel S.A. by KBC Group. The balance of other provisions in 2010 comprises the amount of the provisions created for, among others, potential litigations in the Group's companies.

In the fourth quarter of 2011, the Group recorded a negative balance of net impairment losses on financial assets, other assets and provisions of PLN 114,491 thousand, as compared to the negative balance in the fourth quarter of 2010 amounting to PLN 111,424 thousand.

The balance of other provisions in the fourth quarter of 2011 comprises the above-mentioned amount of the provision of PLN 35,000 thousand and the recognition of provisions for intangible assets of PLN 6,580 thousand.

Corporate income tax

The deduction from the Group's result due to the income tax in 2011 amounted to PLN 103,897 thousand, as compared to the deduction from the Group's result in 2010 of PLN 48,771 thousand, and in the fourth quarter of 2011, it amounted to PLN 10,473 thousand as compared to the deduction in the fourth quarter of 2010 of PLN 2,938 thousand. The effective tax rate in 2011 was at the level of 24.1% and was distorted mainly due to the writing-off of a deferred tax asset related to the impairment of receivables which will not become deductible expenditure, and non-tax financial expenses arising due to 'thin capitalization'. The effective tax rate in the fourth quarter of 2011 was at the level of 19.0%.

7.2. Assets and liabilities

Gross loans and advances to customers

The value of gross loans and advances to customers as of 31.12.2011 increased by PLN 1,385 million (4.8%) as compared to the balance as at 31.12.2010.

Details concerning the portfolio of loans and advances have been presented in sections I.7.2.1., I.7.2.2. and I.7.6. below.

Investment securities portfolio

The decrease in the carrying amount of investment debt securities as at 31.12.2011, as compared to 31.12.2010, results mainly from the decrease in the volume of the portfolio of Treasury bonds and bills of the National Bank of Poland, which is related, among other things, to the decrease in the financing from KBC Group.

Amounts due to banks and subordinated liabilities

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Loans and advances from KBC Group	3 234 826	5 238 618	5 650 993	5 352 999
- including loans and advances in foreign currencies	*2 954 826*	*4 933 618*	*5 340 993*	*5 037 818*
Term deposits	5 160 973	3 848 242	2 922 345	2 965 537
- including term deposits from KBC Group	*5 117 701*	*3 515 147*	*2 909 169*	*2 713 344*
Current accounts	83 795	2 646 726	3 573 391	3 422 733
- including term deposits from KBC Group	69 746	*2 452 859*	*2 809 093*	*3 258 030*
Other liabilities	6 897	6 376	3 977	6 313
Total amounts due to banks	**8 486 491**	**11 739 962**	**12 150 706**	**11 747 582**
Subordinated liabilities (from KBC Group)	1 036 510	1 031 965	911 100	866 476
Total	**9 523 001**	**12 771 927**	**13 061 806**	**12 614 058**

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

Customers' deposits portfolio

Customers' deposits portfolio as of 31.12.2011 increased by PLN 2,382 million (9.3%) as compared to the balance as at 31.12.2010.

Details concerning the deposits portfolio have been presented in sections I.7.2.1. and I.7.2.2. below.

7.2.1. Corporate and SME banking

This section presents aggregate figures for corporate customers and SMEs, excluding non-commercial institutions providing services to households (data for non-commercial institutions providing services to households have been presented in section I.7.2.2. in 'Retail banking').

The table below presents the structure of gross loans granted to corporate customers and SMEs at the ends of particular quarters.

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Corporate and SME customers				
- overdraft facilities	2 019 966	2 155 312	1 624 480	1 650 440
- term loans*	4 207 920	4 146 789	4 407 040	4 537 684
- purchased debt	217 702	219 530	121 070	177 785
- realised guarantees	36 120	1 120	1 325	1 777
- other receivables (including leasing fees)	651 848	604 906	548 589	519 919
- debt securities classified as loans and receivables	52 112	52 236	47 296	47 803
Total	**7 185 668**	**7 179 893**	**6 749 800**	**6 935 408**

** mainly investment loans and working capital loans*

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Budgetary Sector				
- overdraft facilities	4 787	9 480	2 735	25 696
- term loans*	106 956	115 587	164 658	154 737
- purchased debt	19 963	4 946	0	0
- debt securities classified as loans and receivables	68 453	24 765	20 236	20 232
Total	**200 159**	**154 778**	**187 629**	**200 665**

** mainly investment loans and working capital loans*

The balance of loans of corporate and SME customers as at 31.12.2011, as compared to 30.09.2011, increased by PLN 6 million (0.1%), and as compared to 31.12.2010, increased by PLN 436 million (6.5%), primarily as a result of an increase in the exposure due to granted overdraft facilities.

The table below presents the structure of deposits of corporate customers and SMEs at the ends of particular quarters.

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Corporate and SME customers				
- current accounts	3 952 357	3 369 653	3 819 591	3 879 076
- term deposits	3 874 166	3 628 975	3 648 005	4 177 018
- including 'Warta Gwarancja' product	*424 011*	*677 359*	*706 509*	*696 858*
- loans and advances	879 406	882 091	197 122	197 101
- other	2 018	5 793	4 103	6 536
Total	**8 707 947**	**7 886 512**	**7 668 821**	**8 259 731**

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Budgetary Sector				
- current accounts	1 055 948	1 290 148	1 359 213	1 364 531
- term deposits	401 051	542 605	628 586	597 833
- other	1 771	2	0	0
Total	**1 458 770**	**1 832 755**	**1 987 799**	**1 962 364**

The value of the portfolio of amounts due to corporate and SME customers as at 31.12.2011 increased by PLN 821 million (10.4%) as compared to 30.09.2011, mainly due to more intensive customer acquisition measures, and by PLN 1,039 million (13.6%) as compared to 31.12.2010, due to the receipt of a loan from the European Investment Bank, which, according to the segmentation of the National Bank of Poland, is presented in the corporate customers segment.

7.2.2. Retail banking

This section contains aggregate figures for private persons, individual entrepreneurs, individual farmers and non-commercial institutions providing services to households.

The table below presents the structure of gross loans granted to retail customers at the ends of particular quarters.

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
- overdraft facilities	1 004 576	1 038 509	860 214	881 366
- purchased debt	14 421	16 005	12 841	16 882
- term loans*	810 165	839 567	794 181	791 559
- installment loans, cash loans, and cards	2 833 496	2 799 437	3 831 329	3 825 122
- mortgage housing loans	17 984 863	17 685 358	16 183 199	15 470 851
- other mortgage loans**	421 838	431 063	455 886	444 662
- realised guarantees	1 472	1 375	1 340	1 519
- other receivables	37 257	43 474	32 101	38 693
Total**	**23 108 088**	**22 854 788**	**22 171 091**	**21 470 654**

** mainly investment loans and working capital loans for individual entrepreneurs*
*** the item comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

The balance of retail customers' loans as of 31.12.2011, as compared to the balance as at 30.09.2011, increased by PLN 253 million (1.1%), and as compared to the balance as at 31.12.2010, it increased by PLN 937 million (4.2%). The changes result mainly from the increase in the balance of mortgage housing loans which, as at 31.12.2011, increased by PLN 1,802 million as compared to the end of 2010, and by PLN 299 million as compared to the end of the third quarter of 2011, resulting mostly from the higher

CHF/PLN exchange rate. An increase in the balance of mortgage housing loans was set-off with the decrease in the balance of installment loans, cash loans and cards, which, as at 31.12.2011, decreased by PLN 998 million (26.0%) as compared to 31.12.2010, mainly as a result of the sale of debts carried out in 2011.

The table below presents the structure of deposits of retail customers at the ends of particular quarters.

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
- current accounts (including savings account)	11 677 122	12 081 431	12 536 406	11 759 570
- term deposits	6 026 092	4 411 452	3 346 027	3 701 837
- other	173 226	35 296	121 705	74 504
Total	**17 876 440**	**16 528 179**	**16 004 138**	**15 535 911**

The value of the portfolio of retail customers' deposits as at 31.12.2011, as compared to 30.09.2011, increased by PLN 1,348 million (8.2%) and, as compared to 31.12.2010, increased by PLN 1,872 million (11.7%), what was an effect of the Bank's offer of new products and competitive interest rates on term deposits.

The funds collected by the Bank from TunŻ Warta S.A. from the sales of 'Warta Gwarancja' product offered by the insurer to retail customers is recognized in these financial statements in the corporate and SMEs segment.

Installment and cash loans, and credit cards

Cash loans are offered in the network of the Bank's outlets as well as via Żagiel. At present, credit cards are offered only via the network of the Bank's outlets, and installment loans for the purchase of goods and services only via Żagiel.

The gross value of the portfolio of loans granted via Żagiel as at 31.12.2011 increased by PLN 43.7 million (2.8%) as compared to 30.09.2011, and, as compared to 31.12.2010, decreased by PLN 826 million (33.7%), what is related mainly to the sale of the retail debts portfolio.

