Annual Report of
Kredyt Bank S.A.
prepared for the year ended
December 31, 2006

(Submitted to the Polish Securities and Exchange Commission on February 28, 2007
translated 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 would like to present the consolidated financial statement and the Management Board's report on the operations of Kredyt Bank S.A. in the year 2006.

It was another good year both for us and for the whole banking sector. Kredyt Bank S.A. achieved the best financial result in its history. The Bank's net profit amounted to PLN 437.4 million, basic ratios characterizing the quality of assets improved. Profitability and capital adequacy remained at the high level placing the Bank amongst Polish top financial institutions.

Kredyt Bank was noticeable on the market through increasing the scale of its activities in all strategic areas of business. We achieved 19.6% growth in the net credit portfolio and 7.0% increase in the customer deposits. Sales of bancassurance products, strategic for the Bank, offered in cooperation with WARTA S.A. Group made it possible to increase the value of gross written premium from property insurance and life insurance by 57.3% as compared to the figures recorded in 2005. Sales of key products, such as mortgage loans, credit cards, investment funds participation units and savings accounts went up significantly. Completion of restructuring projects carried out in 2005 within the sales area enabled to reverse earlier unsatisfactory tendencies in the range of the Bank's credit and deposit activities.

The good financial result achieved in 2006 was to a great extent impacted by both an increase in the sales of products offered in cooperation with WARTA Group and KBC TFI as well as restructuring of the credit portfolio and also a new credit policy and a credit risk management system implemented in previous years. They allowed to minimize an impact of risk costs upon the Bank's result. In my opinion activities which enabled us in 2006 to decrease more than twice a share of loans for which individual evidence for impairment was identified in total loans and advances to customers of Kredyt Bank S.A. were the biggest success in this respect. At the end of the year this ratio was 14.5% whereas the ratio of non-performing loans in the credit portfolio amounted to 8.4%.

Maintaining and then improving the effectiveness of the Bank's operations is an area we must focus on in the nearest future. The cost to income ratio amounted to 67.4% in 2006 and was by 6.9 p.p. lower than in 2005 mainly due to the income from the sale of receivables in the first half of 2006. The ratio level is not satisfactory and its improvement is one of the most important financial objectives and a key to sucess in 2007 and further future.

The beginning of an integration process of selected areas of Kredyt Bank and WARTA Groups was of great importance. The aim of the organizational changes being implemented, leading to better adjustment of a management model to the needs of a business model of bancassurance, is to use maximally the synergy effect resulting from cooperation of all entities of KBC Group in Poland.

The goal for Kredyt Bank S.A. in 2007 is to fully use opportunities created by the development of the Polish market and today's position of Kredyt Bank S.A., WARTA S.A. and Żagiel S.A.. I think that the cooperation will guarantee an increase in the market share and faster development in all areas of our activities. In our work we will still follow our values: partnership, understanding, responsibility and trust.

I would like to thank our clients for their trust and loyalty, employees of Kredyt Bank for their envolvement. All this helped us improve the Bank's financial standing in 2006 and is a guarantee for achieving good results in the future.

Yours truly,

Ronnie Richardson

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 2006 of Kredyt Bank S.A. (the "Bank") located in Warsaw, Kasprzaka 2/8 street, containing:
   - the balance sheet as at 31 December 2006 with total assets amounting to 22,203,795 thousand zlotys,
   - the profit and loss account for the period from 1 January 2006 to 31 December 2006 with a net profit amounting to 437,443 thousand zlotys,
   - the statement of changes in shareholders' equity for the period from 1 January 2006 to 31 December 2006 with a net increase in shareholders' equity amounting to 380,025 thousand zlotys,
   - the cash flow statement for the period from 1 January 2006 to 31 December 2006 with a net cash inflow amounting to 19,936 thousand zlotys and
   - the additional notes and explanations

   ('the attached financial statements').
2. The truth and fairness[1] of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2] and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.
3. We conducted our audit of the attached financial statements in accordance with the following regulations 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 Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
4. In our opinion, the attached financial statements, in all material respects:

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

- present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2006 to 31 December 2006, as well as its financial position[3] as at 31 December 2006;
- have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU 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 articles of association.

5. We have read the 'Directors' Report for the period from 1 January 2006 to 31 December 2006 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 No. 209, item 1744).

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

Dorota Snarska-Kuman
Certified Auditor No. 9667/7232

Jacek Hryniuk
Certified Auditor No. 9262/6958

Warsaw, 28 February 2007

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

According to Principle 18 of Corporate Governance Rules, the Supervisory Board of Kredyt Bank S.A. shall publish a brief evaluation of the financial standing of Kredyt Bank S.A.

