



Annual Report  
of Kredyt Bank S.A.  
prepared for the year ended  
December 31, 2008

(Submitted to the Polish Financial Supervision Authority on February 27, 2009 -  
translation from Polish language)

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

### **Dear Shareholders, Customers and Employees,**

On behalf of the Management Board of Kredyt Bank S.A., I have the pleasure to present the annual financial statements and the report on the operations of Kredyt Bank S.A. in 2008.

In the second quarter of 2008, de facto, a new Management Board of Kredyt Bank S.A. was appointed (two out of five members were new: CEO and CFRO). For us, it was a period of learning more about the organisation and its capabilities. We launched a number of measures to better implement the Bank's strategy in conditions of a stable, good economic situation. The most important of them included: the reconstruction of incentive systems, changes in management principles, building profit centres, improving the cooperation with other companies of KBC Group, the reconstruction of the operational risk management system, and the development and improvement of internal communication.

Kredyt Bank became visible on the market, increasing the scale of its operations in all strategic areas. We accomplished a 59-percent increase in net loans portfolio and ca. 20-percent increase in customers' deposits. We significantly increased the sale of our key products: mortgages, consumer loans, credit cards, products offered in cooperation with WARTA Group, including 'WARTA GWARANCJA' insurance term deposit. The network of the Bank expanded to 401 outlets.

Net profit generated by the Bank in 2008 amounted to PLN 301.1 million. Significant improvement in income from banking activities (operating profit before deducting net impairment losses increased by 18%) resulted, to a large extent, from the increase in the sale of loan products. It allowed us to neutralise the increase in cost of risk recorded in the year 2008. The improvement of the effectiveness of the Bank's activeness is the area we need to focus on in the nearest future. Cost/income ratio in 2008 was at the level of 63.0%. It was lower than in 2007 by 2.1 p.p.; however, it is still far from our ambitious plans.

The deterioration of macroeconomic conditions which had place in the fourth quarter of 2008 meant the need to change priorities. The following areas will be key for the implementation of the strategy of Kredyt Bank S.A. in 2009: management of liquidity, capital adequacy, credit risk and profitability. It means building a greater share in the market of customer deposits, tightening a credit policy, focusing on less risky market segments and cooperation with tested, reliable customers as well as further changes in the area of management, including cost management. The costs streamlining programme launched in December 2008 aims to reduce fixed costs and increase the share of variable costs, freeze certain projects, harmonise expenditure management principles and streamline the organisation.

The process of integrating certain areas of Kredyt Bank S.A. and WARTA Group will be continued. The purpose of the changes is to take maximal advantage of the synergy effect resulting from the cooperation of all companies of KBC Group in Poland.

I would like to take this opportunity to thank all customers for their trust and loyalty, and employees of Kredyt Bank S.A. for their commitment. I believe that our cooperation will allow us to face successfully all new challenges and guarantee the accomplishment of good results in the future.

*Yours faithfully,*

*Maciej Bardan*

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

## INDEPENDENT AUDITORS' OPINION

### To the Supervisory Board of Kredyt Bank S.A.

1. We have audited the attached financial statements for the year ended 31 December 2008 of Kredyt Bank S.A. ('the Bank') located in Warsaw at Kasprzaka 2/8 Street, containing:
  - the income statement for the period from 1 January 2008 to 31 December 2008 with a net profit amounting to 301.072 thousand zlotys,
  - the balance sheet as at 31 December 2008 with total assets amounting to 38.621.122 thousand zlotys,
  - the statement of changes in equity for the period from 1 January 2008 to 31 December 2008 with a net increase in equity amounting to 345.364 thousand zlotys,
  - the cash flow statement for the period from 1 January 2008 to 31 December 2008 with a net cash outflow amounting to 1.728.662 thousand zlotys, and
  - the summary of significant accounting policies and other explanatory notes ('the attached financial statements').
2. The truth and fairness<sup>1</sup> of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair<sup>1</sup> and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.
3. We conducted our audit of the attached financial statements in accordance with the following regulations being in force in Poland:
  - chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
  - the auditing standards issued by the National Chamber of Auditors,in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Bank's Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

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<sup>1</sup> Translation of the following expression in Polish: "rzetelność, prawidłowość i jasność"

4. In our opinion, the attached financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the audited Bank's operations for the period from 1 January 2008 to 31 December 2008, as well as its financial position<sup>2</sup> as at 31 December 2008;
  - have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the European Union and based on properly maintained accounting records;
  - are in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Bank's Statutes.
5. We have read the Directors' Report for the period from 1 January 2008 to 31 December 2008 and the rules of preparation of annual statements ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law of 2005, No. 209, item 1744).

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

Dorota Snarska-Kuman  
Certified Auditor No. 9667/7232

Anna Sirocka  
Certified Auditor No. 9626/7191

Warsaw, 19 February 2009

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<sup>2</sup> Translation of the following expression in Polish: "sytuacja majątkowa i finansowa"



**Financial Statements  
of Kredyt Bank S.A.  
for the Year  
Ended 31.12.2008**

## Contents

|     |  |    |
|-----|--|----|
| 1.  | Income Statement.....  | 4  |
| 2.  | Balance Sheet .....  | 5  |
| 3.  | Off-balance Sheet Items .....  | 7  |
| 4.  | Statement of Changes in Equity .....   | 8  |
| 5.  | Cash Flow Statement .....  | 10 |
| 6.  | General information .....  | 12 |
| 7.  | The description of major accounting policies applied for the purpose of preparing these financial statements .....               | 13 |
| 9.  | Segment reporting .....  | 33 |
| 10. | Interest income .....  | 39 |
| 11. | Interest expense.....  | 39 |
| 12. | Fee and commission income.....   | 40 |
| 13. | Fee and commission expense .....   | 40 |
| 14. | Dividend income.....   | 40 |
| 15. | Net trading income.....  | 41 |
| 16. | Net result on derivatives used as hedging instruments and hedged items .....   | 41 |
| 17. | Net gains from investment activities.....  | 41 |
| 18. | Result for particular categories of financial assets and liabilities .....   | 42 |
| 19. | Other operating income.....  | 42 |
| 20. | General and administrative expenses.....   | 43 |
| 21. | Net impairment losses on financial assets, other assets and provisions.....  | 45 |
| 22. | Other operating expenses .....   | 46 |
| 23. | Income tax expense.....  | 46 |
| 24. | Earnings per share (EPS).....  | 47 |
| 25. | Cash and balances with Central Bank.....   | 48 |
| 26. | Gross loans and advances to banks .....  | 48 |
| 27. | Impairment losses on loans and advances to banks.....  | 49 |
| 28. | Financial assets at fair value through profit or loss, including financial assets held for trading (excluding derivatives) ..... | 49 |
| 29. | Derivatives .....  | 50 |
| 30. | Gross loans and advances to customers .....  | 51 |
| 31. | Impairment losses on loans and advances to customers .....   | 57 |
| 32. | Investment securities.....   | 59 |
| 33. | Financial assets subject to hedge accounting .....   | 60 |
| 34. | Investments in subsidiaries and jointly controlled entities .....  | 68 |
| 35. | Property, plant and equipment.....   | 69 |
| 36. | Intangible assets .....  | 72 |
| 37. | Movement on intangible assets .....  | 72 |
| 38. | Non-current assets classified as held for sale .....   | 73 |
| 39. | Other assets.....  | 74 |
| 40. | Amounts due to Central Bank .....  | 74 |
| 41. | Amounts due to banks.....  | 75 |
| 42. | Amounts due to customers.....  | 75 |
| 43. | Liabilities arising from repurchase transactions .....   | 77 |
| 44. | Provisions.....  | 77 |

|     |   |     |
|-----|---|-----|
| 45. | Other liabilities .....   | 79  |
| 46. | Subordinated liabilities .....  | 79  |
| 47. | Equity .....  | 80  |
| 48. | Contingent liabilities granted .....  | 83  |
| 49. | Capital adequacy ratio.....   | 85  |
| 50. | Risk metrics underlying the calculations of the capital requirements for credit risk set forth in the Banking Law.....                        | 86  |
| 51. | Discontinued operations.....  | 89  |
| 52. | Social assets and the Company Social Benefit Fund (CSBF) .....  | 89  |
| 53. | Employee benefits .....   | 90  |
| 54. | Related party transactions .....  | 90  |
| 55. | Remunerations of the Members of the Supervisory Board and the Management Board of Kredyt Bank S.A. ....                                       | 95  |
| 56. | Value of loans and advances granted to Members of the Management Board and of the Supervisory Board of the Bank and in its subsidiaries ..... | 98  |
| 57. | Employment structure .....  | 98  |
| 58. | Cash flow statement – additional information .....  | 99  |
| 59. | Disposal of subordinated companies .....  | 102 |
| 60. | Assets pledged as collateral.....   | 102 |
| 61. | Changes in the Management Board and in the Supervisory Board of Kredyt Bank S.A. in 2008 .....  | 103 |
| 62. | Seasonality or cyclical nature of operations.....   | 104 |
| 63. | Non-typical factors and events.....   | 104 |
| 64. | Dividends paid and declared .....   | 104 |
| 65. | Post-balance sheet events .....   | 105 |
| 66. | Comparable data.....  | 106 |
| 67. | Fair value of financial assets and liabilities not recognized at fair value in the balance sheet..  | 106 |
| 68. | Information on proceedings before courts or public administration authority .....   | 110 |
| 69. | Custodian services.....   | 113 |
| 70. | Risk management at Kredyt Bank S.A. ....  | 113 |



## 1. Income Statement

| <i>in PLN '000'</i>   | Note      | 01.01.2008 -<br>31.12.2008 | Comparable data<br>01.01.2007 -<br>31.12.2007 |
|---|-----------|----------------------------|---|
| Interest income   | 10        | 2 126 354                  | 1 491 448                                     |
| Interest expense  | 11        | -1 250 775                 | -729 158                                      |
| <b>Net interest income</b>  |           | <b>875 579</b>             | <b>762 290</b>                                |
| Fee and commission income   | 12        | 379 623                    | 366 150                                       |
| Fee and commission expense  | 13        | -96 534                    | -58 135                                       |
| <b>Net fee and commission income</b>                                      |           | <b>283 089</b>             | <b>308 015</b>                                |
| Dividend income   | 14        | 10 067                     | 7 977   |
| Net trading income  | 15        | 240 988                    | 178 979                                       |
| Net result on derivatives used as hedging instruments<br>and hedged items | 16        | 1 215                      | -3 619  |
| Net gains from investment activities                                      | 17        | -11 593                    | 4 533   |
| Other operating income  | 19        | 53 723                     | 43 343  |
| <b>Total operating income</b>   |           | <b>1 453 068</b>           | <b>1 301 518</b>                              |
| General and administrative expenses                                       | 20        | -890 846                   | -823 168                                      |
| Net impairment losses on financial assets, other assets<br>and provisions | 21        | -133 084                   | 70 295  |
| Other operating expenses  | 22        | -39 759                    | -36 443                                       |
| <b>Total operating expenses</b>   |           | <b>-1 063 689</b>          | <b>-789 316</b>                               |
| <b>Profit before tax</b>  |           | <b>389 379</b>             | <b>512 202</b>                                |
| Income tax expense  | 23        | -88 307                    | -111 683                                      |
| <b>Net profit</b>   |           | <b>301 072</b>             | <b>400 519</b>                                |
| Weighted average number of ordinary shares                                |           | 271 658 880                | 271 658 880                                   |
| <b>Earnings per ordinary share (in PLN)</b>                               | <b>24</b> | <b>1.11</b>                | <b>1.47</b>                                   |

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

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

## 2. Balance Sheet

| <i>in PLN '000'</i>  | Note   | 31.12.2008        | Comparable data<br>31.12.2007 |
|--|--------|-------------------|-------------------------------|
| <b>Assets</b>  |        |                   |                               |
| Cash and balances with Central Bank  | 25     | 827 956           | 611 672                       |
| Gross loans and advances to banks  | 26     | 340 859           | 2 456 349                     |
| Impairment losses on loans and advances to banks   | 27     | -2 261            | -2 260                        |
| Financial assets at fair value through profit or loss, including financial assets held for trading (excluding derivatives) | 28     | 1 347 027         | 448 499                       |
| Derivatives including:   | 29     | 2 302 799         | 495 095                       |
| - derivatives used as hedging instruments  | 33     | 166 954           | 34 025                        |
| Gross loans and advances to customers  | 30     | 27 853 155        | 17 738 052                    |
| Impairment losses on loans and advances to customers   | 31     | -927 457          | -839 724                      |
| Investment securities:   | 32     | 6 232 624         | 5 478 269                     |
| - available-for-sale   |        | 4 359 740         | 3 433 103                     |
| - held-to-maturity   |        | 1 872 884         | 2 045 166                     |
| Investments in subsidiaries and jointly controlled entities  | 34     | 66 075            | 73 876                        |
| Property, plant and equipment  | 35     | 398 201           | 343 438                       |
| Intangible assets  | 36, 37 | 57 854            | 65 425                        |
| Deferred tax asset   | 23     | 44 509            | 124 062                       |
| Non-current assets classified as held for sale   | 38     | 0                 | 767                           |
| Other assets   | 39     | 79 781            | 74 984                        |
| <b>Total assets</b>  |        | <b>38 621 122</b> | <b>27 068 504</b>             |

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

**Balance Sheet (cont.)**

| <i>in PLN '000'</i>   | Note | 31.12.2008        | Comparable data<br>31.12.2007 |
|---|------|-------------------|-------------------------------|
| <b>Liabilities</b>  |      |                   |                               |
| Amounts due to Central Bank                                     | 40   | 1 113 275         | 1 101 661                     |
| Amounts due to banks  | 41   | 11 915 013        | 5 271 449                     |
| Derivatives including:  | 29   | 1 890 221         | 474 370                       |
| - derivatives used as hedging instruments                       | 33   | 1 708             | 44 178                        |
| Amounts due to customers  | 42   | 20 555 309        | 17 180 731                    |
| Liabilities arising from repurchase transactions                | 43   | 8 991             | 50 126                        |
| Current tax liability   |      | 28 916            | 7 136                         |
| Provisions  | 44   | 30 379            | 105 724                       |
| Other liabilities   | 45   | 220 155           | 249 216                       |
| Subordinated liabilities  | 46   | 279 643           | 394 235                       |
| <b>Total liabilities</b>  |      | <b>36 041 902</b> | <b>24 834 648</b>             |
| <b>Equity</b>   |      |                   |                               |
| Share capital   | 47   | 1 358 294         | 1 358 294                     |
| Supplementary capital   | 47   | 580 974           | 381 718                       |
| Revaluation reserve   | 47   | 97 938            | -87 617                       |
| Reserves  | 47   | 240 942           | 180 942                       |
| Current net profit attributable to the Shareholders of the Bank |      | 301 072           | 400 519                       |
| <b>Total equity</b>   |      | <b>2 579 220</b>  | <b>2 233 856</b>              |
| <b>Total equity and liabilities</b>                             |      | <b>38 621 122</b> | <b>27 068 504</b>             |

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

### 3. Off-balance Sheet Items

| <i>in PLN '000'</i>  | Note | 31.12.2008         | Comparable data<br>31.12.2007 |
|--|------|--------------------|-------------------------------|
| <b>Liabilities granted, including:</b>                       |      | <b>7 222 060</b>   | <b>6 030 093</b>              |
| - financial  | 48   | 5 401 454          | 4 410 804                     |
| - guarantees   | 48   | 1 820 606          | 1 619 289                     |
| <b>Liabilities received, including:</b>                      |      | <b>1 836 299</b>   | <b>2 224 054</b>              |
| - financial  |      | 528 748            | 902 441                       |
| - guarantees   |      | 1 307 551          | 1 321 613                     |
| <b>Liabilities related to the sale/purchase transactions</b> |      | <b>279 092 521</b> | <b>218 165 219</b>            |
| <b>Other:</b>  |      | <b>4 742 296</b>   | <b>3 300 837</b>              |
| - collateral received  |      | 4 742 296          | 3 300 837                     |

Off-balance sheet items should be analysed with notes, which form an integral part of these financial statements

#### 4. Statement of Changes in Equity

##### Changes in the period 01.01.2008-31.12.2008

| <i>in PLN '000'</i>  | Share capital    | Supplementary capital | Revaluation reserve | Reserves       | Retained earnings (losses) | Net profit/loss for the period | Total equity     |
|--|------------------|-----------------------|---------------------|----------------|----------------------------|--------------------------------|------------------|
| <b>Equity at opening balance – as of 01.01.2008</b>                | <b>1 358 294</b> | <b>381 718</b>        | <b>-87 617</b>      | <b>180 942</b> | <b>400 519</b>             | <b>0</b>                       | <b>2 233 856</b> |
| Valuation of financial assets available-for-sale                   | 0                | 0                     | 80 069              | 0              | 0                          | 0                              | 80 069           |
| Effects of valuation of derivatives designated for cash flow hedge | 0                | 0                     | 149 012             | 0              | 0                          | 0                              | 149 012          |
| Deferred tax on items recognized in equity                         | 0                | 0                     | -43 526             | 0              | 0                          | 0                              | -43 526          |
| <b>Net profit / loss recognized directly in the equity</b>         | <b>0</b>         | <b>0</b>              | <b>185 555</b>      | <b>0</b>       | <b>0</b>                   | <b>0</b>                       | <b>185 555</b>   |
| Net profit/loss for the period                                     | 0                | 0                     | 0                   | 0              | 0                          | 301 072                        | 301 072          |
| <b>Total of recognized income and expenses</b>                     | <b>0</b>         | <b>0</b>              | <b>185 555</b>      | <b>0</b>       | <b>0</b>                   | <b>301 072</b>                 | <b>486 627</b>   |
| Profit allowance   | 0                | 199 256               | 0                   | 60 000         | -259 256                   | 0                              | 0                |
| Dividend paid  | 0                | 0                     | 0                   | 0              | -141 263                   | 0                              | -141 263         |
| <b>Equity at end of period – as of 31.12.2008</b>                  | <b>1 358 294</b> | <b>580 974</b>        | <b>97 938</b>       | <b>240 942</b> | <b>0</b>                   | <b>301 072</b>                 | <b>2 579 220</b> |

**Changes in the period 01.01.2007-31.12.2007 (comparable data)**

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

Statement of changes in equity should be analysed with notes, which form an integral part of these financial statements

## 5. Cash Flow Statement

| <i>in PLN '000'</i>   | Note | 01.01.2008 -<br>31.12.2008 | Comparable data<br>01.01.2007 -<br>31.12.2007 |
|---|------|----------------------------|---|
| <b>Net cash flow from operating activities</b>  |      |                            |   |
| <b>Net profit</b>   |      | <b>301 072</b>             | <b>400 519</b>                                |
| <b>Adjustments to net profit and net cash from operating activities:</b>  |      | <b>-3 710 424</b>          | <b>-2 039 274</b>                             |
| Current and deferred tax recognized in financial result   |      | 88 307                     | 111 683                                       |
| Non-realised profit (loss) from currency translation differences  | 58b  | -8 622                     | 6 829   |
| <b>Investing and financing activities</b>   |      | <b>105 069</b>             | <b>-304 421</b>                               |
| Depreciation  | 20   | 84 998                     | 91 270  |
| Net increase/decrease in impairment   | 58c  | 89 813                     | -253 725                                      |
| Dividends   |      | -10 067                    | -7 977  |
| Interest  | 58d  | 2 367                      | -136 196                                      |
| Net increase/decrease in provisions   |      | -75 345                    | 6 949   |
| Profit (loss) on disposal of investments  | 58e  | 13 303                     | -4 742  |
| <b>Net increase/decrease in operating assets (excluding cash)</b>   |      | <b>-12 496 290</b>         | <b>-4 704 765</b>                             |
| Net increase/decrease in gross loans and advances to banks  | 58f  | 170 544                    | 199 148                                       |
| Net increase/decrease in financial assets at fair value through profit or loss, including financial assets held for trading and derivatives | 58g  | -2 564 918                 | 16 105  |
| Net increase/decrease in gross loans and advances to customers  |      | -10 115 103                | -4 823 880                                    |
| Paid/received income tax  |      | -30 500                    | -50 657                                       |
| Net increase/decrease in other assets   | 58h  | 43 687                     | -45 481                                       |
| <b>Net increase/decrease in operating liabilities</b>   |      | <b>8 601 112</b>           | <b>2 851 400</b>                              |
| Net increase/decrease in amounts due to Central Bank  |      | 11 614                     | 1 099 671                                     |
| Net increase/decrease in amounts due to banks   | 58i  | 3 854 983                  | 1 248 410                                     |
| Net increase/decrease in derivatives  |      | 1 458 321                  | 134 272                                       |
| Net increase/decrease in amounts due to customers   | 58j  | 3 374 578                  | 1 305 398                                     |
| Net increase/decrease in liabilities arising from repurchase transactions   |      | -41 135                    | -1 003 802                                    |
| Net increase/decrease in other liabilities  | 58k  | -57 249                    | 67 541  |
| <b>Net cash flow from operating activities</b>  |      | <b>-3 409 352</b>          | <b>-1 638 755</b>                             |

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

| <i>in PLN '000'</i>   | Note       | 01.01.2008 -<br>31.12.2008 | Comparable data<br>01.01.2007 -<br>31.12.2007 |
|---|------------|----------------------------|---|
| <b>Net cash flow from investing activities</b>  |            |                            |   |
| <b>Inflows</b>  |            | <b>693 361</b>             | <b>2 737 350</b>                              |
| Disposal of property, plant and equipment and intangible assets   |            | 1 963                      | 3 551   |
| Disposal of investment securities   | 58l        | 490 298                    | 2 503 086                                     |
| Dividends   |            | 10 067                     | 7 977   |
| Interest received   |            | 191 033                    | 222 736                                       |
| <b>Outflows</b>   |            | <b>-1 269 599</b>          | <b>-2 331 897</b>                             |
| Acquisition of property, plant and equipment and intangible assets  |            | -161 663                   | -101 659                                      |
| Acquisition of interests in equity investments classified as available-for-sale (subsidiaries and associates) |            | 0                          | -50   |
| Acquisition of investment securities  | 58l        | -1 107 936                 | -2 230 188                                    |
| <b>Net cash flow from investing activities</b>  |            | <b>-576 238</b>            | <b>405 453</b>                                |
| <b>Cash flow from financing activities</b>  |            |                            |   |
| <b>Inflows</b>  |            | <b>2 976 713</b>           | <b>1 846 441</b>                              |
| Proceeds from a subordinated loan   | 58n        | 209 580                    | 0   |
| Proceeds from loans and advances  | 58i        | 2 767 133                  | 1 846 441                                     |
| <b>Outflows</b>   |            | <b>-719 785</b>            | <b>-191 983</b>                               |
| Dividend paid   |            | -141 263                   | -100 514                                      |
| Repayment of subordinated liabilities   | 58n        | -375 045                   | 0   |
| Other financial outflows  | 58m        | -203 477                   | -91 469                                       |
| <b>Net cash flow from financing activities</b>  |            | <b>2 256 928</b>           | <b>1 654 458</b>                              |
| <b>Net increase/decrease in cash</b>  |            | <b>-1 728 662</b>          | <b>421 156</b>                                |
| <b>Cash at the beginning of the period</b>  |            | <b>2 689 893</b>           | <b>2 268 737</b>                              |
| <b>Cash at the end of the period, including:</b>  | <b>58a</b> | <b>961 231</b>             | <b>2 689 893</b>                              |
| Restricted cash   | 58a        | 789 493                    | 635 061                                       |

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



## 6. General information

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

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

These financial statements of Kredyt Bank S.A. were approved for publication by the Management Board of Kredyt Bank S.A. on 19.02.2009.

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

### **KBC Banking and Insurance Capital Group**

Kredyt Bank S.A. is a subsidiary (owned in 82.54%) of KBC Banking and Insurance Capital Group ('KBC Group') established in 1998 as a result of a merger of ABB Insurance Group, Almanij-Kreditbank Group and CERA Bank Group. KBC Group has been operating in the present structure since 2005, i.e. the merger of KBC Bank and Insurance Holding Company with Almanij. KBC Group is listed on the Euronext Stock Exchange in Brussels.

KBC Group focuses on bancassurance-type operations for individual customers, provides services to businesses, is involved in assets management and other types of market activities. It is one of the three largest banking and insurance companies on its home market in Belgium.

In Poland, KBC Group is also a sole shareholder of TUIR WARTA S.A., KBC TFI S.A. and KBC Autolease Polska Sp. z o.o.

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

### 7.1. Declaration of compliance with the IFRS

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

These financial statements of the Bank for the year ended 31.12.2008 have been prepared in accordance with the IAS and the IFRS in force as at 31.12.2008 and approved by the European Union. Matters not governed by the above-mentioned standards are regulated by the Accounting Act of 29 September 1994 (Journal of Laws of 2002 No. 76 item 694 as amended) and executive regulations thereto, and the Ordinance of the Minister of Finance of 19 October 2005 on current and interim information provided by issuers of securities (Journal of Laws of 2005 No. 209 item 1744).

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

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

#### IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

IFRIC 11 provides guidelines whether transactions in which an entity issues equity instruments to pay for goods and services received by it, or when the payment is in the form of issued equity instruments of an entity of the same capital group, should be treated as equity-settled or cash-settled. The interpretation also provides for the procedure in the case when an entity uses its treasury shares to settle the share-based payment obligation. In 2008, the Bank did not carry out transactions which are subject to this interpretation.

#### Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets

The amendments permit reclassification of some financial instruments held for trading to the category of held-to-maturity investments, available-for-sale assets or loans and receivables. The amendments also permit, in certain circumstances, the reclassification of available-for-sale assets to loans and receivables. The amendments apply to reclassifications made after 1 July 2008 or later. The Bank did not carry out any reclassifications of financial assets, either from assets held for trading or from available-for-sale assets.

#### IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 provides guidelines on how to determine the limit amount of the surplus in the defined benefit plan which may be recognized as an asset pursuant to IAS 19 Employee Benefits. The Bank does not have employee benefits subject to IAS 19.

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

- IFRS 8 *Operating Segments* – applicable to annual periods beginning on 1 January 2009 or later;
- IAS 1 *Presentation of Financial Statements* (amended in September 2007) – applicable to annual periods beginning on 1 January 2009 or later;
- IAS 23 *Borrowing Costs* (amended in March 2007) – applicable to annual periods beginning on 1 January 2009 or later;
- IFRS 3 *Business Combinations* (amended in January 2008) – applicable to annual periods beginning on 1 July 2009 or later – by the date of the approval of these financial statements, not approved by the EU;
- IAS 27 *Consolidated and Separate Financial Statements* (amended in January 2008) – applicable to annual periods beginning on 1 July 2009 or later – by the date of the approval of these financial statements, not approved by the EU;
- IFRS 2 *Share-based Payments: Vesting Conditions and Cancellations* (amended in January 2008) – applicable to annual periods beginning on 1 January 2009 or later;
- Amendments to IAS 32 and IAS 1: *Puttable Instruments and Obligations Arising on Liquidation* (amendments introduced in February 2008) – applicable to annual periods beginning on 1 January 2009 or later;
- IFRIC 12 *Service Concession Arrangements* – applicable to annual periods beginning on 1 January 2008 or later – by the date of the approval of these financial statements, not approved by the EU;
- IFRIC 13 *Customer Loyalty Programmes* – applicable to annual periods beginning on 1 July 2008 or later;
- Amendments resulting from the annual IFRS review – applicable to annual periods beginning on 1 January 2009 or later;
- Amendments to IFRS 1 and IAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* – applicable to annual periods beginning on 1 January 2009 or later;
- IFRIC 15 *Agreements for the Construction of Real Estate* – applicable to annual periods beginning on 1 January 2009 or later – by the date of the approval of these financial statements, not approved by the EU;
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* – applicable to annual periods beginning on 1 October 2008 or later – by the date of the approval of these financial statements, not approved by the EU;

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement: Eligible Hedged Items* (amendments introduced in July 2008) – applicable to annual periods beginning on 1 July 2009 or later – by the date of the approval of these financial statements, not approved by the EU;
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* (amended in November 2008) – applicable to annual periods beginning on 1 July 2009 or later – by the date of the approval of these financial statements, not approved by the EU;
- IFRIC 17 *Distributions of Non-cash Assets to Owners* – applicable to annual periods beginning on 1 July 2009 or later – by the date of the approval of these financial statements, not approved by the EU.

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

## **7.2. Basis of preparation**

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

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

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

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

## **7.3. Transactions in foreign currencies**

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

Non-monetary assets and liabilities expressed in foreign currencies, recognized at historical cost, are translated into PLN at an exchange rate as at the transaction date, and items carried at fair value are

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

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

|     | <b>31.12.2008</b> | <b>31.12.2007</b> |
|-----|-------------------|-------------------|
| EUR | 4.1724            | 3.5820            |
| USD | 2.9618            | 2.4350            |
| CHF | 2.8014            | 2.1614            |

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

The Bank recognizes a financial asset or liability in the balance sheet only when it is a party to a transaction.

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

#### **7.5. Derecognition of financial assets from the balance sheet**

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

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

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

## **7.6. Classification and measurement of financial assets and liabilities**

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

This category includes:

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

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

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

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 entails credit risk; the respective charges are recognized in the income statement.

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

### **7.6.2. Held-to-maturity investments**

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

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

### **7.6.3. Loans and receivables**

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

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

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

### **7.6.4. Available-for-sale financial assets**

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

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

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

### **7.6.5. Equity investments classified as available-for-sale**

Equity investments classified as available-for-sale financial assets are recognized in the financial statements at fair value or at cost, having regard for impairment, if their fair value cannot be determined reliably. According to IAS 27 p. 37, this category also includes shares in subsidiaries, jointly controlled entities and associates, which are valued in accordance with IAS 39, p. 66, i.e. at cost, less impairment.

### 7.6.6. Financial liabilities not held for trading

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

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

### 7.6.7. Hedge accounting

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

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

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

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

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

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



- a non-effective portion of gains or losses associated with the hedging instrument is recognized in the income statement.

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

#### **7.6.8. Embedded derivatives**

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

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

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

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

#### **7.7. Offsetting financial instruments**

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

#### **7.8. Sale and repurchase agreements**

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

## 7.9. Property, plant and equipment

### 7.9.1. Owned property, plant and equipment

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

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

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

### 7.9.2. Capital expenditure incurred in future periods

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

### 7.9.3. Depreciation

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

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

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

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

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

## **7.10. Intangible assets**

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

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

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

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

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

### **7.10.1. Computer software**

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

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

### **7.10.2. Other intangible assets**

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

### **7.10.3. Amortisation**

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

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

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

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

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

### **7.11.1. Measurement of recoverable amount**

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

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

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

### **7.11.2. Reversal of impairment**

Impairment loss on goodwill is not reversed.

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

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

### **7.12. Trade and other receivables**

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

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

### **7.13. Assets taken over for debts**

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

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

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

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

### **7.15. Deferred tax asset and liability**

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

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

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

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

The Bank offsets deferred tax asset against deferred tax liability.

### **7.16. Cash and cash equivalents**

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

### **7.17. Provisions**

The Bank recognizes provisions in the balance sheet when:

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

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

### **7.17.1. Provision for restructuring**

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

### **7.17.2. Employee benefits**

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

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

## **7.18. Equity**

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

## **7.19. Granted off-balance sheet liabilities**

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

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

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

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

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

#### **7.20. Company Social Benefit Fund (CSBF)**

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

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

#### **7.21. Net interest income**

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

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

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

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

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

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



schedules, it is impossible to calculate the effective interest rate and commissions/fees are settled on the straight-line basis over time.

And the method of 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 by the Bank 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 initial effective interest rate. Any significant amendment to the conditions of a given financial instrument in economic terms is connected with the expiry of the financial instrument of the previous type and creation of a new instrument with different characteristics. The fees that are collected in this category include, among others, fees for preparing an annex changing a future cash flows schedule, fees for restructuring loan agreements, fees for postponement of payment dates, etc. The above-mentioned types of fees are deferred and settled over time in the income statement applying the effective interest rate method or on a straight-line basis, depending on the type of a product.

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

#### **7.22. Net fee and commission income**

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

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

#### **7.23. Net trading income**

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

**7.24. Dividend income**

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

**7.25. Other operating income and expenses**

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

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

**7.26. Income tax expense**

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

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

Details on the method of calculating deferred tax are presented in Note 7.15.

**7.27. Comparable data**

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

## 8. Accounting estimates

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

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

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

### 8.1. Valuation of financial assets and liabilities at fair value

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

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

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

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

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

### **8.2.1. Evidence for impairment**

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

The list of objective evidence includes:

- a) significant financial problems of an issuer or a debtor;
- b) a breach of contract, e.g. failure to pay or delaying payment of interest or the principal amount;
- c) granting a facility by the lender to the borrower, for economic or legal reasons related to the borrower's financial problems, where such a facility would not have been granted otherwise;
- d) high probability of the borrower's bankruptcy or their another financial reorganisation.

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

### **8.2.2. Measurement of individual impairment**

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

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

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

### **8.2.3. Measurement of collective impairment**

#### ***Measurement of collective impairment***

A collective analysis is conducted in the following cases:

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

Homogenous loans portfolios are created basing upon similar characteristics of credit risks that are specific for the defined groups of customers and products. In the second quarter of 2008, the Bank changed the method of allocating impairment losses calculated collectively to particular subgroups subject to the collective analysis. However, this change has not affected, to a large extent, the total value of impairment losses which are evaluated collectively. The above change does not constitute a change in accounting principles, but a change in estimates, and the effect of changes was recognized on a long-term basis, hence comparable data presented for previous reporting periods was not restated.

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

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

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

In the second half of 2008, the Bank finished the review and amendments of its methodology of estimating impairment losses on loans and advances valued collectively. As a result of amendments in the methodology, in the second half of 2008, the amount of PLN 27 million was deducted from the Bank's profit before tax. The above change was recognized in the books as a change in estimates.

#### **8.2.4. Available-for-sale financial assets**

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

In the case of an equity instrument classified as available for sale for which fair value cannot be determined reliably, i.e. measured at historical cost having regard for impairment, impairment losses are not reversed.

In the case of a debt instrument measured at fair value at the time when the circumstances indicating impairment are no longer identified, the amount of the reversed impairment loss is recognized in the income statement.

#### **8.3. Value of deferred tax assets**

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

In the fourth quarter of 2008, the value of tax asset was adjusted in relation to the changes in the forecasts related to the realization of the values of established impairment losses on loans and advances for tax purposes. However, it did not have any material impact on the Bank's net profit – effective tax rate in 2008 was at the level of 22.7% as compared to 21.8% in 2007.

### **9. Segment reporting**

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

#### ***Corporate Segment***

Corporate Segment entails transactions with large companies (with annual sales revenue exceeding PLN 16 million) as well as state budgetary units at central and local levels. Beside the traditional deposit, credit and settlement services, the customers from this segment are offered other specific services. They are tailored to customers' individual needs, e.g. organizing syndicates supporting investment projects, financing real estate transactions, financing foreign trade and bulk payments.

#### ***Retail Segment***

Retail Segment incorporates products targeted at individual customers as well as Small and Medium-sized Enterprises (SME), whose annual sales revenue does not exceed PLN 16 million. The products on offer comprise a wide range of deposit and loan products, insurance products (bancassurance and assurebanking) offered in co-operation with WARTA Insurance and Financial Group as well as

clearing services. This offer is addressed to customers through traditional channels of distribution via the Bank's nationwide network of branches as well as KB24 – an Internet network. Furthermore, the Bank's offer for this segment of customers also includes products offered by KBC TFI with regard to the sale of shares in investment funds, and the intermediation in the distribution of selected services in the offer of WARTA Group.

### ***Treasury Segment***

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

### ***Investment Segment***

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

### ***'Other' Segment***

'Other' segment comprises other income and expenses not recognized in the above-mentioned segments (including the salaries of members of the Management Board and of the Supervisory Board, BFG fees, external audit expenses, income and expenses related to the reversal/recognition of provisions for litigations and other operating expenses). Assets and liabilities which cannot be reasonably assigned to one of the defined segments are presented as 'unallocated' in 'Other' segment.

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

**Income statement for the period 01.01.2008-31.12.2008**

|  | Corporate Segment | Retail Segment    | Treasury Segment  | Investment Segment | Other          | Eliminations      | Total             |
|--|-------------------|-------------------|-------------------|--------------------|----------------|-------------------|-------------------|
| 1. Segment income (external)   | 679 005           | 1 534 539         | 530 528           | 6 941              | 48 149         | 0                 | 2 799 162         |
| 2. Segment income (internal)   | 296 955           | 720 709           | 1 086 276         | 0                  | 12             | -2 103 952        | 0                 |
| <b>3. Total segment income</b>   | <b>975 960</b>    | <b>2 255 248</b>  | <b>1 616 804</b>  | <b>6 941</b>       | <b>48 161</b>  | <b>-2 103 952</b> | <b>2 799 162</b>  |
| 4. Segment expenses (external)   | -229 459          | 602 970           | -493 075          | 0                  | -60 349        | 0                 | -1 385 853        |
| 4a. Allocated expenses   | -90 068           | -752 921          | -10 483           | -2 117             | -35 257        | 0                 | -890 846          |
| 5. Segment expenses (internal)   | -463 832          | -618 079          | -1 017 676        | -4 365             | 0              | 2 103 952         | 0                 |
| <b>6. Total segment expenses</b>   | <b>-783 359</b>   | <b>-1 973 970</b> | <b>-1 521 234</b> | <b>-6 482</b>      | <b>-95 606</b> | <b>2 103 952</b>  | <b>-2 276 699</b> |
| <b>7. Net operating income for the segment</b>                                   | <b>192 601</b>    | <b>281 278</b>    | <b>95 570</b>     | <b>459</b>         | <b>-47 444</b> | <b>0</b>          | <b>522 463</b>    |
| <b>8. Net impairment losses on financial assets, other assets and provisions</b> | <b>-27 820</b>    | <b>-167 254</b>   | <b>0</b>          | <b>0</b>           | <b>61 990</b>  | <b>0</b>          | <b>-133 084</b>   |
| <b>9. Profit before tax for the segment</b>                                      | <b>164 781</b>    | <b>106 462</b>    | <b>95 570</b>     | <b>459</b>         | <b>22 107</b>  | <b>0</b>          | <b>389 379</b>    |
| 10. Income tax expense   |                   |                   |                   |                    |                |                   | -88 307           |
| <b>11. Net profit/loss</b>   |                   |                   |                   |                    |                |                   | <b>301 072</b>    |



**Balance sheet as at 31.12.2008**

|  | <b>Corporate Segment</b> | <b>Retail Segment</b> | <b>Treasury Segment</b> | <b>Investment Segment</b> | <b>Other</b>   | <b>Total</b>      |
|--|--------------------------|-----------------------|-------------------------|---------------------------|----------------|-------------------|
| 1. Segment assets                            | 8 973 534                | 17 952 164            | 11 045 029              | 252 887                   | 0              | <b>38 223 614</b> |
| 2. Other assets (unallocated)                |                          |                       |                         |                           | 397 508        | <b>397 508</b>    |
| <b>3. Total assets</b>                       | <b>8 973 534</b>         | <b>17 952 164</b>     | <b>11 045 029</b>       | <b>252 887</b>            | <b>397 508</b> | <b>38 621 122</b> |
| 4. Segment liabilities                       | 6 944 635                | 13 610 674            | 15 150 324              | 0                         | 0              | <b>35 705 633</b> |
| 5. Equity                                    | 0                        | 0                     | 0                       | 2 579 220                 | 0              | <b>2 579 220</b>  |
| 6. Unallocated liabilities                   | 0                        | 0                     | 0                       | 0                         | 336 269        | <b>336 269</b>    |
| <b>7. Total liabilities and equity</b>       | <b>6 944 635</b>         | <b>13 610 674</b>     | <b>15 150 324</b>       | <b>2 579 220</b>          | <b>336 269</b> | <b>38 621 122</b> |
| 1. Investments (costs of assets acquisition) | 0                        | 0                     | 0                       | 0                         | 161 663        | <b>161 663</b>    |
| 2. Depreciation                              | 0                        | 0                     | 0                       | 0                         | 84 998         | <b>84 998</b>     |

**Income statement for the period 01.01.2007-31.12.2007 (comparable data)**

|  | <b>Corporate Segment</b> | <b>Retail Segment</b> | <b>Treasury Segment</b> | <b>Investment Segment</b> | <b>Other</b>   | <b>Eliminations</b> | <b>Total</b>      |
|--|--------------------------|-----------------------|-------------------------|---------------------------|----------------|---------------------|-------------------|
| 1. Segment income (external)   | 500 746                  | 935 150               | 596 065                 | 21 329                    | 39 140         | 0                   | <b>2 092 430</b>  |
| 2. Segment income (internal)   | 216 360                  | 548 847               | 622 915                 | 0                         | 14             | -1 388 136          | <b>0</b>          |
| <b>3. Total segment income</b>   | <b>717 106</b>           | <b>1 483 997</b>      | <b>1 218 980</b>        | <b>21 329</b>             | <b>39 154</b>  | <b>-1 388 136</b>   | <b>2 092 430</b>  |
| 4. Segment expenses (external)   | -153 643                 | -352 442              | -315 209                | -7 648                    | 1 586          | 0                   | <b>-827 356</b>   |
| 4a. Allocated expenses   | -110 059                 | -671 965              | -9 197                  | -1 036                    | -30 910        | 0                   | <b>-823 167</b>   |
| 5. Segment expenses (internal)   | -290 877                 | -316 514              | -765 221                | -4 741                    | -10 783        | 1 388 136           | <b>0</b>          |
| <b>6. Total segment expenses</b>   | <b>-554 579</b>          | <b>-1 340 921</b>     | <b>-1 089 627</b>       | <b>-13 425</b>            | <b>-40 107</b> | <b>1 388 136</b>    | <b>-1 650 523</b> |
| <b>7. Net operating income for the segment</b>                                   | <b>162 527</b>           | <b>143 076</b>        | <b>129 353</b>          | <b>7 904</b>              | <b>-953</b>    | <b>0</b>            | <b>441 907</b>    |
| <b>8. Net impairment losses on financial assets, other assets and provisions</b> | <b>59 108</b>            | <b>15 890</b>         | <b>0</b>                | <b>0</b>                  | <b>-4 703</b>  | <b>0</b>            | <b>70 295</b>     |
| <b>9. Profit before tax for the segment</b>                                      | <b>221 635</b>           | <b>158 966</b>        | <b>129 353</b>          | <b>7 904</b>              | <b>-5 656</b>  | <b>0</b>            | <b>512 202</b>    |
| 10. Income tax expense   |                          |                       |                         |                           |                |                     | <b>-111 683</b>   |
| <b>11. Net profit/loss</b>   |                          |                       |                         |                           |                |                     | <b>400 519</b>    |

**Balance sheet as at 31.12.2007 (comparable data)**

|  | Corporate Segment | Retail Segment    | Treasury Segment | Investment Segment | Other          | Total             |
|--|-------------------|-------------------|------------------|--------------------|----------------|-------------------|
| 1. Segment assets                            | 7 320 619         | 9 545 326         | 9 469 612        | 260 706            | 0              | <b>26 596 263</b> |
| 2. Other assets (unallocated)                | 0                 | 0                 | 0                | 0                  | 472 241        | <b>472 241</b>    |
| <b>3. Total assets</b>                       | <b>7 320 619</b>  | <b>9 545 326</b>  | <b>9 469 612</b> | <b>260 706</b>     | <b>472 241</b> | <b>27 068 504</b> |
| 4. Segment liabilities                       | 4 894 473         | 12 095 097        | 7 274 731        | 0                  | 0              | <b>24 264 301</b> |
| 5. Equity                                    | 0                 | 0                 | 0                | 2 233 856          | 0              | <b>2 233 856</b>  |
| 6. Unallocated liabilities                   | 0                 | 0                 | 0                | 0                  | 570 347        | <b>570 347</b>    |
| <b>7. Total liabilities and equity</b>       | <b>4 894 473</b>  | <b>12 095 097</b> | <b>7 274 731</b> | <b>2 233 856</b>   | <b>570 347</b> | <b>27 068 504</b> |
| 1. Investments (costs of assets acquisition) | 0                 | 0                 | 0                | 0                  | 101 659        | <b>101 659</b>    |
| 2. Depreciation                              | 0                 | 0                 | 0                | 0                  | 91 270         | <b>91 270</b>     |

## 10. Interest income

|  | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|--|
| <b>On account of:</b>                            |                           |  |
| Loans and advances to banks                      | 103 858                   | 146 223                                      |
| Loans and advances to customers, including:      | 1 578 893                 | 997 630                                      |
| - from financial sector                          | 59 928                    | 34 813                                       |
| - from non-financial sector                      | 1 491 899                 | 935 378                                      |
| - from the budgetary sector                      | 27 066                    | 27 439                                       |
| Securities:                                      | 350 896                   | 302 426                                      |
| - at fair value through profit or loss           | 36 994                    | 17 783                                       |
| - available-for-sale                             | 207 110                   | 164 303                                      |
| - held-to-maturity                               | 106 792                   | 120 340                                      |
| Receivables arising from repurchase transactions | 413                       | 904  |
| Interest on hedging instruments                  | 92 294                    | 44 265                                       |
| <b>Total</b>                                     | <b>2 126 354</b>          | <b>1 491 448</b>                             |

Interest income comprises, e.g. cash interest and interest calculated on an accrual basis on receivables for which evidence for impairment was identified. Interest was calculated with the effective interest rate applied in discounting expected cash flows for the purpose of estimating the impairment loss on loan receivables. The amount of interest on receivables for which individual evidence for impairment was identified recognized in interest income for 2007 amounts to PLN 19,146 thousand as compared to PLN 22,828 thousand for 2008. Accrued interest was taken into consideration when estimating impairment losses on such receivables.