The decline in the total sales of cash loans in 2011 as compared to 2010 results, among other things, from the adaptation of the Bank's policy to the requirements of T Recommendation and from the introduction of more stringent principles of assessing the creditworthiness of customers.

in PLN '000'	**4th quarter of 2011**	**3rd quarter of 2011**	**4th quarter of 2010**	**3rd quarter of 2010**
Installment and cash loans, and cards				
Gross value of the portfolio at the end of the quarter, including:	2 833 496	2 799 437	3 831 329	3 825 122
Cash loans granted via KB network				
Gross value of the portfolio at the end of the quarter	980 435	990 744	1 152 136	1 148 318
Number of loans granted in the quarter (in '000')	16	12	14	17
Value of loans granted in the quarter	175 692	139 835	176 758	208 836
Loans granted via Żagiel				
Gross value of the portfolio at the end of the quarter*	1 625 642	1 581 918	2 451 907	2 456 943
Number of loans granted in the quarter (in '000'):**	180	184	179	185
- installment loans	173	178	174	181
- cash loans	7	6	5	4
Value of loans granted in the quarter:**	415 997	415 392	389 970	397 998
- installment loans	381 132	381 087	365 437	380 206
- cash loans	34 865	34 305	24 533	17 792

** including the consolidation adjustment due to EIR*

*** related to cash loans and installment loans*

in thousands	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Credit cards (aggregate for KB and Żagiel S.A.)	189	192	205	210

Mortgage housing loans

in PLN '000'	**4th quarter of 2011**	**3rd quarter of 2011**	**4th quarter of 2010**	**3rd quarter of 2010**
Mortgage housing loans				
Gross value of the portfolio at the end of the quarter	17 984 863	17 685 358	16 183 199	15 470 851
Number of loans granted in the quarter (in '000')	2.2	1.4	2.0	3.4
Value of loans granted in the quarter*	576 125	335 711	400 144	716 978

* the value of agreements signed in the period

In 2011, the Bank recorded a systematic increase in the growth rate of the sales of mortgage housing loans. In the fourth quarter of 2011, the sales volume was the highest in 2011, reaching the value higher, by PLN 240 million (71.6%), than in the third quarter of 2011 and exceeding the sales from the fourth quarter of 2010 by PLN 176 million (44.0%). The result in the fourth quarter of 2011 was affected mainly by an attractive products offer and the autumn advertising campaign concerning mortgage loans.

The Bank's offer became very popular with customers at the end of the year also due to the market situation, i.e. the perspective of restricting the access to mortgages in 2012 (mainly due to the implementation of amended S2 Recommendation and the crisis in the Eurozone).

Having regard for the above-mentioned factors and the Bank's decision about withdrawing, from 02.01.2012, loans in EUR from the offer (whose share in 2011 amounted to 53% of the volume of mortgage loans granted by KB), in the months to come, the Bank expects a decline in the volume of the sales of mortgages.

Current accounts for individual clients

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Current accounts				
Carrying amount at quarter end	11 677 122	12 081 431	12 536 406	11 759 570
Including ROR accounts *				
Number (in '000')	689	675	634	637
Carrying amount	1 403 577	1 233 854	1 156 413	1 151 717
Including Savings Account *				
Number (in '000')	775	735	617	593
Carrying amount	8 721 838	9 360 738	9 850 124	9 151 465

** ROR and Savings Account – figures for private persons*

As at 31.12.2011, the number of current-savings accounts (ROR) amounted to 689 thousand and increased, as compared to 30.09.2011, by 14 thousand (2.1%) and by 55 thousand (8.7%) as compared to 31.12.2010. Also, the carrying amount of the cash deposited in ROR accounts of individual customers as at 31.12.2011 increased by PLN 170 million (13.8%) as compared to 30.09.2011 and by PLN 247 million (21.4%) as compared to 31.12.2010.

As at 31.12.2011, the number of savings accounts amounted to 775 thousand and increased by 40 thousand (5.4%) as compared to 30.09.2011, and by 158 thousand (25.6%) as compared to 31.12.2010. The value of deposited cash as at 31.12.2011 decreased by PLN 639 million (6.8%) as compared to 30.09.2011, and, as compared to 31.12.2010, decreased by PLN 1,128 million (11.5%). The decreases were set-off with an increase in term deposits.

The increase in the number of ROR accounts and savings accounts in 2011 is related to the implementation of a nationwide promotional campaign and more intensive customer acquisition activities.

Number of outlets

The Bank is adapting the sales network to market conditions on an ongoing basis.

in units	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Bank's outlets	373	374	381	383

7.3. Consolidated Off-balance Sheet Items

The table below presents the value of contingent liabilities.

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Liabilities granted and received				
Liabilities granted, including:	**6 548 048**	**6 049 948**	**6 038 697**	**5 627 895**
- financial	4 346 382	3 814 712	3 958 357	4 026 659
- guarantees	2 201 666	2 235 236	2 080 340	1 601 236
Liabilities received, including:	**882 927**	**1 463 922**	**2 085 702**	**1 506 673**
- financial	41 421	628 633	1 007 341	407 483
- guarantees	841 506	835 289	1 078 361	1 099 190
Liabilities related to the sale/purchase transactions	**199 278 505**	**220 091 623**	**134 779 591**	**168 126 775**
Collateral received	**9 119 201**	**8 948 517**	**7 950 015**	**7 918 315**

7.4. Investment funds and unit funds in unit-linked insurance plans

Total net assets of KBC TFI funds (excluding non-registered funds) sold as at 31.12.2011 via the Bank's distribution network amounted to PLN 4,397 million. As compared to figures at 31.12.2010, they decreased by 2.1%.

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Net assets of KBC TFI funds (excluding non-registered funds) sold via the Bank's distribution network	4 396 763	4 546 519	4 491 634	3 827 357

7.5. Issue, redemption and repayment of debt and equity securities

In the fourth quarter of 2011 and in the fourth quarter of 2010, the Group's companies did not issue, redeem or repay any equity securities issued by the Group's companies.

7.6. The quality of loans and advances portfolio

The quality ratios for loans and advances, presented in the table below, changed significantly as compared to the end of 2010 due to the sale of debts in the second quarter of 2011 described in detail in the Interim Consolidated Financial Statements of Kredyt Bank S.A. Group for the first half of 2011.

The quality ratio for the portfolio of the Group's gross loans and advances understood as 'The share of loans and advances with evidence for impairment in total gross loans and advances' as at 31.12.2011 amounted to 8.2% and, as compared to the balance as at 30.09.2011, it increased by 0.7 p.p., and as compared to the balance as at 31.12.2010 it deteriorated by 1.5 p.p.

As at 31.12.2011, the coverage of loans and advances with evidence for impairment with corresponding impairment losses was at the level of 51.7% and decreased by 1.7 p.p. as compared to 30.09.2011 as well as by 11.9 p.p. as compared to 31.12.2010.

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Loans and advances with no evidence for impairment	27 981 461	27 935 099	26 286 536	25 849 749
Loans and advances with evidence for impairment	2 512 454	2 254 360	2 821 984	2 756 978
including: loans and advances for which no impairment losses were established	37 103	3 339	17 263	9 612
Total gross loan and advances to customers	**30 493 915**	**30 189 459**	**29 108 520**	**28 606 727**
Impairment losses on loans and advances to customers	1 408 161	1 325 461	1 914 000	1 851 543
including: impairment on loans and advances with evidence for impairment	1 299 559	1 202 973	1 793 562	1 725 279
Total net loans and advances to customers	**29 085 754**	**28 863 998**	**27 194 520**	**26 755 184**
The share of loans and advances with evidence for impairment in total gross loans and advances	8.2%	7.5%	9.7%	9.6%
Coverage of loans and advances with evidence for impairment with corresponding impairment	51.7%	53.4%	63.6%	62.6%
Coverage of gross loans and advances to customers with corresponding impairment	4.6%	4.4%	6.6%	6.5%

7.7. Capital adequacy ratio

The Group's capital adequacy ratio was calculated in compliance with the regulations of the Polish Financial Supervision Authority in force and, as of 31.12.2011, amounted to 12.51% as compared to 12.14% recorded as of 30.09.2011, and did not change as compared to 31.12.2010. The Group applies the standardized approach to credit risk calculation.

The ratio calculated only with the use of own basic capitals (Tier 1) amounted as at 31.12.2011 to 8.66%, as at 30.09.2011 to 8.52%, and as at 31.12.2010 to 8.95%.

7.8. Income and results by operating segments

The criteria for separating a segment include the way a business is run as well as 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 external reporting segmentation applied in the remaining parts of the financial statements.

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

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

Retail Segment

The Retail Segment, in management terms, incorporates products targeted at individual customers, private banking, as well as Small and Medium-sized Enterprises (SME), whose annual sales revenue does not exceed PLN 1 million.

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

Corporate Segment

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

Beside the traditional products, such as loans, deposits, settlement services, derivatives, the customers from this segment are offered specific services. They are tailored to customers' individual needs, e.g. organizing syndicates supporting investment projects, financing real estate transactions, financing foreign trade and bulk payments. The Bank's offer in this segment is expanded by the products of Kredyt Lease, which offers a complete range of services for companies in respect of leasing of property, plant and equipment.

Treasury Segment

The Treasury Segment, in management terms, comprises the result of the transactions performed by the Bank on its own account as an active participant of: the money market (Treasury and NBP bills), bonds market (Treasury and commercial bonds), currency market and interbank market. The result of the segment also includes net income on derivative instruments transactions: forward, FX swap, IRS, CIRS, FRA, interest rate and currency options, except for write-downs for credit risk. Besides the trading activities carried by the Bank on its own account, the segment includes the activities aiming to hedge the Banking Book position.

Other

Income and expenses not assigned to above segments have been presented as 'Other' segment. This category also includes the results of the operations of Reliz and Kredyt Trade.

Respective consolidation exclusions were made for the presentation of the results of particular segments.

Additional clarifications

The results presented in all segments include the costs of the financing of lending activities and interest income from the sales of deposit funds in internal transactions and result from the application of an internal price (transfer rate) established 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 consolidated balance sheet and the items of the consolidated income statement must encompass the adjustments presented later on 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 an interest margin. The Bank's Management Board, when making operating decisions, bases them mainly on the interest margin. In addition, particular segments entail the costs of financing the cash maintained in the Bank's branches.

Net commission income and other net income entails:

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

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

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

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

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

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

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

Loans and advances to customers – net loans and advances to customers, excluding interest receivables, as well as debt securities classified in the portfolio of loans and receivables.

Loans and advances to banks – net loans and advances to banks, excluding interest receivables, as well as debt securities classified in the portfolio of loans and receivables. The category is presented in the treasury segment.

Securities – this category is presented in the treasury segment, entails debt securities, securities with the right to equity and shares in investment funds, excluding debt securities classified in the portfolio of loans and receivables.

Other – this category entails all other assets not presented above.

Group's net profit for the fourth quarter of 2011 by business segments (breakdown according to management reporting)

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Net interest income, including:	**164 013**	**90 496**	**28 331**	**-6 240**	**276 600**
- lending activities	124 253	60 642	0	-6 267	178 628
- depositing activities	42 961	32 694	0	28	75 683
- the cost of financing cash kept in the Bank's branches	-3 201	-2 840	6 042	-1	0
Net commission income and other net income	**39 990**	**30 006**	**-1 071**	**15 294**	**84 219**
- commissions related to the keeping of accounts and transactions	19 375	13 642	0	150	33 167
- commissions related to cards	13 478	1 249	0	2 624	17 351
- commissions related to shares in investment funds	9 822	750	0	0	10 572
- commissions related to insurance products	-4 633	-65	0	368	-4 330
- commissions related to foreign transactions	7	3 671	0	92	3 770
- other	1 941	10 759	-1 071	12 060	23 689
Net income from treasury transactions	**17 845**	**16 402**	**22 081**	**-242**	**56 086**
- exchange transactions	17 809	14 661	15 893	-649	47 714
- derivatives and securities	36	1 741	6 188	407	8 372
Net gains from investment activities	**0**	**0**	**776**	**56**	**832**
Gross operating income	**221 848**	**136 904**	**50 117**	**8 868**	**417 737**
Net impairment losses on financial assets, other assets and provisions	-47 853	-26 986	0	-41 548*	**-116 387**
Group's general and administrative expenses, including:	**-175 276**	**-53 938**	**-13 833**	**-4 373**	**-247 420**
- the costs of the operation of business functions (direct costs)	-110 852	-37 136	-8 653	-71 833	-228 474
- allocated expenses	-49 477	-14 150	-3 947	67 574	0
- depreciation (direct costs)	-9 110	-985	-769	-8 082	-18 946
- depreciation (allocated costs)	-5 837	-1 667	-464	7 968	0
Net operating income	**-1 281**	**55 980**	**36 284**	**-37 053***	**53 930**
Share in profit (loss) of associates					1 087
Income tax expense					-10 473
Net profit (loss)					**44 544**

** comprises PLN 35,000 thousand of the provision for a potential liability related to the resale of Żagiel S.A. by KBC Group described in Note I.19 to these financial statements — it was a single event.*

Group's net profit for 2011 by business segments (breakdown according to management reporting)

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Net interest income, including:	**666 853**	**315 598**	**232 930**	**-20 491**	**1 194 890**
- lending activities	512 277	205 547	0	-20 574	697 250
- 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	**173 572**	**87 561**	**-1 071**	**61 748**	**321 810**
- commissions related to 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	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	-929	7 000	-1 071	56 203	61 203
Net income from treasury transactions	**53 327**	**55 515**	**-15 394**	**-1 432**	**92 016**
- exchange transactions	53 247	49 669	13 136	-1 622	114 430
- derivatives and securities	80	5 846	-28 530	190	-22 414
Net gains from investment activities	**0**	**50**	**1 162**	**1 649**	**2 861**
Gross operating income	**893 752**	**458 724**	**217 627**	**41 474**	**1 611 577**
Net impairment losses on financial assets, other assets and provisions	**-147 583**	**-18 335**	**0**	**-34 465***	**-200 383**
Group's general and administrative expenses, including:	**-708 857**	**-204 659**	**-49 445**	**-21 065**	**-984 026**
- the costs of the operation of business functions (direct costs)	-422 218	-134 941	-29 568	-307 539	-894 266
- allocated expenses	-219 195	-58 685	-15 274	293 154	0
- depreciation (direct costs)	-42 105	-4 249	-2 837	-40 569	-89 760
- depreciation (allocated costs)	-25 339	-6 784	-1 766	33 889	0
Net operating income	**37 312**	**235 730**	**168 182**	**-14 056***	**427 168**
Share in profit (loss) of associates					3 973
Income tax expense					-103 897
Net profit (loss)					**327 244**

** comprises PLN 35,000 thousand of the provision for a potential liability related to the resale of Żagiel S.A. by KBC Group described in Note I.19 to these financial statements — it was a single event.*

Group's net profit for the fourth quarter of 2010 by business segments (breakdown according to management reporting)

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Net interest income, including:	**163 600**	**76 545**	**67 423**	**-3 718**	**303 850**
- lending activities	132 355	51 404	0	-3 736	180 023
- depositing activities	33 682	27 057	0	18	60 757
- the cost of financing cash kept in the Bank's branches	-2 437	-1 916	4 353	0	0
Net commission income and other net income	**46 035**	**31 893**	**0**	**13 060**	**90 988**
- commissions related to keeping accounts and transactions	20 679	15 257	0	160	36 096
- commissions related to cards	20 165	1 212	0	462	21 839
- commissions related to shares in investment funds	11 962	698	0	0	12 660
- commissions related to insurance products	1 709	55	0	0	1 764
- commissions related to foreign transactions	10	4 163	0	115	4 288
- other	-8 490	10 508	0	12 323	14 341
Net income from treasury transactions	**11 629**	**12 807**	**-5 797**	**-894**	**17 745**
- exchange transactions	11 622	12 430	544	-788	23 808
- derivatives and securities	7	377	-6 341	-106	-6 063
Net gains from investment activities	**0**	**0**	**79**	**0**	**79**
Gross operating income	**221 264**	**121 245**	**61 705**	**8 448**	**412 662**
Net impairment losses on financial assets, other assets and provisions	**-73 593**	**-31 352**	**0**	**-7 348**	**-112 293**
Group's general and administrative expenses, including:	**-178 226**	**-47 638**	**-9 350**	**-6 201**	**-241 415**
- the costs of the operation of business functions (direct costs)	-102 360	-31 337	-5 307	-77 913	-216 917
- allocated expenses	-57 156	-13 706	-3 005	73 867	0
- depreciation (direct costs)	-11 644	-899	-670	-11 285	-24 498
- depreciation (allocated costs)	-7 066	-1 696	-368	9 130	0
Net operating income	**-30 555**	**42 255**	**52 355**	**-5 101**	**58 954**
Share in profit (loss) of associates					1 081
Income tax expense					-2 938
Net profit (loss)					**57 097**

Group's net profit for 2010 by business segments (breakdown according to management reporting)

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Net interest income, including:	**695 032**	**282 202**	**202 397**	**-8 976**	**1 170 655**
- lending activities	574 145	187 582	0	-9 049	752 678
- depositing activities	130 571	102 331	0	73	232 975
- the cost of financing cash kept in the Bank's branches	-9 684	-7 711	17 395	0	0
Net commission income and other net income	**188 545**	**111 716**	**0**	**47 689**	**347 950**
- commissions related to keeping accounts and transactions	84 438	52 900	0	900	138 238
- commissions related to cards	82 319	4 645	0	-3 217	83 747
- commissions related to shares in investment funds	44 685	2 787	0	0	47 472
- commissions related to insurance products	-4 441	-172	0	0	-4 613
- commissions related to foreign transactions	91	15 624	0	454	16 169
- other	-18 547	35 932	0	49 552	66 937
Net income from treasury transactions	**47 017**	**47 678**	**7 432**	**-792**	**101 335**
- exchange transactions	46 934	45 720	18 642	74	111 370
- derivatives and securities	83	1 958	-11 210	-866	-10 035
Net gains from investment activities	**0**	**100**	**6 486**	**1 741**	**8 327**
Gross operating income	**930 594**	**441 696**	**216 315**	**39 662**	**1 628 267**
Net impairment losses on financial assets, other assets and provisions	**-386 205**	**-58 838**	**0**	**-23 638**	**-468 681**
Group's general and administrative expenses, including:	**-687 242**	**-175 938**	**-40 764**	**-24 159**	**-928 103**
- the costs of the operation of business functions (direct costs)	-397 398	-115 720	-24 178	-289 853	-827 149
- allocated expenses	-212 433	-50 122	-12 588	275 143	0
- depreciation (direct costs)	-49 726	-3 564	-2 358	-45 306	-100 954
- depreciation (allocated costs)	-27 685	-6 532	-1 640	35 857	0
Net operating income	**-142 853**	**206 920**	**175 551**	**-8 135**	**231 483**
Share in profit (loss) of associates					3 224
Income tax expense					-48 771
Net profit (loss)					**185 936**