## 11. Interest expense

|  | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|--|
| <b>On account of:</b>                            |                           |  |
| Amounts due to banks                             | 352 732                   | 161 907                                      |
| Amounts due to customers, including:             | 753 272                   | 479 803                                      |
| - from financial sector                          | 115 404                   | 44 917                                       |
| - from non-financial sector                      | 513 459                   | 368 956                                      |
| - from budgetary sector                          | 124 409                   | 65 930                                       |
| Liabilities arising from repurchase transactions | 16 895                    | 26 365                                       |
| Other subordinated liabilities                   | 14 613                    | 22 253                                       |
| Interest on hedging instruments                  | 113 263                   | 38 830                                       |
| <b>Total</b>                                     | <b>1 250 775</b>          | <b>729 158</b>                               |
| <b>Net interest income</b>                       | <b>875 579</b>            | <b>762 290</b>                               |

## 12. Fee and commission income

|  | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|--|
| Fees and commissions on loans  | 44 906                    | 44 114                                       |
| Fees and commissions on deposit-related transactions with customers                      | 127 128                   | 131 197                                      |
| Fees and commissions due for servicing of payment cards and ATMs                         | 128 400                   | 89 916                                       |
| Fees and commissions on foreign clearing operations                                      | 16 915                    | 16 305                                       |
| Fees and commissions on guarantee commitments  | 14 840                    | 10 970                                       |
| Commissions on distribution and management of combined investment and insurance products | 37 543                    | 62 485                                       |
| Commissions on other custodian services  | 2 944                     | 3 180  |
| Other fees and commissions   | 6 947                     | 7 983  |
| <b>Total</b>   | <b>379 623</b>            | <b>366 150</b>                               |

## 13. Fee and commission expense

|  | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|--|
| Brokerages   | 1 798                     | 1 202  |
| Fees and commissions due servicing of payment cards and ATMs | 62 391                    | 36 695                                       |
| Fees related to loan guarantees                              | 14 916                    | 8 060  |
| Fees of credit reference agency                              | 5 367                     | 1 932  |
| Other fees and commissions                                   | 12 062                    | 10 246                                       |
| <b>Total</b>   | <b>96 534</b>             | <b>58 135</b>                                |
| <b>Net fee and commission income</b>                         | <b>283 089</b>            | <b>308 015</b>                               |

## 14. Dividend income

|              | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|--------------|---------------------------|--|
| Shares       | 10 067                    | 7 977  |
| <b>Total</b> | <b>10 067</b>             | <b>7 977</b>                                 |

## 15. Net trading income

|   | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|---|---------------------------|--|
| Net trading income, including:            |                           |  |
| - debt securities, including:             | 5 912                     | -6 848                                       |
| - held for trading                        | 2 201                     | -5 108                                       |
| - at fair value through profit<br>or loss | 3 711                     | -1 740                                       |
| - on derivatives                          | -272 755                  | 53 153                                       |
| - foreign exchange                        | 507 831                   | 132 674                                      |
| <b>Total</b>                              | <b>240 988</b>            | <b>178 979</b>                               |

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

|                                   | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|-----------------------------------|---------------------------|--|
| <b>Result on cash flows hedge</b> | <b>3 326</b>              | <b>-3 497</b>                                |
| - on hedging derivatives**        | 3 326                     | -3 497                                       |
| <b>Result on fair value hedge</b> | <b>-2 111</b>             | <b>-122</b>                                  |
| - on hedging derivatives          | -2 088                    | 1 014  |
| - on hedged financial assets      | -23                       | -1 136                                       |
| <b>Total *</b>                    | <b>1 215</b>              | <b>-3 619</b>                                |

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

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

## 17. Net gains from investment activities

|   | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|---|---------------------------|--|
| <b>Available-for-sale financial assets:</b> | <b>-11 598</b>            | <b>4 030</b>                                 |
| - equity instruments                        | 2 486                     | 2 851  |
| - debt instruments                          | -14 084                   | 1 179  |
| <b>Held-to-maturity assets:</b>             | <b>5</b>                  | <b>503</b>                                   |
| - debt instruments                          | 5                         | 503  |
| <b>Total</b>                                | <b>-11 593</b>            | <b>4 533</b>                                 |

## 18. Result for particular categories of financial assets and liabilities

|  | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|--|
| - at fair value through profit or loss, including: | -246 331                  | 38 627                                       |
| - held for trading                                 | -256 555                  | 32 366                                       |
| - hedging instruments                              | -19 754                   | 1 816  |
| - available-for-sale                               | 195 512                   | 168 333                                      |
| - held-to-maturity                                 | 106 797                   | 120 843                                      |
| - loans and advances to banks and customers        | 1 682 751                 | 1 143 853                                    |
| - amounts due to banks and customers               | -1 106 004                | -641 710                                     |
| - subordinated liabilities, issue of securities    | -14 613                   | -22 253                                      |
| <b>Total *</b>                                     | <b>598 358</b>            | <b>809 509</b>                               |

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

## 19. Other operating income

|  | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|--|
| Sale or liquidation of property, plant and equipment and assets to be disposed | 3 946                     | 3 703  |
| Recovered bad debts, including reimbursed debt recovery costs                  | 13 834                    | 16 407                                       |
| Indemnities, penalties and fines received                                      | 184                       | 256  |
| Side income  | 6 172                     | 7 910  |
| Reversal of impairment losses on receivables from other debtors                | 9 146                     | 2 109  |
| Lease income   | 5 217                     | 4 678  |
| Other operating income   | 15 224                    | 8 280  |
| <b>Total</b>   | <b>53 723</b>             | <b>43 343</b>                                |

## 20. General and administrative expenses

To ensure comparability of figures for 2007, the costs of VAT were separated from particular categories of expenses and presented in 'taxes and fees'.

|   | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|---|---------------------------|--|
| <b>Staff costs, including:</b>                                      | <b>441 073</b>            | <b>414 652</b>                               |
| - salaries and wages  | 361 040                   | 339 474                                      |
| - salaries and wages mark - up                                      | 55 996                    | 55 574                                       |
| - employee benefits   | 12 661                    | 10 659                                       |
| - training expenses   | 11 376                    | 8 945  |
| <b>General expenses, including:</b>                                 | <b>364 775</b>            | <b>317 246</b>                               |
| - costs of buildings maintenance and lease                          | 93 431                    | 88 025                                       |
| - postal and telecommunication expenses                             | 55 445                    | 45 435                                       |
| - IT systems operation costs  | 28 181                    | 25 675                                       |
| - promotion and advertising services                                | 21 169                    | 14 376                                       |
| - costs of machinery repairs and services provided under warranties | 12 859                    | 9 867  |
| - property protection costs   | 8 700                     | 7 880  |
| - costs of balance sheet audit, consulting and advisory             | 12 930                    | 10 223                                       |
| - transportation costs  | 15 745                    | 11 511                                       |
| - other banking services  | 19 248                    | 18 984                                       |
| - materials purchase  | 6 636                     | 6 525  |
| - business trips costs  | 4 740                     | 4 432  |
| - taxes and fees  | 73 348                    | 61 686                                       |
| - other   | 12 343                    | 12 627                                       |
| <b>Depreciation and amortisation, including:</b>                    | <b>84 998</b>             | <b>91 270</b>                                |
| - property, plant and equipment                                     | 63 291                    | 54 797                                       |
| - intangible assets   | 21 707                    | 36 473                                       |
| <b>Total</b>  | <b>890 846</b>            | <b>823 168</b>                               |

### Operating lease rentals

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

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



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

|                  | <b>01.01.2008-<br/>31.12.2008</b> | <b>Comparable data<br/>01.01.2007-<br/>31.12.2007</b> |
|------------------|-----------------------------------|---|
| Leasing payments | 77 157                            | 74 455  |

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

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

|   | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|---|-------------------|---------------------------------------|
| Future gross minimum lease payments (with VAT)      |                   |                                       |
| - not later than one year                           | 83 837            | 50 749                                |
| - later than one year and not later than five years | 201 108           | 110 342                               |
| - over 5 years                                      | 40 769            | 15 879                                |
| <b>Total</b>  | <b>325 714</b>    | <b>176 970</b>                        |

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

## 21. Net impairment losses on financial assets, other assets and provisions

### Recognition of impairment on assets and provisions

|  | 01.01.2008-<br>31.12.2008 | Comparable<br>data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|---|
| <b>Recognition of impairment on assets</b>                                 |                           |   |
| Loans and advances   | 1 285 655                 | 653 501   |
| Assets to be disposed, property, plant and equipment and intangible assets | 3 088                     | 5 259   |
| <b>Total impairment</b>  | <b>1 288 743</b>          | <b>658 760</b>                                  |
| <b>Additions of provisions</b>   |                           |   |
| Provisions for restructuring   | 0                         | 2 780   |
| Provisions for employee benefits   | 1 226                     | 0   |
| Provisions for liabilities   | 11 803                    | 27 977  |
| Provision for off-balance sheet liabilities                                | 72 731                    | 79 883  |
| <b>Total provisions</b>  | <b>85 760</b>             | <b>110 640</b>                                  |
| <b>Total</b>   | <b>1 374 503</b>          | <b>769 400</b>                                  |

### Reversal of impairment for assets and provisions

|  | 01.01.2008-<br>31.12.2008 | Comparable<br>data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|---|
| <b>Reversal of impairment losses on assets</b>                             |                           |   |
| Loans and advances   | 1 091 374                 | 748 394   |
| Assets to be disposed, property, plant and equipment and intangible assets | 103                       | 556   |
| <b>Total impairment</b>  | <b>1 091 477</b>          | <b>748 950</b>                                  |
| <b>Reversal of provisions</b>  |                           |   |
| Provisions for restructuring   | 1 637                     | 10  |
| Provisions for liabilities *   | 76 366                    | 5 742   |
| Provision for off-balance sheet liabilities                                | 71 939                    | 84 993  |
| <b>Total provisions</b>  | <b>149 942</b>            | <b>90 745</b>                                   |
| <b>Total</b>   | <b>1 241 419</b>          | <b>839 695</b>                                  |

|   |                 |               |
|---|-----------------|---------------|
| <b>Net impairment losses on financial assets, other assets and provisions</b> | <b>-133 084</b> | <b>70 295</b> |
|---|-----------------|---------------|

\*) Reversal of provisions for litigations due to the court judgments and expectations for pending proceedings which are favourable for the Bank. Litigations are presented in Note 68.

## 22. Other operating expenses

|  | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|--|
| Written off receivables and debt recovery expenses                             | 21 485                    | 22 482                                       |
| Other write-offs for various debtors   | 2 015                     | 3 244  |
| Disposal or liquidation of property, plant and equipment and intangible assets | 2 927                     | 842  |
| Indemnities, penalties and fines paid  | 5 250                     | 384  |
| Other expenses   | 8 082                     | 9 491  |
| <b>Total</b>   | <b>39 759</b>             | <b>36 443</b>                                |

## 23. Taxation

|  | 01.01.2008-<br>31.12.2008         | Comparable data<br>01.01.2007-<br>31.12.2007          |
|--|-----------------------------------|---|
| <b>Profit before tax</b>   | <b>389 379</b>                    | <b>512 202</b>  |
| <b>Income tax expense at basic tax rate (19%)</b>  | <b>73 982</b>                     | <b>97 318</b>   |
| <b>Permanent differences, including:</b>   | <b>14 325</b>                     | <b>14 365</b>   |
| loss on the sale of receivables  | 5 332                             | 14 582  |
| dividends received   | -1 913                            | -1 516  |
| provisions and impairment losses   | 14 809                            | 1 660   |
| other permanent differences  | - 3 903                           | -361  |
| <b>Actual deductions from net profit</b>   | <b>88 307</b>                     | <b>111 683</b>  |
| <b>Effective tax rate</b>  | <b>22.7%</b>                      | <b>21.8%</b>  |
| <b>Income tax expense in the income statement</b>  | <b>01.01.2008-<br/>31.12.2008</b> | <b>Comparable data<br/>01.01.2007-<br/>31.12.2007</b> |
| Current income tax   | 52 280                            | 73 783  |
| Deferred income tax  | 36 027                            | 37 900  |
| <b>Deductions from net profit</b>  | <b>88 307</b>                     | <b>111 683</b>  |
| <b>Deferred tax on the valuation of available-for-sale securities, cash flow hedge instruments, charged to revaluation reserve</b> | <b>31.12.2008</b>                 | <b>31.12.2007</b>                                     |
| Debt instruments   | 2 346                             | -12 869   |
| Cash flow hedge instruments  | 20 627                            | -7 684  |
| <b>Total</b>   | <b>22 973</b>                     | <b>-20 553</b>  |

| <b>Deferred tax asset</b>   | <b>31.12.2008</b> | <b>31.12.2007</b> | <b>Impact on the result for 2008</b> |
|---|-------------------|-------------------|--------------------------------------|
| Impairment losses on loans and advances portfolio   | 71 553            | 84 581            | -13 028                              |
| Impairment of property, plant and equipment   | 4 221             | 5 277             | -1 056                               |
| Accruals and provisions   | 17 458            | 19 768            | -2 310                               |
| Interest on deposits  | 25 273            | 9 808             | 15 465                               |
| Commissions and interest settled according to EIR   | 26 006            | 15 102            | 10 904                               |
| Income taxed in advance   | 1 643             | 2 985             | -1 342                               |
| Derivatives   | 366 025           | 71 084            | 294 941                              |
| Costs of debt securities  | 37 757            | 32 915            | 4 842                                |
| Finance lease   | 2 364             | 3 124             | -760                                 |
| Valuation of available-for-sale securities  | 7 456             | 21 977            | -14 521                              |
| Other negative temporary differences  | 4 518             | 1 813             | 2 705                                |
| <b>Total asset</b>  | <b>564 274</b>    | <b>268 434</b>    | <b>295 840</b>                       |
| including: an asset recognized with the income statement (in the period and in previous periods)    | 556 818           | 246 457           | 310 361                              |
| an asset recognized with revaluation reserve  | 7 456             | 21 977            | -14 521                              |
| <b>Deferred tax liability</b>   | <b>31.12.2008</b> | <b>31.12.2007</b> | <b>Impact on the result for 2008</b> |
| Accrued income from securities  | -40 084           | -33 180           | -6 904                               |
| Accrued interest on receivables   | -28 121           | -20 736           | -7 385                               |
| Derivatives   | -401 431          | -79 426           | -322 005                             |
| Depreciation  | -4 725            | -6 696            | 1 971                                |
| Other negative temporary differences  | -14 975           | -2 910            | -12 065                              |
| Valuation of available-for-sale securities  | -30 429           | -1 424            | -29 005                              |
| <b>Total liability</b>  | <b>-519 765</b>   | <b>-144 372</b>   | <b>-375 393</b>                      |
| including: a liability recognized with the income statement (in the period and in previous periods) | -489 336          | -142 948          | -346 388                             |
| a liability recognized with revaluation reserve   | -30 429           | -1 424            | -29 005                              |
| <b>Net deferred tax asset</b>   | <b>44 509</b>     | <b>124 062</b>    |                                      |

## 24. Earnings per share (EPS)

|  | <b>01.01.2008-<br/>31.12.2008</b> | <b>Comparable data<br/>01.01.2007-<br/>31.12.2007</b> |
|--|-----------------------------------|---|
| Net profit                                 | 301 072                           | 400 519   |
| Weighted average number of ordinary shares | 271 658 880                       | 271 658 880   |
| <b>Earnings per ordinary share in PLN</b>  | <b>1.11</b>                       | <b>1.47</b>   |

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

## 25. Cash and balances with Central Bank

### By types

|                                     | 31.12.2008     | Comparable data<br>31.12.2007 |
|-------------------------------------|----------------|-------------------------------|
| Cash in hand                        | 649 284        | 505 214                       |
| Current account in the Central Bank | 178 672        | 106 458                       |
| <b>Total</b>                        | <b>827 956</b> | <b>611 672</b>                |

## 26. Gross loans and advances to banks

### By types

|                             | 31.12.2008     | Comparable data<br>31.12.2007 |
|-----------------------------|----------------|-------------------------------|
| Current accounts            | 15 123         | 20 638                        |
| Deposits in other banks     | 153 785        | 2 361 935                     |
| Loans and advances to banks | 148 462        | 67 281                        |
| Purchased debt              | 21 204         | 3 488                         |
| Other                       | 2 285          | 3 007                         |
| <b>Total</b>                | <b>340 859</b> | <b>2 456 349</b>              |

### By maturity dates

|                      | 31.12.2008     | Comparable data<br>31.12.2007 |
|----------------------|----------------|-------------------------------|
| - up to 1 month      | 157 002        | 1 760 456                     |
| - 1-3 months         | 22 354         | 357 434                       |
| - 3-6 months         | 11 962         | 189 870                       |
| - 6 months to 1 year | 28 960         | 81 703                        |
| - 1 - 3 years        | 72 810         | 63 968                        |
| - 3 - 5 years        | 14 612         | 658                           |
| - 5 - 10 years       | 30 899         | 0                             |
| - past due           | 2 260          | 2 260                         |
| <b>Total</b>         | <b>340 859</b> | <b>2 456 349</b>              |

### Classification due to impairment

|  | 31.12.2008     | Comparable data<br>31.12.2007 |
|--|----------------|-------------------------------|
| Loans and advances with no evidence for impairment | 338 598        | 2 454 089                     |
| Loans and advances with evidence for impairment    | 2 261          | 2 260                         |
| <b>Total</b>                                       | <b>340 859</b> | <b>2 456 349</b>              |

## 27. Impairment losses on loans and advances to banks

|   | 31.12.2008   | Comparable data<br>31.12.2007 |
|---|--------------|-------------------------------|
| Impairment on loans and advances to banks at period beginning | 2 260        | 2 753                         |
| a) increase   | 1            | 0                             |
| b) decrease   | 0            | 493                           |
| - reversal of impairment                                      | 0            | 493                           |
| <b>Period end</b>   | <b>2 261</b> | <b>2 260</b>                  |

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

|  | 31.12.2008       | Comparable data<br>31.12.2007 |
|--|------------------|-------------------------------|
| <b>Debt securities held for trading</b>                      | <b>1 205 916</b> | <b>341 948</b>                |
| Treasury securities  | 1 204 969        | 341 672                       |
| - bonds  | 90 968           | 336 612                       |
| - bills  | 1 114 001        | 5 060                         |
| Other securities   | 947              | 276                           |
| - bonds  | 947              | 276                           |
| <b>Financial assets at fair value through profit or loss</b> | <b>141 111</b>   | <b>106 551</b>                |
| Treasury securities  | 61 692           | 60 300                        |
| - bonds  | 61 692           | 60 300                        |
| Other securities   | 79 419           | 46 251                        |
| - bonds  | 79 419           | 46 251                        |
| <b>Total</b>   | <b>1 347 027</b> | <b>448 499</b>                |

Fair value of bonds presented in 'Other securities' is determined by discounting cash flows resulting from the bonds with USD-SWAP swap curve, as there are no quotations on an active market. The bonds are with fixed coupon.

|                   | 31.12.2008       | Comparable data<br>31.12.2007 |
|-------------------|------------------|-------------------------------|
| <b>Listed</b>     | <b>1 267 608</b> | <b>402 248</b>                |
| - bonds           | 153 607          | 397 188                       |
| - bills           | 1 114 001        | 5 060                         |
| <b>Non-listed</b> | <b>79 419</b>    | <b>46 251</b>                 |
| - bonds           | 79 419           | 46 251                        |
| <b>Total</b>      | <b>1 347 027</b> | <b>448 499</b>                |

**By maturity dates**

|                      | 31.12.2008       | Comparable data<br>31.12.2007 |
|----------------------|------------------|-------------------------------|
| - up to 1 month      | 2 654            | 2 403                         |
| - 1-3 months         | 495 876          | 198                           |
| - 3-6 months         | 183 058          | 1 039                         |
| - 6 months to 1 year | 505 891          | 41 550                        |
| - 1 - 3 years        | 77 895           | 122 230                       |
| - 3 - 5 years        | 60 603           | 54 294                        |
| - 5 - 10 years       | 1 345            | 126 921                       |
| - 10 - 20 years      | 19 705           | 99 864                        |
| <b>Total</b>         | <b>1 347 027</b> | <b>448 499</b>                |

**29. Derivatives****Derivatives (by types)**

|                                      | 31.12.2008       |                  | Comparable data<br>31.12.2007 |                |
|--------------------------------------|------------------|------------------|-------------------------------|----------------|
|                                      | Assets           | Liabilities      | Assets                        | Liabilities    |
| <b>Interest rate transactions</b>    | <b>1 448 205</b> | <b>1 101 281</b> | <b>357 179</b>                | <b>341 052</b> |
| Options purchased                    | 3 898            | 0                | 75                            | 0              |
| Options sold                         | 0                | 3 482            | 0                             | 75             |
| IRS                                  | 1 026 323        | 634 920          | 207 605                       | 209 515        |
| FRA                                  | 417 984          | 462 879          | 149 499                       | 131 462        |
| <b>Foreign exchange transactions</b> | <b>854 594</b>   | <b>788 261</b>   | <b>136 143</b>                | <b>133 318</b> |
| FX swap                              | 169 509          | 207 868          | 46 892                        | 37 635         |
| CIRS                                 | 35 814           | 12 357           | 19 029                        | 14 086         |
| Forward                              | 98 640           | 16 812           | 6 138                         | 17 824         |
| Options purchased                    | 536 407          | 0                | 62 916                        | 0              |
| Options sold                         | 0                | 536 812          | 0                             | 62 816         |
| Spot                                 | 14 224           | 14 412           | 1 168                         | 957            |
| <b>Embedded instruments</b>          | <b>0</b>         | <b>679</b>       | <b>1 773</b>                  | <b>0</b>       |
| <b>Total</b>                         | <b>2 302 799</b> | <b>1 890 221</b> | <b>495 095</b>                | <b>474 370</b> |

**Derivatives (by maturity dates)**

|  | 31.12.2008         |                    | Comparable data<br>31.12.2007 |                   |
|--|--------------------|--------------------|-------------------------------|-------------------|
|  | Assets             | Liabilities        | Assets                        | Liabilities       |
| <b>Interest rate transactions (fair value)</b>       | <b>1 448 205</b>   | <b>1 101 281</b>   | <b>357 179</b>                | <b>341 052</b>    |
| <b>Interest rate transactions (nominal value)</b>    | <b>118 920 183</b> | <b>115 064 384</b> | <b>108 870 932</b>            | <b>90 038 880</b> |
| - up to 1 month                                      | 2 888 900          | 2 878 000          | 2 308 200                     | 740 000           |
| - 1-3 months   | 4 421 040          | 7 168 240          | 4 221 750                     | 4 554 029         |
| - 3-6 months   | 31 443 699         | 30 019 045         | 20 402 500                    | 20 352 675        |
| - 6 months to 1 year                                 | 48 428 758         | 43 902 779         | 47 704 000                    | 34 601 500        |
| - 1 - 3 years  | 28 690 689         | 26 369 784         | 32 251 525                    | 26 584 640        |
| - 3 - 5 years  | 2 533 249          | 3 796 688          | 1 517 373                     | 2 456 500         |
| - 5 - 10 years                                       | 513 848            | 929 848            | 465 584                       | 749 536           |
| <b>Foreign exchange transactions (fair value)</b>    | <b>854 594</b>     | <b>788 261</b>     | <b>136 143</b>                | <b>133 318</b>    |
| <b>Foreign exchange transactions (nominal value)</b> | <b>22 547 515</b>  | <b>22 490 521</b>  | <b>9 608 170</b>              | <b>9 611 264</b>  |
| - up to 1 month                                      | 11 133 216         | 11 178 139         | 4 493 926                     | 4 485 410         |
| - 1-3 months   | 4 838 230          | 4 863 129          | 1 105 254                     | 1 105 900         |
| - 3-6 months   | 2 998 148          | 2 927 729          | 1 391 650                     | 1 394 516         |
| - 6 months to 1 year                                 | 2 550 375          | 2 537 576          | 2 117 549                     | 2 122 882         |
| - 1 - 3 years  | 989 343            | 950 419            | 462 081                       | 463 404           |
| - 3 - 5 years  | 15 017             | 11 698             | 11 517                        | 11 984            |
| - 5 - 10 years                                       | 23 186             | 21 831             | 26 193                        | 27 168            |
| <b>Total fair value *)</b>                           | <b>2 302 799</b>   | <b>1 889 542</b>   | <b>493 322</b>                | <b>474 370</b>    |
| <b>Total nominal value **)</b>                       | <b>141 467 698</b> | <b>137 554 905</b> | <b>118 479 102</b>            | <b>99 650 144</b> |

\* net of embedded derivatives

\*\* the item 'Liabilities related to the sale/purchase transactions' in Note 3 also comprises current currency exchange transactions and transactions on securities.

**30. Gross loans and advances to customers****By types**

|                                  | Comparable data   |                   |
|----------------------------------|-------------------|-------------------|
|                                  | 31.12.2008        | 31.12.2007        |
| Loans and advances               | 27 769 510        | 17 673 453        |
| Purchased debt                   | 58 083            | 34 286            |
| Realised guarantees and sureties | 8 646             | 10 912            |
| Other receivables                | 16 916            | 19 401            |
| <b>Total</b>                     | <b>27 853 155</b> | <b>17 738 052</b> |



**By maturity dates**

|                      | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|----------------------|-------------------|---------------------------------------|
| - up to 1 month      | 619 998           | 2 608 723                             |
| - 1-3 months         | 828 841           | 539 638                               |
| - 3-6 months         | 915 405           | 488 146                               |
| - 6 months to 1 year | 5 496 591         | 2 644 646                             |
| - 1 - 3 years        | 3 550 513         | 2 435 887                             |
| - 3 - 5 years        | 2 388 745         | 1 982 251                             |
| - 5 - 10 years       | 4 219 960         | 2 382 547                             |
| - 10 - 20 years      | 4 588 744         | 2 186 040                             |
| - over 20 years      | 4 022 498         | 1 633 074                             |
| - past due           | 1 221 860         | 837 100                               |
| <b>Total</b>         | <b>27 853 155</b> | <b>17 738 052</b>                     |

**By customer types**

|                             | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|-----------------------------|-------------------|---------------------------------------|
| <b>Natural persons *</b>    | <b>18 462 714</b> | <b>9 723 900</b>                      |
| - overdraft facilities      | 695 814           | 594 784                               |
| - purchased debt            | 6 275             | 2 621                                 |
| - term loans **             | 979 667           | 1 073 564                             |
| - cash and instalment loans | 3 908 755         | 2 164 315                             |
| - mortgages                 | 12 854 847        | 5 876 171                             |
| - realised guarantees       | 1 583             | 1 519                                 |
| - other receivables         | 15 773            | 10 926                                |
| <b>Corporate customers</b>  | <b>9 041 581</b>  | <b>7 607 239</b>                      |
| - overdraft facilities      | 1 881 957         | 1 602 633                             |
| - term loans **             | 7 099 610         | 5 955 083                             |
| - purchased debt            | 51 808            | 31 655                                |
| - realised guarantees       | 7 063             | 9 393                                 |
| - other receivables         | 1 143             | 8 475                                 |
| <b>Budget</b>               | <b>348 860</b>    | <b>406 913</b>                        |
| - overdraft facilities      | 4 402             | 932                                   |
| - term loans **             | 344 458           | 405 971                               |
| - purchased debt            | 0                 | 10                                    |
| <b>Total</b>                | <b>27 853 155</b> | <b>17 738 052</b>                     |

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

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

**Receivables in breakdown by customer types and by impaired and non-impaired receivables (as at 31.12.2008)**

|                             | Gross receivables | Impaired gross receivables | Impairment without IBNR | Non-impaired gross receivables by days of delay in payment |                   |                  |                |               |              |
|-----------------------------|-------------------|----------------------------|-------------------------|--|-------------------|------------------|----------------|---------------|--------------|
|                             |                   |                            |                         | Total  | no delay          | up to 30 days    | 31 - 60 days   | 61 - 90 days  | over 90 days |
| <b>Natural persons*</b>     | <b>18 462 714</b> | <b>683 942</b>             | <b>412 888</b>          | <b>17 778 772</b>  | <b>16 223 405</b> | <b>1 333 958</b> | <b>200 375</b> | <b>20 577</b> | <b>457</b>   |
| - overdraft facilities      | 695 814           | 83 322                     | 67 384                  | 612 492  | 510 005           | 96 355           | 4 012          | 1 966         | 154          |
| - purchased debt            | 6 275             | 1 944                      | 1 938                   | 4 331  | 55                | 4 276            | 0              | 0             | 0            |
| - term loans **             | 979 667           | 103 650                    | 82 108                  | 876 016  | 810 468           | 58 726           | 6 287          | 527           | 8            |
| - cash and instalment loans | 3 908 755         | 326 102                    | 218 335                 | 3 582 653  | 3 152 451         | 294 532          | 128 975        | 6 630         | 65           |
| - mortgages                 | 12 854 847        | 167 340                    | 42 090                  | 12 687 508   | 11 734 654        | 880 069          | 61 101         | 11 454        | 230          |
| - realised guarantees       | 1 583             | 1 583                      | 1 032                   | 0  | 0                 | 0                | 0              | 0             | 0            |
| - other receivables         | 15 773            | 1                          | 1                       | 15 772   | 15 772            | 0                | 0              | 0             | 0            |
| <b>Corporate customers</b>  | <b>9 041 581</b>  | <b>824 380</b>             | <b>427 463</b>          | <b>8 217 201</b>   | <b>7 629 199</b>  | <b>547 875</b>   | <b>39 350</b>  | <b>766</b>    | <b>11</b>    |
| - overdraft facilities      | 1 881 957         | 73 176                     | 40 768                  | 1 808 781  | 1 776 625         | 31 076           | 1 042          | 38            | 0            |
| - term loans **             | 7 099 610         | 737 771                    | 378 226                 | 6 361 840  | 5 843 825         | 510 699          | 6 577          | 728           | 11           |
| - purchased debt            | 51 808            | 5 348                      | 4 611                   | 46 460   | 8 629             | 6 100            | 31 731         | 0             | 0            |
| - realised guarantees       | 7 063             | 7 063                      | 3 381                   | 0  | 0                 | 0                | 0              | 0             | 0            |
| - other receivables         | 1 143             | 1 022                      | 477                     | 120  | 120               | 0                | 0              | 0             | 0            |
| <b>Budget</b>               | <b>348 860</b>    | <b>0</b>                   | <b>0</b>                | <b>348 860</b>   | <b>336 236</b>    | <b>12 624</b>    | <b>0</b>       | <b>0</b>      | <b>0</b>     |
| - overdraft facilities      | 4 402             | 0                          | 0                       | 4 402  | 4 402             | 0                | 0              | 0             | 0            |
| - term loans **             | 344 458           | 0                          | 0                       | 344 458  | 331 834           | 12 624           | 0              | 0             | 0            |
| <b>Total</b>                | <b>27 853 155</b> | <b>1 508 322</b>           | <b>840 351</b>          | <b>26 344 833</b>  | <b>24 188 840</b> | <b>1 894 457</b> | <b>239 725</b> | <b>21 343</b> | <b>468</b>   |

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

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

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

|                             | Gross receivables | Impaired gross receivables | Impairment without IBNR | Non-impaired gross receivables by days of delay in payment |                   |                  |               |               |              |
|-----------------------------|-------------------|----------------------------|-------------------------|--|-------------------|------------------|---------------|---------------|--------------|
|                             |                   |                            |                         | Total  | no delay          | up to 30 days    | 31 - 60 days  | 61 - 90 days  | over 90 days |
| <b>Natural persons*</b>     | <b>9 723 900</b>  | <b>489 673</b>             | <b>349 638</b>          | <b>9 234 227</b>   | <b>8 534 577</b>  | <b>615 028</b>   | <b>59 943</b> | <b>24 018</b> | <b>661</b>   |
| - overdraft facilities      | 594 784           | 76 520                     | 69 463                  | 518 264  | 446 804           | 67 183           | 2 393         | 1 382         | 502          |
| - purchased debt            | 2 621             | 1 959                      | 1 914                   | 662  | 606               | 56               | 0             | 0             | 0            |
| - term loans **             | 1 073 564         | 186 631                    | 131 900                 | 886 933  | 798 538           | 82 897           | 4 362         | 1 083         | 53           |
| - cash and instalment loans | 2 164 315         | 131 108                    | 98 066                  | 2 033 207  | 1 823 981         | 157 318          | 32 761        | 19 103        | 44           |
| - mortgages                 | 5 876 171         | 91 936                     | 46 776                  | 5 784 235  | 5 453 722         | 307 574          | 20 427        | 2 450         | 62           |
| - realised guarantees       | 1 519             | 1 519                      | 1 519                   | 0  | 0                 | 0                | 0             | 0             | 0            |
| - other receivables         | 10 926            | 0                          | 0                       | 10 926   | 10 926            | 0                | 0             | 0             | 0            |
| <b>Corporate customers</b>  | <b>7 607 239</b>  | <b>824 742</b>             | <b>449 713</b>          | <b>6 782 497</b>   | <b>6 301 148</b>  | <b>477 573</b>   | <b>744</b>    | <b>128</b>    | <b>2 904</b> |
| - overdraft facilities      | 1 602 633         | 49 511                     | 26 020                  | 1 553 122  | 1 529 660         | 23 278           | 184           | 0             | 0            |
| - term loans **             | 5 955 083         | 759 748                    | 409 896                 | 5 195 335  | 4 741 737         | 450 212          | 354           | 128           | 2 904        |
| - purchased debt            | 31 655            | 6 090                      | 5 772                   | 25 565   | 21 276            | 4 083            | 206           | 0             | 0            |
| - realised guarantees       | 9 393             | 9 393                      | 8 025                   | 0  | 0                 | 0                | 0             | 0             | 0            |
| - other receivables         | 8 475             | 0                          | 0                       | 8 475  | 8 475             | 0                | 0             | 0             | 0            |
| <b>Budget</b>               | <b>406 913</b>    | <b>10</b>                  | <b>10</b>               | <b>406 903</b>   | <b>406 813</b>    | <b>90</b>        | <b>0</b>      | <b>0</b>      | <b>0</b>     |
| - overdraft facilities      | 932               | 0                          | 0                       | 932  | 932               | 0                | 0             | 0             | 0            |
| - term loans **             | 405 971           | 0                          | 0                       | 405 971  | 405 881           | 90               | 0             | 0             | 0            |
| - purchased debt            | 10                | 10                         | 10                      | 0  | 0                 | 0                | 0             | 0             | 0            |
| <b>Total</b>                | <b>17 738 052</b> | <b>1 314 425</b>           | <b>799 361</b>          | <b>16 423 627</b>  | <b>15 242 538</b> | <b>1 092 691</b> | <b>60 687</b> | <b>24 146</b> | <b>3 565</b> |

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

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

Impairment is measured for all loan receivables in the case of which certain individual evidence for impairment was identified.

As at 31.12.2008, the amount of non-amortised loan commissions settled with the effective interest rate method, which, according to the concept of the measurement of financial assets at amortised cost, decreases the value of gross receivables, amounted to PLN 44,261 thousand, as compared to PLN 54,740 thousand as at 31.12.2007. The amounts have already been recognized in total gross loans and advances.

### **Receivables quality ratio**

| in PLN '000'  | 31.12.2008        | Comparable<br>data<br>31.12.2007 |
|---|-------------------|----------------------------------|
| Loans and advances with no evidence for impairment, including interest                                | 26 344 833        | 16 423 627                       |
| Loans and advances with evidence for impairment, including interest                                   | 1 508 322         | 1 314 425                        |
| <b>Total gross loan and advances to customers</b>   | <b>27 853 155</b> | <b>17 738 052</b>                |
| Impairment losses on loans and advances to customers  | 927 457           | 839 724                          |
| including: impairment losses on loans and advances with evidence for impairment                       | 840 351           | 799 361                          |
| <b>Total net loans and advances to customers</b>  | <b>26 925 698</b> | <b>16 898 328</b>                |
| <b>The share of loans and advances with evidence for impairment in total gross loans and advances</b> | <b>5.4%</b>       | <b>7.4%</b>                      |
| <b>Coverage of loans and advances with evidence for impairment with impairment losses</b>             | <b>55.7%</b>      | <b>60.8%</b>                     |
| <b>Coverage of gross loans and advances to customers with corresponding impairment losses</b>         | <b>3.3%</b>       | <b>4.7%</b>                      |

In 2008, mainly due to the increase in loans portfolio, the share of doubtful loans and advances in total loans and advances was further reduced. As a result, in spite of the increase in impairment losses on loans and advances, the quality ratio for the Bank's gross loans and advances over 12 months improved by 2.0 p.p. According to the methodology assumed by the Bank, there are no loans and advances with evidence for impairment without corresponding impairment losses.

### **Receivables assessed individually**

|                   | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|-------------------|-------------------|---------------------------------------|
| Gross receivables | 710 851           | 633 972                               |
| Impairment        | 326 354           | 313 817                               |
| Net receivables   | 384 497           | 320 155                               |

### **Loan collaterals accepted by the Bank**

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

|   | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|---|-------------------|---------------------------------------|
| Value of accepted collaterals<br>for loans and advances assessed individually | 307 752           | 298 966                               |

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

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

### **Carrying amount of restructured receivables**

|                 | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|-----------------|-------------------|---------------------------------------|
| Carrying amount | 270 306           | 268 443                               |

### 31. Impairment losses on loans and advances to customers

|                            | Impairment losses as of 01.01.2008 | Recognized       | Reversed          | Written off     | Other changes | Impairment losses as of 31.12.2008 |
|----------------------------|------------------------------------|------------------|-------------------|-----------------|---------------|------------------------------------|
| <b>Natural persons *)</b>  | <b>381 093</b>                     | <b>937 271</b>   | <b>-774 505</b>   | <b>-59 550</b>  | <b>7 539</b>  | <b>491 848</b>                     |
| overdraft facilities       | 70 803                             | 79 022           | -77 032           | -2 500          | 0             | 70 293                             |
| purchased debt             | 1 914                              | 163              | -127              | -6              | 0             | 1 944                              |
| term loans **)             | 134 747                            | 124 033          | -169 989          | -8 743          | 4 092         | 84 140                             |
| cash and instalment loans  | 104 672                            | 564 459          | -340 351          | -47 220         | 0             | 281 560                            |
| mortgages                  | 67 258                             | 168 108          | -184 980          | -955            | 3 447         | 52 878                             |
| realised guarantees        | 1 519                              | 730              | -1 217            | 0               | 0             | 1 032                              |
| other receivables          | 180                                | 756              | -809              | -126            | 0             | 1                                  |
| <b>Corporate customers</b> | <b>457 866</b>                     | <b>346 508</b>   | <b>-314 429</b>   | <b>-59 976</b>  | <b>5 396</b>  | <b>435 365</b>                     |
| overdraft facilities       | 28 148                             | 100 971          | -83 965           | -2 488          | 0             | 42 666                             |
| term loans **)             | 415 842                            | 240 696          | -221 974          | -55 881         | 5 380         | 384 063                            |
| purchased debt             | 5 851                              | 2 566            | -2 576            | -1 080          | 16            | 4 777                              |
| realised guarantees        | 8 025                              | 1 797            | -5 914            | -527            | 0             | 3 381                              |
| other receivables          | 0                                  | 478              | 0                 | 0               | 0             | 478                                |
| <b>Budget</b>              | <b>765</b>                         | <b>1 876</b>     | <b>-2 440</b>     | <b>-1</b>       | <b>44</b>     | <b>244</b>                         |
| overdraft facilities       | 0                                  | 85               | -81               | 0               | 0             | 4                                  |
| term loans **)             | 755                                | 1 791            | -2 350            | 0               | 44            | 240                                |
| purchased debt             | 10                                 | 0                | -9                | -1              | 0             | 0                                  |
| <b>Total</b>               | <b>839 724</b>                     | <b>1 285 655</b> | <b>-1 091 374</b> | <b>-119 527</b> | <b>12 979</b> | <b>927 457</b>                     |

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

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

In the second quarter of 2008, the Bank changed the method of allocating impairment losses calculated collectively to particular subgroups subject to the collective analysis. However, this change has not affected, to a large extent, the total value of impairment losses which are evaluated collectively. The above change does not constitute a change in accounting principles, hence comparable data presented for previous reporting periods was not restated.

In the second half of 2008, the Bank finished the review and amendments of its methodology of estimating impairment losses on loans and advances valued collectively. As a result of amendments in the methodology, in the second half of 2008, the amount of PLN 27 million was deducted from the Bank's profit before tax.

|                            | Impairment losses as of 01.01.2007 | Recognized     | Reversed        | Written off     | Other changes | Impairment losses as of 31.12.2007 |
|----------------------------|------------------------------------|----------------|-----------------|-----------------|---------------|------------------------------------|
| <b>Natural persons *)</b>  | <b>415 540</b>                     | <b>392 457</b> | <b>-318 564</b> | <b>-103 449</b> | <b>-4 891</b> | <b>381 093</b>                     |
| overdraft facilities       | 73 975                             | 13 558         | -16 730         | 0               | 0             | 70 803                             |
| purchased debt             | 1 882                              | 857            | -825            | 0               | 0             | 1 914                              |
| term loans **)             | 167 056                            | 221 826        | -212 944        | -36 300         | -4 891        | 134 747                            |
| cash and instalment loans  | 109 887                            | 103 232        | -42 192         | -66 255         | 0             | 104 672                            |
| mortgages                  | 61 770                             | 52 009         | -45 627         | -894            | 0             | 67 258                             |
| realised guarantees        | 970                                | 795            | -246            | 0               | 0             | 1 519                              |
| other receivables          | 0                                  | 180            | 0               | 0               | 0             | 180                                |
| <b>Corporate customers</b> | <b>685 055</b>                     | <b>258 584</b> | <b>-427 627</b> | <b>-56 372</b>  | <b>-1 774</b> | <b>457 866</b>                     |
| overdraft facilities       | 33 290                             | 20 341         | -25 483         | 0               | 0             | 28 148                             |
| term loans **)             | 615 582                            | 226 496        | -368 465        | -56 372         | -1 399        | 415 842                            |
| purchased debt             | 5 778                              | 992            | -550            | 0               | -369          | 5 851                              |
| realised guarantees        | 30 306                             | 8 335          | -30 616         | 0               | 0             | 8 025                              |
| other receivables          | 99                                 | 2 420          | -2 513          | 0               | -6            | 0                                  |
| <b>Budget</b>              | <b>22</b>                          | <b>2 460</b>   | <b>-1 710</b>   | <b>-7</b>       | <b>0</b>      | <b>765</b>                         |
| overdraft facilities       | 0                                  | 24             | -24             | 0               | 0             | 0                                  |
| term loans **)             | 4                                  | 2 436          | -1 685          | 0               | 0             | 755                                |
| purchased debt             | 18                                 | 0              | -1              | -7              | 0             | 10                                 |
| <b>Total</b>               | <b>1 100 617</b>                   | <b>653 501</b> | <b>-747 901</b> | <b>-159 828</b> | <b>-6 665</b> | <b>839 724</b>                     |

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

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

### **IBNR**

Impairment losses on incurred but not reported (IBNR) credit losses for homogenous balance sheet and off-balance sheet receivables portfolios as at 31.12.2008 amounted to PLN 93,010 thousand, including PLN 5,904 thousand related to off-balance sheet liabilities; and as at 31.12.2007, amounted to PLN 45,550 thousand, including PLN 5,187 thousand related to off-balance sheet liabilities.

### 32. Investment securities

|                                      | 31.12.2008       | Comparable<br>data<br>31.12.2007 |
|--------------------------------------|------------------|----------------------------------|
| <b>Available-for-sale securities</b> | <b>4 359 740</b> | <b>3 433 103</b>                 |
| Treasury securities                  | 3 619 151        | 2 658 096                        |
| - bonds                              | 3 619 151        | 2 658 096                        |
| Central Bank securities              | 335 776          | 331 544                          |
| - bonds                              | 335 776          | 331 544                          |
| Other securities                     | 402 969          | 441 626                          |
| - bonds                              | 402 969          | 441 626                          |
| Equity securities                    | 1 844            | 1 837                            |
| <b>Held-to-maturity securities</b>   | <b>1 872 884</b> | <b>2 045 166</b>                 |
| Treasury securities                  | 1 803 119        | 2 045 166                        |
| - bonds                              | 1 803 119        | 2 045 166                        |
| Other securities                     | 69 765           | 0                                |
| - bonds                              | 69 765           | 0                                |
| <b>Total</b>                         | <b>6 232 624</b> | <b>5 478 269</b>                 |

All investment securities classified in the portfolio of available-for-sale financial assets are measured at fair value, except for NBP bonds issued for the purpose of statutory reserve of banks and SINPLN commercial bonds issued by THE HONGKONG AND SHANGHAI BANKING CORPORATION as well as non-listed equity investments. NBP bonds are measured at amortised cost, as there is no active market for them, and NBP bonds may only be redeemed by the issuer. And, the fair value of SINPLN bonds is determined by discounting cash flows arising from the bonds with PLN-SWAP swap curve, as there are no quotations on an active market. The bonds are with fixed coupon. Non-listed equity investments are recognized at cost, having regard for impairment losses, as there is also no active market for them and their fair value cannot be determined reliably.

|                                      | 31.12.2008       | Comparable<br>data<br>31.12.2007 |
|--------------------------------------|------------------|----------------------------------|
| <b>Available-for-sale securities</b> | <b>4 359 740</b> | <b>3 433 103</b>                 |
| <b>Listed</b>                        | <b>3 706 711</b> | <b>2 658 096</b>                 |
| - bonds                              | 3 706 711        | 2 658 096                        |
| <b>Non-listed</b>                    | <b>653 029</b>   | <b>775 007</b>                   |
| - shares                             | 1 844            | 1 837                            |
| - bonds                              | 651 185          | 773 170                          |
| <b>Held-to-maturity securities</b>   | <b>1 872 884</b> | <b>2 045 166</b>                 |
| <b>Listed</b>                        | <b>1 872 884</b> | <b>2 045 166</b>                 |
| - bonds                              | 1 872 884        | 2 045 166                        |
| <b>Total</b>                         | <b>6 232 624</b> | <b>5 478 269</b>                 |



**Maturities of available-for-sale investment securities**

|                                   | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|-----------------------------------|-------------------|---------------------------------------|
| - up to 1 month                   | 45 227            | 2 100                                 |
| - 1-3 months                      | 0                 | 0                                     |
| - 3-6 months                      | 396 787           | 0                                     |
| - 6 months to 1 year              | 17 015            | 0                                     |
| - 1 - 3 years                     | 1 302 025         | 959 052                               |
| - 3 - 5 years                     | 1 548 936         | 1 563 337                             |
| - 5 - 10 years                    | 1 017 604         | 702 391                               |
| - 10 - 20 years                   | 30 302            | 204 386                               |
| - with unspecified maturity dates | 1 844             | 1 837                                 |
| <b>Total</b>                      | <b>4 359 740</b>  | <b>3 433 103</b>                      |

**Maturities of held-to-maturity investment securities**

|                      | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|----------------------|-------------------|---------------------------------------|
| - up to 1 month      | 21 640            | 0                                     |
| - 1-3 months         | 0                 | 0                                     |
| - 3-6 months         | 244 608           | 350 423                               |
| - 6 months to 1 year | 0                 | 0                                     |
| - 1 - 3 years        | 1 236 948         | 1 037 634                             |
| - 3 - 5 years        | 90 319            | 433 213                               |
| - 5 - 10 years       | 279 369           | 223 896                               |
| <b>Total</b>         | <b>1 872 884</b>  | <b>2 045 166</b>                      |

**33. Financial assets subject to hedge accounting**

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

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

As at 31.12.2008, the Bank does not apply hedge accounting to hedge fair value of financial assets. In the fourth quarter of 2008, the fair value hedge for the bonds from the portfolio of available-for-sale assets with IRS became ineffective.

The rules of recognizing and measuring the effectiveness of the hedges for transactions subject to hedge accounting are described in Note 7.6.7 of these financial statements.

### As at 31.12.2008

#### Financial assets subject to cash flow hedge accounting

- bonds

#### Hedged assets – available-for-sale bonds

| Bond nominal value | Maturity date | Interest rate                  | Coupon rate payment |
|--------------------|---------------|--------------------------------|---------------------|
| 100 000            | 24.09.2011    | variable 6.72%<br>(31.12.2008) | every 6 months      |
| 36 000             | 24.09.2011    | variable 6.72%<br>(31.12.2008) | every 6 months      |
| 70 000             | 25.01.2018    | variable 6.72%<br>(31.12.2008) | every 6 months      |
| 50 000             | 25.01.2018    | variable 6.72%<br>(31.12.2008) | every 6 months      |
| 80 000             | 25.01.2018    | variable 6.72%<br>(31.12.2008) | every 6 months      |

#### IRS's hedging cash flows

| Nominal value | Maturity date | Interest rate   |             | Coupon rate payment |                | Balance sheet valuation with interest | Valuation in income statement (interest presented in net interest income) |
|---------------|---------------|-----------------|-------------|---------------------|----------------|---------------------------------------|---|
|               |               | Coupon received | Coupon paid | Coupon received     | Coupon paid    |                                       |   |
| 100 000       | 24.09.2009    | fixed 5.32%     | WIB 6M      | annually            | every 6 months | -247                                  | 0   |
| 36 000        | 23.03.2009    | fixed 4.38%     | WIB 6M      | annually            | every 6 months | 373                                   | 4   |
| 70 000        | 23.01.2009    | fixed 5.3%      | WIB 6M      | annually            | every 6 months | 1 336                                 | 66  |
| 50 000        | 25.07.2010    | fixed 5.5075%   | WIB 6M      | annually            | every 6 months | 692                                   | 0   |
| 80 000        | 29.08.2011    | fixed 5.66%     | WIB 6M      | annually            | every 6 months | 2 476                                 | 0   |
| <b>Total</b>  |               |                 |             |                     |                | <b>4 630</b>                          | <b>70</b>   |

- loans portfolio

Hedged assets – overdraft loans of PLN 1,100,000 thousand based on WIBOR O/N rate.  
IRS's hedging cash flows

| Nominal value | Maturity date | Interest rate   |             | Coupon rate payment |                | Balance sheet valuation with interest | Valuation in income statement (interest presented in net interest income) |
|---------------|---------------|-----------------|-------------|---------------------|----------------|---------------------------------------|---|
|               |               | Coupon received | Coupon paid | Coupon received     | Coupon paid    |                                       |   |
| 70 000        | 13.06.2012    | fixed 5.4475%   | WIB 6M      | annually            | every 6 months | 4 299                                 | 0   |
| 70 000        | 16.06.2009    | fixed 4.50%     | WIB O/N     | every 6 months      | every 6 months | -247                                  |   |
| 30 000        | 13.06.2012    | fixed 5.4475%   | WIB 6M      | annually            | every 6 months | 1 842                                 | 0   |
| 30 000        | 16.06.2009    | fixed 5.50%     | WIB O/N     | every 6 months      | every 6 months | -106                                  |   |
| 50 000        | 01.03.2013    | fixed 5.11%     | WIB 6M      | annually            | every 6 months | 2 767                                 | -16   |
| 50 000        | 03.03.2009    | fixed 6.18%     | WIB O/N     | every 6 months      | every 6 months | 101                                   |   |
| 25 000        | 03.03.2014    | fixed 5.12%     | WIB 6M      | annually            | every 6 months | 1 569                                 | -7  |
| 25 000        | 03.03.2009    | fixed 6.18%     | WIB O/N     | every 6 months      | every 6 months | 51                                    |   |
| 25 000        | 02.03.2015    | fixed 5.14%     | WIB 6M      | annually            | every 6 months | 1 732                                 | -21   |
| 25 000        | 03.03.2009    | fixed 6.18%     | WIB O/N     | every 6 months      | every 6 months | 51                                    |   |
| 100 000       | 01.08.2013    | fixed 5.075%    | WIB 3M      | annually            | every quarter  | 4 681                                 | 0   |
| 100 000       | 04.02.2009    | fixed 6.15%     | WIB O/N     | every quarter       | every quarter  | 132                                   |   |
| 25 000        | 22.06.2015    | fixed 5.09%     | WIB 3M      | annually            | every quarter  | 1 788                                 | 0   |
| 25 000        | 19.03.2009    | fixed 4.65%     | WIB O/N     | every quarter       | every quarter  | -56                                   |   |
| 50 000        | 18.12.2009    | fixed 4.78%     | WIB 3M      | annually            | every quarter  | 35                                    | 0   |
| 50 000        | 19.03.2009    | fixed 4.65%     | WIB O/N     | every quarter       | every quarter  | -112                                  |   |
| 100 000       | 05.01.2009    | fixed 4.6875%   | WIB 3M      | annually            | every quarter  | 3 039                                 | 13  |
| 100 000       | 06.01.2009    | fixed 6.20%     | WIB O/N     | every quarter       | every quarter  | 125                                   |   |
| 50 000        | 02.03.2012    | fixed 5.09%     | WIB 6M      | annually            | every 6 months | 2 267                                 | -58   |
| 50 000        | 03.03.2009    | fixed 6.18%     | WIB O/N     | every 6 months      | every 6 months | 101                                   |   |
| 100 000       | 21.03.2011    | fixed 4.9275%   | WIB 3M      | annually            | every quarter  | 4 869                                 | 0   |
| 100 000       | 19.03.2009    | fixed 4.65%     | WIB O/N     | every quarter       | every quarter  | -224                                  |   |
| 100 000       | 30.03.2009    | fixed 4.80%     | WIB 3M      | annually            | every quarter  | 3 177                                 | 332   |
| 100 000       | 02.01.2009    | fixed 6.15%     | WIB O/N     | every quarter       | every quarter  | 118                                   |   |
| 100 000       | 01.04.2009    | fixed 4.45%     | WIB O/N     | every quarter       | every quarter  | -262                                  |   |
| 50 000        | 30.03.2011    | fixed 5.00%     | WIB 6M      | annually            | every 6 months | 1 716                                 | 0   |
| 50 000        | 31.03.2009    | fixed 6.13%     | WIB O/N     | every 6 months      | every 6 months | 101                                   |   |

|              |            |              |         |                |                |               |            |
|--------------|------------|--------------|---------|----------------|----------------|---------------|------------|
| 50 000       | 30.03.2012 | fixed 5.03%  | WIB 6M  | annually       | every 6 months | 2 201         | 0          |
| 50 000       | 31.03.2009 | fixed 6.13%  | WIB O/N | every 6 months | every 6 months | 101           | 0          |
| 50 000       | 30.03.2010 | fixed 4.94%  | WIB 6M  | annually       | every 6 months | 1 314         | 0          |
| 50 000       | 31.03.2009 | fixed 6.13%  | WIB O/N | every 6 months | every 6 months | 101           | 0          |
| 50 000       | 04.04.2012 | fixed 5.03%  | WIB 6M  | annually       | every 6 months | 2 203         | 0          |
| 50 000       | 06.04.2009 | fixed 6.18%  | WIB O/N | every 6 months | every 6 months | 122           | 0          |
| 25 000       | 15.09.2014 | fixed 5.085% | WIB 3M  | annually       | every quarter  | 1 377         | 0          |
| 25 000       | 19.03.2009 | fixed 4.65%  | WIB O/N | every quarter  | every quarter  | -56           | 0          |
| 50 000       | 09.07.2013 | fixed 5.675% | WIB 6M  | annually       | every 6 months | 2 782         | 0          |
| 50 000       | 09.01.2009 | fixed 6.60%  | WIB O/N | every 6 months | every 6 months | 153           | 0          |
| 50 000       | 09.07.2014 | fixed 5.67%  | WIB 6M  | annually       | every 6 months | 3 308         | 0          |
| 50 000       | 10.01.2009 | fixed 6.60%  | WIB O/N | every 6 months | every 6 months | 153           | 0          |
| 50 000       | 14.12.2009 | fixed 4.78%  | WIB 3M  | annually       | every quarter  | 28            | 66         |
| 50 000       | 19.03.2009 | fixed 4.65%  | WIB O/N | every quarter  | every quarter  | -112          | 66         |
| 26 000       | 03.10.2013 | fixed 4.595% | WIB 6M  | every 6 months | annually       | -286          | 0          |
| <b>Total</b> |            |              |         |                |                | <b>46 943</b> | <b>309</b> |

Hedged assets – mortgage loans of PLN 1,460,000 thousand.