The allocation of assets by business 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	20 934 417	8 032 717	0	0	28 967 134
Securities	0	0	8 839 889	0	8 839 889
Other	0	0	1 071 089	1 937 753	3 008 842
Total	**20 934 417**	**8 032 717**	**11 098 197**	**1 937 753**	**42 003 084**

The allocation of assets by business segments as at 31.12.2010

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Loans and advances to banks	0	0	1 463 279	0	1 463 279
Loans and advances to customers	19 536 318	7 559 754	0	0	27 096 072
Securities	0	0	11 187 085	0	11 187 085
Other	0	0	463 159	3 164 651	3 627 810
Total	**19 536 318**	**7 559 754**	**13 113 523**	**3 164 651**	**43 374 246**

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

in PLN '000'	**01.10.2011-31.12.2011**
Net interest income – management information	**276 600**
- commissions on loans	13 800
+ operating expenses (interest on finance lease)	-116
+ operating income (the collection of statutory interest)	5 112
+ commissions related to foreign transactions	52
+ other	3
Net interest income – financial statements	**267 851**
Net commission income and other net income –management information	**84 219**
+ commissions on loans	13 800
- operating expenses (interest on finance lease)	-116
- operating income (the collection of statutory interest)	5 112
- commissions related to foreign transactions	52
- the valuation of shares and of an embedded instrument related to the operations of the enterprises function	571
- other	3
Net commission income and other income – financial statements – presented as:	**92 397**
Net fee and commission income	74 720
Other operating income	32 113
Other operating expenses	-14 436
Net income from treasury transactions – management information	**56 086**
+ net increase/decrease in provisions for potential losses related to active derivatives	-2 196
+ the valuation of shares and of an embedded instrument related to the operations of the enterprises function	571
Net trading income and net result on derivatives used as hedging instruments – financial statements – presented as:	**54 461**
Net trading income	55 005
Net result on derivatives used as hedging instruments and hedged items	-544
Net gains from investment activities – management information	**832**
Net gains from investment activities and dividend income – financial statements – presented as:	**832**
Net gains from investment activities	776
Dividend income	56
Gross operating income – management information	**417 737**
+ net increase/decrease in provisions for potential losses related to active derivatives	-2 196
Gross operating income– – financial statements – presented as:	**415 541**
Total operating income	429 977
Other operating expenses	-14 436
Net impairment losses on financial assets, other assets and provisions – management information	**-116 387**
- net increase/decrease in provisions for potential losses related to active derivatives	-2 196
+ write-downs related to provisions for restructuring/severance pays	-300
Net impairment losses on financial assets, other assets and provisions – financial statements	**-114 491**

Group's general and administrative expenses – management information	**-247 420**
- write-downs related to provisions for restructuring/severance pays	-300
General and administrative expenses – financial statements	**-247 120**

in PLN '000'	**01.01.2011-31.12.2011**
Net interest income – management information	**1 194 890**
- commissions on loans	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	**1 150 096**
Net commission income and other net income – management information	**321 810**
+ commissions on loans	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	17 061
- other	-2
Net commission income and other income – financial statements – presented as:	**394 073**
Net fee and commission income	314 920
Other operating income	133 188
Other operating expenses	-54 035
Net income from treasury transactions – management information	**92 016**
+ 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:	**78 422**
Net trading income	80 136
Net result on derivatives used as hedging instruments and hedged items	-1 714
Net gains from investment activities – management information	**2 861**
Net gains from investment activities and dividend income – financial statements – presented as:	**2 861**
Net gains from investment activities	1 162
Dividend income	1 699
Gross operating income – management information	**1 611 577**
+ net increase/decrease in provisions for potential losses related to active derivatives	-3 186
+ reversal of provisions related to incentive programmes	17 061
Gross operating income – financial statements – presented as:	**1 625 452**
Total operating income	1 679 487
Other operating expenses	-54 035

Net impairment losses on financial assets, other assets and provisions – management information	**-200 383**
- net increase/decrease in provisions for potential losses related to active derivatives	-3 186
+ write-downs related to provisions for restructuring/severance pays	-1 587
Net impairment losses on financial assets, other assets and provisions – financial statements	**-198 784**

Group's general and administrative expenses – management information	**-984 026**
- write-downs related to provisions for restructuring/severance pays	-1 587
- reversal of provisions related to incentive programmes	17 061
General and administrative expenses – financial statements	**-999 500**

in PLN '000'	**01.10.2010-31.12.2010**
Net interest income – management information	**303 850**
- commissions on loans	11 209
+ operating expenses (interest on finance lease)	-279
+ operating income (the collection of statutory interest)	5 326
+ commissions related to foreign transactions	87
- structured deposit – interest adjustment	808
+ other	-2
Net interest income – financial statements	**296 965**
Net commission income and other net income – management information	**90 988**
+ commissions on loans	11 209
- operating expenses (interest on finance lease)	-279
- operating income (the collection of statutory interest)	5 326
- commissions related to foreign transactions	87
- the valuation of shares and of an embedded instrument related to the operations of the enterprises function	1 300
- adjustment of the result related to the sale of debt	2 458
- other	-2
Net commission income and other income – financial statements – presented as:	**93 307**
Net fee and commission income	89 200
Other operating income	24 093
Other operating expenses	-19 986
Net income from treasury transactions – management information	**17 745**
+ net increase/decrease in provisions for potential losses related to active derivatives	1 589
+ the valuation of shares and of an embedded instrument related to the operations of the enterprises function	1 300
+ structured deposit – interest adjustment	808
Net trading income and net result on derivatives used as hedging instruments – financial statements – presented as:	**21 442**
Net trading income	21 020
Net result on derivatives used as hedging instruments and hedged items	422
Net gains from investment activities – management information	**79**
Net gains from investment activities and dividend income – financial statements – presented as:	**79**
Net gains from investment activities	79
Dividend income	0

Gross operating income – management information	**412 662**
+ net increase/decrease in provisions for potential losses related to active derivatives	1 589
- adjustment of the result related to the sale of debt	2 458
Gross operating income – financial statements – presented as:	**411 793**
Total operating income	431 779
Other operating expenses	-19 986

Net impairment losses on financial assets, other assets and provisions – management information	**-112 293**
- net increase/decrease in provisions for potential losses related to active derivatives	1 589
+ adjustment of the result related to the sale of debt	2 458
Net impairment losses on financial assets, other assets and provisions – financial statements	**-111 424**

in PLN '000'	**01.01.2010-31.12.2010**
Net interest income – management information	**1 170 655**
- commissions on loans	45 934
+ operating expenses (interest on finance lease)	-1 440
+ operating income (the collection of statutory interest)	12 492
+ commissions related to foreign transactions	377
- structured deposit – interest adjustment	8 384
Net interest income – financial statements	**1 127 766**
Net commission income and other net income – management information	**347 950**
+ commissions on loans	45 934
- operating expenses (interest on finance lease)	-1 440
- operating income (the collection of statutory interest)	12 492
- commissions related to foreign transactions	377
- the valuation of shares and of an embedded instrument related to the operations of the enterprises function	4 852
- net increase/decrease in provisions related to the sale of debt	4 581
Net commission income and other income – financial statements – presented as:	**373 022**
Net fee and commission income	329 873
Other operating income	100 930
Other operating expenses	-57 781
Net income from treasury transactions – management information	**101 335**
+ net increase/decrease in provisions for potential losses related to active derivatives	7 871
+ the valuation of shares and of an embedded instrument related to the operations of the enterprises function	4 852
+ structured deposit – interest adjustment	8 384
Net trading income and net result on derivatives used as hedging instruments – financial statements – presented as:	**122 442**
Net trading income	121 555
Net result on derivatives used as hedging instruments and hedged items	887
Net gains from investment activities – management information	**8 327**
Net gains from investment activities and dividend income – financial statements – presented as:	**8 327**
Net gains from investment activities	6 486
Dividend income	1 841

Gross operating income – management information	**1 628 267**
+ net increase/decrease in provisions for potential losses related to active derivatives	7 871
- net increase/decrease in provisions related to the sale of debt	4 581
Gross operating income – financial statements – presented as:	**1 631 557**
Total operating income	1 689 338
Other operating expenses	-57 781
Net impairment losses on financial assets, other assets and provisions – management information	**-468 681**
- net increase/decrease in provisions for potential losses related to active derivatives	7 871
+ net increase/decrease in provisions related to the sale of debt	4 581
Net impairment losses on financial assets, other assets and provisions – financial statements	**-471 971**

in PLN '000'	**Management information**	**Interest**	**Financial statements (net value)**
31.12.2011			
Loans and advances to banks	1 187 219	793	1 188 012
Loans and advances to customers	28 967 134	118 620	29 085 754
31.12.2010			
Loans and advances to banks	1 463 279	710	1 463 989
Loans and advances to customers	27 096 072	98 448	27 194 520

in PLN '000'	**31.12.2011**
Securities – management information	**8 839 889**
Securities – financial statements – presented as:	**8 839 889**
Financial assets designated upon initial recognition as at fair value through profit or loss	100 684
Financial assets held for trading (excluding derivatives)	60 493
Investment securities	8 678 712

	31.12.2010
Securities – management information	**11 187 085**
Securities – financial statements – presented as:	**11 187 085**
Financial assets designated upon initial recognition as at fair value through profit or loss	118 562
Financial assets held for trading (excluding derivatives)	1 601 283
Investment securities	9 467 240

8. Information on dividend

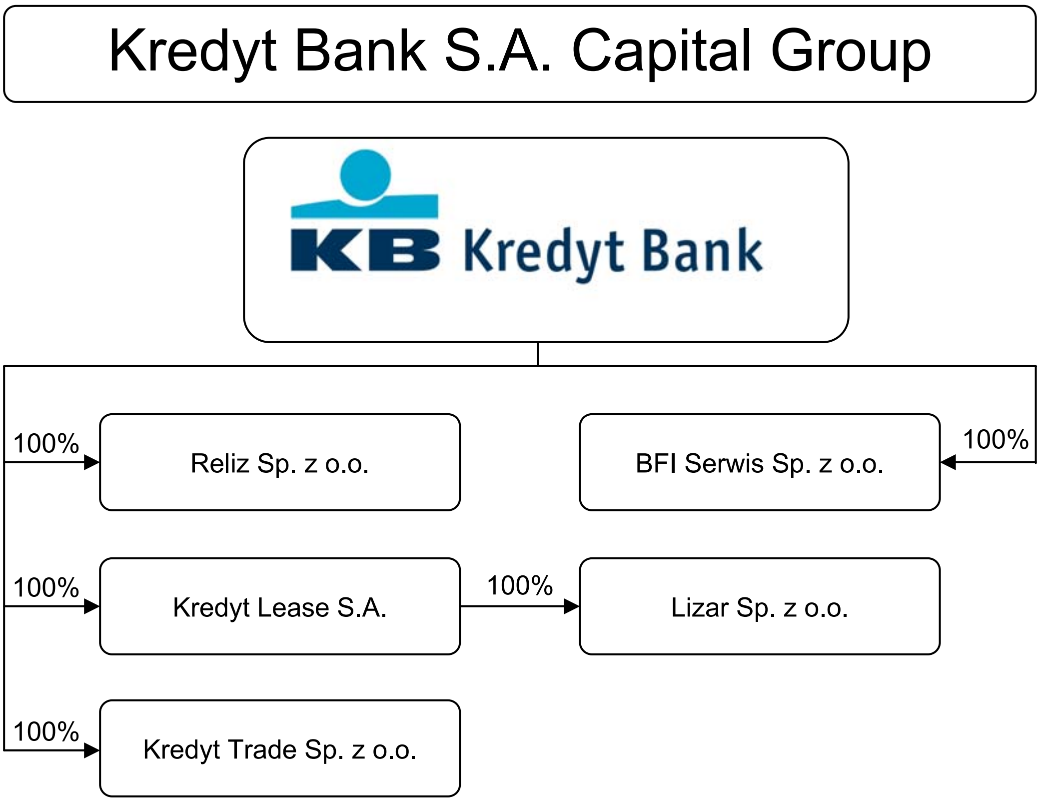
The recommendations concerning the potential payment and amount of dividend for 2011 or the decision not to pay dividend will be submitted to the Supervisory Board by the Bank’s Management Board prior to the convening of the General Meeting of Shareholders which will approve the Bank’s financial statements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

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

9. The Group’s structure

Kredyt Bank Capital Group encompasses legally separated business entities, whose activities are coordinated to a great extent. The capital relations linking the Group, defining the nature of the relationship, are strengthened by business relations, contracts, a joint product offer, controlling functions performed by the Bank over the companies’ operating and financial policies as well as a transfer of management staff and also know-how.

Below, we present the composition and ownership structure of the Group as of 31.12.2011.



As of 31.12.2011, the following companies were consolidated with the full method: Kredyt Lease S.A., Kredyt Trade Sp. z o.o. and Reliz Sp. z o.o.

As at 31.12.2011, as compared to 31.12.2010, the composition of the Capital Group did not change.

Due to the immateriality of their operations and financial figures, the Group does not consolidate financial statements of the following entities: Lizar Sp. z o.o. and BFI Serwis Sp. z o.o.

10. Description of major applied accounting policies and material accounting estimates

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

10.1. Significant accounting estimates

The preparation of financial statements in line with the IFRS requires a professional judgment of the Bank's Management Board and Management Boards of the Group's companies 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 consolidated financial statements refer to:

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

10.2. Classification and measurement of financial assets and liabilities

The complete description of accounting principles and accounting estimates applied in the Group is presented in the consolidated financial statements of the Group as at 31.12.2010. Below, we only present the details concerning the most important items in the Group's financial statements.

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 financial assets and liabilities portfolios managed jointly in order to generate profits in a short time horizon. This category includes also derivatives;
- financial assets or liabilities designated by the Group's subsidiaries upon initial recognition as measured at fair value through profit or loss, as the items are managed in a portfolio on the basis of the valuation at fair value, pursuant to the recorded risk management principles or the Group's investment strategy.

Fair value is determined on the basis of quotations on active markets, including prices of the latest transactions and generally adopted measurement models based on variables that can be observed in the market environment. The fair value of financial assets, for which no active market is identified and there is no possibility of determining the fair value using market prices, 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.

For a part of assets to which the above-mentioned methods do not apply, the valuation technique is not based on observable market data.

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

Outflows from assets disposal are calculated with the FIFO method.

Financial derivatives are recognized at fair value, without deductions of transaction expenses that can be incurred at the disposal. The transaction price is the best indicator of fair value at the initial recognition of a derivative. The valuation of derivatives also includes credit risk; the respective charges are recognized in the income statement.

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments or fixed maturity that the Group's entities intend and are able to hold to maturity or by the date very close to maturity, other than:

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 method, taking account of impairment losses. Accrued interest and the settled discount or premium is recognized in net interest income.

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

Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value on the balance sheet. Changes in fair value are recognized in revaluation reserve until the financial asset is derecognized or impairment is recognized; then accumulated gains/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 with the use of the effective interest rate method.

The fair value of financial assets, for which no active market is identified and there is no possibility of determining the fair value using market prices, 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.

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

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

Outflows from assets disposal are calculated with the FIFO method.

Financial liabilities not held for trading

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

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

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 Group designates certain derivatives to hedge fair value and future cash flow of specific assets, on condition that the criteria provided for in IAS 39 are met. Hedge accounting is applied in the Group to hedge certain items, when all the following criteria are met:

- upon the inception of hedge, the Group 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 Group's assessment of hedging instrument effectiveness in offsetting the risk of changes in fair value of the hedged item or cash flow related to the hedged risk;
- the hedging is expected to be highly effective in achieving offsetting changes in fair value (or cash flow) 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 Group as follows:

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

Future cash flow hedge, which meets hedge accounting conditions, is recognized by the Group as follows:

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

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

Effective interest rate method

The Group has been amortizing, into income statement, fee and commission income and expenses as well as certain external expenses connected with the measured financial assets and liabilities in accordance with the stipulations provided in IAS 39.

The following financial assets and liabilities are measured by the Group at amortized cost with the application of the effective interest rate:

- Loans and receivables – not held for trading;
- held-to-maturity investments;
- non-derivative financial liabilities not held for trading;
- financial assets (non-derivative) for which fair value cannot be determined reliably.

In addition, in the case of debt securities carried at fair value, the coupon rates and acquired discounts or premiums are amortized using the effective interest rate method in the income statement.

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

The method of settling interest coupons, commissions/fees and certain external costs connected with the financial instruments (with the effective interest rate method or straight-line method) depends on the nature of a given instrument. In the case of financial instruments with fixed cash flows schedules, the 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 collection of the above commissions and fees constitutes an integral part of the return generated by a specific financial instrument. This category also includes fees and costs of changes 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 the impairment was identified, interest income is calculated on the basis of net investment defined as the difference between the gross exposure value (having regard for unsettled commissions) and impairment charge.

10.3. Value of deferred tax assets

The Group's subsidiaries recognize a deferred tax liability for all temporary differences whereas the deferred tax asset is recognized to the amount which is justified by financial projections approved by the Management Boards of the Group's companies concerning the possibility of realizing this asset.

10.4. Investment properties

Under IAS 40 and pursuant to the policy of the Group’s main shareholder, the Group values investment properties at cost.

10.5. Non-current assets held for sale

The Group 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.

11. Events after the reporting period

On 17.01.2012, Kredyt Trade Sp. z o.o., the Bank’s subsidiary, signed an agreement on the sale of its 30% stake in KBC TFI S.A. to KBC Asset Management NV. The sale price for 30% of the shares of KBC TFI S.A. held by Kredyt Trade Sp. z o.o. amounts to PLN 37.5 million. The completion of this transaction is subject to no objection from the Polish Financial Supervision Authority.

The positive impact of this transaction, estimated as at 31.12.2011, upon the net financial result of Kredyt Bank S.A. Capital Group will amount to ca. PLN 12.8 million. The result on the sale of the shares of KBC TFI S.A. will be recognized in the Group’s consolidated financial statements as soon as the sale is completed.

Further information about the said transaction is available in the current report dated 17.01.2012.

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

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

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

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

From the balance sheet date to the publication date of these financial statements, there were no other significant events, which are not, but should be, disclosed in these financial statements.