#### IRS's hedging cash flows

| Nominal value | Maturity Date | Interest rate   |             | Coupon rate payment |               | Balance sheet valuation with interest | Valuation in income statement (interest presented in net interest income) |
|---------------|---------------|-----------------|-------------|---------------------|---------------|---------------------------------------|---|
|               |               | Coupon received | Coupon Paid | Coupon received     | Coupon Paid   |                                       |   |
| 100 000       | 09.07.2012    | fixed 5.6975%   | WIB 3M      | annually            | every quarter | 6 061                                 | 0   |
| 100 000       | 13.08.2012    | fixed 5.615%    | WIB 3M      | annually            | every quarter | 5 881                                 | 0   |
| 50 000        | 13.08.2012    | fixed 5.615%    | WIB 3M      | annually            | every quarter | 2 941                                 | 0   |
| 120 000       | 10.09.2011    | fixed 5.65%     | WIB 3M      | annually            | every quarter | 5 712                                 | 0   |
| 20 000        | 10.09.2011    | fixed 5.65%     | WIB 3M      | annually            | every quarter | 952                                   | 0   |
| 150 000       | 09.11.2012    | fixed 5.75%     | WIB 3M      | annually            | every quarter | 7 982                                 | 0   |
| 30 000        | 17.12.2014    | fixed 5.90%     | WIB 3M      | annually            | every quarter | 2 594                                 | -12   |
| 75 000        | 10.01.2013    | fixed 5.94%     | WIB 3M      | annually            | every quarter | 8 089                                 | -16   |
| 100 000       | 07.02.2011    | fixed 5.73%     | WIB 3M      | annually            | every quarter | 6 904                                 | 0   |
| 85 000        | 08.02.2013    | fixed 5.63%     | WIB 3M      | annually            | every quarter | 8 045                                 | 0   |
| 85 000        | 20.02.2015    | fixed 5.85%     | WIB 3M      | annually            | every quarter | 10 963                                | 0   |

|              |            |                  |        |          |               |                |            |
|--------------|------------|------------------|--------|----------|---------------|----------------|------------|
| 100 000      | 04.03.2013 | fixed 6.01%      | WIB 3M | annually | every quarter | 11 332         | 0          |
| 70 000       | 05.03.2015 | fixed 5.9%       | WIB 3M | annually | every quarter | 9 301          | 0          |
| 50 000       | 15.04.2013 | fixed 5.92%      | WIB 3M | annually | every quarter | 4 770          | 0          |
| 50 000       | 17.04.2013 | fixed 5.85%      | WIB 3M | annually | every quarter | 4 612          | -13        |
| 50 000       | 17.04.2012 | fixed 5.92%      | WIB 3M | annually | every quarter | 3 977          | -2         |
| 30 000       | 08.05.2012 | fixed 5.94%      | WIB 3M | annually | every quarter | 2 447          | 0          |
| 75 000       | 16.05.2013 | fixed 6.01%      | WIB 3M | annually | every quarter | 7 566          | 0          |
| 60 000       | 02.10.2013 | fixed<br>5.5375% | WIB 3M | annually | every quarter | 3 305          | 0          |
| 60 000       | 22.12.2013 | fixed 4.30%      | WIB 3M | annually | every quarter | 239            | 0          |
| <b>Total</b> |            |                  |        |          |               | <b>113 673</b> | <b>-43</b> |

As at 31.12.2007 (comparable data)

**Financial assets subject to cash flow hedge accounting**

- bonds

**Hedged assets – available-for-sale bonds**

| Bond nominal value | Maturity date | Interest rate                  | Coupon rate payment |
|--------------------|---------------|--------------------------------|---------------------|
| 100 000            | 24.09.2011    | variable 5.23%<br>(31.12.2008) | every 6 months      |
| 50 000             | 24.09.2011    | variable 5.23%<br>(31.12.2008) | every 6 months      |
| 36 000             | 24.09.2011    | variable 5.23%<br>(31.12.2008) | every 6 months      |
| 70 000             | 25.01.2018    | variable 4.93%<br>(31.12.2008) | every 6 months      |
| 50 000             | 25.01.2018    | variable 4.93%<br>(31.12.2008) | every 6 months      |
| 80 000             | 25.01.2018    | variable 4.93%<br>(31.12.2008) | every 6 months      |

**IRS's hedging cash flows**

| Nominal value | Maturity date | Interest rate   |             | Coupon rate payment |                | Balance sheet valuation with interest | Valuation in income statement (interest presented in net interest income) |
|---------------|---------------|-----------------|-------------|---------------------|----------------|---------------------------------------|---|
|               |               | Coupon received | Coupon paid | Coupon received     | Coupon paid    |                                       |   |
| 100 000       | 24.09.2009    | fixed 5.32%     | WIBOR 6M    | annually            | every 6 months | -1 298                                | -69   |
| 50 000        | 25.09.2008    | fixed 5.25%     | WIBOR 6M    | annually            | every 6 months | -268                                  | -28   |
| 36 000        | 23.03.2009    | fixed 4.38%     | WIBOR 6M    | annually            | every 6 months | -4                                    | -13   |
| 70 000        | 23.01.2009    | fixed 5.30%     | WIBOR 6M    | annually            | every 6 months | -477                                  | -82   |
| 50 000        | 25.07.2010    | fixed 5.5075%   | WIBOR 6M    | annually            | every 6 months | -612                                  | -117  |
| 80 000        | 29.08.2011    | fixed 5.66%     | WIBOR 6M    | annually            | every 6 months | -888                                  | -153  |
| <b>Total</b>  |               |                 |             |                     |                | <b>-3 547</b>                         | <b>-462</b>   |

- loans portfolio

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

### IRS's hedging cash flows

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

|              |            |              |           |                |                |               |              |
|--------------|------------|--------------|-----------|----------------|----------------|---------------|--------------|
| 25 000       | 15.09.2014 | fixed 5.085% | WIBOR 3M  | annually       | every quarter  | -832          | 76           |
| 25 000       | 18.03.2008 | fixed 5.56%  | WIBOR O/N | every quarter  | every quarter  | 2             |              |
| 50 000       | 09.07.2013 | fixed 5.675% | WIBOR 6M  | annually       | every 6 months | -531          | 150          |
| 50 000       | 09.01.2008 | fixed 4.90%  | WIBOR O/N | every 6 months | every 6 months | 8             |              |
| 50 000       | 09.07.2014 | fixed 5.67%  | WIBOR 6M  | annually       | every 6 months | -532          | 136          |
| 50 000       | 09.01.2008 | fixed 4.90%  | WIBOR O/N | every 6 months | every 6 months | 8             |              |
| 50 000       | 14.12.2009 | fixed 4.78%  | WIBOR 3M  | annually       | every quarter  | -1 294        | 77           |
| 50 000       | 13.03.2008 | fixed 5.48%  | WIBOR O/N | every quarter  | every quarter  | 2             |              |
| 100 000      | 02.01.2008 | fixed 4.99%  | WIBOR O/N | every quarter  | every quarter  | 30            | 0            |
| <b>Total</b> |            |              |           |                |                | <b>-6 844</b> | <b>2 122</b> |

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

### IRS's hedging cash flows

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

### Financial assets subject to fair value hedge accounting

- bonds

Hedged assets – available-for-sale bonds

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



## IRS's hedging fair value of bonds

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

In the case of cash flow hedge, the amount recognized in equity in 2008 was PLN 108,229 thousand, and the amount derecognized from equity and recognized in the income statement (ineffective part) amounted to PLN 336 thousand. The amount recognized in equity at the end of 2007 was -PLN 44,108 thousand, and the amount derecognized from equity and recognized in the income statement (ineffective part) amounted to PLN 3,662 thousand.

**Summary of valuations of hedging derivatives**

|   | 31.12.2008 | Comparable data<br>31.12.2007 |
|---|------------|-------------------------------|
| Total positive valuations (with interest) | 166 954    | 34 025                        |
| Total negative valuations (with interest) | -1 708     | -44 178                       |

**34. Investments in subsidiaries and jointly controlled entities**

|   | 31.12.2008    | Comparable data<br>31.12.2007 |
|---|---------------|-------------------------------|
| In entities of the financial sector     | 2 654         | 2 643                         |
| In entities of the non-financial sector | 63 421        | 71 233                        |
| <b>Total</b>                            | <b>66 075</b> | <b>73 876</b>                 |

**35. Property, plant and equipment**

|   | <b>31.12.2008</b> | <b>Comparable<br/>data<br/>31.12.2007</b> |
|---|-------------------|---|
| Property, plant and equipment, including: | <b>344 560</b>    | <b>280 567</b>                            |
| - land                                    | 23 045            | 6 886                                     |
| - buildings and premises                  | 163 083           | 139 974                                   |
| - plant and machinery                     | 85 885            | 58 132                                    |
| - motor vehicles                          | 155               | 271                                       |
| - other property, plant and equipment     | 72 392            | 75 304                                    |
| Construction in progress                  | 53 641            | 62 871                                    |
| <b>Total</b>                              | <b>398 201</b>    | <b>343 438</b>                            |

**Movement on property, plant and equipment****For the period of 12 months ended 31.12.2008**

|   | Land          | Buildings and premises | Plant and machinery | Motor vehicles | Other property, plant and equipment | Construction in progress | Total property, plant and equipment |
|---|---------------|------------------------|---------------------|----------------|-------------------------------------|--------------------------|-------------------------------------|
| a) gross property, plant and equipment as at 01.01.2008                       | 10 116        | 199 397                | 429 542             | 1 578          | 160 550                             | 62 871                   | 864 054                             |
| b) increase   | 16 203        | 31 474                 | 65 981              | 0              | 26 292                              | 595                      | 140 545                             |
| - acquisition   | 16 203        | 31 474                 | 65 594              | 0              | 26 292                              | 595                      | 140 158                             |
| - other increase  | 0             | 0                      | 387                 | 0              | 0                                   | 0                        | 387                                 |
| c) decrease   | 46            | 2 644                  | 75 082              | 202            | 19 290                              | 9 825                    | 107 089                             |
| - sale  | 0             | 2 644                  | 1 107               | 15             | 0                                   | 0                        | 3 766                               |
| - liquidation   | 0             | 0                      | 68 839              | 184            | 19 280                              | 0                        | 88 303                              |
| - other decrease  | 46            | 0                      | 5 136               | 3              | 10                                  | 9 825                    | 15 020                              |
| d) gross property, plant and equipment as at 31.12.2008                       | 26 273        | 228 227                | 420 441             | 1 376          | 167 552                             | 53 641                   | 897 510                             |
| e) accumulated depreciation of property, plant and equipment as at 01.01.2008 | 195           | 42 067                 | 370 421             | 1 086          | 84 450                              | 0                        | 498 219                             |
| f) net property, plant and equipment as at 01.01.2008                         | 6 886         | 139 974                | 58 132              | 271            | 75 304                              | 62 871                   | 343 438                             |
| g) changes in depreciation  | -2            | 5 721                  | -36 724             | -19            | 9 919                               | 0                        | -21 105                             |
| - depreciation  | 0             | 6 345                  | 37 769              | 116            | 19 061                              | 0                        | 63 291                              |
| - sale  | -2            | -624                   | -1 172              | -4             | 0                                   | 0                        | -1 802                              |
| - liquidation   | 0             | 0                      | -68 534             | -18            | -9 142                              | 0                        | -77 694                             |
| - other changes   | 0             | 0                      | -4 787              | -113           | 0                                   | 0                        | -4 900                              |
| h) accumulated depreciation as at 31.12.2008                                  | 193           | 47 788                 | 333 697             | 1 067          | 94 369                              | 0                        | 477 114                             |
| i) impairment as at 01.01.2008  | 3 035         | 17 356                 | 989                 | 221            | 796                                 | 0                        | 22 397                              |
| - decreases   | 0             | 0                      | 130                 | 67             | 5                                   | 0                        | 202                                 |
| j) impairment as at 31.12.2008  | 3 035         | 17 356                 | 859                 | 154            | 791                                 | 0                        | 22 195                              |
| <b>Net property, plant and equipment as at 31.12.2008</b>                     | <b>23 045</b> | <b>163 083</b>         | <b>85 885</b>       | <b>155</b>     | <b>72 392</b>                       | <b>53 641</b>            | <b>398 201</b>                      |

**For the period of 12 months ended 31.12.2007 (comparable data)**

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

### 36. Intangible assets

|  | 31.12.2008    | Comparable<br>data 31.12.2007 |
|--|---------------|-------------------------------|
| Patents, licenses and similar rights, including: | 39 440        | 40 903                        |
| - computer software                              | 39 440        | 40 903                        |
| Other intangible assets                          | 18 414        | 24 522                        |
| <b>Total</b>                                     | <b>57 854</b> | <b>65 425</b>                 |

### 37. Movement on intangible assets

*For the period of 12 months ended 31.12.2008*

|   | Patents,<br>licenses<br>and similar<br>rights | including:<br>computer<br>software | Other<br>intangible<br>assets | Total<br>intangible<br>assets |
|---|---|------------------------------------|-------------------------------|-------------------------------|
| a) gross intangible assets as at 01.01.2008   | 269 604                                       | 269 604                            | 35 083                        | 304 687                       |
| b) increase                                   | 20 412  | 20 412                             | 1 093                         | 21 505                        |
| - acquisition                                 | 20 412  | 20 412                             | 1 093                         | 21 505                        |
| c) decrease                                   | 10 439  | 10 439                             | 4 204                         | 14 643                        |
| - liquidation                                 | 10 062  | 10 062                             | 0                             | 10 062                        |
| - other decrease                              | 377   | 377                                | 4 204                         | 4 581                         |
| d) gross intangible assets as at 31.12.2008   | 279 577                                       | 279 577                            | 31 972                        | 311 549                       |
| e) accumulated amortisation as at 01.01.2008  | 224 175                                       | 224 175                            | 6 278                         | 230 453                       |
| f) net intangible assets as at 01.01.2008     | 40 903  | 40 903                             | 24 522                        | 65 425                        |
| g) amortisation in the period                 | 12 095  | 12 095                             | 58                            | 12 153                        |
| - amortisation                                | 21 649  | 21 649                             | 58                            | 21 707                        |
| - liquidation                                 | -9 403  | -9 403                             | 0                             | -9 403                        |
| - other changes                               | -151  | -151                               | 0                             | -151                          |
| h) accumulated amortisation as at 31.12.2008  | 236 270                                       | 236 270                            | 6 336                         | 242 606                       |
| i) impairment as at 01.01.2008                | 4 526   | 4 526                              | 4 283                         | 8 809                         |
| - increases                                   | 0   | 0                                  | 2 939                         | 2 939                         |
| - decreases                                   | 659   | 659                                | 0                             | 659                           |
| j) impairment as at 31.12.2008                | 3 867   | 3 867                              | 7 222                         | 11 089                        |
| <b>Net intangible assets as at 31.12.2008</b> | <b>39 440</b>                                 | <b>39 440</b>                      | <b>18 414</b>                 | <b>57 854</b>                 |

**For the period of 12 months ended 31.12.2007 (comparable data)**

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

**38. Non-current assets classified as held for sale**

|   | 31.12.2008 | Comparable<br>data<br>31.12.2007 |
|---|------------|----------------------------------|
| Gross non-current assets classified as held for sale      | 0          | 767                              |
| Impairment losses   | 0          | 0                                |
| <b>Net non-current assets classified as held for sale</b> | <b>0</b>   | <b>767</b>                       |

**39. Other assets**

|   | 31.12.2008    | Comparable<br>data<br>31.12.2007 |
|---|---------------|----------------------------------|
| Inventory                                   | 89            | 0                                |
| Various debtors* (including):               | 63 295        | 60 033                           |
| - gross various debtors                     | 70 309        | 75 934                           |
| - impairment losses                         | -7 014        | -15 901                          |
| Prepaid expenses                            | 16 366        | 14 743                           |
| Other assets, including:                    | 31            | 208                              |
| - gross assets taken over for debts         | 49            | 1 057                            |
| - impairment on assets taken over for debts | -18           | -849                             |
| <b>Total</b>                                | <b>79 781</b> | <b>74 984</b>                    |

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

**40. Amounts due to Central Bank*****By types***

|                          | 31.12.2008       | Comparable<br>data<br>31.12.2007 |
|--------------------------|------------------|----------------------------------|
| Lombard loan             | 0                | 1 100 000                        |
| Open market transactions | 1 112 131        | 0                                |
| Other amounts due        | 1 144            | 1 661                            |
| <b>Total</b>             | <b>1 113 275</b> | <b>1 101 661</b>                 |

***By maturity dates***

|                      | 31.12.2008       | Comparable<br>data<br>31.12.2007 |
|----------------------|------------------|----------------------------------|
| - up to 1 month      | 194 067          | 1 101 661                        |
| - 1-3 months         | 918 083          | 0                                |
| - 3-6 months         | 0                | 0                                |
| - 6 months to 1 year | 1 125            | 0                                |
| <b>Total</b>         | <b>1 113 275</b> | <b>1 101 661</b>                 |

#### 41. Amounts due to banks

##### By types

|                             | 31.12.2008        | Comparable<br>data<br>31.12.2007 |
|-----------------------------|-------------------|----------------------------------|
| Current accounts            | 1 271 449         | 28 114                           |
| Term deposits               | 4 087 081         | 2 517 509                        |
| Borrowed loans and advances | 6 553 261         | 2 720 710                        |
| Other amounts due           | 3 222             | 5 116                            |
| <b>Total</b>                | <b>11 915 013</b> | <b>5 271 449</b>                 |

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

|                      | 31.12.2008        | Comparable<br>data<br>31.12.2007 |
|----------------------|-------------------|----------------------------------|
| - up to 1 month      | 2 499 844         | 2 362 562                        |
| - 1-3 months         | 1 844 149         | 130 793                          |
| - 3-6 months         | 0                 | 56 782                           |
| - 6 months to 1 year | 1 017 759         | 602                              |
| - 1 - 3 years        | 4 504 895         | 865 715                          |
| - over 3 years       | 2 048 366         | 1 854 995                        |
| <b>Total</b>         | <b>11 915 013</b> | <b>5 271 449</b>                 |

#### 42. Amounts due to customers

##### By types

|                             | 31.12.2008        | Comparable<br>Data<br>31.12.2007 |
|-----------------------------|-------------------|----------------------------------|
| Current accounts            | 11 229 309        | 10 864 712                       |
| Term deposits               | 9 113 698         | 6 201 694                        |
| Borrowed loans and advances | 149               | 0                                |
| Other amounts due           | 212 153           | 114 325                          |
| <b>Total</b>                | <b>20 555 309</b> | <b>17 180 731</b>                |



**Amounts due to customers (by maturity dates as at the balance sheet date)****By maturity dates**

|                      | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|----------------------|-------------------|---------------------------------------|
| - up to 1 month      | 14 514 908        | 14 677 673                            |
| - 1-3 months         | 3 419 764         | 1 229 987                             |
| - 3-6 months         | 1 476 417         | 541 260                               |
| - 6 months to 1 year | 716 340           | 417 963                               |
| - 1 - 3 years        | 194 506           | 21 806                                |
| - 3 - 5 years        | 215 187           | 262 602                               |
| - 5 - 10 years       | 17 327            | 28 597                                |
| - 10 - 20 years      | 860               | 843                                   |
| <b>Total</b>         | <b>20 555 309</b> | <b>17 180 731</b>                     |

**Liabilities by customer types**

|                            | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|----------------------------|-------------------|---------------------------------------|
| <b>Natural persons*</b>    | <b>10 375 169</b> | <b>10 298 896</b>                     |
| - in current account       | 6 797 580         | 7 039 089                             |
| - term deposits            | 3 403 116         | 3 154 154                             |
| - other                    | 174 473           | 105 653                               |
| <b>Corporate customers</b> | <b>7 756 748</b>  | <b>4 824 646</b>                      |
| - in current account       | 2 394 394         | 2 487 847                             |
| - term deposits            | 5 324 525         | 2 328 127                             |
| - loans and advances       | 149               | 0                                     |
| - other                    | 37 680            | 8 672                                 |
| <b>Budget</b>              | <b>2 423 392</b>  | <b>2 057 189</b>                      |
| - in current account       | 2 037 335         | 1 337 776                             |
| - term deposits            | 386 057           | 719 413                               |
| <b>Total</b>               | <b>20 555 309</b> | <b>17 180 731</b>                     |

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

#### 43. Liabilities arising from repurchase transactions

|                 | 31.12.2008   | Comparable<br>data<br>31.12.2007 |
|-----------------|--------------|----------------------------------|
| - up to 1 month | 8 991        | 50 126                           |
| <b>Total</b>    | <b>8 991</b> | <b>50 126</b>                    |

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

#### 44. Provisions

|                                       | 31.12.2008    | Comparable<br>data<br>31.12.2007 |
|---------------------------------------|---------------|----------------------------------|
| Employee benefits provision           | 1 691         | 702                              |
| Provision for off-balance sheet items | 16 069        | 15 009                           |
| Restructuring provision               | 419           | 5 256                            |
| Provision for litigations             | 12 200        | 84 757                           |
| <b>Total</b>                          | <b>30 379</b> | <b>105 724</b>                   |

The litigations with the highest value claims are described in section 68 below.

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

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

**Movement on provisions**

|   | <b>01.01.2008-<br/>31.12.2008</b> | <b>Comparable<br/>data<br/>01.01.2007-<br/>31.12.2007</b> |
|---|-----------------------------------|---|
| Period beginning                        | <b>105 724</b>                    | <b>98 775</b>   |
| - employee benefits provision           | 702                               | 933   |
| - provision for off-balance sheet items | 15 009                            | 17 594  |
| - restructuring provision               | 5 256                             | 10 988  |
| - provision for litigations             | 84 757                            | 69 260  |
| <b>a) increases</b>                     | <b>85 760</b>                     | <b>110 640</b>  |
| - employee benefits provision           | 1 226                             | 0   |
| - provision for off-balance sheet items | 72 731                            | 79 883  |
| - restructuring provision               | 0                                 | 2 780   |
| - provision for litigations             | 11 803                            | 27 977  |
| <b>b) decreases - utilization</b>       | <b>-11 431</b>                    | <b>-12 920</b>  |
| - employee benefits provision           | -237                              | -231  |
| - restructuring provision               | -3 200                            | -8 502  |
| - provision for litigations             | -7 994                            | -4 187  |
| <b>c) decreases - releases</b>          | <b>-149 942</b>                   | <b>-90 745</b>  |
| - provision for off-balance sheet items | -71 939                           | -84 993   |
| - restructuring provision               | -1 637                            | -10   |
| - provision for litigations             | *)-76 366                         | -5 742  |
| <b>d) other changes</b>                 | <b>268</b>                        | <b>-26</b>  |
| - provision for off-balance sheet items | 268                               | 2 525   |
| - provision for litigations             | 0                                 | -2 551  |
| <b>Period end (by items)</b>            | <b>30 379</b>                     | <b>105 724</b>  |
| - employee benefits provision           | 1 691                             | 702   |
| - provision for off-balance sheet items | 16 069                            | 15 009  |
| - restructuring provision               | 419                               | 5 256   |
| - provision for litigations             | 12 200                            | 84 757  |
| <b>Period end</b>                       | <b>30 379</b>                     | <b>105 724</b>  |

\* Reversal of provisions for litigations due to the court judgments and expectations for pending proceedings which are favourable for the Bank. Litigations are presented in Note 68.

**45. Other liabilities**

|  | 31.12.2008     | Comparable data<br>31.12.2007 |
|--|----------------|-------------------------------|
| Amounts due to the State Treasury                        | 18 171         | 17 675                        |
| Various creditors  | 52 709         | 72 907                        |
| <b>Expenses and income settled over time, including:</b> | <b>105 403</b> | <b>91 858</b>                 |
| income collected in advance                              | 18 533         | 10 551                        |
| expenses to be paid                                      | 33 826         | 27 571                        |
| provision for bonuses                                    | 42 141         | 43 868                        |
| provision for unused annual leaves                       | 10 903         | 9 868                         |
| Leasing payables   | 21 009         | 40 842                        |
| Inter-bank clearings                                     | 22 863         | 25 934                        |
| <b>Total</b>   | <b>220 155</b> | <b>249 216</b>                |

**46. Subordinated liabilities**

|                                    | 31.12.2008     | Comparable data<br>31.12.2007 |
|------------------------------------|----------------|-------------------------------|
| Amount of subordinated liabilities | 279 643        | 394 235                       |
| <b>Total</b>                       | <b>279 643</b> | <b>394 235</b>                |

**As at 31.12.2008**

| Entity                         | Loan value<br>by<br>curren<br>cy | in '000 | Interest rate  | Maturity<br>date | Amount of<br>subordinated<br>liabilities |
|--------------------------------|----------------------------------|---------|----------------|------------------|--|
| KBC Bank N.V. Dublin<br>Branch | CHF                              | 100 000 | 3M LIBOR+ 1.6% | 15.06.2018       | 279 643                                  |
|                                |                                  |         |                |                  | <b>279 643</b>                           |

**As at 31.12.2007 (comparable data)**

| Entity               | Loan value<br>by<br>curren<br>cy | in '000 | Interest rate          | Maturity<br>date | Amount of<br>subordinated<br>liabilities |
|----------------------|----------------------------------|---------|------------------------|------------------|--|
| KBC Bank NV O/Dublin | EUR                              | 110 000 | 3M EURIBOR<br>+1.20p.p | 25.05.2008       | 394 235                                  |
| <b>Total</b>         |                                  |         |                        |                  | <b>394 235</b>                           |

## 47. Equity

### *Share capital*

As at 31.12.2008, the Bank's share capital totalled PLN 1,358,294,400 and was divided into 271,658,880 shares of nominal value PLN 5.00 each. The Bank's shares are registered shares and bearer shares, but not preference shares. Each share entitles its holder to one vote at the Bank's General Meeting of Shareholders. The Bank's shares are admitted to public trading on the main market of the Warsaw Stock Exchange. The share capital did not change in 2008.

The analysis of registered shares and bearer shares presented below was prepared as at 31.12.2008.

### *Registered shares*

The Bank's Shareholders hold 66,443 registered shares, which account for 0.02% of the share capital. Registered shares as at 31.12.2008:

| <b>Series</b> | <b>Number of shares</b> |
|---------------|-------------------------|
| A             | 2 942                   |
| C             | 1 425                   |
| F             | 5 792                   |
| P             | 29 621                  |
| S1            | 26 663                  |
| <b>Total</b>  | <b>66 443</b>           |

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

### Bearer shares

The Bank's Shareholders hold 271,592,437 bearer shares, which account for 99.98% of the share capital. Originally, the number of bearer shares amounted to 264,204,350. In addition, as a result of the conversion of registered shares into bearer shares, there are 7,388,087 bearer shares. Bearer shares as at 31.12.2008:

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

The table below presents Shareholders of Kredyt Bank S.A. holding over 5% of total votes at the General Meeting of Shareholders of Kredyt Bank S.A. as at 31.12.2008.

| Shareholder                                       | Line of business   | Number of shares and votes at GMS | Share in votes and in share capital (in %) |
|---|--------------------|-----------------------------------|--|
| KBC Bank N.V.*                                    | Banking            | 217 327 103                       | 80.00                                      |
| KBC Securities – related party of KBC Bank N.V. * | Brokerage house    | 6 890 966**                       | 2.54                                       |
| Sofina S.A.                                       | Investment company | 15 014 772                        | 5.53                                       |

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

\*\*/ A memorandum from KBC Securities N.V. of 6 May 2008.

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

### **Supplementary capital**

|                                    | 31.12.2008     | Comparable<br>data<br>31.12.2007 |
|------------------------------------|----------------|----------------------------------|
| Profit allowance                   | 580 974        | 381 718                          |
| <b>Total supplementary capital</b> | <b>580 974</b> | <b>381 718</b>                   |

The Bank's net profit for 2007 amounting to PLN 400,519,095 was allocated to:

- reserves – PLN 60,000,000.00;
- dividend payment – PLN 141,262,617.60;
- supplementary capital – PLN 199,256,477.59.

### **Revaluation reserve**

|   | 31.12.2008    | Comparable<br>data<br>31.12.2007 |
|---|---------------|----------------------------------|
| Valuation of available-for-sale financial assets        | 12 345        | -67 724                          |
| Valuation of derivatives designated for cash flow hedge | 108 566       | -40 446                          |
| Deferred tax on items recognized in revaluation reserve | -22 973       | 20 553                           |
| <b>Total revaluation reserve</b>                        | <b>97 938</b> | <b>-87 617</b>                   |

### **Reserves**

|  | 31.12.2008     | Comparable<br>data<br>31.12.2007 |
|--|----------------|----------------------------------|
| General banking risk reserve created from profit | 240 942        | 180 942                          |
| <b>Total reserves</b>                            | <b>240 942</b> | <b>180 942</b>                   |

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

## 48. Contingent liabilities granted

### By types

|                                   | 31.12.2008       | Comparable<br>data<br>31.12.2007 |
|-----------------------------------|------------------|----------------------------------|
| <b>Financing</b>                  | <b>5 401 454</b> | <b>4 410 804</b>                 |
| - undrawn credit lines            | 2 781 620        | 2 459 150                        |
| - undrawn overdraft facilities    | 1 692 316        | 1 374 983                        |
| - limits on credit cards          | 820 129          | 343 645                          |
| - opened import letters of credit | 107 389          | 73 026                           |
| - term deposits to be released    | 0                | 160 000                          |
| <b>Guarantees</b>                 | <b>1 820 606</b> | <b>1 619 289</b>                 |
| - guarantees granted              | 1 819 414        | 1 617 741                        |
| - export letters of credit        | 1 192            | 1 548                            |
| <b>Total</b>                      | <b>7 222 060</b> | <b>6 030 093</b>                 |

### Financing by maturity dates

|                      | 31.12.2008       | Comparable<br>data<br>31.12.2007 |
|----------------------|------------------|----------------------------------|
| - up to 1 month      | 818 777          | 380 148                          |
| - 1-3 months         | 224 627          | 181 268                          |
| - 3-6 months         | 302 207          | 228 173                          |
| - 6 months to 1 year | 1 391 025        | 996 224                          |
| - 1 - 3 years        | 760 264          | 794 089                          |
| - 3 - 5 years        | 268 740          | 456 545                          |
| - over 5 years       | 1 635 814        | 1 374 357                        |
| <b>Total</b>         | <b>5 401 454</b> | <b>4 410 804</b>                 |

### Guarantees by maturity dates

|                      | 31.12.2008       | Comparable<br>data<br>31.12.2007 |
|----------------------|------------------|----------------------------------|
| - up to 1 month      | 52 612           | 91 574                           |
| - 1-3 months         | 65 566           | 54 380                           |
| - 3-6 months         | 57 834           | 110 315                          |
| - 6 months to 1 year | 274 220          | 159 764                          |
| - 1 - 3 years        | 466 750          | 399 811                          |
| - 3 - 5 years        | 245 491          | 461 233                          |
| - over 5 years       | 658 133          | 342 212                          |
| <b>Total</b>         | <b>1 820 606</b> | <b>1 619 289</b>                 |



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

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

As at 31.12.2008, the estimated provision for the guarantees granted and unconditional financing liabilities amounted to PLN 16,069 thousand. This amount is presented in Note 44 as 'provision for off-balance sheet items'.

#### 49. Capital adequacy ratio

|  | 31.12.2008       | Comparable<br>data<br>31.12.2007 |
|--|------------------|----------------------------------|
| <b>Capital requirement, including:</b>                             | <b>2 406 558</b> | <b>1 703 523</b>                 |
| - credit risk  | 2 185 346        | 1 636 655                        |
| - market risk  | 44 308           | 51 246                           |
| - operational risk   | 176 904          | 0                                |
| - other risk*  | 0                | 15 622                           |
| <b>Own funds, short-term capital and minority capital</b>          | <b>2 685 077</b> | <b>2 050 598</b>                 |
| - share capital  | 1 358 294        | 1 358 294                        |
| - supplementary capital  | 580 974          | 381 718                          |
| - revaluation reserve included in equity                           | -6 121           | -56 148                          |
| - other reserves   | 240 942          | 180 942                          |
| - subordinated liabilities included in equity                      | 280 140          | 78 804                           |
| - shares in financial entities                                     | -10 139          | -10 139                          |
| - intangible assets **   | -57 854          | -64 645                          |
| - short-term capital   | 145 731          | 66 868                           |
| - net profit included in the calculation of capital adequacy ratio | 153 110          | 114 904                          |
| <b>Capital adequacy ratio</b>                                      | <b>8.93</b>      | <b>9.63</b>                      |

\* Pursuant to new regulations, since 2008, it is recognized in credit risk (see Note 70.3.1.5 'Capital requirements, settlement risk and counterparty risk')

\*\* Except for intangible assets used under contracts of finance lease

Capital adequacy ratio was calculated as required by the regulations of the National Bank of Poland in force as at 31.12.2008 and 31.12.2007 respectively.

The calculation of the capital requirement for operational risk:

|                    | Year |                |
|--------------------|------|----------------|
| Result*            | 2005 | 1 122 569      |
| Result*            | 2006 | 1 118 032      |
| Result*            | 2007 | 1 297 488      |
| Ratio              |      | 15%            |
| Capital Charge     | 2005 | 168 385        |
| Capital Charge     | 2006 | 167 705        |
| Capital Charge     | 2007 | 194 623        |
| <b>Requirement</b> |      | <b>176 904</b> |

\* calculated according to Annex No. 14 to Resolution No. 1/2007 of the Commission for Banking Supervision of 13.03.2007

The year 2008 is a period when the new principles concerning the capital adequacy ratio (known as Basel II) were applied for the first time. The Bank's capital adequacy ratio was calculated with the standardized approach. The application of new regulations has not affected the capital adequacy ratio to a large extend.

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

*As at 31.12.2008*

### *Balance sheet instruments*

| Instrument  | Carrying amount   | Risk weighted value |
|---|-------------------|---------------------|
| <b>Banking portfolio</b>  |                   |                     |
| <b>Cash</b>   | <b>649 284</b>    | <b>0</b>            |
| <b>Receivables</b>  | <b>27 442 968</b> | <b>21 551 847</b>   |
| <b>Net loans and advances to banks (including Central Bank)</b> | <b>517 270</b>    | <b>170 973</b>      |
| <b>Net loans and advances to customers</b>                      | <b>26 925 698</b> | <b>21 380 874</b>   |
| <b>Natural persons*</b>   | <b>17 970 866</b> | <b>13 359 784</b>   |
| - overdraft facilities  | 625 521           | 516 820             |
| - purchased debt  | 4 331             | 4 325               |
| - term loans  | 895 527           | 763 822             |
| - cash and instalment loans                                     | 3 627 195         | 2 724 925           |
| - mortgages   | 12 801 969        | 9 333 569           |
| - realised guarantees   | 551               | 551                 |
| - other receivables   | 15 772            | 15 772              |
| <b>Corporate customers</b>                                      | <b>8 606 216</b>  | <b>7 935 854</b>    |
| - overdraft facilities  | 1 839 291         | 1 811 835           |
| - term loans  | 6 715 546         | 6 072 368           |
| - purchased debt  | 47 031            | 47 031              |
| - realised guarantees   | 3 682             | 3 682               |
| - other receivables   | 666               | 938                 |
| <b>Budget</b>   | <b>348 616</b>    | <b>85 236</b>       |
| - overdraft facilities  | 4 398             | 2 206               |
| - term loans  | 344 218           | 83 030              |
| <b>Debt securities</b>  | <b>6 371 892</b>  | <b>206 462</b>      |
| <b>Other securities, shares</b>                                 | <b>235 091</b>    | <b>133 122</b>      |
| <b>Property, plant and equipment</b>                            | <b>398 201</b>    | <b>398 201</b>      |
| <b>Intangible assets (including goodwill)</b>                   | <b>57 854</b>     | <b>0</b>            |
| <b>Other</b>  | <b>124 290</b>    | <b>79 780</b>       |
| <b>Total banking portfolio</b>                                  | <b>35 279 580</b> | <b>22 369 412</b>   |
| <b>Trading portfolio</b>  | <b>3 341 542</b>  | <b>1 524</b>        |
| <b>Total balance sheet instruments</b>                          | <b>38 621 122</b> | <b>22 370 936</b>   |

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

### *Off-balance sheet instruments in the Banking Book*

| Instrument                   | Nominal value    | Balance sheet equivalent | Risk weighted value |
|------------------------------|------------------|--------------------------|---------------------|
| Interest rate instruments    | 4 233 600        | 15 863                   | 5 895               |
| Foreign exchange instruments | 4 211            | 42                       | 42                  |
| <b>Total derivatives</b>     | <b>4 237 811</b> | <b>15 905</b>            | <b>5 937</b>        |

**Other off-balance sheet items – banking portfolio**

| <b>Instrument</b>  | <b>Carrying amount</b> | <b>Credit equivalent</b> | <b>Risk weighted value</b> |
|--------------------|------------------------|--------------------------|----------------------------|
| Credit lines       | 5 286 221              | 2 467 449                | 2 092 218                  |
| Guarantees granted | 1 811 942              | 1 575 910                | 1 527 401                  |
| Letters of credit  | 108 694                | 54 347                   | 54 069                     |
| <b>Total</b>       | <b>7 206 857</b>       | <b>4 097 706</b>         | <b>3 673 688</b>           |

|   | <b>Risk weighted value</b> | <b>Capital requirement</b> |
|---|----------------------------|----------------------------|
| <b>Total credit risk exposure (banking portfolio)</b> | <b>26 049 037</b>          | <b>2 083 923</b>           |

**As at 31.12.2007 (comparable data)****Balance sheet instruments**

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

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

**Off-balance sheet instruments in the Banking Book**

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

**Other off-balance sheet items – banking portfolio**

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

|   | <b>Risk weighted value</b> | <b>Capital requirement</b> |
|---|----------------------------|----------------------------|
| <b>Total credit risk exposure (banking portfolio)</b> | <b>20 458 192</b>          | <b>1 636 655</b>           |

**51. Discontinued operations**

The Bank did not carry out operations which were discontinued in 2008.

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

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

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

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

|   | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|---|-------------------|---------------------------------------|
| Employee cash loans                                       | 9 314             | 5 090                                 |
| Cash on CSBF bank account maintained in KB's First Branch | 4 526             | 8 506                                 |
| Fund-related payables                                     | 13 840            | 13 596                                |
| Charges to the Fund in the period                         | 3 800             | 2 600                                 |

## 53. Employee benefits

### 53.1. Employee Stock Ownership Plan

No employee stock ownership plan is implemented in the Bank.

### 53.2. Retirement benefits and other benefits after retirement

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

|                      | 01.01.2008-<br>31.12.2008 | Comparable<br>data<br>01.01.2007-<br>31.12.2007 |
|----------------------|---------------------------|---|
| Period beginning     | 702                       | 933   |
| Provision recognized | 1 226                     | 0   |
| Paid benefits        | -237                      | -231  |
| <b>Total</b>         | <b>1 691</b>              | <b>702</b>                                      |

### 53.3. Benefits related to the dissolution of employment

|                         | 01.01.2008-<br>31.12.2008 | Comparable<br>data<br>01.01.2007-<br>31.12.2007 |
|-------------------------|---------------------------|---|
| Period beginning        | 3 200                     | 8 059   |
| Increases               | 0                         | 2 555   |
| Decreases – utilization | -3 200                    | -7 414  |
| <b>Period end*</b>      | <b>0</b>                  | <b>3 200</b>                                    |

\* Restructuring provisions presented in Note 44 include network restructuring provisions of PLN 419 thousand for 2008, and of PLN 2,056 thousand for 2007.

## 54. Related party transactions

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

On 19 March 2008, Kredyt Bank S.A. executed, with KBC Bank NV Dublin Branch, a subordinated loan agreement up to the amount equivalent to CHF 100 million. The subordinated loan agreement was concluded on market terms with the repayment period of ten years from the release of the financial resources. On 3 June 2008, the Bank received the decision of the Polish Financial Supervision Authority (KNF) of 26 May 2008, regarding its consent to include cash of CHF 100,000,000 (i.e. PLN 210,520,000 at the average exchange rate of the NBP of 26 May 2008) in the Bank's supplementary funds).

On 19 June 2008, Kredyt Bank S.A. executed, with KBL European Private Bankers S.A. (formerly Kredietbank S.A. Luxembourgeoise), a multicurrency loan agreement up to the amount equivalent to EUR 200 million (i.e. PLN 673,700,000.00 at the average exchange rate of the NBP of 19 June 2008).). The loan agreement was concluded on market terms with the repayment period of three years. The loan can be drawn in EUR, CHF or PLN. The interest rate is based on LIBOR/WIBOR rates plus margin. The amount of cash received under the above-mentioned loan agreement exceeds 10% of the Bank's equity. Cash obtained under the above-mentioned loan was used to finance the Bank's current operations.

On 25.08.2008, Kredyt Bank S.A. executed, with KBL European Private Bankers S.A., a multicurrency loan agreement up to the amount equivalent to EUR 200 million (i.e. PLN 662,540,000.00 at the average exchange rate of the NBP of 25.08.2008). The loan agreement was concluded on market terms with the repayment period of three years. The loan can be drawn in EUR, CHF or PLN. The interest rate is based on LIBOR/WIBOR rates plus margin. The amount of cash received under the above-mentioned loan agreement exceeds 10% of the Bank's equity. Cash obtained under the above-mentioned loan was used to finance the Bank's current operations.

On 20.10.2008, Kredyt Bank S.A. ('Bank') and KBL European Private Bankers S.A. signed a loan agreement with the value of EUR 200 million (i.e. PLN 710,300,000 at the average rate of exchange of the National Bank of Poland as of 20.10.2008). The loan agreement was concluded on market terms with the repayment period of three years. The interest rate is based on LIBOR rate plus margin. The amount of cash received by the Bank under the above-mentioned loan agreement exceeds 10% of the Bank's equity. Cash obtained under the above-mentioned loan will be used to finance the Bank's current operations.

Under the agreement of 20.10.2008, Reliz Sp. z o.o., a subsidiary of Kredyt Bank S.A., carried out an issue of bonds for the total amount of PLN 46 million. The bonds were acquired by Kredyt Bank S.A. The interest rate of bonds was based on WIBOR rate plus margin. On 12.01.2009, Reliz Sp. z o.o. purchased the whole pool of treasury bonds held by Kredyt Bank S.A.

On 7.12.2008, Kredyt Bank S.A. and KBC Bank NV Dublin Branch concluded a subordinated loan agreement amounting to PLN 75,000,000. The loan agreement was concluded on market terms with the repayment period of ten years. The interest rate is based on WIBOR rate plus the Bank's margin. All the cash from the loan was allocated to the establishment of additional supplementary funds. The cash related to this agreement was released on 30.01.2009.

Apart from the above transactions, in 2008, no significant non-standard transactions had place with related parties whose total value, in the period from the beginning of the financial year, would be equal to or exceed PLN equivalent of EUR 500 thousand, and whose nature and terms were not related to current operations.



Transaction volumes as well as related income and expenses in the years 2008 and 2007 are presented below.