12. Information on shareholders holding over 5% stake in the share capital and votes at General Meeting of Shareholders

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

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

** By the Resolution of the Commission for Banking Supervision No. 81/KNB/01 of 17 September 2001, KBC Bank NV is entitled to exercise no more than 75% of votes at the General Meeting of Shareholders of Kredyt Bank S.A.*
*** As per the notice of 15.04.2010 received from Pioneer Pekao Investment Management S.A. See also Note I.11 of these financial statements.*

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

Both as at 31.12.2011 and 31.12.2010, the Members of the Bank's Management Board and of the Bank's Supervisory Board did not hold any Bank's shares or shares in the Bank's subsidiaries and associates.

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

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

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

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

- The State Treasury requested for determination whether the syndicated loan agreement concluded between LFO and the syndicate of five banks had expired on 28.02.1998 as a result of the occurrence of a contractual condition, and, as a result, the commitment of the State Treasury as the guarantor of the loan under the guarantor's agreement had expired as well. The State Treasury is represented by the General Public Prosecutor's Office of the State Treasury. Experts' opinions and auxiliary opinions were prepared and additional witnesses were questioned. In the first quarter of 2007, the State Treasury changed the lawsuit and claimed PLN 8,207 thousand including interest. In the fourth quarter of 2008, the court requested the Bank to submit documents concerning the debt collection process carried out against the State Treasury on the basis of a banking executory title with the enforceability clause. The Bank delivered the required documents to the court. In September 2010, the court ordered the Bank to hand over the documents confirming the launch of the loan (the launches dates and amounts) to an accounting expert. In June 2011, the court obliged the parties to submit pleadings containing all the statements and evidence material for the proceedings. In the fourth quarter of 2011, no date of any hearing was determined, and the status of the case did not change.

- Claims of LFO for damages due to the termination of the loan agreement amounting to PLN 119,477 thousand. At present, after being heard by courts of all instances, the case was referred to the circuit court in Warsaw, which, as a result of LFO bankruptcy, stayed legal proceedings. Upon the request of LFO, the court called upon the trustee in bankruptcy of LFO to participate in the case. In the meantime, the parties submitted pleadings. In the third quarter of 2011, the trustee in bankruptcy of LFO filed, to the court conducting the bankruptcy proceedings, a request to terminate the bankruptcy (liquidation) proceedings. On 27.10.2011, the court decided to terminate the bankruptcy proceedings. By 31.12.2011, there had been no changes in the status of these proceedings.

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

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

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

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

  The decision was to be enforced immediately as regards the order to discontinue the practice of joint determination of the intercharge fee rate. On 17.01.2006 and 19.01.2007, appeals against Decision No. DAR 15/2006 of the President of the Office for Competition and Customer Protection were made on behalf of HSBC Bank Polska and Kredyt Bank. In this decision, the President of the Office for Competition and Customer Protection resolved that joint determination by the Banks, Visa and MasterCard of the interchange fee restricted competition. On 18.01.2007, the President of the Office for Competition and Customer Protection issued a decision in which they obliged the banks to jointly and severally pay PLN 157.6 thousand to the Polish Organization of Commerce and Distribution (POHiD) as reimbursement of the proceedings costs. Kredyt Bank S.A. complained against this decision on 31.01.2007 and deemed it unjustified. The case was referred to the Economic Court in Warsaw which split the case into separate proceedings against each of the banks involved in the case. On 25.08.2008, the court decided to withhold the execution of the decision issued in the case of interchange fees. On 12.11.2008, the circuit court in Warsaw, the Competition and Customer Protection Court, issued a judgment amending the contested decision, in which the court stated that the Banks had not applied monopolistic practices in this respect. On 3.02.2009, the Bank received the appeal against the judgment made by the President of the Office for Competition and Customer Protection. At the hearing held on 22.04.2010, the court issued a judgment by which it overruled the judgment of the circuit court, advantageous for the Bank, and referred the case to the circuit court to be re-examined. The hearing was held on 15.12.2011, but no solutions were reached. The date of the next hearing was scheduled on 09.02.2012. In the fourth quarter of 2011, there were no changes as regards the status of the said proceedings.

- In relation to a loan transaction to finance the construction of ‘Altus’ building in Katowice, the Bank and Reliz Sp. z o.o. (the building owner) are involved in certain disputes of legal nature. The Bank owns 100% shares of Reliz. The said disputes are related to claims of Mostostal Zabrze Holding S.A., the guarantor of the loan to finance the building, against the Bank and the building owner. The present dispute concerns fraudulent conveyance charge by Mostostal Zabrze Holding S.A. (MZH) against Reliz Sp. z o.o. regarding the failure to recognize the agreement on the transfer of ownership title to ‘Altus’ building by Business Center 2000 Sp. z o.o. (‘BC 2000’) to Reliz Sp. z o.o. as effective. The value of the subject of litigation amounts to PLN 46 million.

  On 31.07.2009, the circuit court announced the judgment in the fraudulent conveyance proceedings, which ascertained the ineffectiveness, towards MZH, of the sale agreement concerning ‘Altus’ building concluded between the building owner and Reliz Sp. z o.o. The Bank filed the request to prepare and deliver the judgment with the justification, submitting means of appeal. On 12.03.2010, the appeal court overruled the judgment of the circuit court of 31.07.2009, and referred the case to the circuit court to be re-examined. On 16.06.2010, as a result of the re-examination of the case, the circuit court in Katowice issued a judgment which ascertained the ineffectiveness, towards MZH, of the sale agreement concerning the real estate with 'Altus' building in relation to MZH's claims up to the amount of PLN 45,980,560 million. Following the delivery of the judgment with the justification to the Bank, an appeal to the judgment was made on 16.06.2010. The appeal hearing took place on 13.04.2011, during which the court closed the hearing and announced its judgment dismissing the full appeal of Reliz Sp. z o.o. The judgment of 13.04.2011 means upholding the judgment of the circuit court in Katowice of 16.06.2010, which recognized the agreement concerning the sale of 'Altus' building concluded between Business Center 2000 Sp. z o.o. and Reliz Sp. z o.o. as ineffective. On 01.07.2011, the agent for litigation from Reliz Sp. z o.o. filed the last resort appeal against the said decision. In the fourth quarter of 2011, there were no changes as regards the status of the said proceedings.

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

- The plaintiff claims damages from Kredyt Bank S.A. and HSBC Bank Polska S.A. of PLN 20 million and PLN 10 million as the satisfaction of the claim. In the justification of the lawsuit, the plaintiff claims that Prosper Bank S.A. (now HSBC Bank Polska S.A.), acting under the cooperation agreement concluded with a leasing company, wrote a bill of exchange which secured the agreement, and further lodged a lawsuit against this company and the plaintiff in the proceedings by writ of payment for this bill of exchange and obtained the order for payment. In the plaintiff's opinion, Prosper Bank violated the agreement, wrote the bill of exchange incorrectly and lodged a completely unjustified lawsuit. The plaintiff claims that the order for payment issued by the district court on 11.01.1999 resulted in the loss of his property and his detriment amounting to PLN 30 million. Kredyt Bank S.A. submitted a reply to the lawsuit on its own and HSBC's behalf. On 28.09.2010, the circuit court in Warsaw issued a judgment on the dismissal of the plaintiff's lawsuit against Kredyt Bank S.A. and HSBC Bank Polska S.A. The plaintiff made an appeal to this decision. On 06.07.2011, the court dismissed the plaintiff's appeal, issuing the decision upholding the judgment of the court of first instance. The case was validly terminated; however, the plaintiff is entitled to make the last resort appeal. By the publication date of these financial statements, the Bank has not received the plaintiff's last resort appeal.
- The plaintiff (a company engaged in leasing activities) claims damages from Kredyt Bank S.A. and HSBC Bank Polska S.A. of PLN 89 million. In the justification of the lawsuit, the plaintiff claims that Prosper Bank S.A. (now HSBC Bank Polska S.A.), acting under the cooperation agreement concluded with a leasing company, wrote a bill of exchange which secured the agreement, and further lodged a lawsuit against this company in the proceedings by writ of payment for this bill of exchange and obtained the order for payment. In the plaintiff's opinion, Prosper Bank violated the bill agreement, wrote the bill of exchange incorrectly and lodged a completely unjustified lawsuit. The plaintiff claims that the order for payment of 11.01.1999 issued by the District Court resulted in the collapse of the company's financial situation; as a result, the plaintiff recorded damage to his assets of PLN 73.7 million increased with interest. On 9.04.2010, the court dismissed the plaintiff's lawsuit. On 15.07.2010, the Bank received the plaintiff's appeal to which the Bank replied. Having examined the appeal, the court issued the judgment dismissing the plaintiff's claim, hence upholding the decision of the court of first instance. On 28.07.2011, the Bank received the plaintiff's last resort appeal to which the Bank's attorneys responded on 10.08.2011. In the fourth quarter of 2011, there were no changes as regards the status of the said proceedings.
- On 23.12.2010, a plaintiff (a production company) filed a lawsuit against Kredyt Bank S.A. questioning the validity of the settlements of option transactions made between July 2008 and August 2009. The plaintiff claims and accuses the Bank of, inter alia, unauthorized financial advisory and persuading him to make the transactions, the failure to exercise due diligence, the contradiction between the option transaction structure and the hedging function of such transactions. On

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

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

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.

15. Related party transactions

In the fourth quarter of 2011 and in the fourth quarter of 2010, there were no related party transactions concluded by the Bank or its subsidiaries, which were not concluded on market terms.