**As at 31.12.2008**

| <b>Assets</b>   | <b>Subsidiaries</b> | <b>Parent company - KBC Bank NV</b> | <b>KBC Group (without KBC Bank NV)*</b> | <b>Total as at 31.12.2008</b> |
|---|---------------------|-------------------------------------|---|-------------------------------|
| Loans and advances to banks                           | 0                   | 133 134                             | 12 315                                  | 145 449                       |
| Financial assets at fair value through profit or loss | 46 772              | 0                                   | 0                                       | 46 772                        |
| Derivatives   | 0                   | 408 908                             | 25 828                                  | 434 736                       |
| Loans and advances to customers                       | 516 399             | 0                                   | 175 000                                 | 691 399                       |
| Other assets  | 3 483               | 2                                   | 7 623                                   | 11 108                        |
| <b>Total assets</b>                                   | <b>566 654</b>      | <b>542 044</b>                      | <b>220 766</b>                          | <b>1 329 464</b>              |

\* Including WARTA Group

| <b>Liabilities</b>       | <b>Subsidiaries</b> | <b>Parent company - KBC Bank NV</b> | <b>KBC Group (without KBC Bank NV)*</b> | <b>Total as at 31.12.2008</b> |
|--------------------------|---------------------|-------------------------------------|---|-------------------------------|
| Amounts due to banks     | 0                   | 4 425 478                           | 7 320 840                               | 11 746 318                    |
| Derivatives              | 0                   | 641 476                             | 40 122                                  | 681 598                       |
| Amounts due to customers | 279 943             | 0                                   | 2 697 594                               | 2 977 537                     |
| Subordinated liabilities | 0                   | 279 643                             | 0                                       | 279 643                       |
| Other liabilities        | 22 381              | 1 439                               | 5 106                                   | 28 926                        |
| <b>Total liabilities</b> | <b>302 324</b>      | <b>5 348 036</b>                    | <b>10 063 662</b>                       | <b>15 714 022</b>             |

\* Including WARTA Group

| <b>Off-balance sheet items</b>       | <b>Subsidiaries</b> | <b>Parent company - KBC Bank NV</b> | <b>KBC Group (without KBC Bank NV)*</b> | <b>Total as at 31.12.2008</b> |
|--------------------------------------|---------------------|-------------------------------------|---|-------------------------------|
| Granted financing liabilities        | 11 805              | 0                                   | 156 040                                 | 167 845                       |
| Received financing liabilities       | 7 000               | 418 306                             | 300                                     | 425 606                       |
| Guarantees granted                   | 1 747               | 47 671                              | 20 365                                  | 69 783                        |
| Guarantees received                  | 0                   | 1 176 891                           | 51 857                                  | 1 228 748                     |
| Derivatives                          | 0                   | 42 742 638                          | 1 777 173                               | 44 519 811                    |
| Collateral received                  | 84 022              | 0                                   | 0                                       | 84 022                        |
| <b>Total off-balance sheet items</b> | <b>104 574</b>      | <b>44 385 506</b>                   | <b>2 005 735</b>                        | <b>46 495 815</b>             |

\* Including WARTA Group

| <b>Income</b>             | <b>Subsidiaries</b> | <b>Parent company - KBC Bank NV</b> | <b>KBC Group (without KBC Bank NV)*</b> | <b>Total for 2008</b> |
|---------------------------|---------------------|-------------------------------------|---|-----------------------|
| Interest income           | 18 784              | 7 351                               | 23 319                                  | 49 454                |
| Fee and commission income | 703                 | 86                                  | 26 342                                  | 27 131                |
| Net trading income        | -586                | -185 883                            | -44 385                                 | -230 854              |
| Other operating income    | 1 016               | 123                                 | 4 665                                   | 5 804                 |
| <b>Total income</b>       | <b>19 917</b>       | <b>-178 323</b>                     | <b>9 941</b>                            | <b>-148 465</b>       |

\* Including WARTA Group

| Expenses                            | Subsidiaries  | Parent company -<br>KBC Bank NV | KBC Group<br>(without KBC<br>Bank NV)* | Total for 2008 |
|-------------------------------------|---------------|---------------------------------|--|----------------|
| Interest expense                    | 5 861         | 177 136                         | 183 568                                | 366 565        |
| Fee and commission expense          | 0             | 411                             | -10 510                                | -10 099        |
| General and administrative expenses | 23 464        | 5 213                           | 18 964                                 | 47 641         |
| Other operating expenses            | 3 257         | 0                               | 0                                      | 3 257          |
| <b>Total expenses</b>               | <b>32 582</b> | <b>182 760</b>                  | <b>192 022</b>                         | <b>407 364</b> |

\* Including WARTA Group

**As at 31.12.2007 (comparable data)**

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

\* Including WARTA Group

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

\* Including WARTA Group

| Off-balance sheet items              | Subsidiaries   | Parent company -<br>KBC Bank NV | KBC Group<br>(without KBC<br>Bank NV)* | Total as at<br>31.12.2007 |
|--------------------------------------|----------------|---------------------------------|--|---------------------------|
| Granted financing liabilities        | 36 340         | 0                               | 0                                      | 36 340                    |
| Guarantees granted                   | 1 613          | 2 252                           | 15 194                                 | 17 446                    |
| Guarantees received                  | 0              | 1 230 172                       | 0                                      | 1 230 172                 |
| Derivatives                          | 0              | 13 854 400                      | 396 925                                | 14 251 325                |
| Collateral received                  | 90 557         | 0                               | 0                                      | 90 557                    |
| <b>Total off-balance sheet items</b> | <b>128 510</b> | <b>15 086 824</b>               | <b>412 119</b>                         | <b>15 625 840</b>         |

\* Including WARTA Group

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

\* Including WARTA Group

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

\* Including WARTA Group

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

Remuneration, awards, bonuses and other benefits for members of the Bank's managing and supervising authorities.

| Bank's Management Board | Term on the Board      | 01.01.2008 – 31.12.2008 |            |                |               | Total         |
|-------------------------|------------------------|-------------------------|------------|----------------|---------------|---------------|
|                         |                        | Basic remuneration      | Bonus      | Other benefits | Severance pay |               |
| Maciej Bardan           | 01.03.2008-31.12.2008  | 1 007                   | 0          | 354            | 0             | 1 361         |
| Lidia Jabłonowska-Luba  | 15.04.2008 -31.12.2008 | 861                     | 0          | 810            | 0             | 1 671         |
| Ronald Richardson       | 01.01.2008-28.02.2008  | 260                     | 0          | 30             | 3 913         | 4 203         |
| Krzysztof Kokot         | 01.01.2008-31.12.2008  | 1 048                   | 547        | 83             | 0             | 1 678         |
| Bohdan Mierzwiński      | -                      | 0                       | 106        | 0              | 212           | 318           |
| Konrad Kozik            | -                      | 0                       | 142        | 33             | 0             | 175           |
| Umberto Arts            | 01.01.2008-31.12.2008  | 1 505                   | 0          | 406            | 0             | 1 911         |
| Michał Oziębło*         | 01.01.2008-31.12.2008  | 86                      | 0          | 0              | 0             | 86            |
| <b>Total</b>            |                        | <b>4 767</b>            | <b>795</b> | <b>1 716</b>   | <b>4 125</b>  | <b>11 403</b> |

\*) Mr. Michał Oziębło receives the remuneration for his work as the President of the Management Board of Żagiel S.A. (a subsidiary), which in 2008 amounted to PLN 789 thousand.

| Bank's Management Board | Term on the Board     | 01.01.2007 – 31.12.2007 |            |                |               | Total        |
|-------------------------|-----------------------|-------------------------|------------|----------------|---------------|--------------|
|                         |                       | Basic remuneration      | Bonus      | Other benefits | Severance pay |              |
| Ronald Richardson       | 01.01.2007-31.12.2007 | 1 037                   | 99         | 135            | 0             | 1 271        |
| Umberto Arts            | 01.01.2007-31.12.2007 | 1 639                   | 0          | 1 129          | 0             | 2 768        |
| Krzysztof Kokot         | 01.01.2007-31.12.2007 | 1 008                   | 257        | 94             | 0             | 1 359        |
| Konrad Kozik            | 01.01.2007-26.04.2007 | 331                     | 328        | 16             | 0             | 675          |
| Bohdan Mierzwiński      | 01.01.2007-05.05.2007 | 314                     | 162        | 12             | 2 559         | 3 047        |
| Michał Oziębło*         | 01.01.2007-31.12.2007 | 78                      | 0          | 0              | 0             | 78           |
| Andrzej Witkowski       | 01.07.2007-31.09.2007 | 109                     | 0          | 0              | 0             | 109          |
| <b>Total</b>            |                       | <b>4 516</b>            | <b>846</b> | <b>1 386</b>   | <b>2 559</b>  | <b>9 307</b> |

\*) Mr. Michał Oziębło receives the remuneration for his work as the President of the Management Board of Żagiel S.A. (a subsidiary), which in 2007 amounted to PLN 666 thousand.

| Bank's Supervisory Board | Term on the Board     | 01.01.2008-31.12.2008 |                |              |
|--------------------------|-----------------------|-----------------------|----------------|--------------|
|                          |                       | Basic remuneration    | Other benefits | Total        |
| Andrzej Witkowski        | 01.01.2008-31.12.2008 | 311                   | 10             | 321          |
| Adam Noga                | 01.01.2008-31.12.2008 | 272                   | 10             | 282          |
| Francois Gillet          | 01.01.2008-31.12.2008 | 234                   | 0              | 234          |
| John Hollows             | 01.01.2008-31.12.2008 | 234                   | 0              | 234          |
| Feliks Kulikowski        | 01.01.2008-31.12.2008 | 234                   | 10             | 244          |
| Marek Michałowski        | 01.01.2008-31.12.2008 | 234                   | 0              | 234          |
| Luc Philips              | 01.01.2008-31.12.2008 | 234                   | 0              | 234          |
| Jan Vanhevel             | 01.01.2008-31.12.2008 | 234                   | 0              | 234          |
| Krzysztof Trębaczewicz   | 01.01.2008-31.12.2008 | 234                   | 10             | 244          |
| <b>Total</b>             |                       | <b>2 221</b>          | <b>40</b>      | <b>2 261</b> |

| Bank's Supervisory Board | Term on the Board     | 01.01.2007-31.12.2007 |                |              |
|--------------------------|-----------------------|-----------------------|----------------|--------------|
|                          |                       | Basic remuneration    | Other benefits | Total        |
| Andrzej Witkowski        | 01.01.2007-31.12.2007 | 218                   | 0              | 218          |
| Adam Noga                | 01.01.2007-31.12.2007 | 254                   | 0              | 254          |
| Francois Gillet          | 01.01.2007-31.12.2007 | 218                   | 0              | 218          |
| John Hollows             | 01.01.2007-31.12.2007 | 218                   | 0              | 218          |
| Feliks Kulikowski        | 01.01.2007-31.12.2007 | 218                   | 0              | 218          |
| Marek Michałowski        | 01.01.2007-31.12.2007 | 218                   | 0              | 218          |
| Luc Philips              | 01.01.2007-31.12.2007 | 218                   | 0              | 218          |
| Józef Toczek             | 01.01.2007-31.03.2007 | 54                    | 164            | 218          |
| Jan Vanhevel             | 01.01.2007-31.12.2007 | 218                   | 0              | 218          |
| Krzysztof Trębaczewicz   | 01.05.2007-31.12.2007 | 153                   | 0              | 153          |
| <b>Total</b>             |                       | <b>1 987</b>          | <b>164</b>     | <b>2 151</b> |

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

| <b>Benefit</b>                             | <b>01.01.2008-<br/>31.12.2008</b> | <b>Comparable<br/>data<br/>01.01.2007-<br/>31.12.2007</b> |
|--|-----------------------------------|---|
| Short-term employee benefits               | 9 165                             | 8 725   |
| Benefits paid after employment termination | 288                               | 10  |
| Severance pays                             | 4 211                             | 2 723   |
| <b>Total</b>                               | <b>13 664</b>                     | <b>11 458</b>   |

In 2008 and 2007, the Members of the Bank's Management Board and the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries (except for Michał Oziębło).

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

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

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

As at 31.12.2008, total indebtedness related to loans and cash loans granted by the Bank amounted to:

- for Members of the Bank's Management Board – PLN 1,027 thousand;
- for Members of the Bank's Supervisory Board – PLN 694 thousand;
- for the Bank's employees – PLN 258,501 thousand.

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

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

As at 31.12.2008, the total indebtedness of Members of the Management Board and of the Supervisory Board of the Bank is paid on a regular basis, due indebtedness is not present. Past due debts of employees amount to PLN 1,542 thousand.

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

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

## 57. Employment structure

| <i>FTEs</i>               | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|---------------------------|-------------------|---------------------------------------|
| - Head Office             | 2 100             | 2 094                                 |
| - branches and affiliates | 3 387             | 3 346                                 |
| <b>Total Bank</b>         | <b>5 487</b>      | <b>5 440</b>                          |

## 58. Cash flow statement – additional information

### a) Cash and cash equivalents

|                                       | 31.12.2008     | Comparable data<br>31.12.2007 |
|---------------------------------------|----------------|-------------------------------|
| Cash and balances with Central Bank   | 827 956        | 611 672                       |
| Due from other banks (up to 3 months) | 133 275        | 2 078 221                     |
| <b>Cash and cash equivalents</b>      | <b>961 231</b> | <b>2 689 893</b>              |

In 'Cash and cash equivalents', the Bank presents its obligatory reserve held in line with the adequate regulations, on NBP account, presented as restricted cash, which, as at 31.12.2008 amounted to PLN 789,493 thousand, and as at 31.12.2007 to PLN 635,061 thousand.

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

|   | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|---|---------------------------|--|
| Currency translation differences on investment securities             | -51 699                   | 53 159                                       |
| Currency translation differences on held-for-trading financial assets | -8 385                    | -18 738                                      |
| Currency translation differences on equity investments                | -11                       | 5  |
| Currency translation differences on subordinated liabilities          | 51 473                    | -27 597                                      |
| <b>Total</b>  | <b>-8 622</b>             | <b>6 829</b>                                 |

### c) Operating activities – Net increase/decrease in impairment

|   | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|---|---------------------------|--|
| Net increase/decrease in impairment losses on loans and advances to banks     | 1                         | -493   |
| Net increase/decrease in impairment losses on loans and advances to customers | 87 733                    | -260 893                                     |
| Net increase/decrease in property, plant and equipment and intangible assets  | 2 079                     | 7 661  |
| <b>Total</b>  | <b>89 813</b>             | <b>-253 725</b>                              |

### d) Operating activities – Interest

|                                      | 01.01.2008-<br>31.12.2008 | Comparable data<br>01.01.2007-<br>31.12.2007 |
|--------------------------------------|---------------------------|--|
| Interest on investment securities    | -207 676                  | -213 335                                     |
| Interest on borrowed loans           | 196 183                   | 54 699                                       |
| Interest on subordinated liabilities | 13 860                    | 22 440                                       |
| <b>Total</b>                         | <b>2 367</b>              | <b>-136 196</b>                              |



**e) Operating activities – Gains/losses from the sale of investments**

|  | 01.01.2008-<br>31.12.2008 | Comparable<br>data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|---|
| Gains (losses) from the sale of held-to-maturity investment securities     | -5                        | 0   |
| Gains (losses) from the sale of available-for-sale investment securities   | 14 085                    | -1 682  |
| Profit/loss on sale of property, plant and equipment and intangible assets | -777                      | -3 060  |
| <b>Total</b>   | <b>13 303</b>             | <b>-4 742</b>                                   |

**f) Loans and advances to banks**

|   | 01.01.2008-<br>31.12.2008 | Comparable<br>data<br>01.01.2007-<br>31.12.2007 |
|---|---------------------------|---|
| Balance sheet change in gross loans and advances to banks | 2 115 491                 | -251 551  |
| Change in Nostro accounts – cash                          | 1 809                     | -13 042   |
| Change in term deposits up to 3 months – cash             | -1 946 755                | 463 248   |
| Impairment  | -1                        | 493   |
| <b>Total</b>  | <b>170 544</b>            | <b>199 148</b>                                  |

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

|  | 01.01.2008-<br>31.12.2008 | Comparable<br>data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|---|
| Balance sheet change in financial assets at fair value through profit or loss, including held-for-trading financial assets | -898 528                  | 164 413   |
| Balance sheet change in derivatives  | -1 674 775                | -197 668  |
| Currency translation differences in operating activities   | 8 385                     | 18 738  |
| <b>Total</b>   | <b>-2 564 918</b>         | <b>-14 517</b>                                  |

**h) Operating activities – Net increase/decrease in other assets**

|  | 01.01.2008-<br>31.12.2008 | Comparable<br>data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|---|
| Balance sheet change in other assets                                 | -4 797                    | 12 632  |
| Net increase/decrease in property, plant and equipment held for sale | 767                       | 9 804   |
| Other changes of property, plant and equipment and intangible assets | 26 208                    | 2 818   |
| Other changes  | 21 509                    | -70 735   |
| <b>Total</b>   | <b>43 687</b>             | <b>-45 481</b>                                  |

**i) Amounts due to banks**

|  | 01.01.2008-<br>31.12.2008 | Comparable<br>data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|---|
| Balance sheet change in amounts due to banks                           | 6 643 564                 | 3 106 623                                       |
| Borrowed loans/advances in investment activity                         | -2 767 133                | -1 846 441                                      |
| Interest on borrowed loans in operating activities                     | -196 183                  | -54 699   |
| Paid interest on borrowed loans – presentation in financing activities | 174 735                   | 42 927  |
| <b>Total</b>   | <b>3 854 983</b>          | <b>1 248 410</b>                                |

**j) Amounts due to customers**

|  | 01.01.2008-<br>31.12.2008 | Comparable<br>data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|---|
| Balance sheet change in amounts due to customers | 3 374 578                 | 1 305 398                                       |
| <b>Total</b>                                     | <b>3 374 578</b>          | <b>1 305 398</b>                                |

**k) Operating activities – Net increase/decrease in other liabilities**

|   | 01.01.2008-<br>31.12.2008 | Comparable<br>data<br>01.01.2007-<br>31.12.2007 |
|---|---------------------------|---|
| Balance sheet change in other liabilities             | -29 061                   | -1 891  |
| Payment of leasing payables from financing activities | 14 282                    | 26 315  |
| Valuation of derivatives used as hedging instruments  | -42 470                   | 43 624  |
| Other changes   | 0                         | -597  |
| <b>Total</b>  | <b>-57 249</b>            | <b>67 451</b>                                   |

**l) Net increase/decrease in investment securities**

|  | 01.01.2008-<br>31.12.2008 | Comparable<br>data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|---|
| Acquisition in investment activity   | -1 107 936                | -2 230 188                                      |
| Disposal in investment activity  | 490 298                   | 2 503 086                                       |
| Interest received in investment activity   | 191 033                   | 222 736   |
| Net increase/decrease in interest receivables in operating activities                | -207 676                  | -213 335  |
| Net increase/decrease in available-for-sale financial assets in operating activities | -68 370                   | 88 936  |
| Net increase/decrease in held-to-maturity financial assets in operating activities   | -5                        | 0   |
| Currency translation differences in operating activities                             | -51 699                   | 53 159  |
| <b>Balance sheet change</b>  | <b>-754 355</b>           | <b>424 394</b>                                  |

**m) Financing activities – Other financial expenses**

|  | 01.01.2008-<br>31.12.2008 | Comparable<br>data<br>01.01.2007-<br>31.12.2007 |
|--|---------------------------|---|
| Interest repayment on loans received           | -174 735                  | -42 927   |
| Interest repayment on subordinated liabilities | -14 460                   | -22 227   |
| Payment of leasing payables                    | -14 282                   | -26 315   |
| <b>Total</b>                                   | <b>-203 477</b>           | <b>-91 469</b>                                  |

**n) Subordinated liabilities**

|   | 01.01.2008-<br>31.12.2008 | Comparable<br>data<br>01.01.2007-<br>31.12.2007 |
|---|---------------------------|---|
| Proceeds from a subordinated loan   | 209 580                   | 0   |
| Repayment of subordinated liabilities   | -375 045                  | 0   |
| Repayment of interest on subordinated liabilities – presentation in financing activities            | -14 460                   | -22 227   |
| Accrued interest on subordinated liabilities – presentation in operating activities                 | 13 860                    | 22 440  |
| Currency translation differences on subordinated liabilities – presentation in operating activities | 51 473                    | -27 597   |
| <b>Balance sheet change</b>   | <b>-114 592</b>           | <b>-27 384</b>                                  |

**59. Disposal of subordinated companies**

No subordinated companies were sold in 2008 and in 2007.

**60. Assets pledged as collateral**

As at 31.12.2008, the following assets in the form of Treasury bonds were collateral for the Bank's own liabilities:

- Treasury bonds of the nominal value of PLN 89,140 thousand and of the carrying amount of PLN 99,396 thousand were collateral for the protection fund for guaranteed cash in the Banking Guarantee Fund and were deposited in the National Depository for Securities;
- Treasury bonds of the nominal value of PLN 900,000 thousand and of the carrying amount of PLN 943,091 thousand as security for possible borrowing of a lombard loan in the National Bank of Poland (NBP);
- Treasury bonds of the nominal value of PLN 1,200,000 thousand and of the carrying amount of PLN 1,265,807 thousand pledged in relation to REPO transactions with the National Bank of Poland (NBP);
- Treasury bonds of the nominal value of PLN 8,848 thousand and of the carrying amount of PLN 8,942 thousand pledged in relation to REPO transactions with a customer.

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

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

## **61. Changes in the Management Board and in the Supervisory Board of Kredyt Bank S.A. in 2008**

At the session on 18.12.2007, Mr. Ronald Richardson, President of the Bank's Management Board, resigned from his position of the President of the Bank's Management Board, and from the membership in the Bank's Management Board, as of 29.02.2008.

At the same session, the Bank's Supervisory Board appointed Mr. Maciej Bardan as the President of the Management Board of Kredyt Bank S.A. as of 1.03.2008. On 5.09.2008, the Polish Financial Supervision Authority granted its formal consent to the appointment of Mr. Maciej Bardan as the President of the Bank's Management Board.

The Supervisory Board of Kredyt Bank S.A., at its session on 4.04.2008, under § 25 item 2 of the Statutes of Kredyt Bank S.A., decided that, from 15.04.2008, the Management Board of Kredyt Bank will be composed of five members.

At the same session, the Supervisory Board appointed, as from 15.04.2008, Ms. Lidia Jabłonowska-Luba as a Member and Vice-President of the Management Board of Kredyt Bank S.A. responsible for finances and risk.

As at 31.12.2008, the Management Board of Kredyt Bank S.A. was composed of:

|                              |  |
|------------------------------|--|
| Mr. Maciej Bardan            | - President of the Management Board, CEO           |
| Mr. Umberto Arts             | - Vice President of the Management Board, Vice CEO |
| Ms. Lidia Jabłonowska - Luba | - Vice President of the Management Board, Vice CEO |
| Mr. Krzysztof Kokot          | - Vice President of the Management Board, Vice CEO |
| Mr. Michał Oziębło           | - Vice President of the Management Board, Vice CEO |

No changes had place in the composition of the Bank's Supervisory Board in 2008.

As at 31.12.2008, the Supervisory Board of Kredyt Bank S.A. was composed of:

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

## **62. Seasonality or cyclical nature of operations**

The Bank's operations are not of seasonal nature.

## **63. Non-typical factors and events**

Both in 2008 and in 2007, no untypical events occurred in the Bank (not related to operating activities) that would affect the structure of balance sheet items and the financial result to a large extent, and which were not presented in these financial statements.

## **64. Dividends paid and declared**

On 28.05.2008, the Ordinary General Meeting of Shareholders of Kredyt Bank S.A. adopted a resolution on the allocation of PLN 141,262,617.60 from the distribution of profit for 2007 to the payment of dividend (which accounted for ca. 35% of the Bank's net profit). Gross dividend per share amounted to PLN 0.52. The right to dividend was established on 3.07.2008. The payment of dividend was effected on 18.07.2008.

In 2007 (i.e. from net profit generated in 2006), the Bank paid gross dividend of PLN 0.37 per share. Total dividend amounted to PLN 100,513,785.60, which accounted for ca. 23% of the Bank's net profit.

The final conclusions concerning the payment and amount of dividend for 2008 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 2008. Following their examination, the Supervisory Board will submit its opinion to the General Meeting of Shareholders. Having regard for the Bank's financial situation in terms of its capital

adequacy and the plans for the development of the banking activities in the years to come, the Bank's Management Board intends to recommend the non-payment of dividend for 2008.

## **65. Post-balance sheet events**

On 26.01.2009, the Bank received the decision of the Polish Financial Supervision Authority (KNF) concerning its consent to include an amount of PLN 75,000,000 into Kredyt Bank S.A.'s supplementary funds, pursuant to the terms and conditions of the subordinated loan agreement concluded on 17.12.2008 between Kredyt Bank S.A. and KBC Bank NV, Dublin branch. The cash related to this agreement was released on 30.01.2009.

On 26.01.2009, Moody's Investors Service rating agency affirmed the long-term deposit rating of Kredyt Bank S.A. at 'A2' and changed the outlook for the above long-term rating from 'stable' to 'negative'. These rating decisions were made in connection with the decision on downgrading the ratings of KBC Bank, i.e. the parent entity of Kredyt Bank S.A. The remaining ratings of Kredyt Bank S.A. assigned by Moody's Investors Service have been confirmed at previous levels, namely: short term deposit rating – 'Prime-1'; bank financial strength rating – 'D'. The outlook for the above ratings remains 'stable'.

Furthermore, on 26.01.2009, the Bank was informed about the termination, in January 2009, of the liquidation of its subsidiary, Kredyt International Finance BV, registered in the Netherlands and about the deletion of this company from the Dutch court registers on 12.01.2009.

On 11.02.2009, the Bank informed that, due to the deterioration of the economic situation and the need to lower the business activities costs, the Bank's Management Board made a decision to reduce employment. The Bank plans to reduce employment by group lay-offs which will include up to 300 employees. As a result of consultations with the Workers' Council, procedures, conditions, dates and the level of employment optimisation were agreed. Further employment reductions will be achieved as a result of the discontinuation of employment due to natural reasons and by non-extending agreements concluded for a specified period of time, also in the companies of Kredyt Bank Group, including ca. 200 employees. As at the publication date of these financial statements, the Bank did not have a detailed formal plan for group lay-offs which would comply with IAS 37 and, as a result, the Bank has not established a provision for restructuring costs.

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

## 66. Comparable data

The comparable data included in these financial statements for previous reporting period includes the presentation changes which were introduced to the financial statements as at 31.12.2008.

### Income Statement

|  | <b>Published data</b><br>01.01.2007 -<br>31.12.2007 | Adjustment | <b>Comparable data</b><br>01.01.2007 -<br>31.12.2007 |    |
|--|---|------------|--|----|
| Net income from sale of receivables                                    | 52 506  | -52 506    | no such item   | a) |
| Net impairment losses on financial assets, other assets and provisions | 17 789  | 52 506     | 70 295   | a) |

Clarification of major reclassifications:

- a) the reclassification of net income from sale of receivables to 'Net impairment losses on financial assets, other assets and provisions'

In the opinion of the Bank's Management Board, the presentation of net income from sale of receivables in 'Net impairment losses on financial assets, other assets and provisions' more adequately reflects the economic content of such transactions.

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

### 67.1. Fair value

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

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

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

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

**31.12.2008**

|  | Carrying<br>amount | Fair<br>value     |
|--|--------------------|-------------------|
| <b>Assets</b>                              |                    |                   |
| <b>Cash and balances with Central Bank</b> | <b>827 956</b>     | <b>827 956</b>    |
| <b>Net loans and advances to banks</b>     | <b>338 598</b>     | <b>339 190</b>    |
| <b>Net loans and advances to customers</b> | <b>26 925 698</b>  | <b>26 249 030</b> |
| <b>Natural persons*</b>                    | <b>17 970 866</b>  | <b>17 321 798</b> |
| - overdraft facilities                     | 625 521            | 622 342           |
| - purchased debt                           | 4 331              | 4 322             |
| - term loans **                            | 895 527            | 893 544           |
| - cash and instalment loans                | 3 627 195          | 3 626 704         |
| - mortgages                                | 12 801 969         | 12 158 777        |
| - realised guarantees                      | 551                | 337               |
| - other receivables                        | 15 772             | 15 772            |
| <b>Corporate customers</b>                 | <b>8 606 216</b>   | <b>8 577 132</b>  |
| - overdraft facilities                     | 1 839 291          | 1 835 517         |
| - term loans **                            | 6 715 547          | 6 690 680         |
| - purchased debt                           | 47 031             | 47 013            |
| - realised guarantees                      | 3 682              | 3 257             |
| - other receivables                        | 665                | 665               |
| <b>Budget</b>                              | <b>348 616</b>     | <b>350 100</b>    |
| - overdraft facilities                     | 4 398              | 4 453             |
| - term loans                               | 344 218            | 345 647           |
| <b>Investment securities:</b>              | <b>2 208 660</b>   | <b>2 215 181</b>  |
| - available-for-sale                       | 335 776            | 335 776           |
| - held-to-maturity                         | 1 872 884          | 1 879 405         |

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

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

|   | Carrying<br>amount | Fair<br>value |
|---|--------------------|---------------|
| <b>Liabilities</b>  |                    |               |
| Amounts due to banks and Central Bank   | 13 028 288         | 13 055 619    |
| Amounts due to customers  | 20 555 309         | 20 586 560    |
| Other financial liabilities recognized in the balance sheet at amortised cost *** | 288 634            | 288 634       |

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



**31.12.2007 (comparable data)**

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

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

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

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

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

**67.2. Loans and advances to banks and to customers**

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

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

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

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

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

### **67.4. Other financial assets not recognized in the balance sheet at fair value**

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

### **67.5. Financial liabilities not held for trading**

As stated in Note 41 and Note 42, the bulk of deposits made in banks and customer deposits are deposits on current accounts and term deposits with balance sheet maturities of less than three months.

## 68. Information on proceedings before courts or public administration authority

In 2008, the Bank was not a party to any proceedings before court or public administration authority, where the amount(s) claimed would amount to at least 10% of the Bank's (issuer's) equity.

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

- Two court proceedings regarding a credit granted to Laboratorium Frakcjonowania Osocza Sp. z o.o. in Mielec ('LFO'). The Bank is the leader of the syndicate of five banks, which, under the agreement of 04.03.1997, granted a syndicated loan to LFO. The loan was secured by, among others, a registered pledge on the company's property, plant and equipment and the surety of the State Treasury up to 60% of the drawn amount of the loan and accrued interest. As the investment project for which the loan was extended had not been completed and the dates of the payment of commitments had not been met, the Bank, representing the syndicate, terminated the agreement under its terms and conditions and called LFO to pay claims.
  - The State Treasury requested for determination whether the syndicated loan agreement concluded between LFO and the syndicate of five banks had expired on 28.02.1998 as a result of the occurrence of a contractual condition, and, as a result, the commitment of the State Treasury as the guarantor of the loan under the guarantor's agreement had expired as well. The State Treasury is represented by the General Public Prosecutor's Office of the State Treasury. Experts' opinions and auxiliary opinions were prepared and additional witnesses were questioned. In the first quarter of 2007, the State Treasury changed the lawsuit and claimed PLN 8,207 thousand including interest. The parties exchanged pleadings. 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.
  - 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.
- A trustee in bankruptcy of a company operating in the real estate developing sector (the name of the company is subject to confidentiality application) claims for payment of indemnity of PLN 32,256 thousand by the reason of effecting by the Bank of financial orders from the company's account on the basis of bank transfers orders and checks bearing a forged signature of one of the persons authorized to represent the company in dealings with the Bank. At the hearing on 21.11.2006, the plaintiff limited its claim for interest. The total amount claimed by the plaintiff equals PLN 20,665 thousand. On 20.03.2007, the court announced its decision and claimed the whole disputed amount with interest from the Bank. Having received the justification of the judgment, the Bank lodged the appeal and requested

to summon the member of the company's management board who had forged signatures. By the judgment of 8.04.2008, the appeal court overruled the judgment of the court of first instance (in the judgment, the court stated that the limitation of claims for damages by lapse of time had not been examined) and referred the case to the circuit court to be re-examined. The first hearing at which the positions of the parties were established was held on 25.07.2008. The next hearing was scheduled for 16 January 2008. By this date, the parties had had time for possible negotiations to settle the dispute out of court. Due to the judge's illness, the court adjourned the hearing and failed to set the date of the next hearing. The Bank upholds the charge of the limitation of the trustee in bankruptcy's claims by lapse of time. Should the court fail to accept this charge, there is a substantial probability of recognizing that the Bank's liability will be limited to the amount equal to the value of bank transfers for which it is impossible to prove that they were made to pay the company's liabilities, i.e. solely to the extent to which the actions of the member of the company's Management Board were detrimental to this company. This Bank's opinion is confirmed by the information obtained in the fourth quarter of 2008 about the judgment in a criminal case against the former member of the Management Board in which the court stated that, by forging bank transfer documents, he brought about damage to the company worth PLN 400,000.

- A suit filed by MSG Investment Sp. z o.o. in liquidation. The plaintiff claims that, as a result of debt recovery measures taken by the Bank, he lost PLN 25 million (no calculations are presented in the lawsuit). In the Bank's opinion, the basis for claims specified in the lawsuit is doubtful. On 14.03.2008, the court dismissed the lawsuit of MSG for the Bank to pay PLN 25 million. MSG Investment appealed against this decision, however, on 30.06.2008, the appeal court in Łódź dismissed the appeal. The plaintiff made the last resort appeal in this case. On 26.08.2008, the Bank requested to concede the enforceability clause to the court judgment of 14.03.2008 and received the executive title in September 2008.
- 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 interchange 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.

- 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 the guarantor of the loan to finance the building, i.e. Mostostal Zabrze Holding S.A., against the Bank and the building owner. The present dispute concerns fraudulent conveyance charge by Mostostal Zabrze Holding S.A. 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. At the hearing on 15.01.2009, the court focused on procedural issues concerning the securing of the MZH's claims. Reliz requested to decrease the security amount, but the request was rejected. The appraiser's valuation of 'Altus' building commissioned by the court has not been terminated yet. The next hearing will be scheduled by the court *ex officio*. The Bank's legal advisor analysed the potential claims and the claims under court proceedings brought by MZH against BC 2000 which, if upheld, could be satisfied from 'Altus' real property which belongs to Reliz. To the best of our knowledge, a portion of potential claims is prescribed. No lawsuits were filed to the portion of claims. In one of the cases, from the principal amount of PLN 17,287,328 claimed by MZH from BC 2000, the court, under its judgment of 23.10.2008, awarded the amount of PLN 7,066,347 to MZH, but dismissed the lawsuit in other respects. The sentence is not legally valid. Hence, in the Bank's opinion, even in the case of an unfavourable judgment in the fraudulent conveyance case, the risk of satisfying claims by MZH from Reliz's real estate is estimated only for a part of the amount subject to the fraudulent conveyance claim.
- The claim to pay PLN 9 million is directly related to the effective debt recovery measures taken by the Bank against a beer producer and distributor. At the end of August and the beginning of September 2007, the court debt collector, acting upon the Bank's request, seized the company's account and collected PLN 8.7 million from the proceeds to the account. In the justification for the suit, the company challenges the legitimacy and legal grounds of the Bank's debt collection process. It based its claim on the institution of groundless enrichment by the Bank concerning the collected amount and on the Bank's liability in tort related to the company's loss due to the Bank's allegedly illegal debt collection process (concerning the remaining amount). The Bank replied to the lawsuit. At the hearing on 25.07.2008, the court closed the proceedings and, on 4.08.2008, rendered its judgment. The court awarded the whole claimed amount (including interest) and proceedings costs to the plaintiff. Both the plaintiff and the Bank appealed against this judgment.

- 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 submitted a reply to the lawsuit on its own and HSBC's behalf.

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.

## **69. Custodian services**

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

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

In 2008, income related to the maintenance of securities accounts and registers as well as the services of an issue sponsor and of the custodian bank amounted to PLN 4,697 thousand as compared to PLN 3,878 thousand in 2007.

## **70. Risk management at Kredyt Bank S.A.**

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

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

Particular risks are dealt with directly by specialised Committees:

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

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

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

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

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

#### **70.1. Credit risk**

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

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

- Risk identification.
- Risk measurement (e.g. maximum approach, risk weighted assets, Exposure At Default – EAD, Expected Loss – EL, Unexpected Loss – UL).
- Limits monitoring (e.g. exposures concentrations related to loans used to finance commercial properties, related to residential properties, industrial properties, professional properties and commercial properties).
- Reporting.
- Analysis and formulating recommendations.
- Decision-making process.



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

- Supervisory Board;
- Audit Committee;
- Bank's Management Board;
- Credit Risk Committee;
- Credit Risk Office in the Risk Management Department;
- Consumer Finance Credit Risk Office;
- SME and Corporate Credits Department;
- Retail Credits Department;
- business lines managers;
- Audit and Inspection Department.

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

The process of risk management for individual transactions entails risk assessment for such a transaction and, depending on its level, application of an appropriate decision-making process. SME and Corporate Credits Department and Retail Credits Department play the key role in the risk management for individual transactions.

The portfolio risk management is the main responsibility of the Credit Risk Committee. The main tasks of the Committee are as follows:

- Supporting the Management Board in:
  - developing and reviewing the risk management system, including the lending policy;
  - informing about the risk management system;
  - monitoring the implementation status of the risk management system;
  - establishing tolerance to risk (e.g. portfolio limits);
  - monitoring the implementation status of measures taken in response to observed risk;
- Taking measures in response to observed risk.
- Mathematical and operational aspects (such as the application of models, monitoring measures, etc.) of all credit risk models developed and/or applied in Kredyt Bank.
- Taking decisions concerning credit risk related to the powers granted by the Management Board.

As at 31.12.2008, the limits of the concentration were not exceeded.



**The exposure towards 10 major corporate customers**

As at 31.12.2008

| <b>Company</b> | <b>Share (%) in the portfolio</b> |
|----------------|-----------------------------------|
| Customer 1     | 2.8                               |
| Customer 2     | 2.8                               |
| Customer 3     | 2.3                               |
| Customer 4     | 2.2                               |
| Customer 5     | 2.1                               |
| Customer 6     | 2.0                               |
| Customer 7     | 2.0                               |
| Customer 8     | 2.0                               |
| Customer 9     | 1.9                               |
| Customer 10    | 1.8                               |
| <b>Total</b>   | <b>21.9</b>                       |

As at 31.12.2007

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

### The exposure in industrial segments

| Industry   | Exposure   | Exposure                      |
|--|------------|-------------------------------|
|  | %          | %                             |
|  | 31.12.2008 | Comparable data<br>31.12.2007 |
| Production activities  | 27.9       | 33.5                          |
| Retail and wholesale; repairs of motor vehicles and articles for personal and home use | 24.1       | 20.8                          |
| Financial intermediation   | 11.3       | 17.8                          |
| Real estate administration and lease   | 15.3       | 9.0                           |
| Construction   | 5.8        | 4.1                           |
| Public administration and national defence, legally guaranteed social care             | 2.8        | 4.0                           |
| Transport, storing and communication   | 4.7        | 3.9                           |
| Agriculture, hunting and forestry  | 2.3        | 1.9                           |
| Other services for municipalities, social and individual services                      | 0.9        | 1.0                           |
| Mining   | 1.6        | 1.0                           |
| Health care and social care  | 1.1        | 1.0                           |
| Hotels and restaurants   | 0.9        | 0.9                           |
| Supplies of electricity, gas and water   | 1.0        | 0.8                           |
| Fishing and fish culture   | 0.1        | 0.0                           |
| Education  | 0.2        | 0.3                           |
| <b>Total</b>   | <b>100</b> | <b>100</b>                    |

### Geographical exposure

| Province            | Gross loans structure | Gross loans structure         |
|---------------------|-----------------------|-------------------------------|
|                     | (%)                   | (%)                           |
|                     | 31.12.2008            | Comparable data<br>31.12.2007 |
| Mazowieckie         | 23.4                  | 23.9                          |
| Lubelskie           | 14.0                  | 13.6                          |
| Dolnośląskie        | 10.7                  | 10.6                          |
| Wielkopolskie       | 8.7                   | 9.1                           |
| Małopolskie         | 5.6                   | 7.8                           |
| Pomorskie           | 7.3                   | 6.9                           |
| Śląskie             | 7.3                   | 6.8                           |
| Zachodniopomorskie  | 4.8                   | 4.3                           |
| Łódzkie             | 3.8                   | 3.8                           |
| Podlaskie           | 3.1                   | 3.1                           |
| Kujawsko-pomorskie  | 2.8                   | 2.5                           |
| Podkarpackie        | 2.5                   | 2.3                           |
| Warmińsko-mazurskie | 2.1                   | 2.3                           |
| Świętokrzyskie      | 1.2                   | 1.2                           |
| Lubuskie            | 1.5                   | 1.1                           |
| Opolskie            | 1.0                   | 0.6                           |
| Non-resident        | 0.2                   | 0.1                           |
| <b>Total</b>        | <b>100</b>            | <b>100</b>                    |

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

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

As at 31.12.2008, the coverage of the Bank's balance sheet and off-balance sheet loans and advances to counterparties other than banks and governments with internal ratings amounted to 97.59%. As at 31.12.2007, the coverage was at the level of 91.5%:

| Internal PD rating | Standard & Poors | Comparable data |             |
|--------------------|------------------|-----------------|-------------|
|                    |                  | 31.12.2008      | 31.12.2007  |
|                    |                  | Total           | Total       |
| PD 1               | AAA - A-         | 3%              | 7%          |
| PD 2               | BBB+             | 6%              | 8%          |
| PD 3               | BBB              | 19%             | 22%         |
| PD 4               | BBB-/BB+         | 27%             | 17%         |
| PD 5               | BB               | 21%             | 18%         |
| PD 6               | BB-              | 12%             | 8%          |
| PD 7               | B+/B             | 4%              | 7%          |
| PD 8               | B-               | 2%              | 4%          |
| PD 9               | CCC+ lower       | 1%              | 2%          |
| PD 10              |                  | 2%              | 1%          |
| PD 11              |                  | 1%              | 2%          |
| PD 12              |                  | 2%              | 4%          |
| <b>Total</b>       |                  | <b>100%</b>     | <b>100%</b> |

## Maximum exposure to credit risk

| <b>Balance sheet instruments</b>                                | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|---|-------------------|---------------------------------------|
| <b>Debt securities:</b>   | <b>7 577 807</b>  | <b>5 924 931</b>                      |
| - financial assets at fair value through profit or loss         | 1 347 027         | 448 499                               |
| - available-for-sale  | 4 357 896         | 3 431 265                             |
| - held-to-maturity  | 1 872 884         | 2 045 167                             |
| <b>Derivatives</b>  | <b>2 302 799</b>  | <b>495 095</b>                        |
| <b>Net loans and advances to banks (including Central Bank)</b> | <b>517 270</b>    | <b>2 560 547</b>                      |
| <b>Net loans and advances to customers, including:</b>          | <b>26 925 698</b> | <b>16 898 328</b>                     |
| <b>Natural persons</b>  | <b>17 970 866</b> | <b>9 342 807</b>                      |
| - overdraft facilities  | 625 521           | 523 981                               |
| - purchased debt  | 4 331             | 707                                   |
| - term loans  | 895 527           | 938 817                               |
| - cash and instalment loans                                     | 3 627 195         | 2 059 643                             |
| - mortgages   | 12 801 969        | 5 808 913                             |
| - realised guarantees   | 551               | 0                                     |
| - other receivables   | 15 772            | 10 746                                |
| <b>Corporate customers</b>                                      | <b>8 606 216</b>  | <b>7 149 373</b>                      |
| - overdraft facilities  | 1 839 291         | 1 574 485                             |
| - term loans  | 6 715 547         | 5 539 241                             |
| - purchased debt  | 47 031            | 25 804                                |
| - realised guarantees   | 3 682             | 1 368                                 |
| - other receivables   | 665               | 8 475                                 |
| <b>Budget</b>   | <b>348 616</b>    | <b>406 148</b>                        |
| - overdraft facilities  | 4 398             | 932                                   |
| - term loans  | 344 218           | 405 216                               |
| <b>Various debtors (receivables recognized in other assets)</b> | <b>63 295</b>     | <b>60 033</b>                         |
| <b>Total</b>  | <b>37 386 869</b> | <b>25 938 934</b>                     |
| <b>Contingent liabilities granted</b>                           | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
| Financial   | 5 401 454         | 4 410 804                             |
| Guarantees  | 1 820 606         | 1 619 289                             |
| <b>Total liabilities granted</b>                                | <b>7 222 060</b>  | <b>6 030 093</b>                      |
| <b>TOTAL ASSETS AND OFF-BALANCE SHEET ITEMS</b>                 | <b>44 608 929</b> | <b>31 969 027</b>                     |

In the fourth quarter of 2008, in view of the symptoms of slower economic growth, the Bank made decisions to tighten the credit policy for:

- instalment and cash loans by decreasing Dtl (Debt to Income) ratio when calculating creditworthiness and by establishing additional restrictions concerning more risky types of customers and points of sale, what will contribute to the reduction of lending activities of Żagiel in 2009;
- mortgages by increasing the margin for loans in CHF and by decreasing LtV, what contributed to the reduction of lending activities already at the end of 2008, particularly in the case of loans in

foreign currencies; in the fourth quarter, the value of extended loans amounted to PLN 1.5 billion, including PLN 1 billion of loans granted in October;

- credit cards to individual customers by limiting the sale to the customers from the best risk group;
- living costs of households by introducing new, higher living costs to the evaluation of creditworthiness;
- corporate customers by reducing lending activities for higher rated customers and for customers from less risky industries;
- professional limits by reducing the number of available professional limits.

The significant depreciation of the Polish currency in the fourth quarter of 2008 resulted in unfavourable, for the Bank's customers, valuations of professional transactions and, what follows, in increased credit risk related to the possible inability to pay amounts due on the clearing date for the transactions.

The Bank introduced procedures to reduce the risk of open position on derivatives:

- professional limits are approved by the Bank's Credit Committee;
- professional limits (amount, period, product types) are set under a clear policy of granting such limits;
- daily reporting on professional limits for which the utilisation exceeds 80% has been introduced;
- regular reviews and assessments of customers' positions are carried out by the Bank's Credit Committee;
- when a professional limit is exceeded, a security deposit is required (this principle can only be circumvented with the consent of the Bank's Credit Committee);
- the possibility of extending maturing positions was limited;
- a 'special unit' was engaged to manage credit risk already at an early stage of the assessment of such a risk;
- the best practices code for the Bank's employees who sell professional products is applied;
- reducing credit risk concerning interest rate swaps by reducing positions to the actual financing delivered by the Bank to the customer.

Furthermore, as a result of the situation, the Bank restricted access to the above-mentioned transactions by reducing the number of professional limits.

| Currency derivatives                                       | 31.12.2008 |             | 31.12.2007 |             |
|--|------------|-------------|------------|-------------|
|  | Assets     | Liabilities | Assets     | Liabilities |
| Total balance sheet exposure, excluding banks              | 475 187    | 170 317     | 45 604     | 41 599      |
| Net position aggregated at customer level, excluding banks | 307 242    | 2 372       | 24 948     | 20 944      |

As at 31.12.2008, the Bank secured concluded currency contracts by freezing cash on bank accounts in the total amount of PLN 36,098 thousand. As mentioned in section 7.6 of these financial statements, the valuation of derivatives also entails credit risk. In 2008, a charge for this item included in the Bank's income statement amounted to PLN 19 million. The charge concerned currency options.

## 70.2. Operational risk

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

To calculate the capital requirement for operational risk, the Bank applies the Basic Indicator Approach.

As a result, the Bank, inter alia,:

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

The Bank took measures focused on the application of the standardized approach by, among others: enhancing the operational risk assessment system through systematic risk self-assessments (RSA) in particular business areas and risk management, through the implementation of action plans to reduce the risk and the measurement of risk using Key Risk Indicators (KRI). The aim is to effectively include the outcome of risk assessment in the monitoring and control process for Kredyt Bank's operational risk profile.

Operational risk coordinators, supporting the managers of business units, play a crucial role in the implementation of operational risk management tools and techniques. Managers of particular business lines are directly responsible for operational risk management.

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

## 70.3. Market risk and ALM

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

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

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

### 70.3.1. Trading Book

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

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

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

| Limit |         | 31.12.2008 | Data for 2008 |         |          |
|-------|---------|------------|---------------|---------|----------|
|       |         |            | Average       | Minimum | Maximum  |
| VaR   | 3 000.0 | 1 257.09   | 1 173.89      | 353.20  | 4 611.33 |

Comparable data as at 31.12.2007

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

| Limit |         | 31.12.2007 | Comparable data for 2007 |         |          |
|-------|---------|------------|--------------------------|---------|----------|
|       |         |            | Average                  | Minimum | Maximum  |
| VaR   | 3 000.0 | 1 100.42   | 508.06                   | 175.86  | 1 212.45 |

#### 70.3.1.1. Interest rate risk

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

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

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

**VaR for particular sections – in EUR ‘000’**

|                 | Limit   | 31.12.2008 | Data for 2008 |         |          |
|-----------------|---------|------------|---------------|---------|----------|
|                 |         |            | Average       | Minimum | Maximum  |
| Short term Desk | 1 300.0 | 1 031.91   | 912.33        | 366.68  | 1 794.54 |
| Long Term Desk  | 1 300.0 | 291.96     | 262.75        | 101.35  | 828.87   |

Comparable data as at 31.12.2007

**VaR for particular sections – in EUR ‘000’**

|                 | Limit   | 31.12.2007 | Comparable data for 2007 |         |          |
|-----------------|---------|------------|--------------------------|---------|----------|
|                 |         |            | Average                  | Minimum | Maximum  |
| Short term Desk | 1 300.0 | 472.86     | 324.09                   | 96.87   | 825.02   |
| Long Term Desk  | 1 300.0 | 319.03     | 378.40                   | 84.05   | 1 039.42 |

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

**VaR for the Trading Book – interest rate risk – in EUR ‘000’**

|         | 31.12.2008 | Data for 2008 |         |          |
|---------|------------|---------------|---------|----------|
|         |            | Average       | Minimum | Maximum  |
| Trading | 1 240.23   | 984.76        | 355.77  | 1 958.19 |

Comparable data as at 31.12.2007

**VaR for the Trading Book – interest rate risk – in EUR ‘000’**

|         | 31.12.2007 | Comparable data for 2007 |         |          |
|---------|------------|--------------------------|---------|----------|
|         |            | Average                  | Minimum | Maximum  |
| Trading | 514.91     | 495.95                   | 137.07  | 1 263.95 |

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

**Interest rate options**

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



### 70.3.1.2. Currency risk

#### Position in currencies

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

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

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

|         | 31.12.2008 | Data for 2008 |         |          |
|---------|------------|---------------|---------|----------|
|         |            | Average       | Minimum | Maximum  |
| Trading | 343.88     | 462.00        | 17.49   | 4,472.25 |

Comparable data as at 31.12.2007

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

|         | 31.12.2007 | Comparable data for 2007 |         |         |
|---------|------------|--------------------------|---------|---------|
|         |            | Average                  | Minimum | Maximum |
| Trading | 810.23     | 118.93                   | 2.57    | 864.57  |

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

#### Currency options

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

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

**Balance sheet (as at 31.12.2008)**

| <i>in PLN '000'</i>  | CHF              | EUR              | GBP           | USD            | PLN               | Other currencies | Total             |
|--|------------------|------------------|---------------|----------------|-------------------|------------------|-------------------|
| <b>Assets</b>  |                  |                  |               |                |                   |                  |                   |
| Cash and balances with Central Bank  | 2 435            | 58 667           | 11 758        | 29 706         | 723 694           | 1 696            | 827 956           |
| Gross loans and advances to banks  | 58 727           | 112 918          | 57 327        | 50 337         | 55 621            | 5 929            | 340 859           |
| Impairment losses on loans and advances to banks   | 0                | 0                | 0             | 0              | -2 261            | 0                | -2 261            |
| Financial assets at fair value through profit or loss, including financial assets held for trading (excluding derivatives) | 0                | 1 208            | 0             | 41 213         | 1 304 606         | 0                | 1 347 027         |
| Derivatives  | 1 155            | 486 360          | 894           | 158 543        | 1 655 341         | 506              | 2 302 799         |
| Gross loans and advances to customers  | 9 770 410        | 2 108 627        | 4 402         | 364 772        | 15 603 875        | 1 069            | 27 853 155        |
| Impairment losses on loans and advances to customers   | -11 481          | -47 689          | -4            | -806           | -867 239          | -238             | -927 457          |
| Investment securities:   | 0                | 439 375          | 0             | 17 015         | 5 776 234         | 0                | 6 232 624         |
| - available-for-sale   | 0                | 303 069          | 0             | 17 015         | 4 039 656         | 0                | 4 359 740         |
| - held-to-maturity   | 0                | 136 306          | 0             | 0              | 1 736 578         | 0                | 1 872 884         |
| Investments in subsidiaries and jointly controlled entities  | 0                | 75               | 0             | 0              | 66 000            | 0                | 66 075            |
| Property, plant and equipment  | 0                | 0                | 0             | 0              | 398 201           | 0                | 398 201           |
| Intangible assets  | 0                | 0                | 0             | 0              | 57 854            | 0                | 57 854            |
| Deferred tax asset   | 0                | 0                | 0             | 0              | 44 509            | 0                | 44 509            |
| Other assets   | 0                | 8 941            | 52            | 557            | 70 207            | 24               | 79 781            |
| <b>Total assets</b>  | <b>9 821 246</b> | <b>3 168 482</b> | <b>74 429</b> | <b>661 337</b> | <b>24 886 642</b> | <b>8 986</b>     | <b>38 621 122</b> |

(as at 31.12.2008)

**Balance Sheet (cont.)**

| <i>in PLN '000'</i>                              | CHF              | EUR              | GBP           | USD              | PLN               | Other<br>currencies | Total             |
|--|------------------|------------------|---------------|------------------|-------------------|---------------------|-------------------|
| <b>Liabilities</b>                               |                  |                  |               |                  |                   |                     |                   |
| Amounts due to Central Bank                      | 0                | 0                | 0             | 0                | 1 113 275         | 0                   | 1 113 275         |
| Amounts due to banks                             | 4 189 836        | 4 405 177        | 246           | 512 155          | 2 797 857         | 9 742               | 11 915 013        |
| Derivatives                                      | 1 062            | 406 760          | 438           | 147 719          | 1 333 886         | 356                 | 1 890 221         |
| Amounts due to customers                         | 10 250           | 2 156 293        | 90 342        | 1 048 362        | 17 245 969        | 4 093               | 20 555 309        |
| Liabilities arising from repurchase transactions | 0                | 0                | 0             | 0                | 8 991             | 0                   | 8 991             |
| Current tax liability                            | 0                | 0                | 0             | 0                | 28 916            | 0                   | 28 916            |
| Provisions                                       | 412              | 1 519            | 0             | 810              | 27 600            | 38                  | 30 379            |
| Other liabilities                                | 108              | 9 329            | 11            | 599              | 210 070           | 38                  | 220 155           |
| Subordinated liabilities                         | 279 643          | 0                | 0             | 0                | 0                 | 0                   | 279 643           |
| <b>Total liabilities</b>                         | <b>4 481 311</b> | <b>6 979 078</b> | <b>91 037</b> | <b>1 709 645</b> | <b>22 766 564</b> | <b>14 267</b>       | <b>36 041 902</b> |

**Off-balance sheet items (as at 31.12.2008)**

| <i>in PLN '000'</i>  | CHF               | EUR               | GBP           | USD               | PLN                | Other<br>currencies | Total              |
|--|-------------------|-------------------|---------------|-------------------|--------------------|---------------------|--------------------|
| <b>Liabilities granted, including:</b>                       | <b>567 253</b>    | <b>1 292 137</b>  | <b>8 553</b>  | <b>277 795</b>    | <b>5 050 268</b>   | <b>26 054</b>       | <b>7 222 060</b>   |
| - financial  | 567 131           | 594 042           | 0             | 159 266           | 4 080 316          | 699                 | 5 401 454          |
| - guarantees   | 122               | 698 095           | 8 553         | 118 529           | 969 952            | 25 355              | 1 820 606          |
| <b>Liabilities received, including:</b>                      | <b>98 049</b>     | <b>900 563</b>    | <b>0</b>      | <b>86 515</b>     | <b>748 813</b>     | <b>2 359</b>        | <b>1 836 299</b>   |
| - financial  | 98 049            | 417 240           | 0             | 0                 | 11 100             | 2 359               | 528 748            |
| - guarantees   | 0                 | 483 323           | 0             | 86 515            | 737 713            | 0                   | 1 307 551          |
| <b>Liabilities related to the sale/purchase transactions</b> | <b>10 905 738</b> | <b>16 087 606</b> | <b>54 682</b> | <b>11 229 499</b> | <b>240 786 811</b> | <b>28 185</b>       | <b>279 092 521</b> |
| <b>Other:</b>  | <b>1 632 397</b>  | <b>184 899</b>    | <b>0</b>      | <b>96 982</b>     | <b>2 827 974</b>   | <b>44</b>           | <b>4 742 296</b>   |
| - collateral received  | 1 632 397         | 184 899           | 0             | 96 982            | 2 827 974          | 44                  | 4 742 296          |

**Balance sheet (as at 31.12.2007) comparable data**

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

(as at 31.12.2007) comparable data

**Balance Sheet (cont.)**

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

**Off-balance sheet items (as at 31.12.2007) comparable data**

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

### 70.3.1.3. Capital market risk

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

### 70.3.1.4. Commodity price risk

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

### 70.3.1.5. Capital requirements

The capital requirements for the Trading Book as of 31.12.2008 and 31.12.2007 are as follows:

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

|   | 31.12.2008     | Comparable data<br>31.12.2007 |
|---|----------------|-------------------------------|
| Equity securities price risk                                    | 0              | 0                             |
| Specific risk of debt instruments                               | 0              | 22                            |
| General interest rate risk                                      | 44 308         | 46 748                        |
| Settlement risk and counterparty risk                           | 101 423        | 15 622                        |
| Currency risk (total for the Trading Book and the Banking Book) | 0              | 4 476                         |
| <b>Total capital requirement in the Trading Book</b>            | <b>145 731</b> | <b>66 868</b>                 |

An increase in the capital requirement for counterparty risk is an effect of increased exposure and changes in the calculation method for the requirement due to the implementation of Basel II principles.