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

Balance sheet as at 31.12.2011

Assets	**Associates**	**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	0	0	0	0
Other assets	1 716	58	13 798	15 572
Total assets	**1 716**	**276 564**	**26 931**	**305 211**

*including WARTA Group

Liabilities	**Associates**	**Parent company KBC Bank NV**	**KBC Group (without KBC Bank NV)***	**Total as at 31.12.2011**
Amounts due to banks	0	8 211 846	210 427	8 422 273
Derivatives	0	133 392	8 697	142 089
Amounts due to customers	40 385	2 385	839 267	882 037
Subordinated liabilities	0	1 036 510	0	1 036 510
Other liabilities	0	3 338	12 503	15 841
Total liabilities	**40 385**	**9 387 471**	**1 070 894**	**10 498 750**

*including WARTA Group

Income	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)*	Total for 2011
Interest income	0	22 320	1 458	23 778
Fee and commission income	20 281	251	58 606	79 138
Net trading income	33	17 436	18 886	36 355
Other operating income	25	7	7 364	7 396
Total income	**20 339**	**40 014**	**86 314**	**146 667**

*including WARTA Group

Expenses	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)*	Total for 2011
Interest expense	1 388	115 572	63 526	180 486
Commission expense**	0	1 515	29 568	31 083
General and administrative expenses, as well as other operating expenses	0	2 718	33 656	36 374
Total expenses	**1 388**	**119 805**	**126 750**	**247 943**

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

Balance sheet as at 31.12.2010

Assets	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2010
Loans and advances to banks	0	88 777	17 538	106 315
Derivatives	0	91 481	9 810	101 291
Loans and advances to customers	20 204	0	83 203	103 407
Other assets	1 915	87	10 142	12 144
Total assets	**22 119**	**180 345**	**120 693**	**323 157**

*including WARTA Group

Liabilities	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2010
Amounts due to banks	0	8 464 639	2 902 893	11 367 532
Derivatives	0	193 330	28 534	221 864
Amounts due to customers	24 591	954	1 420 876	1 446 421
Subordinated liabilities	0	911 100	0	911 100
Other liabilities	0	1 088	11 585	12 673
Total liabilities	**24 591**	**9 571 111**	**4 363 888**	**13 959 590**

*including WARTA Group

Income	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total for 2010
Interest income	0	17 076	496	17 572
Fee and commission income	16 144	274	51 297	67 715
Other operating income	14	62	10 267	10 343
Total income	**16 158**	**17 412**	**62 060**	**95 630**

*including WARTA Group

Expenses	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total for 2010
Interest expense	515	78 403	27 418	106 336
Commission expense**	0	446	25 876	26 322
Net trading income	-138	200 816	53 884	254 562
General and administrative expenses, as well as other operating expenses	0	3 660	29 080	32 740
Total expenses	**377**	**283 325**	**136 258**	**419 960**

*including WARTA Group

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

16. Information on loan guarantees or sureties issued by the Issuer or its subsidiary

As of 31.12.2011, the Bank issued guarantees with the total value of at least 10% of the Bank's equity, to one company. The guarantees were issued for the total amount of PLN 418,597 thousand.

As of 31.12.2010, the Bank issued guarantees with the total value of at least 10% of the Bank's equity, to one company. The guarantees were issued for the total amount of PLN 456,494 thousand.

The above guarantees were granted on market terms. The Bank's remuneration for the issuance of guarantees was also determined on market terms.

17. Seasonality or cyclical nature of operations

The operations of the Group's companies are not of seasonal nature.

18. Non-typical factors and events

In the fourth quarter of 2011 and in the fourth quarter of 2010, no untypical events occurred in the Group (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 this report.

19. Other information, which, in the Issuer's opinion, is material for the assessment of its staff, assets, financial situation, financial results and their changes and information material for the assessment of the potential satisfaction of the Issuer's commitments

On 29.12.2011, the Bank's Management Board decided to create, in the fourth quarter of 2011, 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 N.V., the sale price for 100% of the shares of Żagiel S.A. amounted to PLN 350 million. The said agreement provided that the risk of Kredyt Bank would be limited to 10% of the sale price, i.e. PLN 35 million, if KBC sold the shares of Żagiel to an outside entity for the price lower than PLN 350 million. The decision to create the said provision reflects the current assessment of the probability of satisfying the condition described above.

There is no other information concerning the fourth quarter of 2011, which would materially affect the assessment of the Issuer's staff, assets, financial situation, financial results and their changes and the information material for the assessment of the potential satisfaction of the Issuer's obligations.

20. The Management Board's position on the possible realization of previously published forecasts of financial results

The Bank's Management Board does not publish any financial forecasts.

21. Factors that may affect the Group's future financial results

The most significant factors that may affect the Group's future financial results and the fair value of the Group's assets and liabilities are as follows:

- Potential deterioration of the business conditions in the world, and the resulting decline in the growth rate of the Polish economy, which may cause the deterioration of the quality of the loans portfolio;
- Significant volatility of raw materials prices, which may have an adverse impact upon the economic and financial situation of certain entrepreneurs;
- Decreasing expenditure of the public sector resulting in the decline in the portfolio of orders of certain entrepreneurs;
- A decrease in real estate prices, resulting in more limited coverage of the loans portfolio with collateral, and which may adversely affect the process of the commercialization of financed real estates designated for rental and sale;
- An impact of the implementation of new recommendations/regulations of the Polish Financial Supervision Authority upon the growth rate of the portfolio of mortgage loans and its profitability;
- Introduction, under the draft amendment to the Bank Guarantee Fund Act, of a mandatory 'prudence fee', and the elimination of the possibility of recognizing the annual fee for the Bank Guarantee Fund as deductible expenditure;
- Currency risk — significant depreciation of the Polish zloty due to the greater aversion to risk on financial markets, which may result in the deterioration of the quality of mortgage loans;
- Changes in market interest rates and margins for banking products;
- Persisting high costs of long-term liquidity both in PLN and in foreign currencies;
- Increased aversion to risk caused by the concerns about the insolvency of certain European countries, resulting in an increase in financing costs and a decrease in the prices of the bonds of the Polish government.

II. INTERIM CONDENSED STANDALONE FINANCIAL STATEMENTS OF KREDYT BANK S.A.

1. Income Statement

in PLN '000'	4th quarter of 2011 01.10.2011 – 31.12.2011	Four quarters of 2011 01.01.2011 – 31.12.2011	4th quarter of 2010 01.10.2010 – 31.12.2010	Four quarters of 2010 01.01.2010 – 31.12.2010
Interest income	595 199	2 349 630	546 090	2 097 924
Interest expense	-330 251	-1 223 441	-261 255	-1 068 926
Net interest income	**264 948**	**1 126 189**	**284 835**	**1 028 998**
Fee and commission income	97 903	403 340	113 970	426 084
Fee and commission expense	-23 285	-88 866	-25 014	-96 993
Net fee and commission income	**74 618**	**314 474**	**88 956**	**329 091**
Dividend income	55	4 075	0	6 886
Net trading income	54 467	78 653	20 808	120 466
Net result on derivatives used as hedging instruments and hedged items	-544	-1 714	422	887
Net gains from investment activities	776	1 162	79	6 486
Other operating income	20 058	87 717	9 791	54 783
Total operating income	**414 378**	**1 610 556**	**404 891**	**1 547 597**
General and administrative expenses	-239 465	-963 986	-231 218	-891 022
Other operating expenses	-11 740	-44 339	-16 347	-49 028
Total operating expenses	**-251 205**	**-1 008 325**	**-247 565**	**-940 050**
Net impairment losses on financial assets, other assets and provisions	-112 751	-193 711	-119 681	-464 578
Gross profit	**50 422**	**408 520**	**37 645**	**142 969**
Income tax expense	-9 746	-98 202	-749	-31 730
Net profit	**40 676**	**310 318**	**36 896**	**111 239**

2. Statement of Comprehensive Income

in PLN '000'	4th quarter of **2011** 01.10.2011 – 31.12.2011	Four quarters of 2011 01.01.2011 – 31.12.2011	4th quarter of 2010 01.10.2010 – 31.12.2010	Four quarters of 2010 01.01.2010 – 31.12.2010
Net profit (loss) for the period	**40 676**	**310 318**	**36 896**	**111 239**
Other comprehensive income				
Valuation of financial assets available-for-sale	-9 615	2 087	-34 997	42 542
- including deferred tax	2 256	-489	8 209	-9 979
Effects of valuation of derivatives designated for cash flow hedge	-2 127	8 584	-10 158	11 163
- including deferred tax	499	-2 014	2 383	-2 618
Other comprehensive income (loss) recognized directly in equity	**-11 742**	**10 671**	**-45 155**	**53 705**
Total comprehensive income (loss)	**28 934**	**320 989**	**-8 259**	**164 944**