### 70.3.2. Banking Book (ALM)

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

#### 70.3.2.1. Interest rate risk

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

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

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

An analysis of the interest rate gap applied in the interest rate risk management of the Banking Book is based on information on particular items of the Bank's balance sheet as well as off-balance items



sensitive to changes in interest rates. In the case of financial instruments without defined maturity date (according to a stability analysis for each type of product), the Bank implemented the model of periodic deposits rollover. This approach towards products allows for effective management of risk associated with this type of instruments and for the generation of constant income from investments of these assets.

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

### ***Interest rate risk analysis***

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

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

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

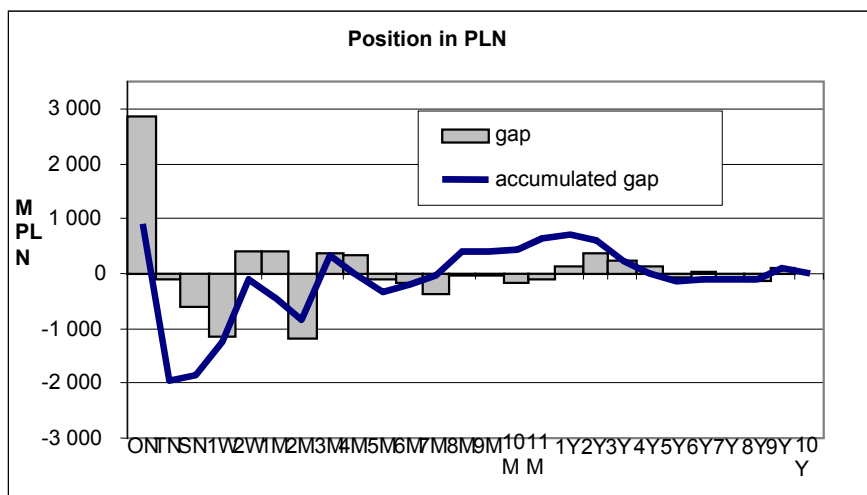
The diagrams present the mismatch between the repricing periods for assets and liabilities in time ranges: from ON time range (overnight) to 10Y time range (10 years). The accumulated gap presents the total mismatch for a given time horizon; the gaps are accumulated beginning from the most remote date. The most noticeable mismatch both in particular time ranges and accumulated ranges appear in time ranges up to 3 months. It is related to the structure of the Bank's balance sheet, namely

customers' floating interest rate loans portfolio with repricing periods of 1 month and 3 months and the portfolio of overdraft facilities with an immediate repricing period are the main position affecting the interest rate gap.

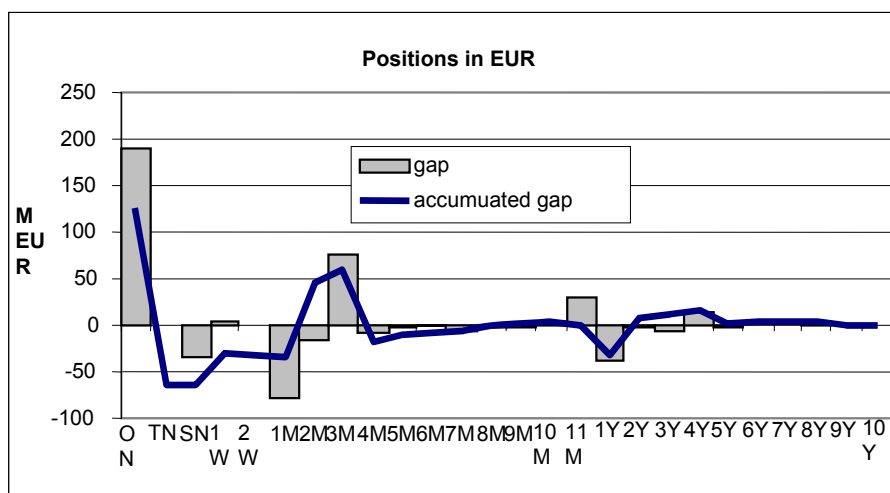
The Bank actively mitigates the risk resulting from the mismatch between balance sheet assets and liabilities, closing the positions with derivatives and applying hedge accounting.

Data as at 31.12.2008:

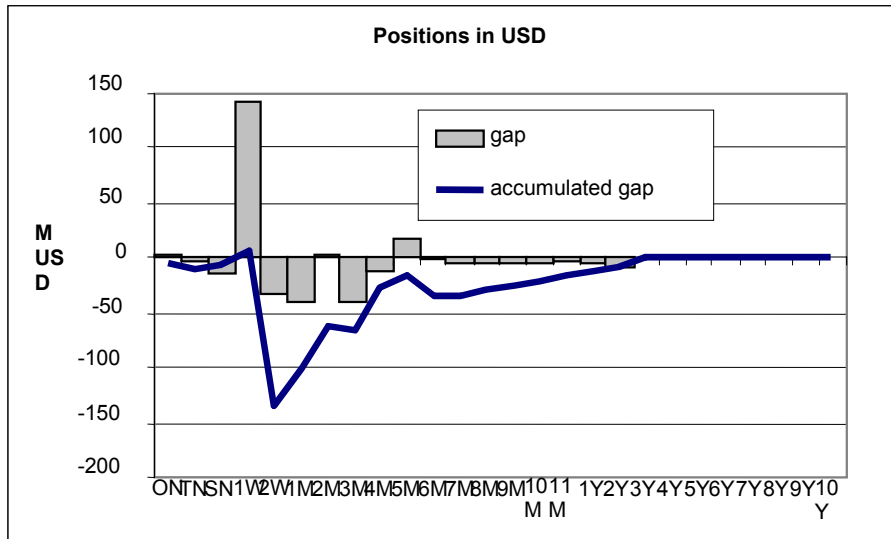
**- PLN**



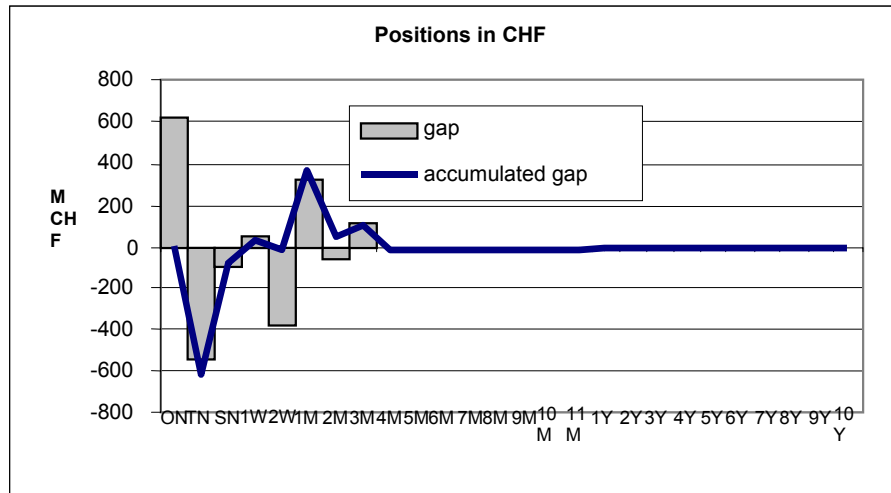
**- EUR**



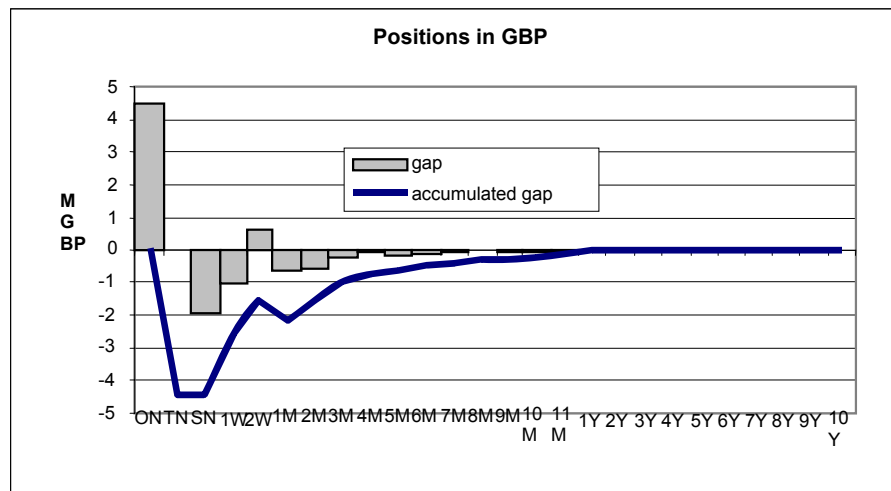
**- USD**



**- CHF**

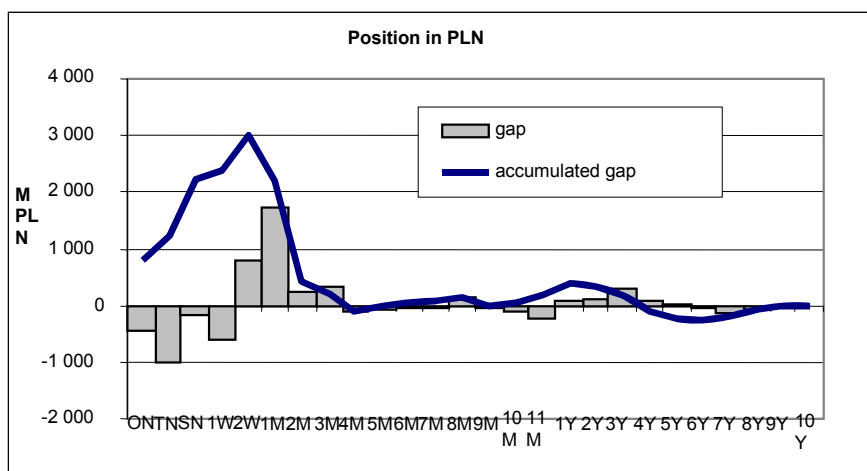


**-GBP**

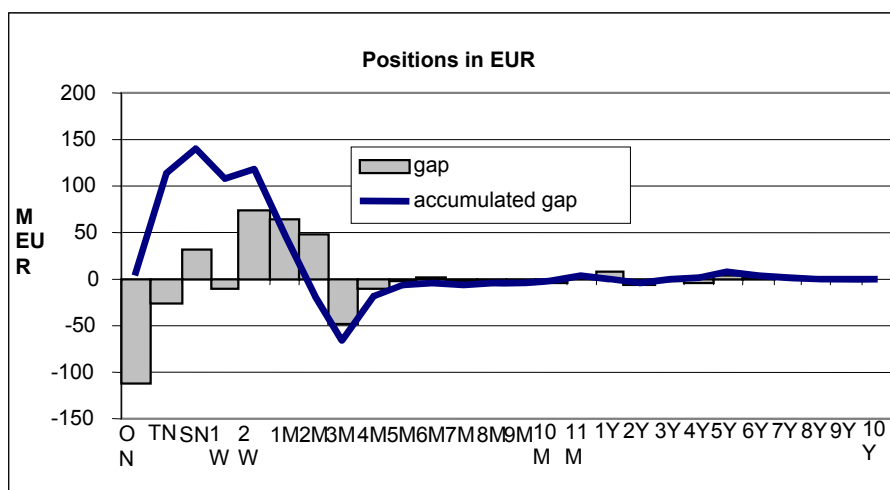


Comparable data as at 31.12.2007:

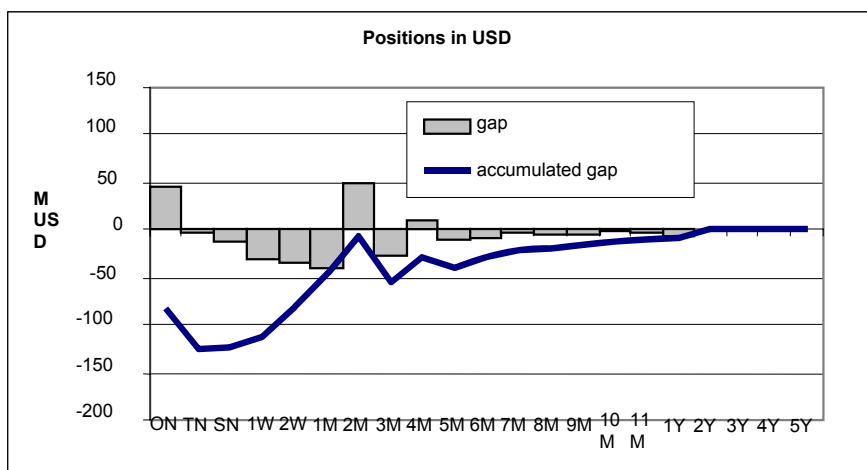
**- PLN**



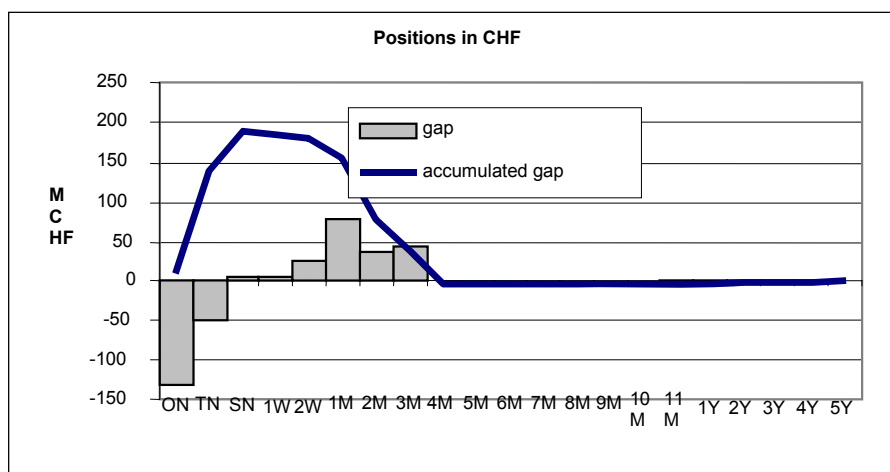
**- EUR**



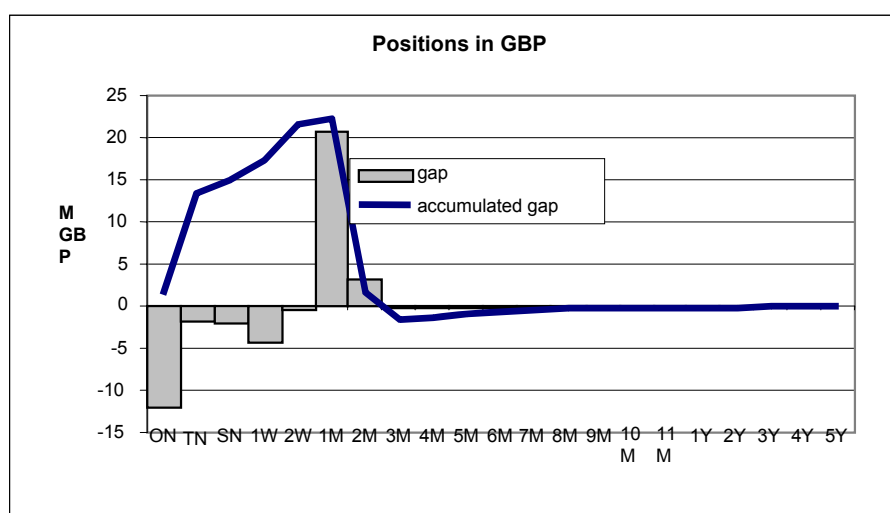
**- USD**



**- CHF**



**-GBP**



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

Data as at 31.12.2008

| BPV in millions of a currency | 1M     | 3M     | 6M     | 12M   | 3Y     | 5Y     | Over 5Y | TOTAL         |
|-------------------------------|--------|--------|--------|-------|--------|--------|---------|---------------|
| PLN                           | -0.037 | 0.096  | 0.243  | 0.369 | -1.401 | -0.238 | 0.916   | <b>-0.052</b> |
| EUR                           | 0.008  | -0.012 | 0.004  | 0.012 | 0.017  | -0.104 | -0.025  | <b>-0.100</b> |
| USD                           | 0.001  | 0.010  | -0.004 | 0.020 | 0.014  | 0.000  | 0.000   | <b>0.041</b>  |
| CHF                           | -0.011 | -0.020 | 0.001  | 0.003 | 0.014  | 0.006  | 0.000   | <b>-0.007</b> |
| GBP                           | 0.000  | 0.000  | 0.000  | 0.001 | 0.000  | 0.000  | 0.000   | <b>0.001</b>  |

Comparable data as at 02.01.2007

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

The total BPV for the Banking Book is presented below. It is calculated as total BPV for particular currencies and portfolios; contrary to the Bank's basis point value in breakdown into particular time ranges presented above, the 'liabilities' portion of the Free Capital portfolio is not taken into account. It results from the BPV calculation methodology for limits and the assumption of the insensitivity of the 'liabilities' side of the Free Capital to changes in interest rates.

|  |  | Comparable data |
|--|--|-----------------|
|  |  | 31.12.2007      |
|  |  | 31.12.2008      |
| BPV in millions of EUR<br>(calculation to limit) | Present rules (effective since May 2007) | -2.055          |
|  |  | -1.571          |

### 70.3.2.2. Hedge accounting

#### *Fair value hedging accounting*

In the second half of 2008, the Bank ceased to apply hedge accounting for fair value hedge for asset swaps. The purpose of hedge accounting was to hedge fixed interest rate bonds with an IRS, on which the Bank paid a fixed interest rate and received a floating interest rate.

#### *Hedge accounting of cash flows*

As at the end of 2008, the Bank continued to apply hedge accounting of cash flows for asset swaps which consists in hedging cash flows resulting from floating interest rate bonds (which involves the conclusion of an IRS in which the Bank receives fixed and pays floating interest flows).

At the end of 2008, the Bank also continued to apply hedge accounting as regards the part of the loans portfolio based on O/N rate and the part of mortgage loans based on 3M WIBOR. The first hedge consists in creating swap structure composed of a revolving OIS (the Bank pays cash flow based on O/N rate) and a standard IRS in which the Bank pays cash flow based on a floating interest rate adjusted to OIS maturity date and receives fixed interest flows. The hedged risk in this case is an interest rate risk resulting from a change in short-term interest rates. The second hedge involves the conclusion of IRS in which the Bank receives fixed and pays floating interest flows. Interest rate risk resulting from a change in the 3-month interest rate is the hedged risk in this case.

### 70.3.2.3. Currency risk

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

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

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

- a) determines the value of the highest monthly interest and principal repayment instalment for the applied loan with the assumption that the principal of the applied loan is 20% higher;
- b) the Bank calculates the maximum level of LtV (*Loan To Value*) ratio on a lower level than for loans in PLN (LtV ratio should be understood as the loan value/collateral value ratio);
- c) additionally, the applicant is informed about the foreign exchange risk.

### 70.3.3. Liquidity risk

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

The Bank hedges the liquidity risk by:

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

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

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

Amounts due to customers as at 31.12.2008 – contractual flows (interest flows according to the methodology of FSA (Financial Services Authority – the British financial regulator) are recognized up to 6 months); the stable part of savings and current accounts is recognized according to benchmark method.



## Liquidity gap report

Data as at 31.12.2008 (in millions of PLN) – data for the Bank and the most significant companies in the Group:

|  | up to 1M        | 1 - 3M          | 3 - 6M          | 6M - 1Y         | 1Y - 2 Y        | 2Y - 3Y         | 3Y - 5Y         | Over 5Y         | Total            |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Current accounts/savings accounts              | 1 770.98        | 471.62          | 523.62          | 631.62          | 1 438.62        | 1 384.67        | 2 321.84        | 948.75          | <b>9 491.72</b>  |
| Deposits                                       | 4 691.00        | 3 036.83        | 1 469.60        | 1 387.19        | 75.60           | 95.44           | 200.50          | 1.01            | <b>10 957.17</b> |
| Inter-bank deposits                            | 2 940.29        | 2 314.83        | 39.58           | 275.77          | 0.00            | 0.00            | 0.00            | 0.00            | <b>5 570.47</b>  |
| Perpetual bonds and cash loans                 | 35.72           | 32.82           | 54.09           | 0.00            | 1 844.66        | 2 634.85        | 2 037.17        | 279.91          | <b>6 919.22</b>  |
| LORO   | 38.00           | 0.29            | 0.47            | 0.00            | 0.00            | 0.00            | 0.00            | 0.00            | <b>38.76</b>     |
| REPO   | 203.50          | 924.15          | 0.00            | 0.00            | 0.00            | 0.00            | 0.00            | 0.00            | <b>1 127.65</b>  |
| Free capital*                                  | 0.00            | 0.00            | 0.00            | 0.00            | 0.00            | 0.00            | 0.00            | 1 754.30        | <b>1 754.30</b>  |
| Other  | 0.04            | 54.65           | 0.00            | 184.89          | 0.87            | 0.00            | 0.00            | 0.00            | <b>240.45</b>    |
| <b>Derivatives – cash flows to be received</b> |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| Swaps – sale                                   | 4 172.50        | 2 196.50        | 755.44          | 147.99          | 192.53          | 23.35           | 0.00            | 0.00            | <b>7 488.31</b>  |
| IRS/CCIRS                                      | 499.98          | 849.47          | 1 088.93        | 278.02          | 155.75          | 24.23           | 32.03           | 34.85           | <b>2 963.26</b>  |
| FRA  | 28.02           | 72.18           | 123.37          | 166.74          | 55.30           | 0.00            | 0.00            | 0.00            | <b>445.61</b>    |
| <b>Derivatives – cash flows to be paid</b>     |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| Swaps – purchase                               | 4 216.03        | 2 237.56        | 716.80          | 155.55          | 173.81          | 19.88           | 0.00            | 0.00            | <b>7 519.63</b>  |
| IRS/CCIRS                                      | 443.40          | 692.16          | 1 028.09        | 279.91          | 148.63          | 20.14           | 27.10           | 31.98           | <b>2 671.41</b>  |
| FRA  | 20.30           | 74.23           | 130.29          | 206.72          | 65.00           | 0.00            | 0.00            | 0.00            | <b>496.54</b>    |
| <b>TOTAL</b>                                   | <b>9 658,76</b> | <b>6 720,99</b> | <b>1 994,80</b> | <b>2 528,90</b> | <b>3 343,61</b> | <b>4 107,40</b> | <b>4 554,58</b> | <b>2 981,10</b> | <b>35 890,14</b> |

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

Comparable data as at 31.12.2007 (in millions of PLN):

|  | up to 1M         | 1 - 3M          | 3 - 6M          | 6M - 1Y         | 1Y - 2Y         | 2Y - 3Y         | 3Y - 5Y         | Over 5Y         | Total            |
|--|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Current accounts/savings accounts              | 2 491.46         | 876.09          | 599.89          | 579.72          | 1 299.94        | 1 246.38        | 1 914.33        | 719.17          | <b>9 726.98</b>  |
| Deposits                                       | 6 280.46         | 1 196.28        | 546.74          | 393.41          | 18.37           | 2.44            | 260.56          | 1.28            | <b>8 699.54</b>  |
| Inter-bank deposits                            | 2 376.90         | 131.77          | 57.54           | 0.60            | 0.00            | 0.00            | 0.00            | 0.00            | <b>2 566.81</b>  |
| Perpetual bonds and cash loans                 | 13.39            | 24.99           | 432.25          | 0.00            | 0.00            | 861.26          | 1 846.31        | 0.00            | <b>3 178.20</b>  |
| LORO   | 23.71            | 0.17            | 0.27            | 0.00            | 0.00            | 0.00            | 0.00            | 0.00            | <b>24.15</b>     |
| REPO   | 50.10            | 0.00            | 0.00            | 0.00            | 0.00            | 0.00            | 0.00            | 0.00            | <b>50.10</b>     |
| Free capital*                                  | 0.00             | 0.00            | 0.00            | 0.00            | 0.00            | 0.00            | 0.00            | 1 535.23        | <b>1 535.23</b>  |
| Other  | 0.13             | 64.93           | 0.00            | 87.89           | 0.00            | 0.00            | 0.00            | 0.00            | <b>152.95</b>    |
| <b>Derivatives – cash flows to be received</b> |                  |                 |                 |                 |                 |                 |                 |                 |                  |
| Swaps – sale                                   | 2 485.64         | 123.92          | 14.43           | 114.26          | 0.81            | 0.00            | 0.00            | 0.00            | <b>2 739.06</b>  |
| IRS/CCIRS                                      | 426.32           | 389.10          | 761.63          | 505.54          | 0.00            | 0.00            | 11.51           | 26.19           | <b>2 120.29</b>  |
| FRA  | 13.44            | 25.50           | 41.13           | 51.87           | 16.17           | -               | -               | -               | <b>148.11</b>    |
| <b>Derivatives – cash flows to be paid</b>     |                  |                 |                 |                 |                 |                 |                 |                 |                  |
| Swaps – purchase                               | 2 477.29         | 123.87          | 13.55           | 113.90          | 0.72            | 0.00            | 0.00            | 0.00            | <b>2 729.33</b>  |
| IRS/CCIRS                                      | 437.00           | 391.31          | 864.55          | 507.72          | 0.00            | 0.00            | 11.98           | 27.17           | <b>2 239.73</b>  |
| FRA  | 12.82            | 25.87           | 37.92           | 43.46           | 11.67           | -               | -               | -               | <b>131.74</b>    |
| <b>TOTAL</b>                                   | <b>11 237.86</b> | <b>2 296.76</b> | <b>1 735.52</b> | <b>1 055.03</b> | <b>1 313.72</b> | <b>2 110.08</b> | <b>4 021.67</b> | <b>2 256.66</b> | <b>26 027.30</b> |

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

At the end of 2008, as compared to the end of 2007, the following changes in the structure of the Bank's financial liabilities can be noticed:

- a decrease in the balance of current accounts and savings accounts (by PLN 1,365 million);
- an increase in the balance of deposits (by PLN 2,652 million);
- the amount of accepted inter-bank deposits increased by PLN 1,614 million;
- an increase in the balance of loans on the wholesale market (by PLN 3,077 million);
- at the end of 2008, the Bank reported REPO transactions in its balance sheet (PLN 1,128 million).

The Bank's financial liquidity is also monitored on the basis of a system of ratios reflecting the structure of liabilities and receivables for time ranges from 7 days to 5 years.

- Stock Liquidity Ratio (SLR) – short-term liquidity ratio (up to 5 working days);
- Liquidity Mismatch Ratio (LMR) – medium-term liquidity ratio (up to 3, 6 months);
- Coverage Ratio (CR) – liquidity ratio which informs about a degree of financing long-term assets with long-term liabilities (1, 2, 3 and 5 years).

The Bank's liquidity is also monitored with the set of regulatory liquidity ratios.

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

#### 70.3.3.1. Regulatory liquidity ratios

On 01.01.2008, Resolution No. 9/2007 of the Commission for Banking Supervision of 13.03.2007 concerning the establishment of mandatory liquidity standards for banks came into effect. Since 30.06.2008, the Bank has been required to maintain the ratios listed in the said resolution above the established minimum limit.

Data for the Bank as at 31.12.2008:

| <b>Assets</b>      |  | <b>in PLN '000'</b> |
|--------------------|--|---------------------|
| A1                 | Basic liquidity reserve  | 6 532 668.10        |
| A2                 | Supplementary liquidity reserve  | 5 118 775.37        |
| A3                 | Other transactions on the wholesale financial market   | 11 419 666.16       |
| A4                 | Limited liquidity assets   | 26 989 782.88       |
| A5                 | Non-liquid assets  | 444 664.61          |
| <b>Liabilities</b> |  | <b>in PLN '000'</b> |
| B1                 | Own funds less total capital requirements related to market risk, and to settlement risk and counterparty risk | 2 395 476.81        |
| B2                 | Stable external financing  | 27 404 747.41       |
| B3                 | Other liabilities on the wholesale financial market  | 11 169 290.15       |
| B4                 | Other liabilities  | 240 237.83          |
| B5                 | Unstable external financing  | 11 091 833.30       |

|    | Liquidity ratios   | Minimum rate | Value      |
|----|--|--------------|------------|
| M1 | Short-term liquidity gap: $((A1+A2)-B5)$   | 0.00         | 559 610.17 |
| M2 | Short-term liquidity ratio: $((A1+A2)/B5)$   | 1.00         | 1.05       |
| M3 | Own funds to non-liquid assets: $(B1/A5)$  | 1.00         | 5.39       |
| M4 | Own funds and stable external financing to non-liquid assets and limited liquidity assets: $((B1+B2)/(A5+A4))$ | 1.00         | 1.09       |

### 70.3.3.2. Stability of financing sources

| <i>in PLN '000'</i>                                  | As at 31.12.2008  | As at 31.12.2007 |
|--|-------------------|------------------|
| Loans and advances from KBC Group                    | 6 553 261         | 2 720 710        |
| - including loans and advances in foreign currencies | 4 781 104         | 1 483 882        |
| Term deposits  | 4 087 081         | 2 517 509        |
| - including term deposits from KBC Group             | 3 993 949         | 370 239          |
| Current accounts                                     | 1 271 449         | 28 114           |
| Other amounts due                                    | 3 222             | 5 116            |
| <b>Total amounts due to banks</b>                    | <b>11 915 013</b> | <b>5 271 449</b> |
| Subordinated liabilities *                           | 279 634           | 394 235          |
| <b>Total</b>   | <b>12 194 647</b> | <b>5 665 684</b> |

\* fully denominated in a foreign currency

The Bank finances the lending activities (especially loans in foreign currencies) not only with deposits but also, to a large extent, with financing made available by the Bank's main shareholder – KBC. Borrowed loans and advances as well as received deposits will be renewed at their maturities, what enables the Bank to treat them as long-term financing.

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

|                          | 31.12.2008  | Comparable data<br>31.12.2007 |
|--------------------------|-------------|-------------------------------|
| - individual customers   | 46%         | 51%                           |
| - financial institutions | 16%         | 9%                            |
| - business entities      | 28%         | 28%                           |
| - budgetary sector       | 10%         | 12%                           |
| <b>Total</b>             | <b>100%</b> | <b>100%</b>                   |

A noticeable change in the structure of the deposit base by types of entities is an effect of the development of bancassurance and of the closer cooperation with WARTA Group.

|                            | 31.12.2008  | Comparable data<br>31.12.2007 |
|----------------------------|-------------|-------------------------------|
| - current deposits         | 24%         | 28%                           |
| - negotiable term deposits | 30%         | 34%                           |
| - term deposits            | 22%         | 10%                           |
| - savings accounts         | 24%         | 28%                           |
| <b>Total</b>               | <b>100%</b> | <b>100%</b>                   |

On the one hand, changes in the structure of the deposit base by types of deposits reflect the Bank's policy in the area of bancassurance and, on the other hand, change the Bank's policy concerning the products offered to individual customers, which took place at the end of the year (an increase in the balance of term deposits at an expense of the decrease in balances of current accounts and savings accounts).

The structure of term deposits (except for interbank term deposits and negotiable term deposits) is advantageous from the point of view of an initial maturity date. As at 31.12.2008 and 31.12.2007, it was as follows:

|                   | 31.12.2008  | Comparable data<br>31.12.2007 |
|-------------------|-------------|-------------------------------|
| - up to 1 week    | 11%         | 26%                           |
| - up to 1 month   | 2%          | 7%                            |
| - up to 3 months  | 32%         | 18%                           |
| - up to 6 months  | 37%         | 23%                           |
| - up to 12 months | 15%         | 17%                           |
| - up to 24 months | 1%          | 3%                            |
| - other           | 2%          | 6%                            |
| <b>Total</b>      | <b>100%</b> | <b>100%</b>                   |

|              | 31.12.2008  | Comparable data<br>31.12.2007 |
|--------------|-------------|-------------------------------|
| PLN          | 86%         | 83%                           |
| USD          | 5%          | 7%                            |
| EUR          | 8%          | 9%                            |
| GBP          | 1%          | 1%                            |
| CHF          | 0%          | 0%                            |
| <b>Total</b> | <b>100%</b> | <b>100%</b>                   |

**Signatures of all Management Board Members**

|      |            |                          |   |       |
|------|------------|--------------------------|---|-------|
| date | 19.02.2009 | Maciej Bardan            | President of the<br>Management Board      | ..... |
| date | 19.02.2009 | Umberto Arts             | Vice President of the<br>Management Board | ..... |
| date | 19.02.2009 | Lidia Jabłonowska - Luba | Vice President of the<br>Management Board | ..... |
| date | 19.02.2009 | Krzysztof Kokot          | Vice President of the<br>Management Board | ..... |
| date | 19.02.2009 | Michał Oziębło           | Vice President of the<br>Management Board | ..... |

**Signature of a person responsible for keeping the accounting books**

|      |            |                  |  |       |
|------|------------|------------------|--|-------|
| date | 19.02.2009 | Grzegorz Kędzior | Director of Accounting and<br>External Reporting<br>Department | ..... |
|------|------------|------------------|--|-------|



**The Management Board's Report on the  
Operations of Kredyt Bank S.A.  
in the Period Subject to the Financial  
Statements for the Year Ended 31.12.2008**

## CONTENTS

|  |           |
|--|-----------|
| <b>1. Factors affecting the results of Kredyt Bank S.A. in 2008.....</b>                     | <b>3</b>  |
| <b>2. Business conditions in Poland and the banking sector in 2008.....</b>                  | <b>4</b>  |
| <b>3. The strategy of Kredyt Bank S.A.....</b>   | <b>10</b> |
| <b>4. The organisation and capital relations of Kredyt Bank S.A. ....</b>                    | <b>11</b> |
| 4.1 Shareholding structure of Kredyt Bank S.A. ....  | 11        |
| 4.2 The authorities of the Bank .....  | 13        |
| 4.3 Related party transactions .....   | 15        |
| 4.4 Investment plans, including equity investments.....                                      | 15        |
| 4.5 Events and contracts material for the activity of Kredyt Bank S.A. in 2008.....          | 16        |
| <b>5. Kredyt Bank S.A.'s areas of operation, products and services .....</b>                 | <b>19</b> |
| 5.1 Retail banking.....  | 19        |
| 5.1.1 Business area, distribution channels and results of the retail banking segment .....   | 19        |
| 5.1.2 Product strategy in retail banking area in 2008.....                                   | 20        |
| 5.2 Corporate banking.....   | 24        |
| 5.2.1 Business area, distribution channels and results of the corporate banking segment..... | 24        |
| 5.2.2 Product strategy in corporate banking segment in 2008 .....                            | 25        |
| 5.3 Treasury Segment and cooperation with international financial institutions .....         | 26        |
| 5.4 Custodian services .....   | 27        |
| <b>6. Financial results of Kredyt Bank S.A. in 2008 .....</b>                                | <b>27</b> |
| 6.1. Assets structure.....   | 27        |
| 6.2. The structure of liabilities and equity .....   | 30        |
| 6.3. Off-balance sheet items.....  | 31        |
| 6.4. Income statement structure .....  | 32        |
| <b>7. Risks associated with operations.....</b>  | <b>35</b> |
| 7.1 Credit risk .....  | 36        |
| 7.2 Liquidity risk .....   | 39        |
| 7.3 Market risk.....   | 41        |
| 7.4 Operational risk.....  | 45        |
| <b>8. Financial ratings for Kredyt Bank S.A. ....</b>  | <b>46</b> |
| <b>9. Corporate Governance .....</b>   | <b>47</b> |
| <b>10. The outlook and growth drivers for Kredyt Bank S.A.....</b>                           | <b>50</b> |
| <b>11. Statements of the Management Board .....</b>  | <b>52</b> |
| 11.1. True and fair view presented in the financial statements .....                         | 52        |
| 11.2. Appointment of the certified auditor for financial statements .....                    | 52        |



## 1. Factors affecting the results of Kredyt Bank S.A. in 2008

In 2008, Kredyt Bank S.A. generated the highest net operating income in the last five years amounting to PLN 1,413,309 thousand. It was higher than the figure in 2007 by 11.7%.

Net profit in 2008 amounted to PLN 301,072 thousand and allowed for ROE at 12.5% and ROA at 0.9%.

| <b>Selected financial ratios and figures</b>                                   | <b>31.12.2008</b> | <b>31.12.2007</b> | <b>31.12.2006</b> | <b>31.12.2005</b> | <b>31.12.2004</b> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Net loans and advances to customers  | 26 925 698        | 16 898 328        | 11 813 555        | 9 873 333         | 11 516 715        |
| Amounts due to customers   | 20 555 309        | 17 180 731        | 15 875 333        | 14 592 699        | 16 021 358        |
| Net operating income   | 1 413 309         | 1 265 075         | 1 086 317         | 1 079 169         | 1 070 007         |
| Profit before tax  | 389 379           | 512 202           | 426 881           | 307 806           | 126 684           |
| Net profit   | 301 072           | 400 519           | 437 443           | 410 488           | 126 528           |
| ROE  | 12.5%             | 18.7%             | 23.6%             | 26.0%             | 11.9%             |
| ROA  | 0.9%              | 1.6%              | 2.0%              | 2.0%              | 0.6%              |
| CIR  | 63.0%             | 65.1%             | 75.0%             | 74.2%             | 80.9%             |
| Capital adequacy ratio   | 8.9%              | 9.6%              | 13.5%             | 16.2%             | 14.4%             |
| Loans and advances with evidence for impairment/total gross loans and advances | 5.4%              | 7.4%              | 14.5%             | 26.4%             | 28.0%             |

The deduction of PLN 133,084 thousand of net impairment losses on financial assets, other assets and provisions from the profit for 2008, contrary to 2007, when the result for this year was increased by PLN 70,295 thousand (this category includes net income from the sale of receivables), was the most important factor which had an impact on the comparison of the financial results in 2007 and 2008.

Other, major factors which affected the financial result in 2008:

- Very good sale of loans, including mortgages and consumer loans. As compared to the end of 2007, net loans and advances to customers increased in nominal terms by 59.3%, i.e. by PLN 10,027,370 thousand, and by 127.9%, i.e. by PLN 15,112,143 thousand, as compared to the end of 2006. Positive sale-related trends allowed for the increase in the shares in the total loan market and in the mortgages market. At the end of 2008, the share of Kredyt Bank S.A. equalled 4.4% and 6.7% respectively (an increase against the end of 2007 by 0.6 p.p. and 1.7 p.p.).
- Improved acquisition of customers' cash as compared to 2007. As compared to the end of 2007, total amounts due to customers increased by 19.6%, i.e. by PLN 3,374,578 thousand, and by 29.5%, i.e. by PLN 4,679,976 thousand, as compared to the end of 2006.
- Focus on the increase in the result from the core banking business and on the maintenance of a higher growth rate for income than for expenses. Cost/income ratio in 2008 amounted to 63.0% and decreased by 2.1 p.p. as compared to 2007, and by 12.0 p.p. as compared to 2006. This ratio has been improving constantly, despite an increase in the costs of the

expansion of the distribution networks of both Kredyt Bank S.A. and Żagiel S.A. and an increase in telecommunications costs and IT costs related to the development of infrastructure and the need to upgrade IT systems.

- Net interest income was higher than in 2007. The increase by 14.9% was affected mainly by the above-mentioned increase in the value of the loans portfolio.
- A considerable increase in net trading income. In 2008, it was higher than in the previous year by 34.7%. An increase in the sale of mortgages in foreign currencies and in the result on the foreign exchange were the main reasons.

The most important events and factors for the Bank's operations in 2008 are as follows:

- Good business conditions persisting in the first three quarters of the year reflected in an improved economic situation of individual customers and in the fast development of the household loans market.
- The development and implementation of an effective mortgage sale process, which resulted in the increase in the value of the loans portfolio.
- Further development of the consumer finance segment including, particularly, increased sales and further reorganisation and expansion of the distribution network of Żagiel S.A.
- Closer cooperation within KBC Group in Poland, primarily in the area of bancassurance in collaboration with WARTA Group. Good results of the sale of 'WARTA GWARANCJA' insurance term deposit – a product which offers customers an alternative to traditional bank term deposits by combining investments with an insurance cover – were one of the effects of this cooperation.
- Ensuring financing of the further development of lending activities through the access to the resources of KBC Bank NV, the major shareholder of Kredyt Bank S.A.
- Further restructuring and debt collecting activities, which, when combined with a considerable increase in new loans, resulted in improved quality of the loans portfolio. At the end of 2008, the share of loans and advances with evidence for impairment in total gross loans and advances amounted to 5.4%, as compared to 7.4% at the end of 2007, 14.5% as at the end of 2006 and 26.4% at the end of 2005.
- Finalisation of the expansion of Kredyt Bank S.A.'s network.

## **2. Business conditions in Poland and the banking sector in 2008**

### **Overall economic conditions in Poland in 2008**

We witnessed the most difficult year in the Polish economy in many years. Following three quarters of declining, though still dynamic growth, in the last months of 2008, macroeconomic conditions deteriorated drastically. Another severe wave of the crisis on financial markets brought about a shock response of European companies and consumers, and the collapse of the internal demand at Poland's major business partners translated into a dynamic reduction of activeness in the Polish economy. The worse economic situation hit the industry first, however, we should assume that the halt of the growth in the EU will result in far-reaching implications for the state of the whole economy. Due to the persisting and difficult access to external financing, an increased aversion to risk and the

depreciation of the Polish zloty, the majority of Polish banks decided to radically restrict access to loans. The perspective of further restriction of the portfolio of orders (also of domestic orders) and difficult access to financing translated into the halted growth rate of investments. As a result, the economic growth, according to preliminary estimates, declined in the fourth quarter to slightly less than 3.0% y/y and was driven almost solely by the still growing consumer demand.

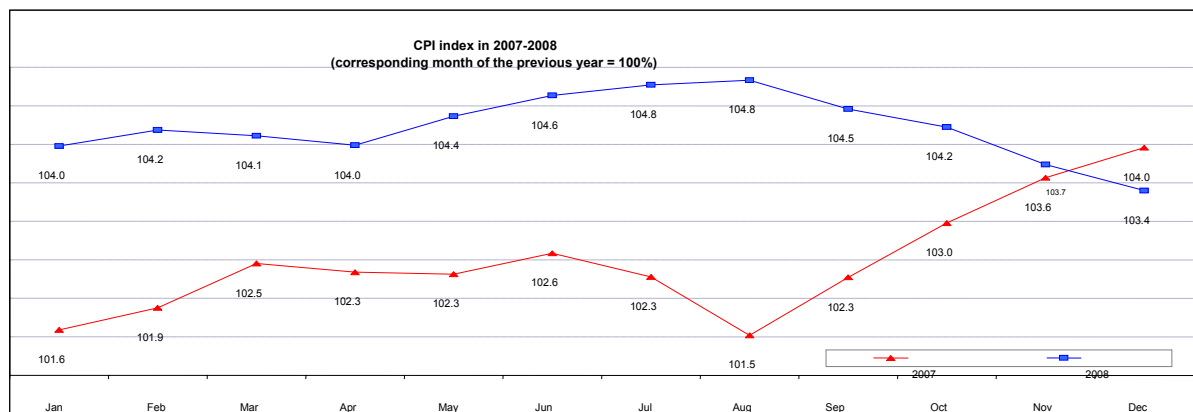
Perspectives for the successive two years do not seem to be optimistic. Due to the risk of prolonged/deeper recession in the Eurozone and having regard for the effects of the probable freeze of the lending activities in further quarters, we may expect a further, fast decline in the GDP growth rate. The expected freeze of investment processes in enterprises suggests that, despite a continuing flow of funds engaged in the EU infrastructure projects, the growth rate for spending on property, plant and equipment will probably decline and remain below zero throughout the year. As a result, for the first time in many years, the share of investments in GDP will diminish. Although, for the major part of 2008, the economic slowdown was not yet deep enough so as to limit the demand for labour in a noticeable way, however, the end of the previous year was marked by fast slowdown in the employment growth rate. Furthermore, figures from the beginning of 2009 suggest that the future to come will bring about the intensification of negative (from employees' viewpoint) trends on the labour market. The decline in the number of employees, increased unemployment and limited pressure on wages will also make the real purchasing power of consumers, which so far has been the main driver of the economic growth, weaker, despite lower inflation rate. This trend will be counteracted by advantageous changes in personal income tax and, to a more limited extent, the annual indexation of social benefits; however, taking into account pessimistic consumer views on a future economic situation, it seems probable that the limitation of the present consumption may prove to be deeper than the limitation resulting from the worsening of the situation on the labour market alone.

Unfavourable economic conditions and the fast deterioration of expectations concerning economic growth in the quarters to come was a turning point from the point of view of perspectives for inflation and, as a result, turned out to be a key argument for the Monetary Policy Council, which, in November, launched an aggressive campaign of interest rates cuts.

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

- declining pressure of demand;
- a reduced growth rate for food and energy prices;
- a relatively safe deficit on the current account;
- (still) positive GDP growth on a year-to-year basis;
- the determination declared by the government to maintain the discipline in public finances.

In the first half of 2008, consumer prices rose faster than in previous years (on a year-to-year basis), what was a direct effect of an increase in prices of food and energy. The unprecedented improvement on the labour market was at the same time a source of stronger pressure of demand. A decline in prices of energy media and a reduced food prices growth rate resulted, however, in the reversal of the upward trend for inflation (also base inflation) in the second half of 2008. The year-to-year inflation rate declined in December to 3.3% y/y, i.e. below the upper limit for the permitted range of fluctuations around the inflation target of the National Bank of Poland (2.5% y/y +/- 1 p.p.). Coming months will bring about a further inflation decrease, which will be reflected both in limited pressure of demand and in relatively stable prices of fuels and food. The annual growth rate for consumer prices may return to the range of the NBP's target as early as in the mid-year period.



The following factors are listed among the worrying macroeconomic trends and negative phenomena:

- deepening recession at our major business partners;
- limited access to external financing;
- halted investment processes;
- unsatisfactory absorption of EU funds;
- reducing high financial profitability of enterprises.

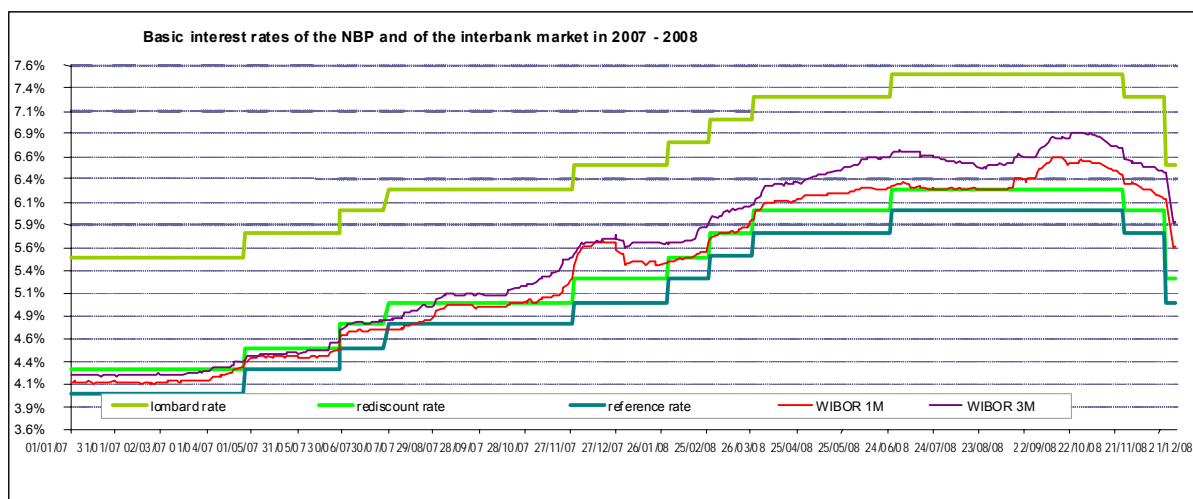
The maintenance of the share of investments in GDP is the key issue and, at the same time, the main threat for the maintenance of the positive economic growth rate in medium term. Having regard for unfavourable changes in the external environment and a probable further decline in consumer demand in Poland, the effective use of aid funds from the European Union and measures taken to heal the situation on financial markets, what would result in greater access to sources of external financing, will be of particular importance in this respect.

### Monetary policy of the National Bank of Poland (NBP) in 2008

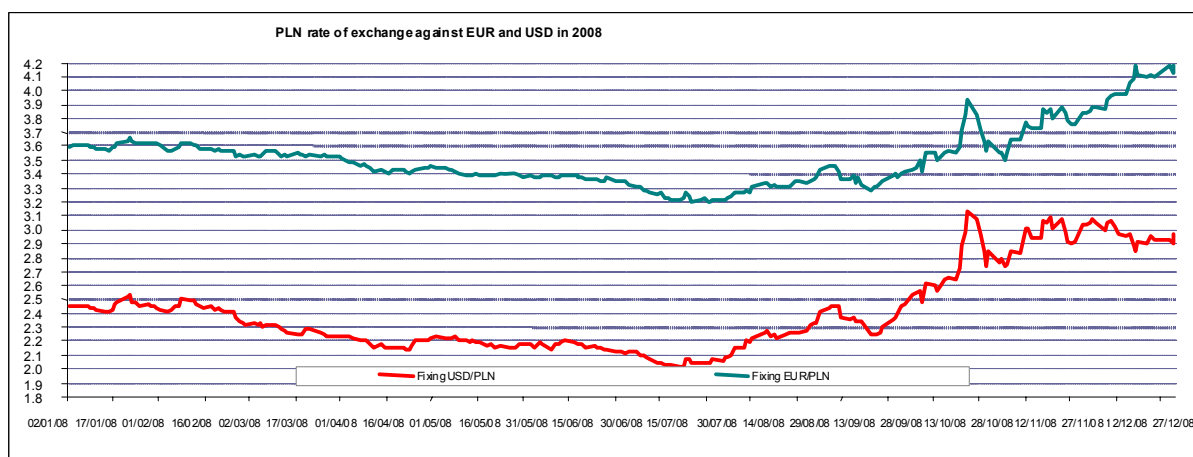
Since November 2008, the Monetary Policy Council carried out a series of three cuts of basic interest rates (by the total of 175 b.p.), hence launching the first, within the last four years, cycle of monetary policy easing. This move, as the previous ones, was anticipatory in nature and was a response to the fast-improving balance of risks for future inflation, what, in turn, resulted mainly from rapid weakening of medium-term perspectives for economic growth. Unfortunately, in view of the persisting lack of trust among the market players (banks), the monetary transmission mechanism does not function properly. Although aggressive decreases translated into a decline in interest rates on the inter-bank market, the cuts were not reflected in them fully. The ineffectiveness mentioned above, on the one hand, invites to pursue a more aggressive monetary policy (faster and deeper interest rates cuts), but, on the other hand, having regard for the risk of the depreciation of Polish zloty, suggests looking for other possible instruments to stimulate the economy. In this situation, the decline in the rate of statutory provisions from the present 3.5% to 2% seems to be probable in the medium term.

At the end of January 2009, the basic interest rates of the central bank were as follows:

- reference rate – 4.25% p.a.;
- lombard rate – 5.75% p.a.;
- rediscount rate – 4.5% p.a.;
- NBP deposit rate – 2.75% p.a.



Despite the turmoil on financial markets caused by the mortgage crisis in the USA, in the first half of the previous year, Polish zloty appreciated both against euro and the US dollar weakening against major currencies. Another harsh phase of the crisis on financial markets in the middle of the year diminished, however, the trust of investors in economies of Central and Eastern Europe, hence triggering the dynamic correction on the home foreign currencies market which has continued till now. Very low liquidity persisting on the market also contributed to increased volatility of rates of exchange. At the end of January 2009, 1 euro was worth PLN 4.44, and 1 US dollar – PLN 3.46.



### Perspectives for the economy in 2009

Further quarters will probably bring about a further decline in the economic growth rate. The scenario, which in autumn seemed pessimistic (a decrease in the GDP growth rate to ca. 1.5% y/y), since then have become the most probable variant. Furthermore, having regard for the rate and the scale of the deterioration of the economic conditions in the Eurozone economy and a declining probability of the fast recovery of trust on global financial markets, the balance of risks for the above forecast remains explicitly negative. Simultaneously, due to the dynamically changing macroeconomic environment, the forecasts are now burdened with an extremely high risk.

A consumer demand will be the major (and, in fact, the sole) driver of the economic growth in 2009. Due to the large home market, private consumption may, admittedly, become a stabilizer of economic

growth, however, one should not expect that its strength will not be affected in view of deepening negative trends on the labour market and worse consumers' vibes.

Lower activeness in enterprises, combined with a persisting trend of labour productivity decline, indicates the need to adjust wages and employment. Further quarters will probably bring about a decline in demand for labour, which, in turn, will reduce pressure on the rise of wages and, in the long run, will result in reduced inflationary pressure of demand. Assuming the stabilisation on the market of food and fuels, the inflation in the mid-year period should revert to the level equal to or below the level of the NBP target, i.e. 2.5% y/y. The lack of pressure on wages will be reflected in declining base inflation.

In view of persisting aversion to risk, predictions concerning the behaviour of the rate of exchange of Polish zloty in 2008 are burdened with an extremely high risk. On the one hand, fundamental factors (declining, but still positive, economic growth, high interest rates, relatively safe deficit on the current account, and expected flows of funds from the EU, a part of which will find their way to the market in the years to come) indicate that at present Polish currency is extremely underappreciated. According to estimates, the long-term equilibrium rate of exchange is ca. EUR/PLN 4.00. On the other hand, in the short and medium terms, the lack of liquidity on the market results in the Polish zloty being vulnerable to speculative attacks and, in consequence, to further depreciation.

### **Banking sector in 2008**

The year 2008, when evaluated from the present perspective of expanding global crisis trends, may be deemed as a good one for the Polish banking sector. After three quarters of 2008, the results of the banking sector were again record-high<sup>1</sup>, however, in the last quarter, their growth rate declined radically. External factors, stemming from huge losses of certain financial institutions operating on a regional or a global scale, what resulted in extreme disturbances in the operation of financial markets and in reduced trust between their players, were the source of risk for the Polish banking sector and the whole Polish economy. Finally, it resulted in the transfer of crisis phenomena outside the financial sector (e.g. due to limited lending activities) and shaped the perspective of global recession.

An analysis of annual volumes does not show any material slowdown in the banking sector. It rather reflects pre-crisis trends. As in previous years of the cycle, the expansion on the market of household loans was the basic manifestation of business conditions. In three quarters of 2008, the average monthly increment of receivables volumes amounted to 3.1% (cf. 2.7% the year before). It was achieved mainly due to record-high results of the sale of mortgages (214.7 thousand loan agreements for the total amount of over PLN 41.6 billion). The nominal increase in loans volumes in the last

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<sup>1</sup> According to figures published by the Polish Financial Supervision Authority (in incremental terms), the sector of monetary financial institutions ended the third quarter with net profit of PLN 12.7 billion. It was higher by 20.7% than net profit generated in the corresponding period of the previous year. At the end of the third quarter of 2008, ROE was at the level of 26% against last year's 26.2%.

months of the year was under the influence of exchange rate-related factors<sup>2</sup>. The average monthly increment of receivables volumes in the fourth quarter amounted to 4.8%. At the end of the year, mortgages of individuals accounted for almost 52% of household debts in banks. Since the third quarter, the sector began to suffer from liquidity problems, which were escalated by the lack of trust on the inter-bank market and greater exchange rate fluctuations. In the end, banks began to adjust the conditions of the lending activities (e.g. an increase in margins, eliminating or restricting the criteria for extending loans in foreign currencies).

In 2008, banks upheld high activeness level on the consumer finance market, which is conditioned by the demand for durable goods and the improvement of the economic situation of customers. At the end of 2008, the annual growth rate for consumer loans exceeded 31%. Debts of institutional entities in the banking sector increased by 26% on an annual basis. The statistical increase in the value of loans extended to enterprises, despite the signals of the 'trust crisis', resulted, to a great extent, from the revaluation of receivables in foreign currencies.

The development of the lending activities was financed with term deposits from the inter-bank market (and with foreign liabilities), but, first of all, with the growth of customers' deposits. In the third and the fourth quarters, the liquidity of the wholesale market deteriorated radically, what forced banks to revert to traditional sources of financing its activities. As a result of fierce price competition for deposits (supported with advertising campaigns in the mass media) and the bear stock market<sup>3</sup>, the annual growth rate for banking savings of households amounted to 26%<sup>4</sup>. The institutional sector (non-banking) recorded a relatively lower growth rate (+13% y/y).

The loans/deposits relations (non-financial sector) became a measure of the growing structural liquidity gap in the sector. The scale of the imbalance growth is reflected in the change in this relation – from 102% at the end of 2007 to 115% after three quarters of 2008.

Summing up, the situation of the banking sector in 2008 was relatively favourable and stable. Nevertheless, in further quarters, the signs of deteriorating business conditions were escalating. Although the annual high results of the banking sector correspond with good macro conditions in previous periods, as regards the results for the fourth quarter, the effect of the accumulation of risks (mainly in the lending activities) resulting from the deficit of trust of the financial market players, was already visible.

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<sup>2</sup> The effects of the turmoil on the global financial markets became visible on the Polish market in 2008 as share price falls on the Warsaw Stock Exchange, but also as rapid depreciation of the Polish zloty against EUR, USD and CHF. Due to foreign exchange effects, annual growth rates for loans do not reflect the situation on the market completely.

<sup>3</sup> Following the collapse of the upward trend in the fourth quarter of 2007, the importance of the stock exchange and investment funds societies for the level and structure of household savings has been declining on an ongoing basis. The value of net assets invested in investment funds decreased in 2008 by almost 45%.

<sup>4</sup> An increased (from 28 November 2008) limit of guarantees for cash deposited in banks by one depositor up to the equivalent of EUR 50 thousand was a factor which increased the attractiveness of bank deposits and stabilised the deposits base. The funds are 100% guaranteed.



### 3. The strategy of Kredyt Bank S.A.

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

The following areas will be key for the implementation of the strategy of Kredyt Bank S.A. Capital Group in 2009: liquidity management, capital adequacy, credit risk and profitability.

#### The Bank's strategic goals:

In Retail Segment:

- cross-sale of banking and insurance products addressed to the present customers of Kredyt Bank S.A. and WARTA S.A. Group;
- focus on mass customers and upper mass customers;
- development of the offer and cooperation with SMEs;
- increased share in the deposits market.

In Corporate Segment:

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

#### Methods of the goals accomplishment:

- close cooperation with entities of KBC Group in Poland to provide the customers with a complete, professional and modern offer of financial services with limited costs of its development; particularly, further implementation of the bancassurance model in cooperation with WARTA S.A. Group on the basis of the major shareholder's experience; further cooperation regarding the distribution of banking and insurance products;
- focus on deposit products, striving to balance customers' receivables and liabilities to a greater extent;
- further development of lending activities conditioned by the growth rate for the deposits base;
- taking advantage of revolving long-term financing made available by KBC Group, the Bank's major shareholder;
- limitation of credit risk through tightening credit policy, focusing on the cooperation with reliable, tested customers and the development of the customer standing monitoring system (an early warning system);
- in terms of retail loans, focus on less risky customer segments and products which ensure higher margins: overdraft facilities, cash loans and credit cards;
- in terms of the acquisition of financial resources of retail customers, focus on a portfolio-oriented approach which will facilitate easy and flexible customers' access to various investment options;



- in the corporate segment, focus on the development of the sale of products supplementing the traditional loan and deposit offer, such as: cash processing, trade financing and leasing. Expanding cooperation with existing customers;
- implementation of a new cost management model to align matching of costs to the existing potential for generating income. Decreasing the level of fixed costs, increasing the share of variable costs;
- implementation of a comprehensive staff management system; from recruitment, through development and appraisal, to the aspects of an incentive system and a payroll structure;
- improvement of the effectiveness of the major customer service processes, increasing the effectiveness of the existing network, high quality of services and customer satisfaction;

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

##### 4.1 Shareholding structure of Kredyt Bank S.A.

As at 31.12.2008, the Bank's share capital totalled PLN 1,358,294,400 and was divided into 271,658,880 shares with the nominal value of PLN 5.00 each. The Bank's shares are registered shares and bearer shares; they are not preference shares and each share entitles its holder to one vote at the Bank's General Meeting of Shareholders. All the Bank's shares are admitted to public trading on the regulated market. In comparison with share capital as at 31.12.2007, the Bank's share capital did not change.

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

The table below presents Shareholders of Kredyt Bank S.A. holding over 5% of total votes at the General Meeting of Shareholders of Kredyt Bank S.A. as at 31.12.2008.

| Shareholder                                   | Line of business   | Number of shares and votes at GMS | Share in votes and in share capital (in %) |
|---|--------------------|-----------------------------------|--|
| KBC Bank N.V.*                                | Banking            | 217 327 103                       | 80.00                                      |
| KBC Securities-related party of KBC Bank NV * | Brokerage house    | 6 890 966**                       | 2.54                                       |
| Sofina S.A.                                   | Investment company | 15 014 772                        | 5.53                                       |

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

\*\* A memorandum from KBC Bank NV of 6 May 2008.

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

## The quotations of shares of Kredyt Bank S.A. at the Warsaw Stock Exchange

Stock markets of emerging economies, including Poland, suffered particularly strongly due to global economic deterioration. Companies of all quoted industries and sectors recorded long-term share price declines at the Warsaw Stock Exchange (WSE). As a result, in 2008, shareholders of these companies experienced high negative rates of return. The share price of Kredyt Bank was also on the decrease; shares were valued relatively lower than the market. On an annual basis, the share price of KB S.A. declined by 51.8%. The reduced shares trading volume for KB S.A., resulting from a relatively low free-float, also affected the volatility of the share price. The annual change in WIG index was at the level of -51.1%, in WIG-20 index at the level of -48.2%, and in WIG-Banks sectoral index at the level of -44.8%.

From the perspective of 2008, it is clear that both the stable financial standing of Kredyt Bank S.A. as well as the good condition of the whole financial services industry ceased to play a significant role in the valuation of the shares of KB S.A. The condition of the stock exchange and vibes affecting investment decisions, which deteriorated month by month, were the key factor. Substantial declines on global markets resulted in slumps on the Polish stock exchange, despite the consensus of analysts as regards 'strong foundations' of our economy. A systematic outflow of funds from investment funds societies, invested in the period of the bull market in equity funds and balanced funds, deepened the pressure on the decline of indices.

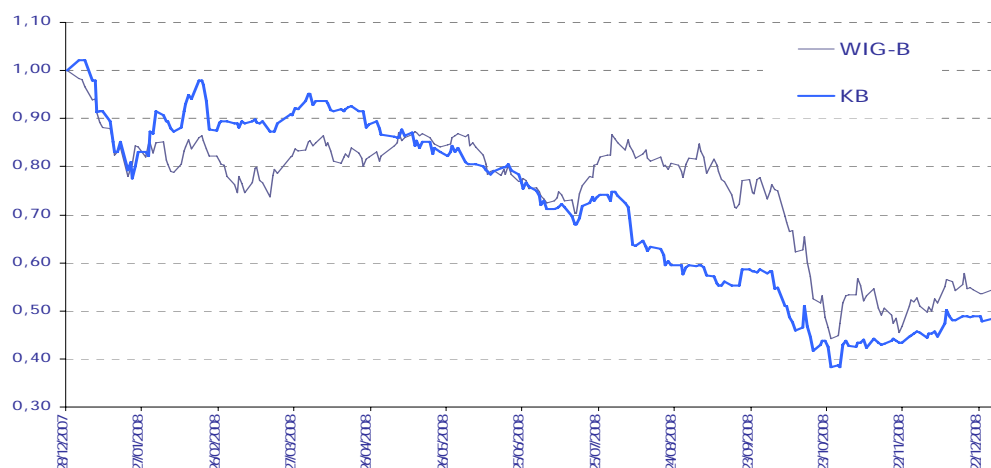
The Bank's market value at the closing price on the last stock exchange session of 2008 amounted to PLN 3,077.9 million (2.7% of the market value of the 'Banks' sector<sup>5</sup>), and P/BV was at the level of 1.27. For comparison purposes, on the first session in 2008, the Bank's shares were valued at the total of PLN 6,519.81 million at P/BV of 2.94. The annual maximum closing price was PLN 24.0, and the annual minimum for 2008 was PLN 9.0.

|                                | <b>28.12.2007</b> | <b>30.12.2008</b> | <b>change (%)</b> |
|--------------------------------|-------------------|-------------------|-------------------|
| KB S.A. share price (in PLN)   | 23.50             | 11.33             | -51.8%            |
| Dividend rate                  | 1.6%              | 4.6%              | +3.0 p.p.         |
| WIG 20                         | 3 456             | 1 790             | -48.2%            |
| WIG                            | 55 649            | 27 229            | -51.1%            |
| Earnings per share* (in PLN)   | 1.44              | 1.20              | -16.7%            |
| Book value per share* (in PLN) | 8.38              | 9.74              | 16.2%             |

\* computed on the basis of consolidated figures

<sup>5</sup> Except for the market value of shares of Unicredit, a foreign bank listed on the WSE, but not operating directly on the Polish market.

### KB share prices against WIG-Banks index in 2008



#### 4.2 The authorities of the Bank

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

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

On 18 December 2007, at the session of the Bank's Supervisory Board, Mr. Maciej Bardan was appointed the President of the Management Board of Kredyt Bank S.A. as of 1 March 2008.

The Supervisory Board of Kredyt Bank S.A., at its session on 4 April 2008, under § 25 item 2 of the Statutes of Kredyt Bank S.A., decided that, from 15 April 2008, the Management Board of Kredyt Bank will be composed of five members.

At the same session, the Supervisory Board appointed, as from 15 April 2008, Ms. Lidia Jabłonowska-Luba as a Member and Vice-President of the Bank's Management Board responsible for finances and risk.

As at 31.12.2008, the Management Board of Kredyt Bank S.A. was composed of:

|                            |  |
|----------------------------|--|
| Mr. Maciej Bardan          | President of the Management Board      |
| Mr. Umberto Arts           | Vice-President of the Management Board |
| Ms. Lidia Jabłonowska-Luba | Vice-President of the Management Board |
| Mr. Krzysztof Kokot        | Vice-President of the Management Board |
| Mr. Michał Oziębło         | Vice-President of the Management Board |

The Supervisory Board supervises the Bank's operation in all areas of its business on an ongoing basis. The particular duties of the Supervisory Board include the examination of all requests and

matters which must be approved by virtue of a resolution of the General Meeting of Shareholders; selection, upon the request of the Management Board, of an independent auditor; supervising the implementation of the internal audit system; determining the policy of borrowing and extending loans; and approving Bank's long-term development plans and annual financial plans. The Supervisory Board is elected by the General Meeting of Shareholders.

As at 31.12.2008, the Supervisory Board of Kredyt Bank S.A. was composed of:

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

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

As at publication date of this report, i.e. 19.02.2009, Mr. Marek Michałowski, a Member of the Bank's Supervisory Board, held 1,000 shares of Kredyt Bank S.A. with the nominal value of PLN 5 thousand. Other 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.

As compared to the situation as at the publication date of the annual financial report for 2007, the number of the Bank's shares held by Members of the Bank's Management Board decreased by 5,000 shares. This change is a result of the fact that on 18 December 2007, Mr. Ronald Richardson resigned from his position of the President of the Bank's Management Board, and from the membership in the Bank's Management Board, as of 29 February 2008.

#### **Remunerations of persons managing and supervising Kredyt Bank S.A.**

Details of remunerations of persons managing and supervising Kredyt Bank S.A. are presented in Note 60 to the consolidated financial statements of Kredyt Bank S.A. for the year ended 31.12.2008.

A contract of employment concluded with one of the Members of the Bank's Management Board provides for the entitlement to one-off compensation due to the termination of the contract of employment as a result of the dismissal from the Bank's Management Board amounting to:

- 24-fold average monthly remuneration – if the period to the end of the term of office of the Bank's Management Board is 24 months or more;
- the product of average monthly remuneration and of the number of months remaining to the end of the term of office of the Bank's Management Board, however, not less than 12-fold average monthly remuneration – if the period to the end of the term of office of the Bank's Management Board is less than 24 months.

The said contract also contains a provision that the compensation shall not be paid if the reason for the dismissal from the Management Board is as follows:

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

In the case of not entering into a new agreement due to the failure to appoint the Employee as a member of the Bank's Management Board for the next term of office, he will be entitled to obtain one-off compensation amounting to 12-fold average monthly remuneration.

According to a non-competition agreement concluded with the employee, should the employee resign from his/her position in the Bank's Management Board during the term of office of the Management Board, the Bank's Supervisory Board may oblige the employee not to engage in business competitive towards the Bank for 12 calendar months from the termination of the contract of employment, except for business in these entities in which the Bank or its related party holds shares or other rights. For each month of the non-competition restriction, the employee is entitled to compensation amounting to 100% of his/her average remuneration from the last six months of the term of his/her contract of employment.

Contracts of employment concluded with two Members of the Bank's Management Board contain provisions concerning the amount of the compensation for the compliance with the non-competition clause in the case of terminating their work as members of the Management Board. The compensation amounting to 100% of average monthly remuneration will be paid for the period of six calendar months from the termination of the contract of employment by the employee and the Bank.

#### **4.3 Related party transactions**

Apart from the transactions described in section 4.5 'Events and contracts material for the operations of Kredyt Bank S.A. in 2008', in the said period, no significant non-standard transactions had place with related parties whose total value, in the period from the beginning of the financial year, would be equal to or exceed PLN equivalent of EUR 500 thousand, and whose nature and terms were not related to current operations. Transactions volumes and related income and expenses are presented in Note 54 to the financial statements of Kredyt Bank S.A. for 2008.

#### **4.4 Investment plans, including equity investments**

One of the basic objectives of the Group's strategy is to increase its share in the financial services market. It may be accomplished through equity investments in entities from the financial sector. In each such potential case, undertaken measures are lawful and analysed in terms of economic and organizational conditions. According to the Group's development strategy which provides for the incorporation of a universal banking and insurance group, the Bank will focus on operations other than investment banking.

As at 31.12.2008, equity investments made outside the Bank were mainly investments in shares of such companies as KIR S.A., BIK S.A., G.P.W. S.A., SWIFT and of companies acquired in the course of debt recovery and restructuring processes. As at 31.12.2008, their share in the Bank's balance sheet was immaterial. The values of investments in subsidiaries and jointly controlled entities at the end of 2008 and 2007 are presented in Note 34 to the financial statements of Kredyt Bank S.A. for 2008.

#### **4.5 Events and contracts material for the activity of Kredyt Bank S.A. in 2008**

The following events were material for the operations of Kredyt Bank S.A. in 2008:

- On 7 February 2008, Kredyt Bank S.A. executed, with Kredietbank S.A. Luxembourgeoise, a multicurrency loan agreement up to the amount equivalent to EUR 200 million. The agreement was concluded on market terms with the repayment period of two years and one day. Cash obtained under the above-mentioned loan were used to finance the Bank's current operations.
- On 29 February 2008, the Bank was notified by Fitch Ratings of the upgrade of the Individual Rating for Kredyt Bank to 'C/D' from 'D'. Other ratings have been affirmed at previous levels, i.e. Issuer Default Rating (IDR): 'A+' (single A with a plus), Short-term Rating: 'F1', Support Rating: 1. The outlook for the rating remains 'stable'.
- On 19 March 2008, Kredyt Bank S.A. executed, with KBC Bank NV Dublin Branch, a subordinated loan agreement up to the amount equivalent to CHF 100 million. The subordinated loan agreement was concluded on market terms with the repayment period of 10 years from the payment of the resources. The interest rate is based on LIBOR rate + margin. The agreement provides for the possibility of an earlier repayment, upon the Bank's request, of the subordinated loan amount, however, not earlier than five years following the release of resources. The earlier repayment will call for the consent of the Polish Financial Supervision Authority. The agreement contains a condition precedent which involves the submission to the Lender, i.e. KBC Bank NV Dublin Branch, by the Borrower, i.e. Kredyt Bank, of the authorization of the Polish Financial Supervision Authority to include the amount of the said subordinated loan in the Bank's equity.
- On 3 June 2008, the Bank received the decision of the Polish Financial Supervision Authority of 26 May 2008, on its consent to include cash of CHF 100,000,000 in the Bank's supplementary funds, according to the terms and conditions of the said subordinated loan agreement.
- On 26 March 2008, the Management Board of Kredyt Bank S.A. resolved to recommend the draft Resolution concerning the distribution of profit for 2007, to be later discussed at the General Meeting of Shareholders of Kredyt Bank S.A., to be examined by the Supervisory Board. The above-mentioned draft assumed the payment of gross dividend to shareholders of PLN 0.52 per share. The proposed day of establishing the right to dividend is 3 July 2008, and the proposed dividend payment date is 18 July 2008.
- On 4 April 2008, the Supervisory Board of Kredyt Bank S.A., under § 24 Clause 1 item 3 of the Bank's Statutes, upon the request of the Bank's Management Board, appointed the certified auditor, Ernst & Young Audit Sp. z o.o., with its registered office in Warsaw, ul. Rondo ONZ 1, registry No. 130, to perform an independent review and audit of financial statements of Kredyt Bank S.A. and of consolidated financial statements of Kredyt Bank S.A. Capital Group as of 30 June 2008 and 31 December 2008.

- On 28 May 2008, the General Meeting of the Shareholders of Kredyt Bank S.A. adopted, among other things, a resolution on the payment of gross dividend for the financial year 2007 amounting to PLN 0.52 per share, i.e. the total amount of PLN 141,262,617.60. Holders of 271,658,880 Bank's series A to W shares were entitled to dividend from such stocks. The day of the dividend declaration was established on 3 July 2008. The payment of dividend was effected on 18 July 2008.
- On 19 August 2008, Kredyt Bank S.A. executed, with KBL European Private Bankers S.A., a multicurrency loan agreement up to the amount equivalent to EUR 200 million. The loan agreement was concluded on market terms with the repayment period of three years. Cash obtained under the above-mentioned loan were used to finance the Bank's current operations.
- The General Meeting of Shareholders of Kredyt International Finance B.V. (KIF B.V.), with its registered office in Amsterdam (a wholly-owned subsidiary of Kredyt Bank S.A., registered on 14 February 2001 to perform and handle the issue of bonds in EUR and to source financial resources on foreign markets), adopted a resolution on the commencement of the liquidation proceedings of KIF B.V. on 15 July 2008. On 12.01.2009, the company was deleted from the court register.
- On 25 August 2008, Kredyt Bank S.A. executed, with KBL European Private Bankers S.A., a multicurrency loan agreement up to the amount equivalent to EUR 200 million. The loan agreement was concluded on market terms with the repayment period of three years. Cash obtained under the above-mentioned loan are to be used to finance the Bank's current operations.
- On 26 August 2008, Kredyt Bank signed a loan agreement concerning the financing of the client's current operations with the client being a non-banking financial institution. The total value of all the agreements concluded by the Bank with this client in previous 12 months was equal to PLN 308,101,000.
- On 27 August 2008, Kredyt Bank S.A. concluded, with a client from the wood processing sector, a loan agreement which provides for the financing of the client's investment. The total value of all the agreements concluded by the Bank with the companies of the capital group this client belongs to in previous 12 months was equal to PLN 299,860,669.
- On 5 September 2008, the Polish Financial Supervision Authority granted its consent to the appointment of Mr. Maciej Bardan as the President of the Management Board of Kredyt Bank S.A.
- On 20 October 2008, Kredyt Bank S.A. executed, with KBL European Private Bankers S.A., a loan agreement up to the amount equivalent to EUR 200 million. The loan agreement was concluded on market terms with the repayment period of three years. Cash obtained under the above-mentioned loan are to be used to finance the Bank's current operations.

In 2008, the Bank did not enter into any material agreements with the central bank or the regulatory authorities.

### **Major post-balance sheet events**

On 23 January 2009, the Polish Financial Supervision Authority decided to grant its consent to include cash of PLN 75 million in the supplementary funds of Kredyt Bank S.A., according to the terms and conditions of the subordinated loan agreement of 17.12.2008 between Kredyt Bank S.A. and KBC Bank NV Dublin Branch. The loan was released on 30.01.2009.



On 26 January 2009, Moody's Investors Service rating agency affirmed the Long-term Deposit Rating of Kredyt Bank S.A. at 'A2' and changed the outlook for the above long-term rating from 'stable' to 'negative'. These rating decisions were made in connection with the decision on downgrading the ratings of KBC Bank, i.e. the parent entity of Kredyt Bank S.A. The levels of the remaining ratings of Kredyt Bank S.A. previously granted by Moody's Investors Service have been confirmed, namely: Short-term Deposit Rating – 'Prime-1'; Bank Financial Strength Rating – 'D'. The outlook for the above ratings remains 'stable'.

Furthermore, on 26 January 2009, the Bank was informed about the termination, in January 2009, of the liquidation of its subsidiary, Kredyt International Finance B.V., registered in the Netherlands and about the deletion of this company from the Dutch court registers on 12.01.2009.

On 11 February 2009, the Bank informed that, due to the deterioration of the economic situation and the need to lower the business activities costs, the Bank's Management Board made a decision to reduce employment. The Bank plans to reduce employment by group lay-offs which will include up to 300 employees. As a result of consultations with the Workers' Council, procedures, conditions, dates and the level of employment optimisation were agreed. Further employment reductions will be achieved as a result of the discontinuation of employment due to natural reasons and by non-extending agreements concluded for a specified period of time, also in the companies of Kredyt Bank Group, including ca. 200 employees.

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

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

On 9 April 2008, the Bank entered into an agreement with an entity authorized to audit financial statements, Ernst&Young Audit Sp. z o.o. in Warsaw, on the review of the semi-annual condensed, standalone and consolidated financial statements of the Bank and of the Group for the first half of 2008 and the audit of the standalone and consolidated financial statements of the Bank and of the Group for 2008. The total net remuneration under this agreement amounted to PLN 1,416 thousand (as compared to PLN 1,416 thousand in 2007 under the agreement of 10.05.2007). Furthermore, the Bank entered into an agreement with an entity authorized to audit financial statements concerning the performance of agreed procedures related to the quarterly consolidated financial statements for the first and the third quarter of 2008 with net remuneration under this agreement amounting to PLN 520 thousand (cf. PLN 520 thousand in 2007) and an agreement concerning the performance of agreed procedures related to the financial result and net assets of the Bank's subsidiary, Reliz Sp. z o.o., whose net value amounted to PLN 75 thousand (cf. PLN 75 thousand in 2007).



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

### 5.1 Retail banking

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

The Retail Segment in Kredyt Bank S.A. is defined as services provided to individual customers as well as Small and Medium-sized Enterprises (SME), for which their annual income is below PLN 16 million.

The traditional network of the Bank's branches is the main channel of distribution. As at 31.12.2008, it comprised 401 branches, affiliates, banking outlets and agencies located all over Poland. The number comprises 98 out of 104 outlets that will be finally opened under the network development programme implemented since the end of 2005. KB24 network is the second primary distribution channel for products targeted at retail customers.

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

Small and Medium-sized Enterprises (SMEs) that keep full accounting records are served by Mobile Customer Service Teams, operating in all large cities (with more than one Branch). In other cases, they are served by the Bank's Branches.

The retail branches also carry out cash transactions, also for corporate customers.

The Bank's network is supplemented by the distribution network of Żagiel S.A. composed of two distribution channels. The first channel utilized mainly to sell instalment loans, is composed of affiliates, representatives and cooperating shops. The second channel dedicated to the sale of cash loans, credit cards and selected services from the Bank's and WARTA S.A.'s offers is composed of a network of small outlets called 'Kredyt Punkt' ('Credit Point'), which, at the end of 2008, comprised 351 outlets (as compared to 252 at the end of 2007).

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

As at the end of December 2008, Kredyt Bank S.A. provided services to 1,012 thousand individual customers and SMEs.

| in '000'             | As at<br>31.12.2008 | As at<br>31.12.2007 | As at<br>31.12.2006 | As at<br>31.12.2005 |
|----------------------|---------------------|---------------------|---------------------|---------------------|
| Individual customers | 929                 | 869                 | 849                 | 797                 |
| SMEs                 | 83                  | 82                  | 87                  | 81                  |
| Total customers      | 1 012               | 951                 | 936                 | 878                 |

At the end of 2008, the number of KB 24 users amounted to 334 thousand as compared to 278 thousand at the end of 2007 (an increase by 20.1%).

| in '000'                                    | As at<br>31.12.2008 | As at<br>31.12.2007 | As at<br>31.12.2006 | As at<br>31.12.2005 |
|---|---------------------|---------------------|---------------------|---------------------|
| Number of KB24 users                        | 334                 | 278                 | 228                 | 165                 |
| Number of transfers via KB24 in the quarter | 4 066               | 3 340               | 2 614               | 1 925               |

Net operating income for the segment in 2008 amounted to PLN 281,278 thousand and was higher than the figure in 2007 by 96.6%. Due to much higher net impairment losses on financial assets, other assets and provisions (– PLN 167,254 thousand and + PLN 15,890 thousand respectively), profit before tax in 2008 was lower by 33.0% than the year before and amounted to PLN 106,462 thousand (as compared to PLN 158,966 thousand in 2007).

### 5.1.2 Product strategy in retail banking area in 2008

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

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

In 2008, Kredyt Bank continued its action aiming at the development of the retail banking, pursuant to the strategy adopted in autumn 2005. The basic elements of the product strategy are as follows:

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

### Mortgages

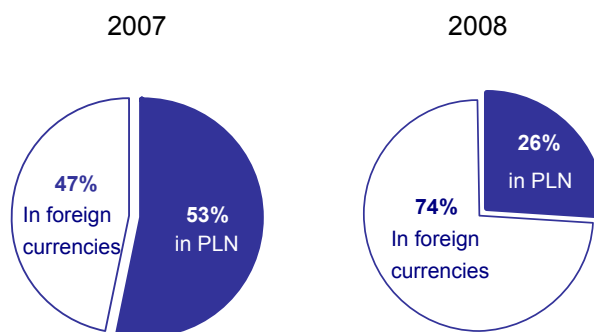
In 2008, the Bank extended 38.5 thousand mortgages; the total sales in this period amounted to PLN 6,000.7 million. As compared to the corresponding period in the previous year, the sales of loans increased by 54.2%. The debt resulting from mortgages amounted to PLN 12,854.8 million (an increase by 118.8%). As the majority of mortgages are in foreign currencies, the value of the portfolio and the sales value in the fourth quarter of 2008 were affected, to a large extent, by the depreciation of the Polish zloty that occurred in this period. The figures below present mortgages portfolio volume and sale in PLN '000' and in thousands of facilities.

| <i>in PLN '000'</i>                                    | 2008       | 2007      | 2006      | 2005      |
|--|------------|-----------|-----------|-----------|
| <b>Mortgages</b>                                       |            |           |           |           |
| Gross value of the portfolio at the end of the quarter | 12 854 847 | 5 876 171 | 3 172 752 | 2 035 351 |
| No. of loans extended in the year (in thousands)       | 38.5       | 25.4      | 16.6      | 12.1      |
| No. of loans extended in the year*                     | 6 000 699  | 3 890 578 | 2 021 800 | 951 514   |

\* new loans

In the fourth quarter of 2008, in view of the symptoms of slower economic growth, the Bank made decisions to tighten the credit policy for mortgages (in particular, to increase the margin on loans in CHF and to decrease LtV), and, as a result, to reduce lending activities, especially in the case of loans in foreign currencies. In the fourth quarter, the value of extended loans amounted to PLN 1.5 billion, including PLN 1 billion of loans granted in October.

The figure below presents the portfolio structure at the end of 2008 and of 2007.



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

In 2008, Kredyt Bank S.A. took measures to establish Consumer Finance – a separate business line. They aimed at the reorganisation of the management model as well as acceleration of the development of the distribution network and of the product offer, and the establishment of a dedicated IT platform. The works were carried out on the basis of Żagiel S.A. and the organisational structure of Kredyt Bank S.A. To achieve maximal effect, the management at the national level is centralised by appointing the same person as the President of the Management Board of Żagiel S.A. and as the Vice President of the Management Board of Kredyt Bank S.A.

Żagiel S.A. operates two independent distribution channels – the first one is dedicated to the sale of instalment loans and, the second one, to the sale of cash loans, credit cards and selected products of Kredyt Bank.

In 2008, total sales of loan products via Żagiel S.A. amounted to PLN 3,234.2 million, i.e. increased by 48.4% as compared to 2007.

| <i>in PLN '000'</i>  | 2008      | 2007      | 2006      | 2005      |
|--|-----------|-----------|-----------|-----------|
| <b>Instalment and cash loans</b>                                   |           |           |           |           |
| Gross value of the portfolio at the end of the quarter, including: | 3 685 259 | 2 063 331 | 1 498 973 | 1 423 623 |
| Loans extended via Żagiel  |           |           |           |           |
| Gross value of the portfolio at the end of the quarter*            | 2 811 786 | 1 655 475 | 1 322 222 | 1 353 864 |
| No. of loans extended in the year (in thousands)                   | 1 205     | 1 031     | 964       | 1 021     |
| No. of loans extended in the year                                  | 3 234 233 | 2 178 718 | 1 684 413 | 1 794 115 |

\* including the consolidation adjustment due to EIR for 2008 and 2007

In the fourth quarter of 2008, in view of the symptoms of slower economic growth, the Bank made decisions to tighten the credit policy for instalment loans and cash loans, and, in particular, to decrease Dtl (Debt to Income) ratio for the calculation of the creditworthiness. In addition, additional limitations established for more risky types of customers and points of sale will result in the reduction of lending activities of Żagiel in 2009.

### Credit cards

At the end of 2008, the number of active credit cards sold by Kredyt Bank S.A. amounted to 477 thousand (an increase by 124.2% as compared to figures recorded at the end of 2007). Almost 66% of all those credit cards were sold via Żagiel.

| <i>in thousands</i>                                     | 2008 | 2007 | 2006 | 2005 |
|---|------|------|------|------|
| <b>Credit cards</b>                                     |      |      |      |      |
| No. of credit cards sold via Żagiel S.A. (in thousands) | 313  | 84   | 24   | 6    |
| No. of credit cards sold by the Bank (in thousands)     | 164  | 129  | 99   | 66   |
| Total number of credit cards (in thousands)             | 477  | 213  | 123  | 72   |

### Traditional deposit products

At the end of 2008, the number of current accounts was higher by 4.8% as compared to figures at the end of 2007. The value of deposits on these accounts was slightly lower (by 0.1%) as compared to the end of 2007.

|                                    | 2008      | 2007      | 2006      | 2005    |
|------------------------------------|-----------|-----------|-----------|---------|
| <b>ROR current accounts</b>        |           |           |           |         |
| No. of ROR accounts (in thousands) | 588       | 561       | 552       | 508     |
| Carrying amount (in PLN '000')     | 1 216 932 | 1 218 247 | 1 020 146 | 766 090 |

The number of savings accounts increased in 2008 by 19.0%. The value of cash on these accounts declined in the same period by 3.2% and, at the end of 2008, amounted to PLN 4,245.4 million.

|  | 2008      | 2007      | 2006      | 2005      |
|--|-----------|-----------|-----------|-----------|
| <b>Savings accounts</b>                |           |           |           |           |
| No. of savings accounts (in thousands) | 370       | 311       | 237       | 160       |
| Carrying amount (in PLN '000')         | 4 245 387 | 4 385 666 | 3 864 597 | 1 951 041 |

The above-mentioned decline occurred in the fourth quarter of 2008 and resulted mainly from an escalation in the competition on the deposits market due to the liquidity crisis triggered by deeper global financial crisis. In the fourth quarter of 2008, short-term deposits with high fixed interest rates were the leading deposit products. A portion of cash so far deposited by customers in savings accounts was transferred to such accounts. 'Constans' term deposit was such a product in Kredyt Bank's offer, and the insurance term deposit 'WARTA GWARANCJA'.

### SMEs

At the end of 2008, the value of loans granted to small and medium-sized enterprises increased by almost 39.3% as compared to figures at the end of 2007. The cash on current accounts of SME customers after four quarters of 2008 was lower by 3.3% than the cash at the end of 2007. The table below presents balances at the period end according to the Bank's internal segmentation applicable in the year.

|   | As at<br>31.12.2008 | As at<br>31.12.2007 | As at<br>31.12.2006 | As at<br>31.12.2005 |
|---|---------------------|---------------------|---------------------|---------------------|
| <b>SMEs</b>                             |                     |                     |                     |                     |
| Loans for SMEs (in PLN '000')           | 1 259 097           | 903 712             | 645 543             | 688 745             |
| Current accounts of SMEs (in PLN '000') | 1 438 746           | 1 487 181           | 1 241 458           | 1 009 595           |

### Bancassurance – cooperation with TUİR WARTA Group

The extension of the bancassurance products offer and of the sale of insurance products through the Bank's chain are the basic assumptions of the strategy of Kredyt Bank S.A. Group. In 2008, the value of gross written premium under life and property insurance agreements of WARTA S.A. Group sold by the Group increased almost 4-fold as compared to the results recorded in 2007. The increase resulted, to a large extent, from excellent results of the sale of 'WARTA GWARANCJA Lokata Ubezpieczeniowa' product (a 6- or 12-month life insurance or endowment insurance from TUŃŻ WARTA). The income from the sale contributes to the Bank's net interest income.

Basic groups of products sold through the chain of Kredyt Bank S.A. Group are as follows:

- combined investment-insurance products – deposits connected with life insurance, open-end and close-end investment funds with life insurance;
- insurance linked with loans – insurance agreements for borrowers of Żagiel S.A. loans;
- embedded insurance – life insurance within mortgages and cash loans, insurance for credit cards holders, owners of personal accounts and current accounts for SMEs;
- insurance – standalone products (house or car insurance, personal insurance, property insurance for SMEs).

|   | 2008      | 2007    | 2006    | 2005    |
|---|-----------|---------|---------|---------|
| <b>Bancassurance</b>  |           |         |         |         |
| Gross written premium (in PLN '000')                                | 3 018 594 | 736 573 | 506 363 | 321 935 |
| Gross written premium from 'WARTA GWARANCJA' product (in PLN '000') | 2 560 111 | 311 453 | 9 094   | 17 781  |

### Investment funds – cooperation with KBC TFI

The total value of net assets of investment funds and unit-linked funds sold via the Group's distribution network and managed by KBC TFI S.A. (excluding non-registered funds) declined in 2008 by 21.9%. Due to the product structure (a significant share of close-end capital guaranteed investment funds), the rate of the decrease in the value of assets of KBC TFI was much lower than the average rate on the market (a decrease by 45%).

|  | As at<br>31.12.2008 | As at<br>31.12.2007 | As at<br>31.12.2006 | As at<br>31.12.2005 |
|--|---------------------|---------------------|---------------------|---------------------|
| <b>Investment funds</b>  |                     |                     |                     |                     |
| Net assets of funds (excluding non-registered funds) sold via the Bank's distribution network (in PLN '000') | 2 789 563           | 3 572 284           | 3 007 849           | 1 834 117           |

## 5.2 Corporate banking

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

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

Corporate customers are served (except for payments) in 12 Corporate Banking Centres located in Białystok, Bydgoszcz, Gdańsk, Katowice, Kraków, Lublin, Łódź, Poznań, Rzeszów, Szczecin, Warsaw and Wrocław. The subsegment of customers with the turnover of over PLN 250 million is served by an additional Centre in Warsaw, which provides services to customers from all over Poland. There are 10 additional agencies reporting to the Corporate Banking Centre covering the largest operating area. Account Managers maintain direct customer relations. In the case of specialist products, they are supported by product specialists – the employees of the Head Office organizational units.

In the case of leasing products, customers are served by units and employees of Kredyt Lease, which offers a complete range of services to companies in respect of the leasing of fixed assets and properties, and in the case of means of transport, by a new company KBC Autolease, which, apart from leasing, also offers all-inclusive fleet management services. In the case of investment banking, corporate customers are served in cooperation with KBC Securities, and the investment of free resources in investment funds is provided by KBC TFI.

In 2008, Kredyt Bank S.A. focused on the development of leasing, cash processing and trade finance. Measures aimed at the reinforcement of the Bank's image as an institution which offers the highest quality and complete services to large corporations. The increase in sales caused an increase in the

value of the loans and deposits portfolio. The table below presents balances at the period end according to the Bank's internal segmentation applicable in the year.

| <i>in millions of PLN</i>       | As at<br>31.12.2008 | As at<br>31.12.2007 | As at<br>31.12.2006 | As at<br>31.12.2005 |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Corporate Segment</b>        |                     |                     |                     |                     |
| Loans for corporate customers   | 9 426.4             | 8 023.8             | 5 373.6             | 4 538.0             |
| Budget                          | 296.3               | 407.9               | 543.6               | 637.9               |
| Enterprises                     | 9 130.1             | 7 615.9             | 4 830.0             | 3 900.1             |
| Deposits of corporate customers | 6 661.5             | 4 968.7             | 4 116.3             | 3 970.8             |
| Budget                          | 2 564.0             | 1 612.0             | 1 226.9             | 1 318.2             |
| Enterprises                     | 4 097.5             | 3 356.7             | 2 889.4             | 2 652.6             |

The corporate segment's net operating income in 2008 amounted to PLN 192,601 thousand, i.e. was higher by 18.5% than in 2007 (PLN 162,527 thousand). Due to net impairment losses on financial assets, other assets and provisions (– PLN 27,820 thousand against + PLN 59,108 thousand in 2007), profit before tax in 2008 was lower by 25.7% than the year before and amounted to PLN 164,781 thousand (as compared to PLN 221,635 thousand in 2007).

### 5.2.2 Product strategy in corporate banking segment in 2008

In 2008, Kredyt Bank S.A. took measures to better align the existing offer to customers' needs and improve sales organization and customer services quality. The basic assumptions of the product strategy are as follows:

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

The Bank offers a complete range of services to corporate customers, both traditional banking products and treasury, trade finance and corporate finance products. The offer is tailored to customer size and the nature of their operations: corporations, large and medium-sized enterprises and state budgetary units.

Traditional transactional banking products, such as current accounts, term deposits, consolidated current accounts (which make it possible to provide services to multi-branch companies and manage liquidity of capital groups) are supplemented by such products as the Bulk Payment System (which makes it possible to identify details of payments, their assignment and settlement against respective settlement accounts of debtors in the customer's accounting system), direct debit, payment and credit cards and cash processing: cash deposits and withdrawals in Branches (open and closed), closed cash deposits collection, supplementing customers' own cash desks.

The Bank offers a complete range of traditional loan facilities, e.g. working capital loans in credit and current account, revolving and non-revolving loans, short-term cash and investment loans, each of them in the national and foreign currencies (standard currencies: EUR, USD, GBP). At the same time, customers may also take advantage of other credit-related services, such as leasing, bank guarantees, sureties and bill guarantees, project and investment financing, syndicates and the organization of and services related to the issue of debt securities.

A separate group of services are complete services related to trading transactions, except for the purchase and sale of foreign currencies, including transfers and cheques in foreign trade, export and import financing credits, covering payments under own letters of credits, guarantees in foreign trade, documentary letters of credit, documentary export collection, medium-term and long-term export credits (MLT), bill discount, factoring, forfeiting.

The Bank also offers market risk hedging products, particularly products hedging currency risk and interest rate risk: options, swaps and FRA's.

In addition, via KBC Securities and KBC Private Equity, the Group's customers have access to investment banking services, such as advisory services concerning mergers and acquisitions, capital restructuring, acquisition of capital (stock exchanges, investors, financial partners), transactions on capital markets (primary and secondary market, bonds, capital increase, public calls, buyouts), mezzanine finance, equity finance, MBO, LBO, MBI.

### **5.3 Treasury Segment and cooperation with international financial institutions**

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

The treasury products offer is being expanded and ensures appropriate services both to Private Banking customers and medium-sized and large companies. It entails, among other things, the exercise of options hedging the market risk for customers.

Kredyt Bank S.A. established active relations with domestic and foreign banks providing FX/MM, Custody, Trade Finance and payments services. They are supplemented by cooperation agreements with global foreign institutions, e.g. European Investment Bank, European Reconstruction and Development Bank, Visa International. Thanks to the base of 35,000 SWIFT keys exchanged with other institutions, the Bank is able to exchange correspondence with banks and provide services in the area of foreign trade in the majority of countries worldwide.

As at 31.12.2008, Kredyt Bank managed 7 LORO accounts in foreign currencies and 34 LORO accounts in PLN for 36 correspondent banks (32 foreign banks and 4 national banks). The network of NOSTRO accounts included 18 accounts in 16 banks and it fully satisfied the clearing needs of Kredyt Bank.



## 5.4 Custodian services

The Bank's custodian services entail mainly the maintenance of securities accounts for domestic and foreign, both institutional and private, customers. For the special group of customers, i.e. investment funds, the Bank also plays a role of a custodian bank, a transfer agent and issue sponsor.

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

In 2008, income from the maintenance of securities accounts and registers as well as from the services of an issue sponsor and of the custodian bank amounted to PLN 4,697 thousand as compared to PLN 3,878 thousand in 2007.

## 6. Financial results of Kredyt Bank S.A. in 2008

### 6.1. Assets structure

The Bank's total assets as at 31.12.2008 amounted to PLN 38,621,122 thousand against PLN 27,068,504 thousand as at 31.12.2007 and were higher by 42.7%.

Net loans and advances to customers and investment securities generated the greatest shares in assets structure; as at the end of 2008, they accounted for 85.9% of total assets.

The major changes in assets structure as compared to the end of 2007 were as follows:

- an increase in the share of net loans and advances to customers from 62.4% to 69.7%. It results from a significant increase in the value of the loans portfolio, particularly of mortgages and consumer loans, as well as loans for corporate customers. It was reflected in the increase in market shares of Kredyt Bank S.A.
- a decrease in the share of investment securities in total assets from 20.2% to 16.1%.