3. Balance Sheet

in PLN '000'	**31.12.2011**	**30.09.2011**	**31.12.2010**	**30.09.2010**
Assets				
Cash and balances with Central Bank	784 626	2 385 981	1 943 571	1 114 399
Gross loans and advances to banks	1 188 012	1 190 499	1 466 249	1 328 016
Impairment losses on loans and advances to banks	0	0	-2 260	-2 260
Receivables arising from repurchase transactions	0	292 903	87 218	410 900
Financial assets designated upon initial recognition as at fair value through profit or loss	79 944	79 528	98 849	107 585
Financial assets held for trading (excluding derivatives)	60 493	769 474	1 601 283	1 986 818
Derivatives, including:	1 071 089	1 161 220	463 159	486 001
- derivatives used as hedging instruments	95 592	96 613	74 340	90 505
Gross loans and advances to customers	30 209 994	29 931 859	28 901 536	28 466 326
Impairment losses on loans and advances to customers	-1 369 625	-1 286 055	-1 875 759	-1 813 700
Investment securities:	8 676 019	9 325 274	9 464 547	9 951 490
- available-for-sale	5 259 345	5 901 835	6 216 768	6 662 809
- held-to-maturity	3 416 674	3 423 439	3 247 779	3 288 681
Investments in subsidiaries, and jointly controlled entities	64 626	64 626	64 626	64 576
Property, plant and equipment	261 609	251 624	291 922	321 152
Intangible assets	60 472	57 366	51 827	46 948
Deferred tax asset	242 881	246 401	327 776	216 225
Current tax receivable	116 870	77 946	0	0
Non-current assets held for sale	2 047	2 080	7 070	0
Investment properties	17 536	17 586	18 217	20 327
Other assets	84 787	109 410	90 424	95 233
Total assets	**41 551 380**	**44 677 722**	**43 000 255**	**42 800 036**

in PLN '000'	31.12.2011	30.09.2011	31.12.2010	30.09.2010
Liabilities				
Amounts due to Central Bank	32	2	6	6
Amounts due to banks	8 060 178	11 332 092	11 771 404	11 432 401
Liabilities arising from repurchase transactions	0	1 775 215	228 693	678 323
Financial liabilities held for trading (excluding derivatives)	0	0	0	34 982
Derivatives, including:	982 916	901 402	1 131 078	773 527
- derivatives used as hedging instruments	1 669	2 827	1 274	0
Amounts due to customers	28 094 775	26 300 310	25 710 004	25 805 083
Current tax liability	0	0	152 959	63 683
Provisions	91 126	53 533	70 878	39 897
Other liabilities	248 125	274 419	206 890	280 156
Subordinated liabilities	1 036 510	1 031 965	911 100	866 476
Total liabilities	**38 513 662**	**41 668 938**	**40 183 012**	**39 974 534**

in PLN '000'	31.12.2011	30.09.2011	31.12.2010	30.09.2010
Equity				
Share capital	1 358 294	1 358 294	1 358 294	1 358 294
Supplementary capital	898 072	898 072	887 347	887 347
Revaluation reserve	70 092	81 834	59 421	104 576
Other reserves	400 942	400 942	400 942	400 942
Current net profit (loss)	310 318	269 642	111 239	74 343
Total equity	**3 037 718**	**3 008 784**	**2 817 243**	**2 825 502**
Total equity and liabilities	**41 551 380**	**44 677 722**	**43 000 255**	**42 800 036**

Capital adequacy ratio (%)	12.72	12.34	12.85	12.65
Number of shares	271 658 880	271 658 880	271 658 880	271 658 880
Book value per share (in PLN)	11.18	11.08	10.37	10.40

4. Statement of Changes in Equity

Changes in the period 01.01.2011 – 31.12.2011

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

Changes in the period 01.01.2010 – 31.12.2010

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

5. Cash Flow Statement

in PLN '000'	4th quarter of 2011 01.10.2011 – 31.12.2011	Four quarters of 2011 01.01.2011 – 31.12.2011	4th quarter of 2010 01.10.2010 – 31.12.2010	Four quarters of 2010 01.01.2010 – 31.12.2010
Cash flow from operating activities				
Net profit (loss)	**40 676**	**310 318**	**36 896**	**111 239**
Adjustments to net profit (loss) and net cash from operating activities, and net increase/decrease in assets and liabilities	**-515 538**	**-552 860**	**482 591**	**4 162 598**
Current and deferred tax recognized in financial result	9 746	98 202	749	31 730
Non-realised profit (loss) from currency translation differences	2 292	82 443	86 152	40 712
Depreciation	18 674	82 403	22 860	91 504
Net increase/decrease in impairment	90 150	-503 580	79 088	347 316
Dividends	-55	-4 075	0	-6 886
Interest	-47 366	-202 084	-45 464	-180 136
Net increase/decrease in provisions	37 593	20 248	30 981	39 469
Profit (loss) on disposal of investments	-4 038	-10 792	-989	-8 867
Net increase/decrease in assets (excluding cash)	**793 358**	**-384 065**	**281 748**	**-1 395 822**
Net increase/decrease in gross loans and advances to banks	10 090	-22 731	31 389	-834 117
Net increase/decrease in receivables arising from repurchase transactions	292 903	87 218	323 682	244 657
Net increase/decrease in financial assets designated upon initial recognition as at fair value through profit or loss	-416	18 905	8 736	37 987
Net increase/decrease in financial assets held for trading	710 677	1 546 245	386 029	-356 001
Net increase/decrease in derivatives (except for derivatives used as hedging instruments)	89 110	-586 678	6 677	126 850
Net increase/decrease in gross loans and advances to customers	-278 135	-1 308 458	-435 210	-1 589 069
Net increase/decrease in current tax receivable	-38 924	-116 870	0	0
Net increase/decrease in other assets	8 053	-1 696	-39 555	973 871
Net increase/decrease in liabilities	**-1 415 892**	**268 440**	**27 466**	**5 203 578**
Net increase/decrease in amounts due to Central Bank	30	26	0	-1 321 796
Net increase/decrease in amounts due to banks	-1 490 338	-934 270	333 909	2 749 327
Net increase/decrease in liabilities arising from repurchase transactions	-1 775 215	-228 693	-449 630	228 693
Net increase/decrease in financial liabilities held for trading (excluding derivatives)	0	0	-34 982	0
Net increase/decrease in derivatives (except for derivatives used as hedging instruments)	82 672	-148 557	356 277	591 902
Net increase/decrease in amounts due to customers	1 797 216	1 702 699	-95 095	2 991 319
Net increase/decrease in other liabilities	-26 971	45 995	-70 814	35 857
Paid/received income tax	-3 286	-168 760	-12 199	-71 724
Net cash flow from operating activities	**-474 862**	**-242 542**	**519 487**	**4 273 837**

in PLN '000'	4th quarter of **2011** **01.10.2011 – 31.12.2011**	**Four quarters of 2011** **01.01.2011 – 31.12.2011**	4th quarter of **2010** **01.10.2010 – 31.12.2010**	**Four quarters of 2010** **01.01.2010 – 31.12.2010**
Net cash flow from investing activities				
Inflows	**22 234 263**	**92 531 471**	**12 531 033**	**55 432 298**
Disposal of property, plant and equipment, intangible assets and investment properties	31	1 264	3 483	3 603
Disposal of interests in equity investments	0	0	0	1 449
Disposal of investment securities	22 068 708	92 283 935	12 391 215	55 205 555
Dividends	55	4 075	0	6 886
Interest received	165 469	242 197	136 335	214 805
Outflows	**-21 526 860**	**-91 400 433**	**-12 025 322**	**-56 760 756**
Acquisition of property, plant and equipment, intangible assets and investment properties	-21 473	-55 951	-14 736	-51 137
Acquisition of interests in equity investments	0	0	-50	-50
Acquisition of investment securities	-21 505 387	-91 344 482	-12 010 536	-56 709 569
Net cash flow from investing activities	**707 403**	**1 131 038**	**505 711**	**-1 328 458**
Cash flow from financing activities				
Inflows	**3 291**	**688 007**	**0**	**196 695**
Proceeds from loans and advances	3 291	688 007	0	196 695
Outflows	**-1 829 584**	**-3 036 416**	**-26 404**	**-1 931 835**
Dividends	0	-100 514	0	0
Repayment of loans and advances	-1 806 651	-2 833 472	0	-1 825 104
Other financial outflows	-22 933	-102 430	-26 404	-106 731
Net cash flow from financing activities	**-1 826 293**	**-2 348 409**	**-26 404**	**-1 735 140**

Net increase/decrease in cash	**-1 593 752**	**-1 459 913**	**998 794**	**1 210 239**
Cash at the beginning of the period	**2 535 217**	**2 401 378**	**1 402 584**	**1 191 139**
Cash at the end of the period, including:	**941 465**	**941 465**	**2 401 378**	**2 401 378**
Restricted cash*	1 059 021	1 059 021	1 078 101	1 078 101

Interest paid **	257 069	915 522	268 191	907 826
Interest received**	593 332	1 770 123	527 773	1 520 223

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

6. Notes to the interim condensed standalone financial statements

The accounting principles and methods of carrying out accounting estimates adopted for the preparation of the interim condensed standalone financial statements of the Bank comply with the accounting principles adopted for the interim condensed consolidated financial statements of Kredyt Bank S.A. Capital Group, which were described in section I.10., except for the valuation of associates, which, in the Group's consolidated financial statements, are measured with the equity method.

Other additional information, material for the proper assessment of the assets, the financial situation and the financial result of the Bank, has been stated in section I. concerning the consolidated financial statements.

Signatures of the Members of the Management Board

date	09.02.2012	Maciej Bardan	President of the Management Board	....
date	09.02.2012	Piotr Sztrauch	Vice President of the Management Board	....

Signature of a person responsible for keeping the accounting books

date	09.02.2012	Grzegorz Kędzior	Director of the Accounting and External Reporting Department	....