The value of particular assets is presented in the table below (in PLN '000):

|  | 31.12.2008 | 31.12.2007 | Change |
|--|------------|------------|--------|
| Cash and balances with Central Bank  | 827 956    | 611 672    | 35.4%  |
| Gross loans and advances to banks  | 340 859    | 2 456 349  | -86.1% |
| Impairment losses on loans and advances to banks   | -2 261     | -2 260     | 0.0%   |
| Financial assets at fair value through profit or loss, including financial assets held for trading | 1 347 027  | 448 499    | 200.3% |
| Derivatives including:   | 2 302 799  | 495 095    | 365.1% |
| - derivatives used as hedging instruments  | 166 954    | 34 025     | 390.7% |
| Gross loans and advances to customers  | 27 853 155 | 17 738 052 | 57.0%  |
| Impairment losses on loans and advances to customers   | -927 457   | -839 724   | 10.4%  |

|   |                   |                   |              |
|---|-------------------|-------------------|--------------|
| Investment securities                                       | 6 232 624         | 5 478 269         | 13.8%        |
| - available-for-sale  | 4 359 740         | 3 433 103         | 27.0%        |
| - held-to-maturity  | 1 872 884         | 2 045 166         | -8.4%        |
| Investments in subsidiaries and jointly controlled entities | 66 075            | 73 876            | -10.6%       |
| Property, plant and equipment                               | 398 201           | 343 438           | 15.9%        |
| Intangible assets   | 57 854            | 65 425            | -11.6%       |
| Deferred tax asset  | 44 509            | 124 062           | -64.1%       |
| Non-current assets classified as held for sale              | 0                 | 767               | -100.0%      |
| Other assets  | 79 781            | 74 984            | 6.4%         |
| <b>Total assets</b>   | <b>38 621 122</b> | <b>27 068 504</b> | <b>42.7%</b> |

An increase in the scale of lending activities and, due to the large share of mortgages in foreign currencies in the portfolio, the depreciation of the Polish zloty, especially in the fourth quarter of 2008, were the factors affecting the scale of the increase in the balance sheet total in 2008. At the end of 2008, EUR rate of exchange was PLN 4.1724, and CHF rate of exchange was PLN 2.8014. They were higher by 16.5% and 29.6% respectively than at the end of 2007. At the end of 2008, mortgages in CHF accounted for ca. 25% of assets.

### Credit portfolio quality

In 2008, the Bank continued the process of reducing non-performing loans portfolio through restructuring and debt recovery measures. Contrary to the years 2006-2007, the scale of the sale of receivables was small.

As a result of the said activities and the fast growth of the loans portfolio, the share of loans and advances with evidence for impairment in total gross loans and advances to customers decreased further. At the end of 2008, the ratio was at the level of 5.4% against 7.4% at the end of 2007. As compared to the end of 2007, the value of non-performing receivables, i.e. those for which evidence for impairment was identified increased by 14.8%.

The Bank, when estimating credit risk for individual credit exposures and loan portfolios, follows the overriding prudence concept. As at 31.12.2008, the coverage of loans and advances with evidence for impairment with impairment losses was at the level of 55.7%.

| <i>in PLN '000'</i>  | <b>31.12.2008</b> | <b>31.12.2007</b> | <b>Change</b> |
|--|-------------------|-------------------|---------------|
| Loans and advances with no evidence for impairment, including interest | 26 344 833        | 16 423 627        | 60.4%         |
| Loans and advances with evidence for impairment, including interest    | 1 508 322         | 1 314 425         | 14.8%         |
| <b>Total gross loan and advances to customers (including</b>           | <b>27 853 155</b> | <b>17 738 052</b> | <b>57.0%</b>  |

|   |                   |                   |                 |
|---|-------------------|-------------------|-----------------|
| <b>interest)</b>  |                   |                   |                 |
| Impairment losses on loans and advances to customers  | 927 457           | 839 724           | 10.4%           |
| including: impairment losses on loans and advances with evidence for impairment                       | 840 351           | 799 361           | 5.1%            |
| <b>Total net loans and advances to customers</b>  | <b>26 925 698</b> | <b>16 898 328</b> | <b>59.3%</b>    |
| <b>The share of loans and advances with evidence for impairment in total gross loans and advances</b> | <b>5.4%</b>       | <b>7.4%</b>       | <b>-2.0p.p.</b> |
| <b>Coverage of loans and advances with evidence for impairment with impairment losses</b>             | <b>55.7%</b>      | <b>60.8%</b>      | <b>-5.1p.p.</b> |

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

In 2008, in the course of debt collection measures aimed at recovering debts from non-paying customers, the Bank issued 23,722 banking executory titles for the total amount of PLN 223.1 million. In 2007, there were issued 34,036 banking executory titles for the total amount of PLN 184.5 million.

In the case of receivables assessed individually, the total fair value of collateral approved by the Bank considered in estimated future cash flows, as at 31.12.2008 amounted to PLN 307,752 thousand. As at 31.12.2007, this value was equal to PLN 298,966 thousand.

### Gross loans and advances to customers – item-by-item structure

The most important change in the structure of the Group's loan portfolio, as assumed in the strategy, is the further increase in the share of loans and advances to individuals in total loans and advances to customer. As of 31.12.2008, the share was at the level of 66.3% (an increase by 11.5 p.p.).

|                             | <b>31.12.2008</b> | <b>31.12.2007</b> | <b>Change in p.p.</b> |
|-----------------------------|-------------------|-------------------|-----------------------|
| <b>Individuals*</b>         | <b>66.3%</b>      | <b>54.8%</b>      | <b>11.5</b>           |
| - overdraft facilities      | 3.8%              | 6.1%              | -2.3                  |
| - purchased debt            | 0.0%              | 0.0%              | 0.0                   |
| - term loans**              | 5.3%              | 11.0%             | -5.7                  |
| - cash and instalment loans | 21.2%             | 22.3%             | -1.1                  |
| - mortgages                 | 69.6%             | 60.4%             | 9.2                   |
| - realised guarantees       | 0.0%              | 0.0%              | 0.0                   |
| - other receivables         | 0.1%              | 0.1%              | 0.0                   |
| <b>Corporate customers</b>  | <b>32.5%</b>      | <b>42.9%</b>      | <b>-10.4</b>          |
| - overdraft facilities      | 20.8%             | 21.1%             | -0.3                  |
| - term loans**              | 78.5%             | 78.3%             | 0.2                   |
| - purchased debt            | 0.6%              | 0.4%              | 0.2                   |

|   |               |               |             |
|---|---------------|---------------|-------------|
| - realised guarantees                       | 0.1%          | 0.1%          | 0.0         |
| - other receivables, including leasing fees | 0.0%          | 0.1%          | -0.1        |
| <b>Budget</b>                               | <b>1.3%</b>   | <b>2.3%</b>   | <b>-1.0</b> |
| - overdraft facilities                      | 1.3%          | 0.2%          | 1.0         |
| - term loans**                              | 98.7%         | 99.8%         | -1.0        |
| - purchased debt                            | 0.0%          | 0.0%          | 0.0         |
| <b>Total</b>                                | <b>100.0%</b> | <b>100.0%</b> | <b>0.0</b>  |

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

\*\* The item contains mainly: in the case of individuals – investment loans and working capital loans for individual entrepreneurs and mortgage loans, and in the case of corporate and budgetary customers – investment and working capital loans.

## 6.2. The structure of liabilities and equity

At the end of 2008, as in the previous year, amounts due to customers were the main category of liabilities. Over 12 months of 2008, their value increased by 19.6%. At the end of 2008, the share of amounts due to customers in total liabilities and equity amounted to 53.2% (a decrease by 10.3 p.p.).

The share of amounts due to banks (including the central bank) in total liabilities and equity increased significantly. At the end of 2008, it was at the level of 33.7% against 23.5% at the end of 2007. Cash obtained from entities of KBC Group – the Bank's major shareholder – constituted the majority of the said liabilities. At the end of 2008, the value of long-term loans obtained from entities of KBC Group amounted to PLN 7,042,895 thousand, which accounted for 18.2% of total liabilities and equity. In addition, at the end of 2008, KB S.A. obtained from entities of KBC Group short-term financing amounting to PLN 3,993,949 thousand (10.3% of total liabilities and equity). Borrowed loans and advances as well as interbank deposits will be renewed at their maturities, what enables the Bank to treat them as long-term financing. The value of particular liabilities and equity items is presented in the table below (in PLN '000):

|  | 31.12.2008 | 31.12.2007 | Change |
|--|------------|------------|--------|
| Amounts due to Central Bank                      | 1 113 275  | 1 101 661  | 1.1%   |
| Amounts due to banks                             | 11 915 013 | 5 271 449  | 126.0% |
| Derivatives including:                           | 1 890 221  | 474 370    | 298.5% |
| - derivatives used as hedging instruments        | 1 708      | 44 178     | -96.1% |
| Amounts due to customers                         | 20 555 309 | 17 180 731 | 19.6%  |
| Liabilities arising from repurchase transactions | 8 991      | 50 126     | -82.1% |
| Current tax liability                            | 28 916     | 7 136      | 305.2% |
| Provisions                                       | 30 379     | 105 724    | -71.3% |
| Other liabilities                                | 220 155    | 249 216    | -11.7% |

|                                     |                   |                   |              |
|-------------------------------------|-------------------|-------------------|--------------|
| Subordinated liabilities            | 279 643           | 394 235           | -29.1%       |
| Total equity                        | 2 579 220         | 2 233 856         | 15.5%        |
| <b>Total liabilities and equity</b> | <b>38 621 122</b> | <b>27 068 504</b> | <b>42.7%</b> |

### Amounts due to customers – structure by items and types

The changes in the structure of the Bank's customers' deposits at the end of 2008 reflect the situation on the market in the fourth quarter of the year due to the deeper global financial crisis. A significant increase in competition contributed to the rise in interest rates of term deposits what resulted in the outflow of cash from current accounts. In 2008, the highest increase was recorded for term deposits of corporate customers, what resulted in the increase in the share of deposits of this group of customers by 9.7 p.p. (mainly due to the Bank's sourcing of funds from TUnŻ WARTA generated from the sale of 'WARTA GWARANCJA' insurance term deposit – the balance as at the end of 2008 was PLN 1.8 billion, which accounts for 8.8% of total amounts due to customers).

| Amounts due to the Bank's customers | 31.12.2008    | 31.12.2007    | Change in p.p. |
|-------------------------------------|---------------|---------------|----------------|
| <b>Individuals*</b>                 | <b>50.5%</b>  | <b>59.9%</b>  | <b>-9.5</b>    |
| - in current account                | 65.5%         | 68.3%         | -2.8           |
| - term deposits                     | 32.8%         | 30.6%         | 2.2            |
| - other                             | 1.7%          | 1.0%          | 0.7            |
| <b>Corporate customers</b>          | <b>37.7%</b>  | <b>28.1%</b>  | <b>9.7</b>     |
| - in current account                | 30.9%         | 51.6%         | -20.7          |
| - term deposits                     | 68.6%         | 48.3%         | 20.4           |
| - loans and advances                | 0.0%          | 0.0%          | 0.0            |
| - other                             | 0.5%          | 0.2%          | 0.3            |
| <b>Budget</b>                       | <b>11.8%</b>  | <b>12.0%</b>  | <b>-0.2</b>    |
| - in current account                | 84.1%         | 65.0%         | 19.0           |
| - term deposits                     | 15.9%         | 35.0%         | -19.0          |
| <b>Total</b>                        | <b>100.0%</b> | <b>100.0%</b> | <b>0.0</b>     |

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

### 6.3. Off-balance sheet items

The value of particular off-balance sheet items is presented in section 3 of the financial statements of Kredyt Bank S.A. for 2008.

A noticeable increase in the value of off-balance sheet items, mainly amounts due received and related to sale/purchase transactions, is an effect of an increase in the business activeness and larger numbers of transactions with customers.

### Guarantees and sureties issued, including those granted to the Issuer's related parties

As of 31.12.2008, the Bank did not issue guarantees with the total value of at least 10% of the Bank's equity, to one company or entities of one capital group.

As at 31.12.2007, the Bank issued guarantees with the total value of at least 10% of the Bank's equity to one company and its subsidiaries. The guarantees were issued for the total amount of PLN 278,228 thousand, on market terms. The Bank's fee for issuing the guarantees was also determined on market terms.

### 6.4. Income statement structure

The Bank's net profit in 2008 amounted to PLN 301,072 thousand and was lower by 24.8% in comparison with 2007. The Bank's profit before tax in 2008 amounted to PLN 389,379 thousand (24.0% less than in the previous year). The deduction of – PLN 133,084 thousand of net impairment losses on financial assets, other assets and provisions from profit before tax for 2008 (contrary to the addition of PLN 70,295 thousand to profit before tax for 2007) was the most important factor which had an impact on the differences between the compared periods.

At the same time, in 2008, the Bank recorded an increase in net operating income by 11.7%. The result on core business improved mainly due to:

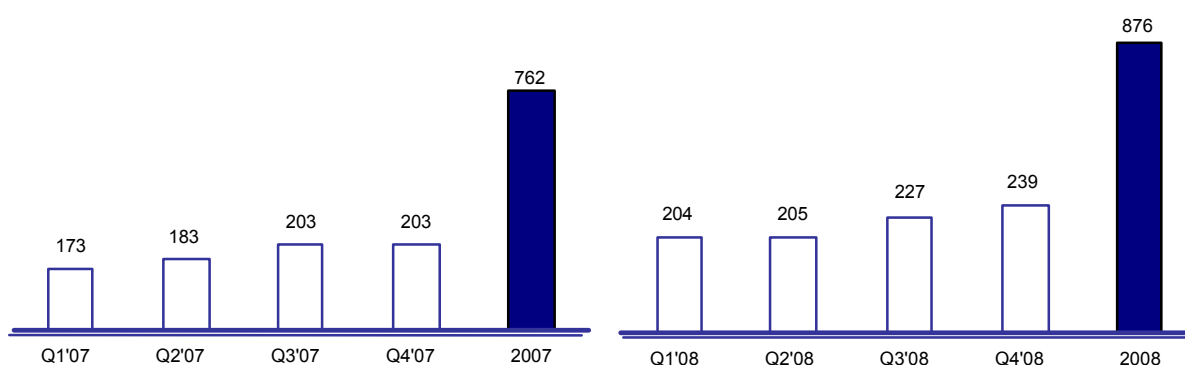
- the fast growth of the value of retail loans portfolio due to the increased scale of the sale of mortgages and consumer loans in foreign currencies;
- an increase in the value of deposits portfolio and of the scale of transactions with customers;
- an increase in the scale of the sale and of the income from payment cards.

The main items of the Bank's income statement are presented below.

| in PLN '000'   | 01.01.2008 -<br>31.12.2008 | 01.01.2007 -<br>31.12.2007 | Change        |
|--|----------------------------|----------------------------|---------------|
| Net interest income  | 875 579                    | 762 290                    | 14.9%         |
| Net fee and commission income  | 283 089                    | 308 015                    | -8.1%         |
| Net gains from trading and investing activities (including dividend income and net result on derivatives used as hedging instruments and hedged items) | 240 677                    | 187 870                    | 28.1%         |
| Net gains from other operating income/expenses   | 13 964                     | 6 900                      | 102.4%        |
| <b>Total income</b>  | <b>1 413 309</b>           | <b>1 265 075</b>           | <b>11.7%</b>  |
| General and administrative expenses, and depreciation  | -890 846                   | -823 168                   | 8.2%          |
| Net impairment losses on financial assets, other assets and provisions   | -133 084                   | 70 295                     | -             |
| <b>Profit before tax</b>   | <b>389 379</b>             | <b>512 202</b>             | <b>-24.0%</b> |
| Income tax expense   | -88 307                    | -111 683                   | -20.9%        |
| <b>Net profit (attributable to the shareholders of the Bank)</b>   | <b>301 072</b>             | <b>400 519</b>             | <b>-24.8%</b> |

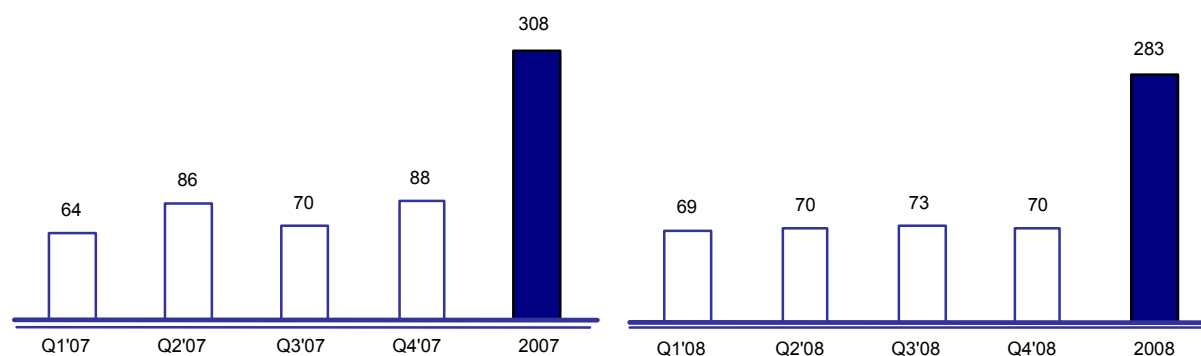
Net interest income and net fee and commission income generated by the Bank in 2008 amounted to PLN 1,158,668 thousand and was higher by 8.3% than the figure in 2007 (PLN 1,070,305 thousand). The increase resulted from the good sale of strategic products for the Bank mainly mortgages, consumer loans, credit cards and insurance products offered in cooperation with TUIR WARTA S.A., including 'WARTA GWARANCJA' insurance term deposit.

Net interest income was higher as compared to figures recorded in 2007 by 14.9%. It rose systematically quarter by quarter due to the fast increase in the sale of mortgages in foreign currencies, consumer loans, as well as loans for corporate customers. The fast growth rate for mortgages, which halted only in the fourth quarter of 2008, due to the expanding economic crisis, at the same time resulted in lower credit margin for the whole loans portfolio of the Bank. It was the second reason, apart from the fact that a part of income generated from foreign currency mortgages is reported in net trading income (from foreign exchange transactions), for slower growth of net interest income than the growth of the value of the loans portfolio. Net interest income in 2007-2008 is presented in the figures below (in millions of PLN):



Net fee and commission income was lower as compared to figures recorded in 2007 by 8.1%. The increase in fee and commission expenses, including particularly loan insurance fees and fees for credit reference agency by 66.1% was the main reason. The decline in commission income from the distribution and management of combined investment and insurance products related to the slump on the stock market was another reason. In 2008, it amounted to PLN 37,543 thousand, as compared to PLN 62,485 thousand in 2007. This decline was, to a large extent, set off by the increase in net fee and commission income related to payment cards processing and ATMs maintenance, which in 2008 increased by 24.0% to PLN 66,009 thousand.

Net commission income in particular quarters and in 2007-2008 is presented in the figures below (in millions of PLN):



The table below presents the structure of commission income in 2008 and 2007.

|  | 01.01.2008 -<br>31.12.2008 | Structure<br>% | 01.01.2007 -<br>31.12.2007 | Structure<br>% |
|--|----------------------------|----------------|----------------------------|----------------|
| Fees and commissions on deposit-related transactions with customer                       | 127 128                    | 33.49%         | 131 197                    | 35.83%         |
| Fees and commissions due for payment cards processing and ATMs maintenance               | 128 400                    | 33.82%         | 89 916                     | 24.56%         |
| Commissions on distribution and management of combined investment and insurance products | 37 543                     | 9.89%          | 62 485                     | 17.07%         |
| Fees and commissions related to lending activities                                       | 44 906                     | 11.83%         | 44 114                     | 12.05%         |
| Commissions on foreign clearing operations   | 16 915                     | 4.46%          | 16 305                     | 4.45%          |
| Commissions on guarantee commitments   | 14 840                     | 3.91%          | 10 970                     | 3.00%          |
| Commissions on custodian services  | 2 944                      | 0.78%          | 3 180                      | 0.87%          |
| Other fees and commissions   | 6 947                      | 1.83%          | 7 983                      | 2.18%          |
| <b>Total</b>   | <b>379 623</b>             | <b>100%</b>    | <b>366 150</b>             | <b>100%</b>    |

Net gains from trading and investing activities (including dividend income and net result on derivatives used as hedging instruments and hedged items) in 2008 amounted to PLN 240,677 thousand, i.e. was higher by 28.1% than in 2007. Net trading income increased by 34.6% and amounted to PLN 240,988 thousand as compared to PLN 178,979 thousand in 2007. The increase in net income from foreign exchange transactions related to very good sale, and the increase in the value of the portfolio of mortgages in foreign currencies were of the greatest importance in this category. In addition, the category comprises the results from the valuation and sale of held-for-trading assets carried at fair value through profit or loss and the result for derivatives.

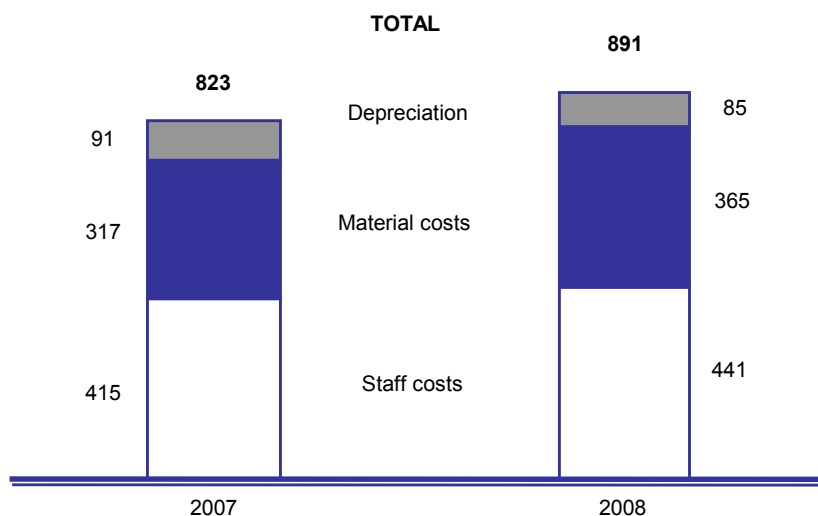
In 2008, the Bank's general and administrative expenses amounted to PLN 890,846 thousand and were up by 8.2% in comparison with the previous year. Both staff costs and general expenses were higher.

Staff costs increased by 6.4%. An increase in remunerations resulting from the increase in remunerations in the banking sector and in the economy as well as changes in incentive systems introduced during the year were a decisive factor.

The increase in general expenses by 15.0% resulted mainly from the upgrade of the selling infrastructure and the back-office area. In 2008, Kredyt Bank S.A. ended network development works (36 outlets were opened). The increase in expenses was recorded mainly for postal and telecommunications charges (PLN 10.0 million), costs of marketing and advertising (PLN 6.8 million), costs of buildings maintenance and lease (PLN 5.4 million) and costs of transport services (PLN 4.2 million). In addition, an increase was recorded for taxes and fees (PLN 11.7 million), which was related mainly to the introduction in 2008 of a fee collected by the Polish Financial Supervision Authority for the supervision of banks (PLN 6.2 million) and an increase in non-deducted VAT related to the increase in particular costs subject to this tax. Depreciation costs declined by 6.9%, i.e. PLN 6.3 million.



General and administrative expenses, and depreciation costs, in particular quarters of 2007 and 2008, are presented in the figures below (in millions of PLN):



Cost/income ratio (CIR) in 2008 was equal to 63.0%, what denotes an improvement as compared to 2007 level by 2.1 p.p. It should be noted that the improvement is a result of an increase in recurring income.

In 2008, net result on net impairment losses on financial assets, other assets and provisions was negative and amounted to – PLN 133,084 thousand as compared to the positive impact upon profit before tax in 2007 of PLN 70,295 thousand. It resulted from the increase, in 2008, of impairment losses on loans and advances to individuals, mainly related to consumer loans, with the simultaneous decrease in reversals of impairment losses on loans and advances to corporate customers which contributed to the Bank's financial result in 2007 to a greater extent.

A substantial increase in impairment losses on loans and advances in the whole 2008 was partially set off by the reversal of provisions for litigations due to the court judgments and expectations for pending proceedings which are favourable for the Bank – amounting to PLN 90,045 thousand in 2008 (PLN 2,242 thousand in 2007).

Income tax expense on the Bank's result in 2008 amounted to - PLN 88,307 thousand and was lower by 20.9% than income tax expense in 2007 (- PLN 111,683 thousand).

## 7. Risks associated with operations

The following risks can be distinguished in banking activities: credit risk, liquidity risk, market risk and operational risk. The Bank's supervisory bodies, explicitly the Management Board and the Supervisory Board, play the most important role in the risk management process. The Bank's Supervisory Board, through the Audit Committee, is informed about the most vital decisions and give opinions about the actions of the Management Board in this respect.

Particular risks are dealt with directly by specialised Committees:

- Assets and Liabilities Management Committee – responsible for the management of the risk in the banking portfolio and in the trading portfolio as well as the management of the Bank's structural liquidity;

- Operational Risk Committee – supervising the management of the operational risk;
- Credit Risk Committee – supervising the credit risk management process.

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

The overriding objectives of risk management policy concerning mainly the observance of internal and external limits and optimising and mitigating risk in the process of ongoing monitoring are being systematically implemented. The risk management process is strictly related to the capital management process. The main objective of capital management in the Bank is to optimise it and, at the same time, to meet external capital requirements. To achieve this goal, in 2007, the Bank implemented ICAAP (Internal Capital Adequacy Assessment Process).

Details of the risk management system and applied risk metrics are presented in Note 70 to the financial statements of Kredyt Bank S.A. for 2008.

## 7.1 Credit risk

### Credit policy and credit risk management

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

Kredyt Bank S.A. follows a prudent credit risk policy. The main objective is to prevent impairment of loans portfolio and minimize the share of receivables for which premises of impairment were identified in total loan receivables. The primary assumptions of the credit policy are as follows:

- clear-cut division between sale and credit risk management functions;
- ongoing monitoring and early identification of hazards;
- centralization of decision-making powers in the credit process and in the process of the management of impaired loans portfolio;
- risk diversification and limited financing of higher-risk business activities.

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

In the second half of 2008, in view of the symptoms of slower economic growth, the Bank took action and decisions to tighten the credit policy and, what follows, to limit lending activities. The significant depreciation of the Polish currency resulted in unfavourable, for the Bank's customers, valuations of professional transactions and, what follows, in increased credit risk related to the possible inability to pay amounts due on the clearing date for the transactions. As a result of the situation, the Bank restricted access to the above-mentioned transactions by reducing the number of professional limits. In 2009, the Bank will focus on closer cooperation with existing, reliable customers, restricting its commitment to more risky market segments.

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

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

As at 31.12.2008, the coverage of the Bank's balance sheet and off-balance sheet loans and advances to counterparties other than banks and governments with internal ratings amounted to 97.59%. As at 31.12.2007, it was at the level of 91.5%. As at 31.12.2008, the concentration limits were not exceeded.

### Exposure towards 10 major corporate customers

as at 31.12.2008

| Company      | Share (%) in the portfolio |
|--------------|----------------------------|
| Customer 1   | 2.8                        |
| Customer 2   | 2.8                        |
| Customer 3   | 2.3                        |
| Customer 4   | 2.2                        |
| Customer 5   | 2.1                        |
| Customer 6   | 2.0                        |
| Customer 7   | 2.0                        |
| Customer 8   | 2.0                        |
| Customer 9   | 1.9                        |
| Customer 10  | 1.8                        |
| <b>Total</b> | <b>21.9</b>                |

as at 31.12.2007

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

## Exposure in industrial segments

| Industry   | Exposure   | Comparable data |
|--|------------|-----------------|
|  | %          | Exposure        |
|  | 31.12.2008 | 31.12.2007      |
| Production activities  | 27.9       | 33.5            |
| Retail and wholesale; repairs of motor vehicles and articles for personal and home use | 24.1       | 20.8            |
| Financial intermediation   | 11.3       | 17.8            |
| Real estate administration and lease   | 15.3       | 9.0             |
| Construction   | 5.8        | 4.1             |
| Public administration and national defence, legally guaranteed social care             | 2.8        | 4.0             |
| Transport, storing and communication   | 4.7        | 3.9             |
| Agriculture, hunting and forestry  | 2.3        | 1.9             |
| Other services for municipalities, social and individual services                      | 0.9        | 1.0             |
| Mining   | 1.6        | 1.0             |
| Health care and social care  | 1.1        | 1.0             |
| Hotels and restaurants   | 0.9        | 0.9             |
| Supplies of electricity, gas and water   | 1.0        | 0.8             |
| Fishing and fish culture   | 0.1        | 0.0             |
| Education  | 0.2        | 0.3             |
| <b>Total</b>   | <b>100</b> | <b>100</b>      |

## Geographical exposure

| Province            | Gross loans structure (%) | Comparable data           |
|---------------------|---------------------------|---------------------------|
|                     | 31.12.2008                | Gross loans structure (%) |
|                     | 31.12.2008                | 31.12.2007                |
| Mazowieckie         | 23.4                      | 23.9                      |
| Lubelskie           | 14.0                      | 13.6                      |
| Dolnośląskie        | 10.7                      | 10.6                      |
| Wielkopolskie       | 8.7                       | 9.1                       |
| Pomorskie           | 7.3                       | 6.9                       |
| Śląskie             | 7.3                       | 6.8                       |
| Małopolskie         | 5.6                       | 7.8                       |
| Zachodniopomorskie  | 4.8                       | 4.3                       |
| Łódzkie             | 3.8                       | 3.8                       |
| Podlaskie           | 3.1                       | 3.1                       |
| Kujawsko-pomorskie  | 2.8                       | 2.5                       |
| Podkarpackie        | 2.5                       | 2.3                       |
| Warmińsko-mazurskie | 2.1                       | 2.3                       |
| Lubuskie            | 1.5                       | 1.1                       |
| Świętokrzyskie      | 1.2                       | 1.2                       |
| Opolskie            | 1.0                       | 0.6                       |
| Non-resident        | 0.2                       | 0.1                       |
| <b>Total</b>        | <b>100</b>                | <b>100</b>                |

## 7.2 Liquidity risk

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

The Bank hedges the liquidity risk by:

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

An analysis of the Bank's liquidity is performed mainly on the basis of the liquidity gap report and the assessment of the deposit base stability by, among others, monitoring the mismatch of the maturity dates of assets and liabilities, what makes it possible to forecast the demand for liquid assets and avoid excessive concentration of cash disbursements on a close date. The Bank's financial liquidity is also monitored on the basis of a system of ratios reflecting the structure of liabilities and receivables for time ranges from 7 days to 5 years, i.e. Stock Liquidity Ratio (SLR) – a short-term liquidity ratio (up to 5 working days); Liquidity Mismatch Ratio (LMR) – a liquidity ratio (up to 3, 6 months); and Coverage Ratio (CR) – a liquidity ratio which informs about a degree of financing long-term assets with long-term liabilities (1, 2, 3 and 5 years).

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

The Bank finances the lending activities (especially loans in foreign currencies) not only with deposits but also, to a large extent, with financing made available by the Bank's main shareholder – KBC. Borrowed loans and advances as well as received deposits will be renewed at their maturities, what enables the Bank to treat them as long-term financing.

| <i>in PLN '000'</i>   | <b>As at 31.12.2008</b> | <b>As at 31.12.2007</b> |
|---|-------------------------|-------------------------|
| Loans and advances from KBC Group                           | 6 763 261               | 2 750 710               |
| <i>- including loans and advances in foreign currencies</i> | 4 991 104               | 1 513 882               |
| Term deposits   | 4 087 081               | 2 517 509               |
| <i>- including term deposits from KBC Group</i>             | 3 993 949               | 370 239                 |
| Current accounts  | 1 271 449               | 28 114                  |

|                                   |                   |                  |
|-----------------------------------|-------------------|------------------|
| Other liabilities                 | 3 222             | 5 116            |
| <b>Total amounts due to banks</b> | <b>12 125 013</b> | <b>5 301 449</b> |
| Subordinated liabilities *        | 279 634           | 394 235          |
| <b>Total</b>                      | <b>12 404 647</b> | <b>5 695 684</b> |

The diversification of the deposit base allows for the Bank's independence of any specific market segment, customer group or specific deposit type. Except for Mazowieckie Province, the deposits base is also not highly concentrated in one specific region.

The Bank's amounts due to customers by provinces:

| Province            | Deposits structure | Deposits structure |
|---------------------|--------------------|--------------------|
|                     | in %<br>31.12.2008 | in %<br>31.12.2007 |
| Mazowieckie         | 41.7%              | 31.4%              |
| Dolnośląskie        | 7.0%               | 8.4%               |
| Małopolskie         | 6.3%               | 7.2%               |
| Pomorskie           | 5.7%               | 6.8%               |
| Lubelskie           | 5.4%               | 5.9%               |
| Śląskie             | 5.4%               | 5.8%               |
| Podlaskie           | 5.2%               | 5.9%               |
| Wielkopolskie       | 5.1%               | 6.3%               |
| Łódzkie             | 4.7%               | 6.4%               |
| Podkarpackie        | 3.5%               | 4.1%               |
| Zachodniopomorskie  | 3.0%               | 3.6%               |
| Kujawsko-pomorskie  | 2.3%               | 2.7%               |
| Warmińsko-mazurskie | 1.7%               | 2.1%               |
| Świętokrzyskie      | 1.5%               | 1.6%               |
| Lubuskie            | 0.9%               | 1.2%               |
| Opolskie            | 0.6%               | 0.8%               |
| <b>Total</b>        | <b>100.0%</b>      | <b>100%</b>        |

The structure of the deposits base is advantageous also due to the original maturity date. As at 31.12.2007 and 31.12.2006, it was as follows:

### Amounts due to customers by maturity dates

|                      | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|----------------------|-------------------|---------------------------------------|
| - up to 1 month      | 14 514 908        | 14 677 673                            |
| - 1-3 months         | 3 419 764         | 1 229 987                             |
| - 3-6 months         | 1 476 417         | 541 260                               |
| - 6 months to 1 year | 716 340           | 417 963                               |
| - 1 - 3 years        | 194 506           | 21 806                                |
| - 3 - 5 years        | 215 187           | 262 602                               |
| - 5 - 10 years       | 17 327            | 28 597                                |
| - 10 - 20 years      | 860               | 843                                   |
| <b>Total</b>         | <b>20 555 309</b> | <b>17 180 731</b>                     |

### Gross loans and advances to customers by maturity dates

|                      | <b>31.12.2008</b> | <b>Comparable data<br/>31.12.2007</b> |
|----------------------|-------------------|---------------------------------------|
| - up to 1 month      | 619 998           | 2 608 723                             |
| - 1-3 months         | 828 841           | 539 638                               |
| - 3-6 months         | 915 405           | 488 146                               |
| - 6 months to 1 year | 5 496 591         | 2 644 646                             |
| - 1 - 3 years        | 3 550 513         | 2 435 887                             |
| - 3 - 5 years        | 2 388 745         | 1 982 251                             |
| - 5 - 10 years       | 4 219 960         | 2 382 547                             |
| - 10 - 20 years      | 4 588 744         | 2 186 040                             |
| - over 20 years      | 4 022 498         | 1 633 074                             |
| - past due           | 1 221 860         | 837 100                               |
| <b>Total</b>         | <b>27 853 155</b> | <b>17 738 052</b>                     |

### 7.3 Market risk

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

The Bank does not trade on the stock market (investments in shares are long-term investments or investments in strategic subsidiaries). The Bank does not trade on commodity markets. In the Bank, among all types of market risks, we deal with interest rate risk and currency risk. The Bank's activity is divided into two parts: Trading Book and Banking Book. Due to different nature of opened positions, the risk is monitored in each book separately.

#### Trading Book

The Trading Book is a separated part of the Bank's portfolio, where the Bank intends to generate income resulting from short-term changes in prices, interest rates, exchange rates or other market

parameters. The main activity of the Trading Book is associated with financial instruments in PLN, and, to a lesser extent, also in USD and EUR.

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

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

| limit |         | 31.12.2008 | Data for 2008 |         |          |
|-------|---------|------------|---------------|---------|----------|
|       |         |            | Average       | Minimum | Maximum  |
| VaR   | 3 000.0 | 1 257.09   | 1 173.89      | 353.20  | 4 611.33 |

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

| limit |         | 31.12.2007 | Comparable data for 2007 |         |          |
|-------|---------|------------|--------------------------|---------|----------|
|       |         |            | Average                  | Minimum | Maximum  |
| VaR   | 3 000.0 | 1 100.42   | 508.06                   | 175.86  | 1 212.45 |

The Bank does not maintain interest rate options or currency options for its own account, i.e. it does not pursue speculative activities. Therefore, the market risk in the portfolio of option transactions does not exist.

Trading Book – interest rate risk

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

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

In addition, the analysis of the sensitivity of the total Trading Book position to interest rate risk is performed through the calculation of interest rate risk VaR (with the same parameters as Global VaR, i.e. the significance range of 99%, 10-day time horizon and 500-day observation horizon). The interest rate risk analysis is supplemented by stress-testing which is the amount of possible loss due to extremely adverse (critical) changes in interest rates.



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

|         | 31.12.2008 | Data for 2008 |         |          |
|---------|------------|---------------|---------|----------|
|         |            | Average       | Minimum | Maximum  |
| Trading | 1 240.23   | 984.76        | 355.77  | 1 958.19 |

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

|         | 31.12.2007 | Data for 2007 |         |          |
|---------|------------|---------------|---------|----------|
|         |            | Average       | Minimum | Maximum  |
| Trading | 514.91     | 495.95        | 137.07  | 1 263.95 |

Trading Book – currency risk

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

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

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

|         | 31.12.2008 | Data for 2008 |         |          |
|---------|------------|---------------|---------|----------|
|         |            | Average       | Minimum | Maximum  |
| Trading | 343.88     | 462.00        | 17.49   | 4,472.25 |

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

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

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

**Banking Book**

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

Banking Book – interest rate risk

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

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

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

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

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

#### Banking Book – currency risk

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

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

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

- determines the value of the highest monthly interest and principal repayment instalment for the applied loan with the assumption that the principal of the applied loan is 20% higher;
- the Bank calculates the maximum level of LtV (Loan To Value) ratio on a lower level than for loans in PLN (LtV ratio should be understood as the loan value/collateral value ratio);
- additionally, the applicant is informed about the foreign exchange risk.

Details of the values of particular risk metrics and the application of hedge accounting for the Banking Book are presented in Note 70 to the annual financial statements of Kredyt Bank S.A. for 2008.

#### **Average interest rates in Kredyt Bank S.A. in 2008**

Average interest rates of customers' deposits, calculated as the ratio of interest expenses to average deposits volume in the year, for major currencies, were as follows:

|     | 31.12.2008 | 31.12.2007 |
|-----|------------|------------|
| PLN | 4.1        | 2.9        |
| EUR | 2.5        | 2.3        |
| USD | 2.0        | 3.4        |
| CHF | 0.5        | 0.4        |

Average interest rates of customers' loans, calculated as the ratio of interest income from performing loans to the average volume of loans and advances in the year, for major currencies, were as follows:

|     | 31.12.2008 | 31.12.2007 |
|-----|------------|------------|
| PLN | 8.3        | 6.5        |
| EUR | 5.7        | 5.5        |
| USD | 4.1        | 6.7        |
| CHF | 4.3        | 4.2        |

#### 7.4 Operational risk

The Group defines the operational risk as a possibility of an unexpected influence upon the financial result, as a consequence of maladjustment or unreliability of internal processes, people, technical systems as well as a consequence of external incidents. To calculate the capital requirement for operational risk, the Bank applies the Basic Indicator Approach.

As a result, the Bank, inter alia,:

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

The Bank took measures focused on the application of the standardized approach, by, e.g.: enhancing the operational risk assessment system through systematic risk self-assessments (RSA) in particular business areas and risk management, through the implementation of action plans to reduce the risk and the measurement of risk using Key Risk Indicators (KRI). The aim is to effectively include the outcome of risk assessment in the monitoring and control process for Kredyt Bank's operational risk profile.

Operational risk coordinators, supporting the managers of business units, play a crucial role in the implementation of operational risk management tools and techniques. Managers of particular business lines are directly responsible for operational risk management.

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

## 8. Financial ratings for Kredyt Bank S.A.

As at 31.12.2008, Kredyt Bank S.A. was assigned the following financial ratings:

### Moody's Investors Service

|                           |                      |
|---------------------------|----------------------|
| Long-term Deposit Rating  | <b><u>A2</u></b>     |
| Short-term Deposit Rating | <b><u>P1</u></b>     |
| Financial Strength        | <b><u>D</u></b>      |
| Outlook                   | <b><u>Stable</u></b> |

The last change in the rating of Moody's Investors Service took place on 23 February 2007 and involved the change in the Financial Strength Rating of Kredyt Bank S.A. from 'D-' to 'D' (stable outlook), due to the implementation of new ratings calculations methodologies. A2 rating denotes good capacity to pay liabilities and P-1 rating means perfect ability to pay current liabilities.

On 26 January 2009, Moody's Investors Service rating agency affirmed the Long-term Deposit Rating of Kredyt Bank S.A. at 'A2' and changed the outlook for the above long-term rating from 'stable' to 'negative'. These rating decisions were made in connection with the decision on downgrading the ratings of KBC Bank, i.e. the parent entity of Kredyt Bank S.A.

### Fitch Ratings

|                                       |                        |
|---------------------------------------|------------------------|
| Long-term Issuer Default Rating (IDR) | <b><u>A</u></b>        |
| Short-term Rating                     | <b><u>F1</u></b>       |
| Individual Rating                     | <b><u>C/D</u></b>      |
| Support Rating                        | <b><u>1</u></b>        |
| Outlook for long-term rating          | <b><u>Negative</u></b> |

On 29 February 2008, Fitch Ratings increased the Individual Rating of Kredyt Bank to 'C/D' from 'D'. The Bank's other ratings have been affirmed at previous levels. The outlook for the rating remained 'stable'.

On 24 October 2008, Fitch Ratings placed 'A+' Issuer Default Rating (IDR) of Kredyt Bank S.A. on Rating Watch Negative. This decision was directly connected with the Fitch Ratings' decision on placing the Issuer Default Rating (IDR) of KBC Bank N.V. (the parent company of Kredyt Bank S.A.) on Rating Watch Negative. The remaining ratings of Kredyt Bank S.A. from Fitch Ratings have been confirmed at the previous levels.

On 2 December 2008, Fitch Ratings decreased Long-term Issuer Default Rating (IDR) of Kredyt Bank S.A. from 'A+' to 'A'. At the same time, Fitch Ratings deleted the above-mentioned rating from Rating Watch Negative. The outlook for this rating is 'negative'. This decision was directly connected with the Fitch Ratings' decision on decreasing the Long-term Issuer Default Rating (IDR) of KBC Bank N.V. (the parent company of Kredyt Bank S.A.) from 'AA-' to 'A+'. The remaining ratings of Kredyt Bank S.A. from Fitch Ratings have been confirmed at the previous levels.

The Individual Rating 'C/D' (scale: A to E) signifies a potential possibility of the occurrence of such a situation in the future which might require the external support for the Bank. And the Support Rating '1' (scale: 1 to 5) denotes very high probability of obtaining external support by the Bank.

## 9. Corporate Governance

The Management Board of Kredyt Bank S.A. attach great importance to the application of Corporate Governance rules in the management process, where Corporate Governance is understood as a set of rules required to maintain proper relations between the interests of all entities and individuals engaged in the company's functioning.

In the Management Board's opinion, appropriate proportions between managers, shareholders, customers and employees are a key factor which leads, in the long term, to the Bank's ongoing development and, hence, an increase in its value as a reliable and effective partner.

### Corporate Governance rules

Since the implementation of Corporate Governance principles (for the first time, they were incorporated by the authorities of the Warsaw Stock Exchange in 2002), the Management Board of Kredyt Bank S.A. declared its adherence to them and made every effort to apply recommendations and corporate governance principles to the largest possible extent. Each year, the Bank's Management Board made statements on the compliance with the principles.

The intention to introduce Corporate Governance rules specified in 'Best Practices in Public Companies in 2002' was declared by the Bank's Management Board on 23 December 2002. This document was approved in the form of a Statement by the Extraordinary General Meeting of Shareholders by Resolution No. 5/2003 of 25 June 2003. After two years of their validity, the Warsaw Stock Exchange updated Corporate Governance rules and issued a new document 'Best Practices in Public Companies in 2005'. This document was approved in the form of a Statement by the Ordinary General Meeting of Shareholders by resolution No. 25/2005 of 25 April 2005.

On 4 July 2007, the Supervisory Board of the Warsaw Stock Exchange, by virtue of Resolution No. 12/1170/2007, approved new Corporate Governance rules enlisted in the document entitled 'Code of Best Practice for WSE Listed Companies' which came into force on 1 January 2008. The Bank's Management Board, pursuant to the new principles, drew up 'Corporate Governance Report – 2007'. The report included the provisions of Resolution No. 1013/2007 of 11 December 2007 of the Warsaw Stock Exchange, and referred to the principles in force in 2007 (i.e. 'Best Practices in Public Companies in 2005'). 'Corporate Governance Report – 2007' was attached to the Bank's Annual Report for 2007 and published on the Bank's website.

On 28 May 2008, the Ordinary General Meeting of Shareholders of Kredyt Bank S.A., under Resolution No. 25/2008 approved the document 'Code of Best Practice for WSE Listed Companies' to be applied in the Bank's activities. The Bank's application of Corporate Governance rules has been described in 'Corporate Governance Report – 2008'.

## Compliance Function

The Bank, as the public trust institution, is especially obliged to carry out its business in an ethical way and comply with the present law and social standards.

The implementation of the compliance function in Kredyt Bank S.A. involves monitoring of the compliance of the Bank's activities with the regulations of the commonly applicable law and internal rules. The Compliance Department, established in November 2003, supports the Bank's Management Board in the implementation of new standards and procedures stemming from the European Union's law and from the national law (Banking Law and Resolutions of the Commission for Banking Supervision) as well as the assumptions of the policy of KBC – the Belgian banking and insurance group to which Kredyt Bank S.A. belongs.

The Compliance Department implements measures to monitor and promote the Bank's compliance with the regulations which govern fair and ethical banking business. 'The Ethical Code for Kredyt Bank's Employees' is the basic document for the staff. It sets out ethical rules resulting from general moral standards, which emphasize integrity, loyalty, professionalism, diligence and care as the basic principles applicable to all employees of the Bank, regardless of their position or function.

The Bank follows the compliance policy by the management of the incompliance risk in the following areas:

- counteracting money laundering and terrorism financing;
- professional ethics;
- banking offences;
- protection of banking and professional secrets;
- protection of personal data;
- employee's own transactions;
- market abuse, i.e. insider trading, price manipulation;
- tax frauds;
- incompatibility of mandates.

The incompliance risk in the above areas is managed on a continuous basis and entails the overall business of the Bank and its subsidiaries.

## Social commitment

Kredyt Bank, apart from activities characteristic of financial institutions, perceives the need to actively participate in issues important for the society. Following its motto: '*Razem możemy więcej*' ('Together We Can Do More'), the Bank, along with Warta, consequently supports charities and carries out valuable programmes and projects in response to the needs of local communities. Social commitment is a crucial aspect of the company's communication strategy.

Campaigns concerning the safety of children and fostering correct attitudes and behaviour among them are of special interest in the Bank's social activities.

In cooperation with Stowarzyszenie Laboratorium Troski, Kredyt Bank and Warta implement a social and educational project for pupils, classes 1-3, of primary schools called 'Akademia Misia Ratownika' ('The Academy of Teddy-Bear the Rescuer'). The aim of the project is to reduce accidents involving the youngest children, to protect their health and to guard them against violence and addictions.

Children participate in a series of classes with representatives of rescue forces: the police, emergency ambulance services and fire fighters. The classes focus mainly on safety on the road, crime-related threats (assertiveness exercises), prevention of fires as well as health protection and basic first aid rules – children learn how to assess danger properly and respond to threats. Pupils also undergo medical examinations of their hearing, sight and lateralization.

The campaign, which took place from September 2007 to April 2008, engaged over 6,000 children from 46 schools from Małopolskie Province. Also, parents of children participating in the project were engaged. Since October 2008, the companies have been continuing the project in two other provinces. At present, 12,000 children from 38 primary schools in the Mazovia region and 44 schools in Podkarpacie region are attending the classes.

'Podróże na medal' ('Travels deserving a medal') educational programme was another initiative in 2008. Publication of three volumes of educational books for kindergarten children titled 'Kocie podróże małe i duże' ('Cat's short and long travels') which presented, in a simple and easy way, various aspects of safe travelling, was the main element of this programme. The total of 45 thousand books were handed out free of charge to children who visited the Bank's and Warta's outlets with their parents throughout the country. In addition, the project website was launched: [www.podrozenamedal.pl](http://www.podrozenamedal.pl). The content of the Programme was supervised by the National Road Traffic Safety Board (KRBRD).

In 2008, Kredyt Bank and Warta became Strategic Partners of the Responsible Business Forum (FOB), and joined the Partnership Programme of the Responsible Business Forum Association. The community of Partners entails those companies which 'through their values, actions and experience as well as commitment to the Partnership Programme of the Responsible Business Forum support the development of responsible business in Poland on a long-term basis'.

Kredyt Bank S.A. established cooperation with Stowarzyszenie Centrum Wolontariatu and became a Partner to 'Wolontariat Biznesu' ('Business Volunteer') Programme, designated for companies which perceive chances in employee volunteering, both for themselves and employees – companies aware of this potential and socially responsible. In December 2008, the companies inaugurated Kredyt Bank and Warta's Employee Volunteering Programme called 'TAK od serca' ('YES straight from my heart'). In cooperation with Centrum Wolontariatu and 'Razem możemy więcej' Foundation of Warta and Kredyt Bank, companies want to encourage employees to become involved in activities targeted at local communities or NGOs. Both individual initiatives and those undertaken by organised groups are promoted.

In 2008, for the eighth time, 'Razem możemy więcej' Foundation of Warta and Kredyt Bank organised a contest for a Christmas postcard called 'Moje wymarzone Boże Narodzenie' ('My perfect Christmas'), in which children from several children's homes in Poland, chosen and invited by local units of Warta and Kredyt Bank, participate each year. The winning postcard becomes the official Christmas postcard of Kredyt Bank and Warta, and children taking part in the contest receive precious awards and financial means designated for education, recreation and development of children's interests.

To support talented students and PhD students, for the tenth time the Foundation organised a nationwide contest for the best MA and PhD thesis concerning insurance, banking and bancassurance.



In addition, last year, Kredyt Bank donated ca. 900 computer sets to various institutions, e.g. schools, kindergartens, children's homes, hospitals, hospices, sports clubs, etc.

### **Sponsoring**

Kredyt Bank and Warta have been sponsoring cultural events for years. Both companies willingly support both high and popular culture to make Poles' lives more attractive in a non-banal way, at the same time ensuring world-class artistic experience. By sponsoring such events the companies intend to develop cultural life in Poland and, at the same time, establish and maintain customer relations.

Kredyt Bank and Warta were the exclusive sponsors of the concert of Carlos Santana, a legendary guitarist, which took place in Warsaw on 27 June 2008. This is yet another – after the concert of Genesis in 2007 – sponsorship engagement of the companies in a spectacular music event of a significant social overtone.

The promotion of Belgian culture is also a key area of the sponsorship activities of Kredyt Bank. The Bank was again the sponsor of 'Belgian Days', which take place each year in Warsaw. In addition, the Bank has been a member of the Belgian Business Chamber for years now. Also, Warta and Kredyt Bank's Foundation supported the initiative of the Belgian Embassy – making, for the first time in Poland, a carpet of fresh begonias. The flower carpet with the area of 400m<sup>2</sup> was arranged according to the design by Mark Schautteet, a landscape architect, from 120,000 flowers delivered to Warsaw from Eastern Flanders. Making flower carpets is an element of Belgian culture and tradition. They have been arranged every two years on Grand Place in Brussels since 1971.

## **10. The outlook and growth drivers for Kredyt Bank S.A.**

### **External drivers**

After two decades of unshaken belief in the rationality of the market, in the second half of 2008 the existing capital creation mechanism on the global financial market collapsed. Hence, the belief in self-controlling functions of banks which combine investing activities with commercial activities, and, at the same time, able to disperse and level risk, failed. In view of the real threat of the collapse of the global economic system and the conspicuous, at this background, lack of global institutions and tools to respond to the crisis, the role of the policy run at the level of the state as a leader and, at the same time, the last crisis management institution, is growing rapidly.

According to the published data, Poland may suffer from slowdown/recession, which, as in other EU states, will not be limited only to the virtual world of global finances, stock markets and foreign currencies. The initial 'cool' distance towards the expanding financial crisis in the USA as seen from the peripheries of the Polish market, at the beginning of the fourth quarter of 2008 turned into a dangerous process of losing mutual trust by financial institutions (which manifested itself in the panic on the stock exchange, an increase in market rates and the outflow of foreign capitals). The turmoil on the markets was handled already in 2008 due to the interventions of monetary authorities which restored minimum trust (including the cuts of NBP rates, repos and guarantees for bank deposits) as well as the rescue plans announced by the government. Nevertheless, it became clear that the banking sector entered the period of deterioration of the scale and time difficult to predict.



The new reality comprises, first of all, credit risk growing along with the symptoms of worse business conditions, the scale of savings growth and problems concerning the increase in liquidity in interbank transactions.

A perspective of the accumulation of risk for the banking operations is more and more visible. The policy of tightening lending standards<sup>6</sup> and capital requirements for banks announced by the Polish Financial Supervision Authority is its consequence.

Limited access to financing on the interbank market (and in parent companies) and conspicuous balance sheet imbalance between loans and deposits visible in the scale of the sector, limits the possibilities of such a dynamic development of lending activities towards retail customers as in 2008. At the same time, the shift of lending towards corporate loans means increased risk of impairment losses on non-performing receivables due to the higher exposure for corporate exposures to the effects of the economic crisis.

Summing up, the most important factors which may affect future financial results of the Bank are as follows:

- slower growth of household income in real terms due to the persisting weakening of positive trends on the labour market (expected stagnant or even lower employment levels, higher unemployment rate and the continuing decline in the wages growth rate) and the resulting lower consumer demand;
- limited investing activeness in enterprises sector;
- a rapid decline in the demand for export, only partially compensated for, at the financial result level, by the depreciation of Polish zloty;
- persisting high costs of long-term liquidity both in PLN and in foreign currencies;
- high costs of deposits sourcing;
- a lower demand for mortgages due to reduced purchasing power of households;
- a decrease in prices on the real properties market;
- potential deeper/long-term depreciation of Polish zloty resulting in, e.g. higher risk of the failure to settle transactions on derivatives by the Bank's customers and potential problems concerning the timely repayment of mortgages in foreign currencies;
- long-term turmoil on financial markets which may lead to a further decline in demand for investment products due to the deepening of clients' already high aversion to risk.

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<sup>6</sup> According to the Polish Financial Supervision Authority, Recommendation T, which is to govern the principles of credit risk management for households, will not come into force before 2010. Its preliminary draft raised objections and doubts, e.g. concerning the relation of expenditure related to loans and household income.

## **Internal drivers**

Internal drivers material for the development of the Bank still include more wide-spread and in-depth cooperation with WARTA S.A., aimed to develop bancassurance services and optimise the synergy effect. Apart from the cooperation in terms of sales and customer service, the Bank continued organizational changes in Kredyt Bank S.A. and WARTA S.A. to better adjust the management model to the needs resulting from the implemented bancassurance business model. The changes aim at the maximum use of synergy effects both in the sales network and support function.

Factors affecting the implementation of strategic objectives of Kredyt Bank S.A. in 2009: effective credit risk management and ongoing control and adjustment of costs. The most important objectives for 2009 include the development and implementation of a new cost management model to ensure flexible matching of incurred costs to the scale of operations (reducing the share of fixed costs, increasing the share of variable costs). The success of organisational structure streamlining projects launched in 2008 in order to better align the existing resources to the scale of business and the planned implementation of the comprehensive staff management system, from recruitment, through development, appraisal and aspects of the incentive system and the payroll structure, will be of extreme importance.

In view of an uncertain liquidity situation in the sector and the pressure on increased financing costs, maximum utilisation of the developed distribution network to source new customers and sell products, mainly deposits, will be one of the most important objectives for Kredyt Bank S.A. The growth rate for lending activities will depend on the growth rate for the deposit base.

## **11. Statements of the Management Board**

Under art. 96.1.5 and art. 96.1.6 of the Ordinance by the Minister of Finance of 19 October 2005 on current and interim information provided by issuers of securities (Journal of Laws No. 209, item 1744), the Management Board of Kredyt Bank S.A. hereby makes the following statements:

### **11.1. True and fair view presented in the financial statements**

According to the best knowledge of the Management Board of Kredyt Bank S.A., the annual financial statements of Kredyt Bank S.A. for the period 01.01.2008-31.12.2008 along with the comparable data, were prepared according to the accounting principles effective in the Bank and present a true and fair view of the financial standing and assets of Kredyt Bank S.A. as well as of its financial result. In addition, the Management Board of Kredyt Bank S.A. hereby declares that the annual Management Board's report presents a true picture of the development and accomplishments, as well as the situation (including the description of basic risks and threats) of Kredyt Bank S.A. in 2008.

### **11.2. Appointment of the certified auditor for financial statements**

The Management Board of Kredyt Bank S.A. hereby declares that the certified auditor to audit the annual financial statements of Kredyt Bank S.A. as at 31.12.2008 was appointed as required by law. This entity and certified auditors performing the audit complied with the conditions on the issue of impartial and independent audit report, as required by the Polish law.

**Signatures of all Management Board Members**

|                 |                          |   |       |
|-----------------|--------------------------|---|-------|
| date 19.02.2009 | Maciej Bardan            | President of the<br>Management Board      | ..... |
| date 19.02.2009 | Umberto Arts             | Vice-President of the<br>Management Board | ..... |
| date 19.02.2009 | Lidia Jabłonowska - Luba | Vice-President of the<br>Management Board | ..... |
| date 19.02.2009 | Krzysztof Kokot          | Vice-President of the<br>Management Board | ..... |
| date 19.02.2009 | Michał Oziębło           | Vice-President of the<br>Management Board | ..... |

***KREDYT BANK S.A.***

**LONG-FORM AUDITORS' REPORT  
SUPPLEMENTING THE INDEPENDENT AUDITORS' OPINION  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

## **I. GENERAL NOTES**

### **1. Background**

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

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

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

The Company is the holding company of the Kredyt Bank S.A. Capital Group. Details of transactions with affiliated entities are included in Note 54 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2008.

The principal activities of the Company are as follows:

- accepting call (demand) or term deposits and keeping deposit accounts,
- keeping other types of bank accounts,
- extending loans,
- extending and confirming bank guaranties, letters of credit and sureties,
- issuing bank securities, including in non material form,
- performing bank settlements,
- operations including cheques and bills of exchange, as well as operations warrants,
- issuing payment cards and performing operations using such cards,
- performing forward financial operations,
- purchasing and disposing of debt,
- storing valuable items and securities and renting safe deposit box,
- purchasing and selling of foreign exchange,
- intermediation in money transfers and settlements in foreign exchange trade,
- performing commissioned services relating to issuance of securities,
- extending cash loans,
- issuing electronic money instruments,
- acting as a bank – representative of bond holders,
- taking over or purchasing shares and rights arising from banks' shares and other rights from shares from other legal entities or participation units in investment funds,
- purchasing securities on own account or third parties, dealing with those securities, keeping securities accounts and intermediation in the conclusion and execution of securities accounts agreements,
- performing brokerage activities,
- incurring liabilities relating to the issuance of securities,
- acting as a trustee in dealing with securities, realizing commissioned services relating to the management of securities and other financial instruments, exercising rights arising from these securities on behalf of Banks' clients and on their request,

- performing lease operations, factoring, underwriting and forfeiting, as well as acting as an intermediary in this areas,
- managing investments and pension funds, serving as intermediary for investment funds, acting as depositary for investment and pension funds, keeping accounting books and members registers for funds, serving as payment agent for foreign investment funds,
- insurance agency activities for individuals and corporations,
- acquisition for open pension funds,
- performing, in accordance with agreement with debtors, conversion of liabilities to parts of debtor assets in line with the Banking Law,
- acquiring and disposing of real estate,
- financial consulting and advisory services,
- intermediation in performing banking services for other banks and financial services for other banks, credit and financial institutions.

As at 31 December 2008, the Bank's issued share capital amounted to 1,358,294 thousand zlotys and it comprised of 271,658,880 shares with the nominal amount of 5 zlotys each. The Bank's equity as at that date amounted to 2,579,220 thousand zlotys.

In accordance with the excerpt from the Shares Register of 5 February 2009, the ownership structure of the Company's issued share capital was as follows:

|  | Number<br>of shares | Number<br>of votes | Par value<br>of shares<br><br>(in zlotys<br>thousand) | % of issued<br>share capital |
|--|---------------------|--------------------|---|------------------------------|
| KBC Bank N.V.<br>(Brussels)                                    | 217,327,103         | 217,327,103        | 1,086,636   | 80.00%                       |
| KBC Securities NV-<br>affiliated entity KBC<br>Bank (Brussels) | 6,890,966           | 6,890,966          | 34,454  | 2.54%                        |
| Sofina S.A.  | 15,014,772          | 15,014,772         | 75,074  | 5.53%                        |
| Others   | 32,426,039          | 32,426,039         | 162,130   | 11.93%                       |
| <b>Total</b>   | <b>271,658,880</b>  | <b>271,658,880</b> | <b>1,358,294</b>                                      | <b>100.00%</b>               |

On 18 December 2007 the Management Board of Kredyt Bank S.A. was informed by Pioneer Pekao Investment Management S.A. ("PPIM" located in Warsaw) that on 17 December 2007 PPIM exceed the 5% level of votes at the General Shareholders' Meeting of Kredyt Bank S.A. relating to financial instruments in comprising the portfolios managed by PPIM in relation to the brokerage commissioned services performed by PPIM and services performed on the base of the agreement between Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A. and PPIM concerning the performance of brokerage services.

There were no movements in the Bank's share capital from the reporting period to the date of this report.

As at 19 February 2009, the Company's Management Board was composed of:

|                        |                  |
|------------------------|------------------|
| Maciej Bardan          | - President      |
| Umberto Arts           | - Vice-President |
| Lidia Jabłonowska-Luba | - Vice-President |
| Krzysztof Kokot        | - Vice-President |
| Michał Oziembło        | - Vice-President |

On 18 December 2007, during the Supervisory Board meeting Mr Ronald Richardson resigned from the function of the President of the Bank's Management Board as well as from the membership in the Bank's Management Board effective from 29 February 2008. During the above mentioned meeting the Bank's Supervisory Board appointed Mr Maciej Bardan for the position of the Management Board's President starting from 1 March 2008. On 5 September 2008 Polish Financial Supervision Authority accepted taking the position of Management Board's President by Mr Maciej Bardan.

On 4 April 2008 the Supervisory Board of Kredyt Bank S.A. according to Art. 25, clause 2 of the Bank's Statute decided that the Management Board of Kredyt Bank S.A. is acting in extended team consisting of 5 members starting from 15 April 2008. During this meeting the Supervisory Board appointed Mrs Lidia Jabłonowska-Luba for the position of the Management Board's Vice-President responsible for finance and risk starting from 15 April 2008.

There were no changes in the Management Board team from the reporting period to the date of this opinion.

## **2. Financial Statements**

On 25 April 2005 the General Shareholders' Meeting passed a resolution concerning preparation of the Bank's financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('EU').

### **2.1 Auditors' opinion and audit of financial statements**

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by the Supervisory Board on 4 April 2008 to audit the Bank's financial statements.

Ernst & Young Audit sp. z o.o. and the certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 66, clause 2 and 3 of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No. 76 with subsequent amendments – 'the Accounting Act').

Under the contract executed on 9 April 2008 with the Bank's Management Board, we have audited the financial statements for the year ended 31 December 2008.

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

Based on our audit, we issued an auditors' unqualified opinion dated 19 February 2009, stating the following:

**“To the Supervisory Board of Kredyt Bank S.A.**

1. We have audited the attached financial statements for the year ended 31 December 2008 of Kredyt Bank S.A. (‘the Bank’) located in Warsaw at Kasprzaka 2/8 Street, containing:
  - the income statement for the period from 1 January 2008 to 31 December 2008 with a net profit amounting to 301,072 thousand zlotys,
  - the balance sheet as at 31 December 2008 with total assets amounting to 38,621,122 thousand zlotys,
  - the statement of changes in equity for the period from 1 January 2008 to 31 December 2008 with a net increase in equity amounting to 345,364 thousand zlotys,
  - the cash flow statement for the period from 1 January 2008 to 31 December 2008 with a net cash outflow amounting to 1,728,662 thousand zlotys, and
  - the summary of significant accounting policies and other explanatory notes (‘the attached financial statements’).
2. The truth and fairness<sup>1</sup> of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair<sup>1</sup> and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.
3. We conducted our audit of the attached financial statements in accordance with the following regulations being in force in Poland:
  - chapter 7 of the Accounting Act, dated 29 September 1994 (‘the Accounting Act’),
  - the auditing standards issued by the National Chamber of Auditors,in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Bank's Management Board, as well as evaluating the

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<sup>1</sup> Translation of the following expression in Polish: “*rzetelność, prawidłowość i jasność*”



overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. In our opinion, the attached financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the audited Bank's operations for the period from 1 January 2008 to 31 December 2008, as well as its financial position<sup>2</sup> as at 31 December 2008;
  - have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the European Union and based on properly maintained accounting records;
  - are in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Bank's Statutes.
5. We have read the Directors' Report for the period from 1 January 2008 to 31 December 2008 and the rules of preparation of annual statements ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law of 2005, No. 209, item 1744)".

We conducted the audit of the bank's financial statements during the period from 10 November 2008 to 19 February 2009. We were present at the Bank's head office from 12 November 2008 to 16 February 2009.

## **2.2 Representations provided and data availability**

The Management Board confirmed its responsibility for the truth and fairness<sup>2</sup> of the financial statements and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 19 February 2009, confirming that:

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

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

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<sup>2</sup> Translation of the following expression in Polish: "*rzetelność, prawidłowość i jasność*"

## **2.3 Financial statements for prior financial year**

The Bank's financial statements for the year ended 31 December 2007 were audited by Dorota Snarska-Kuman, Certified Auditor No. 9667/7232, acting on behalf of Ernst & Young Audit sp. z o.o located in Warsaw at Rondo ONZ 1. The certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2007. The Bank's financial statements for the year ended 31 December 2007 were approved by the General Shareholders' Meeting on 28 May 2008, and the shareholders resolved to appropriate the 2007 net profit as follows:

|                                |         |
|--------------------------------|---------|
| Dividends for the shareholders | 141,263 |
| Reserve capital                | 199,256 |
| Other: General Risk Fund       | 60,000  |
|                                | -----   |
|                                | 400,519 |
|                                | =====   |

The financial statements for the financial year ended 31 December 2007, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 4 June 2008 with the National Court Register.

The introduction to the financial statements, the balance sheet as at 31 December 2007, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2007, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B No. 1205 on 2 September 2008.

The closing balances as at 31 December 2007 were correctly brought forward in the accounts as the opening balances at 1 January 2008.

## **3. Analytical Review**

### **3.1 Basic data and financial ratios**

Presented below are selected financial ratios indicating the economic or financial performance of the Bank for the years 2006 - 2008. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2007 and 31 December 2008.

|                             | <b>2008</b> | <b>2007</b> | <b>2006</b> |
|-----------------------------|-------------|-------------|-------------|
| <b>Total assets</b>         | 38,621,122  | 27,068,504  | 22,203,795  |
| <b>Shareholders' equity</b> | 2,579,220   | 2,233,856   | 2,039,743   |
| <b>Net profit/ loss</b>     | 301,072     | 400,519     | 437,443     |

*KREDYT BANK S.A.*  
*Long-form auditors' report supplementing the independent auditors' opinion*  
*for the year ended 31 December 2008*  
*(in thousand zlotys)*

|  | <b>2008</b> | <b>2007</b> | <b>2006</b> |
|--|-------------|-------------|-------------|
| <b>Capital adequacy ratio according to NBP methodology</b> | 8.93%       | 9.63%       | 13.45%      |
| <b>Profitability ratio</b>                                 | 43.71%      | 62.22%      | 52.40%      |
| Profit before taxation                                     |             |             |             |
| General and administrative expenses                        |             |             |             |
| <b>Cost to income ratio</b>                                | 63.03%      | 65.07%      | 67.36%      |
| General and administrative expenses                        |             |             |             |
| Operating income less other operating expenses             |             |             |             |
| <b>Return on equity (ROE)</b>                              | 12.51%      | 18.74%      | 23.65%      |
| Net profit   |             |             |             |
| Average shareholders' equity                               |             |             |             |
| <b>Return on assets (ROA)</b>                              | 0.92%       | 1.63%       | 2.03%       |
| Net profit   |             |             |             |
| Average assets   |             |             |             |
| <b>Rate of inflation:</b>                                  |             |             |             |
| Yearly average   | 4.2%        | 2.5%        | 1.0%        |
| December to December                                       | 3.3%        | 4.0%        | 1.4%        |

### 3.2 Comments

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

- Net profit of the Bank for 2008 amounted to 301,072 thousand zloty in comparison to the net profit of 400,519 thousand zlotys in 2007 and 437,443 thousand zlotys in 2006.
- Compared to 2007 and 2006, there was an increase in total assets of the Bank in 2008. The total assets as at 31 December 2008 amounted to 38,621,122 thousand zloty.
- The profitability ratio increased from 52.40% in 2006 to 62.22% in 2007 and decreased to 43.71% in 2008.
- Cost to income ratio decreased from 67.36% in 2006 to 65.07% in 2007 and 63.03% in 2008.

- Return on equity ratio decreased from 23.65% in 2006 to 18.74% in 2007 and 12.51% in 2008.
- Return on assets ratio decreased from 2.03% in 2006 to 1.63% in 2007 and 0.92% in 2008.
- The Bank's solvency ratio calculated in accordance with NBP methodology amounted 8.93% as at 31 December 2008 as compared to 9.63% at the end of 2007 and 13.45% at the end of 2006.

### **3.3 Going concern**

Nothing came to our attention during the audit that caused us to believe that the Bank is unable to continue as a going concern for at least twelve months subsequent to 31 December 2008 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 7.2 of the additional notes and explanations to the Bank's audited financial statements for the year ended 31 December 2008, the Management Board has stated that the financial statements were prepared on the assumption that the Bank will continue as a going concern for a period of at least twelve months subsequent to 31 December 2008 and that there are no circumstances that would indicate a threat to its continued activity.

### **3.3 Application of regulation mitigating banking risk**

As at 31 December 2008, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolution of the Polish Financial Supervision Authority (which took over competencies of Banking Supervisory Committee from 1 January 2008) envisaged banking regulatory norms in relation to following items:

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

During the audit we have not identified any facts indicating that during the period from 1 January 2008 to 31 December 2008 the Bank did not comply with the above regulations. In addition, we have received written representation from the Bank's Management Board that during the financial year the banking regulatory norms were not breached, except for reported to the Polish Financial Supervision Authority.

### **3.3 Correctness of calculation of solvency ratio**

During our audit we have not identified any irregularities in relation to the calculation of the capital adequacy ratio as at 31 December 2008 in accordance with Resolution no 1/2007 of the Polish Financial Supervision Authority (which took over competencies of Banking Supervisory Committee from 1 January 2008) dated 13 March 2007 on the scope of the capital requirements against particular risks and the detailed principles to be applied in determining those requirements, including but not limited to the scope and conditions of applying statistical methods and the scope of information attached to an application for authorization to apply them, principles and conditions of taking account of contracts on debt assignment, subparticipation, credit derivative and contracts other than those on debt assignment, subparticipation, in calculating the capital requirements, terms and conditions, scope and manner of making use of ratings assigned by external credit assessment institutions and the export credit agencies, manner and specific principles of calculating their capital requirements as well as establishing additional items of bank balance sheets presented jointly with the bank regulatory own funds in the calculation of capital adequacy, the amount thereof and the conditions of setting them (Official Journal of the National Bank of Poland No 2, dated 30 March 2007).

## **II. DETAILED REPORT**

### **1. Accounting System**

The Bank's accounts are kept using the Profile, Oracle Financials Murex, LoanIQ and Flexcube computer system at the Bank's head office. The Bank has up-to-date documentation, as required under Article 10 of the Accounting Act, including a chart of accounts approved by the Bank's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

### **2. Assets, Liabilities and Equity, Profit and Loss Account**

Details of the Bank's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2008.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2008.

### **3. Additional notes and explanations to the financial statements**

The additional notes and explanations to the financial statements for the year ended 31 December 2008 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union.

### **4. Directors' Report**

We have read the Directors' report on the Bank's activities in the year from 1 January 2008 to 31 December 2008 and the basis for preparation of annual financial statements

(‘Directors’ Report’) and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors’ Report corresponds with the relevant provisions of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law of 2005 No. 209, item 1744).

#### **5. Materiality level**

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

#### **6. Conformity with law and regulations**

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Bank’s Statutes were breached during the financial year that have an impact on the Bank’s financial statements.

#### **6. Work of Experts**

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

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

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

Dorota Snarska-Kuman  
Certified Auditor No. 9667/7232

Anna Sirocka  
Certified Auditor No. 9626/7191

Warsaw, 19 February 2009



## **Report Corporate governance – 2008**

This Report was prepared pursuant to & 29, item 5 of the Warsaw Stock Exchange Regulations and pursuant to the Resolution 12/1170/2007 of the Warsaw Stock Exchange Supervisory Board of July 4, 2007, & 2, item 2 of the Resolution 13/1171/2007 of the Warsaw Stock Exchange Supervisory Board of July 4, 2007 as well as the resolutions 1013/2007 and 1014/2007 of the Stock Exchange Management Board of December 11, 2007.



## Contents of the report:

1. The principles of corporate governance
2. Application of corporate governance principles by Kredyt Bank S.A.
3. Activity of the General Assembly
4. The composition of the governing and supervisory bodies
5. Description of characteristic features of the internal audit and risk management systems applied in the company.

## 1. The principles of the corporate governance

The Management Board of Kredyt Bank S.A. attaches a great importance to the application of corporate governance principles in the management process understood as a set of regulations indispensable to maintain proper relations between the interests of all entities as well as the natural persons involved in functioning of a company.

The Management Board is of the opinion that the establishment of appropriate relationships among the governing persons, shareholders, clients and employees is of vital importance and leads to the Bank's continuous growth and therefore increases its value as a stable and effective partner.

The corporate governance principles provide for higher standards of companies' internal organization and their functioning than those included in the Commercial Companies Code since a special emphasis is laid on the transparency of companies' activity.

As soon as the corporate governance principles became effective (for the first time they were incorporated in 2002 by the authorities of the Warsaw Stock Exchange) the Management Board of Kredyt Bank S.A. declared a compliance with them and has made every effort to apply the recommendations and corporate governance principles to the broadest extent. Every year the Management Board has made the statements on complying with the principles.

On December 23, 2002 the Bank's Management Board declared an intention to implement corporate governance principles contained in the document „Good practices in the listed companies in 2002”. This document was approved in a form of Declaration by the resolution 5/2003 dated June 25, 2003 of the Extraordinary General Assembly.

After two years the principles had been in effect the Stock Exchange updated the corporate governance provisions, introducing the document „Best practices in the listed companies in 2005”. On April 25, 2005 the document in a form of a declaration was approved by the resolution no. 25/2005 by the Ordinary General Assembly.

On July 4, 2007 the Supervisory Board of the Warsaw Stock Exchange by its resolution no. 12/1170/2007 adopted new principles of the corporate governance mentioned in the document “Best practices of the companies listed on the WSE” – and they became effective on January 1, 2008.

The Bank's Management Board – in accordance with the new principles – prepared “2007 Corporate Governance Report”. This report included the provisions that were contained in the resolution no. 1013/2007 of December 11, 2007 passed by the Warsaw Stock Exchange, and also concerned the principles that were in force in 2007 (i.e. “Best practices in the listed companies in 2005”). The “2007 Corporate Governance Report” was attached to the Bank's “2007 Annual Report” and published on the Bank's internet page.

On May 28, 2008 the Ordinary General Assembly of Kredyt Bank S.A. by its resolution no. 25/2008 approved the application in the Bank's activity of the document "Best practices of the companies listed on the WSE".

## **2. Application of Corporate Governance Principles by Kredyt Bank S.A.**

In accordance with the preamble of "Best practices of the companies listed on the Stock Exchange" that are in effect from January 1, 2008, the compliance with principles specified in parts I – IV is the subject of annual reports.

### **2.1. Recommendations concerning good practices of the listed companies**

Kredyt Bank S.A. conducts a transparent and reliable information policy and respects the law and best practices in its activity. In its activity KB is headed by the clients' right interest.

The Bank's information policy is directed to:

- › mass media through the press conferences, press information, a contact with the press spokesman as well as the information on the www pages,
- › employees through internal magazine and mailing,
- › wide groups of people by inserting information on the internet page.

The Bank prepares and makes publicly known the current and periodical reports by publishing them on www pages. Besides, on its internet pages the Bank publishes also the schedule, ratings and quarterly presentations about the Bank's financial results as well as other information about the Bank's activity both in Polish and English languages.

The Bank makes every effort so that the communication with the financial market participants is based on the principle of an equal access to information and its truthfulness and each person or institution interested in obtaining information should be attended to with care and commitment.

The basic principle of providing information is to secure an equal access to precise, reliable and current information about the Bank and the Capital Group in accordance with the principles and regulations applicable to the listed companies. The text of the Information Policy is available on the Bank's internet page.

The Bank works out quarterly presentations of its financial results and arranges the meetings with the analysts and investors, securing in this way a broad access to information as well as the opportunity of a direct meeting of the Bank's managing staff with the active investors.

In order to secure an effective information policy in the crisis situation, the Physical and Technical Safety Policy as well as the Action Continuity Plans were implemented at the Bank.

## 2.2. Good practices followed by the management boards of listed companies

The Bank, complying with the corporate governance principles, presents on its internet page ([www.kredytbank.pl](http://www.kredytbank.pl)), in English and Polish version), the basic corporate documents, cv's of the Management Board and the Supervisory Board members, current and periodical reports as well as other information allowing to reliably assess the functioning of the company. The information about the Bank's General Assembly (among other: its date, draft resolutions along with the justification, the report on the Supervisory Board activity) as well as corporate events and conclusion of significant agreements, is prepared and published in accordance with the regulations in force. The statements of the Supervisory Board members about the links with the shareholders as well as the statements from the previous years regarding the compliance with the corporate governance principles have also been made available on the Bank's internet page. The process of determining and paying out the dividend and determination of the shareholders' rights stemming from the corporate events are performed on the basis of the regulations in force, maintaining the necessary time intervals. The Bank complies with the principle of equal treatment of shareholders with respect to the transactions and agreements concluded by the Bank with the shareholders or parties related to the shareholders. The proposal of the Bank's Management Board concerning the selection of an entity entitled to audit the financial statements is examined by the Supervisory Board after the recommendation of the Audit Committee is submitted.

The cv's are inserted in the bookmark "About the Bank", and other information is inserted in the bookmark "Investor's relations" and "Press Center" in the Polish and English version.

Promptly after Ms Lidia Jabłowska-Luba had been appointed Deputy President of the Bank's Management Board a current report no. 10/2008 was published on April 4, 2008 along with her cv and that report was inserted on the Bank's internet page.

The General Assembly of Kredyt Bank S.A. in 2008 was convened to take place on May 28, 2008. All the documents related to the Assembly were made publicly known and were inserted on the internet page in the bookmark "Corporate Governance/General Assemblies".

An announcement along with the date, venue, agenda and hour of the assembly as well as the information necessary to participate were disclosed on April 22, 2008 by a current report no. 13/2008.

The Bank's financial reports examined by the Ordinary General Assembly were published on February 29, 2008 as periodical reports and made available on the Bank's internet page in the bookmark „Investor's relations/Periodical reports”.

On May 14, 2008 the draft resolutions along with their justification as well as the necessary attachments were published as a current report no. 14/2008.

The Supervisory Board of Kredyt Bank S.A. prepared its 2007 activity report where for the first time the activity of the Audit Committee and Remuneration Committee was included. Besides, the report also included the assessment of the Supervisory Board activity, the assessment of the Bank's situation, the assessment of the internal audit as well as the system of managing the risk vital for the Bank.

The General Assembly was attended by the Supervisory Board and the Management Board members as well as the auditor.

On May 28, 2008, after the completion of the Ordinary General Assembly, the Bank published the resolutions passed in a form of a current report no. 16/2008 and inserted them on the internet page along with the attachments.

### **2.3. Good practices applied by the supervisory boards members**

As provided for in the principles, the Bank's Supervisory Board and the Management Board Regulations as well as the Regulations of the Bank's General Assembly are in force at the Bank. The Supervisory Board members are adequately educated – most of them are the graduates of the Law Faculty or Economics Faculty. Moreover, all the Supervisory Board members have a long-standing experience in the business management.

The Bank's Supervisory Board, in accordance with its competence, examines and gives its opinions on all the issues to be further dealt with by the General Assembly.

The Supervisory Board at its meeting held on April 4, 2008 examined the materials and documents to be submitted to the Ordinary General Assembly convened on May 28, 2008. The announcement, draft resolutions along with their justification and attachments were made available in a form of current reports as well as on the internet page:

- › on April 22, 2008 a current report no. 13/2008 – announcement,
- › on May 15, 2008 a current report no. 14/2008 – draft resolutions,
- › on May 28, 2008 a current report no. 16/2008 – resolutions passed.

The Supervisory Board of Kredyt Bank S.A. prepared 2007 report on its activity and for the first time the description of activity of the Audit Committee as well as the Remuneration Committee was included in the report. Other items were also included in the report and these were as follows:

- › assessment of the Supervisory Board activity,
- › brief assessment of the Bank's situation,
- › assessment of the internal audit system,
- › assessment of the system of managing the risk crucial for the Bank .

This document together with the materials for the General Assembly were approved by the Supervisory Board at its meeting on April 4, 2008 and were submitted to the Ordinary General Assembly on May 28, 2008.

The Supervisory Board members once every quarter submit to the Bank's Management Board their declarations on the links with the shareholders, each of them having a right to exercise no less than 5% of total number of votes at the General Assembly.

The Supervisory Board members participated in the General Assembly in the composition that allowed to give specific answers in case any questions were asked. The attendance of the Supervisory Board members at the General Assembly is determined by the General Assembly Regulations.

The by-laws of Kredyt Bank S.A. provides for the possibility of co-opting a new Supervisory Board member to replace the Supervisory Board member resigning from the membership of the Supervisory Board. The number of members co-opted during the term of office is determined by the by-laws.

There are two committees that function in the structure of the Supervisory Board: the Audit Committee and the Remuneration Committee. In the case of a need the Supervisory Board may also establish other committees, defining the scope and manner of their functioning. The Audit Committee supervises the activity of the Bank's organization units responsible for the internal audit, risk management and compliance function. The tasks of the Remuneration Committee include: the supervision of the employees' issues and the salaries, in particular those of the Management Board members.

The independent members also have seats on the Bank's Supervisory Board as well as the Audit Committee and Remuneration Committee.

The By-laws of Kredyt Bank S.A. and the Regulations of the Supervisory Board of Kredyt Bank S.A. determine the principles of activity of the Bank's Supervisory Board members.

#### **2.4. Good practices applied by the shareholders**

Pursuant to the Regulations of the Bank's General Assembly the mass media have a possibility to stay in the hall where the General Assembly meeting is held. The Regulations specify detailed principles of conducting an assembly and passing resolutions, principles of attendance of shareholders at the General Assemblies and detailed regulations regarding the election of the Supervisory Board by way of separate groups voting.

The alterations implemented to the principles of functioning of the Bank's General Assembly become applicable to the next General Assembly. The process of determining and paying out a dividend as well as determining the shareholders' rights stemming from the corporate events take place pursuant to the legal regulations in force, and the necessary time intervals are kept.

On March 26, 2008 the Bank's Management Board passed a resolution on 2007 profit distribution (current report no. 9/2008). The above draft Resolution on 2007 profit distribution assumed that the shareholders' dividend per 1 share will be equal to PLN 0.52 gross. In total, the dividend amounted to PLN 141,262,617.60 and 271,658,880 Bank's shares series from A to W inclusive were entitled to dividend. July 3, 2008 was the dividend declaration day and July 18, 2008 was the dividend pay day.

On April 4, 2008 the Supervisory Board approved the draft resolution on 2007 profit distribution with its wording as proposed by the Management Board. A current report no. 12/2008 was published on April 4, 2008 and inserted on the Bank's internet page.

The resolution on the profit distribution was passed by the Ordinary General Assembly on May 28, 2008.

The Bank complies with the principle of the shareholders' equal treatment regarding the transactions and agreements concluded by the Bank with the shareholders or the parties related to them.

An entity entitled to audit financial statements is changed once every 7 years, counting from the date the good practices become effective.

The Bank's Management Board proposal, concerning the selection of an entity entitled to audit financial statements is examined by the Supervisory Board after the presentation of the Audit Committee recommendations.

As applied for by the Bank's Management Board and after the Audit Committee recommendation, on April 4, 2008 the Supervisory Board selected the auditor (Ernst & Young Audit Sp. z o.o. with its seat in Warsaw, 1, Rondo ONZ, registration no. 130) to carry out an independent review and audit of the financial statements of Kredyt Bank S.A. and the consolidated financial statements of Kredyt Bank S.A. Capital Group prepared as of June 30, 2008 and December 31, 2008. Kredyt Bank S.A. made use of services provided by Ernst & Young Audit Sp. z o.o. related to auditing of the Bank's financial statements for the years 2002, 2003, 2004, 2005, 2006 and 2007. The information was published by a current report no. 11/2008 on April 4, 2008.

### **3. Activity of General Assembly**

The General Assembly of Kredyt Banku S.A. acts pursuant to:

- › The General Assembly Regulations – Resolution no. 3/2003 of the Extraordinary General Assembly of Kredyt Bank of April 25, 2003.

The Regulations of the Bank's General Assembly specify detailed principles of conducting the assembly and passing resolutions. Among other, the Regulations define the principles of shareholders' attendance at the General Assembly and the detailed regulations applicable to electing the Supervisory Board by way of the separate groups voting.

The text of the Regulations is available on the internet page of Kredyt Bank S.A. in the bookmark „Corporate Governance”.

The General Assembly of Kredyt Bank S.A. was convened on May 28, 2008. All the documents relating to the Assembly were made publicly known and were inserted on the internet page in the bookmark “Corporate Governance/General Assemblies”.

On April 22, 2008 the current report no. 13/2008 was published, containing the announcement, the date, venue, hour and agenda of the Assembly as well as the other information needed to take part in the Assembly.

The Bank's financial statements examined by the Ordinary General Assembly, i.e. 2007 Unit Annual Report of Kredyt Bank S.A., 2007 Consolidated Annual Report of Kredyt Bank S.A. Capital Group were published in a form of periodical reports on February 29, 2008 and were made available on the Bank's internet page in the bookmark “Investor's relations/periodical reports”.

On May 14, 2008 the draft resolutions along with the justification of resolutions and the necessary attachments were published in a form of the current report no. 14/2008.

The Supervisory Board of Kredyt Bank S.A. prepared its 2007 activity report. For the first time the Supervisory Board included in it the activity of its committees, i.e. the Audit Committee and the Remuneration Committee. The said report included also the items concerning the assessment of activity of the Supervisory Board, assessment of the Bank's situation as well as the assessment of the internal audit system and the system of managing the risk crucial for the Bank.

On May 28, 2008 the Ordinary General Assembly was held and it was registered in the audio version along with its English interpretation as well as audio-video in the Polish version. The audio-video record was made available on the Bank's internet page in the bookmark "Corporate governance/General Assembly.

Before the General Assembly an Application Form had been made available that allowed to ask questions. No questions concerning the General Assembly were asked through that Form.

After the Ordinary General Assembly had been held, the resolutions passed at the General Assembly were disclosed along with the attachments in the current report 16/2008. These documents were also made available on the internet page.

Primarily, the Assembly accomplished the following:

- › Approved the 2007 Unit Annual Report of Kredyt Bank S.A. as well as the 2007 Consolidated Annual Report of Kredyt Bank S.A. Capital Group,
- › Approved the 2007 profit distribution and dividend payout,
- › Approved the 2007 reports of the Management Board and the Supervisory Board,
- › Granted the approval of the performance of the duties by the Management Board and the Supervisory Board members,
- › Approved the Supervisory Board Regulations,
- › Adopted „Good practices of the companies listed at the Stock Exchange”.

## **4. Composition of the Governing and Supervisory Bodies**

### **4.1 Composition and principles of activity of Kredyt Bank S.A. Management Board in 2008**

The Management Board of Kredyt Banku S.A. acts pursuant to:

- › By-laws of Kredyt Bank S.A. – Uniform wording, Warszawa, November 2006 including the amendments passed by the Ordinary General Assembly of Kredyt Bank S.A. on May 31, 2006, adopted by the Resolution of the Bank's Supervisory Board on July 19, 2006, registered by the Court on October 25, 2006 roku pursuant to the ruling of October 25, 2006;
- › The Regulations of the Management Board of Kredyt Bank S.A. – the Resolution of the Supervisory Board of December 21, 2006 – it was in force until April 3, 2008;
- › The Regulations of the Management Board of Kredyt Bank S.A. – the Resolution of the Supervisory Board of April 4, 2008 – it became effective on April 4, 2008;



In the Management Board Regulations that became effective on April 4, 2008, the amendments were made that were connected with the introduction by the Banking Supervision Commission on March 13, 2007 of the package of resolutions (no. 1/2007 – 7/2007) the most of which constitute the executive acts to the amended Banking law and implement in the domestic regulations the Directives 2006/48/WE and 2006/49/WE introducing to the European Union legislation the provisions of a New Capital Agreement of the Basel Committee for the Banking Supervision.

As of January 1, 2008 the composition of the Management Board of Kredyt Bank S.A. was as follows::

|                      |  |
|----------------------|--|
| Mr Ronald Richardson | - President of the Management Board, General Director of the Bank,               |
| Mr Umberto Arts      | - Deputy President of the Management Board, Deputy General Director of the Bank, |
| Mr Krzysztof Kokot   | - Deputy President of the Management Board, Deputy General Director of the Bank, |
| Mr Michał Oziembło   | - Deputy President of the Management Board, Deputy General Director of the Bank. |

On December 18, 2007 Mr. Ronald Richardson, President of the Bank's Management Board submitted his resignation from the function of the President of the Bank's Management Board as of February 29, 2008.

On December 18, 2007 the Supervisory Board appointed Mr. Maciej Bardan as the President of the Management Board of Kredyt Bank S.A. as of March 1, 2008.

On April 4, 2008 the Supervisory Board appointed Ms Lidia Jabłowska-Luba the member of the Management Board of Kredyt Bank S.A. to take up, as from April 15, 2008, the position of the Deputy President of the Bank's Management Board responsible for finance and risk.

On September 5, 2008 the Polish Financial Supervision Authority approved Mr. Maciej Bardan as the President of the Management Board of Kredyt Bank S.A.

As of December 31, 2008 the composition of the Management Board of Kredyt Bank S.A. was as follows:

|                         |   |
|-------------------------|---|
| Mr. Maciej Bardan       | - President of the Management Board, General Director of the Bank,            |
| Mr Umberto Arts         | Deputy President of the Management Board, Deputy General Director of the Bank |
| Ms Lidia Jabłowska-Luba | Deputy President of the Management Board, Deputy General Director of the Bank |
| Mr Krzysztof Kokot      | Deputy President of the Management Board, Deputy General Director of the Bank |
| Mr Michał Oziembło      | Deputy President of the Management Board, Deputy General Director of the Bank |



#### 4.2. Composition and principles of activity of Kredyt Bank S.A. Supervisory Board in 2008

The Supervisory Board of Kredyt Bank S.A. acts pursuant to:

- › By-laws of Kredyt Bank S.A. – Uniform wording, Warszawa, November 2006 including the amendments passed by the Ordinary General Assembly of Kredyt Bank S.A. on May 31, 2006, adopted by the Resolution of the Bank's Supervisory Board on July 19, 2006, registered by the Court on October 25, 2006 pursuant to the ruling of October 25, 2006;
- › Regulations of the Supervisory Board of Kredyt Bank S.A. – Resolution no. 24/2006 of the Ordinary General Assembly of Kredyt Bank S.A. of May 31, 2006 – Regulations were effective until May 27, 2008 ;
- › Regulations of the Supervisory Board of Kredyt Bank S.A. – Resolution no. 24/2008 of the Ordinary General Assembly of Kredyt Bank S.A. dated May 28, 2008 – Regulations are effective from May 28, 2008.

In the Supervisory Board Regulations that became effective on May 28, 2008, the amendments were made that were connected with the introduction by the Banking Supervision Commission on March 13, 2007 of the package of resolutions (no. 1/2007 – 7/2007), the most of which constitute the executive acts to the amended Banking law and implement in the domestic regulations the Directives 2006/48/WE and 2006/49/WE introducing to the European Union legislation the provisions of a New Capital Agreement of the Basel Committee for the Banking Supervision.

Pursuant to the Resolution no. 4/2004 of the Extraordinary General Assembly of Kredyt Bank S.A. of December 6, 2004 the Bank's Supervisory Board is composed of 9 persons.

As of January 1, 2008 the composition of the Supervisory Board of Kredyt Bank S.A. was as follows:

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

As of December 31, 2008 the composition of the Supervisory Board of Kredyt Bank S.A. has not changed in comparison with January 1, 2008.

#### 4.2.1 Composition and principles of activity of the Audit Committee of Kredyt Bank S.A. in 2008

The Audit Committee of Kredyt Bank S.A. acts pursuant to:

- › Regulations of the Supervisory Board of Kredyt Bank S.A. – Resolution no. 24/2006 of the Ordinary General Assembly of Kredyt Bank S.A. of May 31, 2006 – Regulations were in force until May 27, 2008;
- › Regulations of the Supervisory Board of Kredyt Bank S.A. – Resolution no. 24/2008 of the Ordinary General Assembly of Kredyt Bank S.A. of May 28, 2008 – Regulations are in force from May 28, 2008;
- › Regulations of the Audit Committee of Kredyt Bank S.A.;

As of January 1, 2008 the composition of the Audit Committee of Kredyt Bank S.A. was as follows:

|                 |                                   |
|-----------------|-----------------------------------|
| Mr John Hollows | - Chairman of the Audit Committee |
| Mr Jan Vanhevel | - Member of the Audit Committee   |
| Mr Adam Noga    | - Member of the Audit Committee   |

As of December 31, 2008 the composition of the Audit Committee of Kredyt Bank S.A. has not changed in comparison with January 1, 2008.

The Audit Committee supports the activities of the Bank's Supervisory Board. In order to achieve that the Audit Committee, in the name of the Supervisory Board exercises a supervision of the consistency, effectiveness and efficiency of the internal audit system, compliance function and also the risk management connected with the Bank's activity, attaching a special importance to financial reporting. The Audit Committee supervises the processes executed at the Bank from a point of view of their conformity with the generally binding law as well as the Bank's internal regulations.

#### 4.2.2 Composition and principles of activity of Remuneration Committee of Kredyt Bank S.A. in 2008

The Remuneration Committee of Kredyt Bank S.A. acts pursuant to:

- › Regulations of Kredyt Bank S.A. Supervisory Board – Resolution no. 24/2006 of the Ordinary General Assembly of Kredyt Bank S.A. of May 31, 2006 – Regulations were in force until May 27, 2008;
- › Regulations of Kredyt Bank S.A. Supervisory Board – Resolution no. 24/2008 of the Ordinary General Assembly of Kredyt Bank S.A. of May 28, 2008 – Regulations are in force from May 28, 2008;
- › Regulations of Remuneration Committee of Kredyt Bank S.A.;

As of January 1, 2008 the composition of the Remuneration Committee of Kredyt Bank S.A. was as follows :

|                       |  |
|-----------------------|--|
| Mr. Jan Vanhevel      | -Chairman of the Remuneration Committee, |
| Mr. Andrzej Witkowski | - Member of the Remuneration Committee,  |
| Mr. John Hollows      | - Member of the Remuneration Committee.  |

As of December 31, 2008 the composition of the Remuneration Committee of Kredyt Bank S.A. has not changed in comparison with January 1, 2008.

The Remuneration Committee supports the activity of the Supervisory Board of Kredyt Bank S.A. with respect to the remuneration principles of the Management Board members..

The By-laws, the Management Board Regulations and the Supervisory Board Regulations are available on the internet page of Kredyt Bank S.A. in the “Corporate Governance” bookmark.

## **5. Description of the basic features of the internal audit and risk management systems applied in the Bank**

The internal audit system functioning at Kredyt Bank is of vital importance for the Bank’s safe activity and is a crucial element of the operating risk management. The Management Board and the managing staff supervise the individual areas of activity, processes or products, are responsible for the establishment, implementation, activity and monitoring of an effective and efficient internal audit system as well as the identification and adequate control of the risk incurred. The Audit and Inspection Department independently appraises the internal audit system and informs the Management Board and Audit Committee about its reliability, effectiveness and efficiency.

### **5.1 Appraisal of the internal audit system**

The appraisal of the internal audit system functioning in Kredyt Bank S.A. as well as the entities of Kredyt Bank S.A. Group is performed on a regular basis by the Audit and Inspection Department. The appraisal of the internal audit system is presented to the members of the Audit Committee, while the Chairman of the Audit Committee informs other members of the Supervisory Board about the appraisal outcome.

The appraisal is performed on the basis of audits and inspections performed, including the monitoring of already issued recommendations of the Audit and Inspection Department, the recommendations of the external auditor and post-control recommendations of the regulatory bodies. In the appraisal process the standpoint of the processes’ owners is also taken into account in relation to the actions undertaken, aimed at the efficient functioning of the internal audit system.

In 2008 20 business processes at the Bank and 8 processes at the subsidiaries were appraised. The key processes that exert a significant impact on the functioning of the internal audit systems were as follows:

- › Crediting
- › Quality, risk and capital management
- › Contingency management
- › Human resources management
- › Distribution channels and electronic banking management
- › Payment cards
- › Payments
- › ICT issues

## **5.2. Appraisal of risk management system**

There is a multistage risk management system at the Bank. The Bank's supreme bodies, i.e. the Management Board and the Supervisory Board, play the most important part in the system.

The Chairman of the Audit Committee presents to the Supervisory Board the appraisal of the risk management process as well as the opinion on the actions taken by the Bank's Management Board in this area.

The following, individual committees, headed by the Management Board members, directly manage the specific risks:

- › Credit Risk Committees – supervise the process of credit risk management,
- › Assets and Liabilities Management Committee – responsible for market risk management and the Bank's structural liquidity management,
- › Operating Risk Committee along with sub-committees – supervises the process of operating risk management.

The measurement and monitoring of all types of risks at the Bank is the responsibility of the Risk Management Department and is entirely independent from the business units.

In the process of risk identification, measurement and management the Bank applies the techniques adequate for a given type of risk. The techniques and principles were elaborated in cooperation with the major shareholder and were subject to independent reviews carried out by the Audit and Inspection Department.

In 2008 the primary goals of the risk management policy have not changed. The Bank's Supervisory Board adopted a complex procedure concerning the Risk Management System in Kredyt Bank S.A. Capital Group and Capital Policy of Kredyt Bank S.A. Capital Group. The Risk Management Department has also elaborated The Policy of Credit Risk Management in Kredyt Bank S.A. Capital Group and updated The Policy of Market Risk Management, Liquidity Management and Assets and Liabilities Management as well as the Process of Concentration Risk Management in Kredyt Bank S.A. Capital Group. The process of continuous monitoring is applied in order to consequently achieve the superior goals of the risk management policy, primarily concerning the observance of the external and internal limits and also optimizing and mitigating the risk. The risk management process is closely related to the process of managing the capital. The most important goal to achieve in the process of managing the capital in the Bank is its optimizing with the simultaneous meeting of the external capital requirements. As from January 1, 2008 the Bank has been applying new capital adequacy regulations pursuant to the Resolutions 1-6 of March 13, 2007 passed by the Banking Supervision Commission.

The Management  
Board of the Bank