The year 2006 was the third consecutive year in which Kredyt Bank S.A. generated record high results in its history: net profit amounted to PLN 437.4 million. The major accomplishments in the previous year entailed substantial progress concerning the problem of bad loans portfolio and reversing negative selling trends as observed in 2004 and partially in 2005.

The new loan policy implemented in 2005 and the reorganized credit risk management process allowed the Bank to curtail the impact of the cost of risk upon the Bank's results. Net impairment charges for financial assets and other assets and provisions were positive and amounted to PLN 32,181 thousand. The continuation of the restructuring of non-performing loans portfolio and ongoing debt recovery measures carried out by the credit risk management division autonomous from the business area had material impact on the results. The sale of debts from the portfolio of Kredyt Bank S.A. in the second quarter of 2006 affected the financial result to a great extent. Profit from the transaction affecting consolidated net profit, including the transaction costs, provisions for risks associated with the transaction and the tax effect amounted to PLN 108,382 thousand.

The basic ratios characterizing the credit risk area improved: the share of loans for which individual premises of impairment were identified in total gross loans and advances to customers fell from 26.4% to 14.5%, and the ratio of covering such receivables with provisions was at the level of 56.0%.

The maintenance of strict costs control was another factor necessary to improve the achieved results. Despite a substantial increase in expenditure on incentive systems supporting sales, marketing, training and development of network, this item increased only by 1.7% as compared to 2005 figures. As a result of a greater increase in net operating income (mainly due to net profit from the sale of non-performing loans portfolio in the second quarter of 2006), expense/income ratio which fell from 74.2% to 67.4% continued to improve.

The restructuring measures in the area of sales organization carried out in previous years, made it possible in 2006 to reverse negative trends concerning the increase in the volumes of customer loans and deposits. The value of the loan portfolio in net terms increased by 19.6%, i.e. by PLN 1,933.9 million as compared to the end of 2005 figures. The increase was noticeable both in the retail segment (according to the strategic assumptions, mainly mortgage loans in PLN bearing lower credit risk) as well as in the corporate customers segment.

Also, an increase in deposits was higher than in 2005. Customers' deposits increased as compared to the end of 2005 by 7.0%, despite the simultaneous very fast growth of the value of competitive shares of investment funds sold via the network of Kredyt Bank. Taking into account the funds assets and traditional deposits jointly, in 2006 an increase in the value of customers' resources increased by 13.4%.

An increase in sale was reflected in the systematic increase in interest, fee and commission income, particularly perceptible over the period of previous three quarters of 2006.

A high capital adequacy ratio, which at the end of 2006 amounted to 13.5%, was the confirmation of the Bank's stable position and its solid foundation for the further development of the business.

Implementing the strategy of bancassurance development and the establishment of a banking and insurance group announced in 2005, applying the knowledge and expertise of KBC Group, the main shareholder, the Bank launched projects to improve the cooperation and coordination of measures of Kredyt Bank S.A. Group and WARTA S.A. Group.

The Bank’s thriving situation was confirmed by ratings of Fitch Ratings and Moody`s Investors Service. The observed improvement of basic ratios and financial figures in 2006 justifies the positive evaluation of the Bank’s financial standing. Planned and current measures aim at providing safe foundations for further development and generation of profits in the future.

Supervisory Board

Financial statement

of Kredyt Bank S.A.

for the financial year 2006

ended 31 December 2006

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1. Income statement

in '000' PLN	Note	01.01.2006 - 31.12.2006	Comparable data for the period from 01.01.2005 to 31.12.2006
Interest income	10	1 235 154	1 376 380
Interest expense	11	-564 047	-680 702
Net interest income		**671 107**	**695 678**
Fee and commission income	12	299 994	257 170
Fee and commission expense	13	-31 872	-20 954
Net fee and commission income		**268 122**	**236 216**
Dividend income	14	1 027	780
Net trading income	15	134 536	141 974
Profit (loss) on hedging	16	-52	0
Profit (loss) from investment activity	17	11 768	-4 406
Net income from sale of receivables portfolio	18	123 026	0
Other operating expenses	19	43 291	58 836
Total operating income		**1 252 825**	**1 129 078**
General and administrative expenses	20	-814 643	-800 986
Net impairment charges for financial assets, other assets and provisions	21	32 181	29 623
Other operating expenses	22	-43 482	-49 909
Total operating expenses		**-825 944**	**-821 272**
Profit before tax		**426 881**	**307 806**
Income tax expense	23	10 562	101 708
Net profit from business activities		**437 443**	**409 514**
Net profit (loss) from discontinued operations		0	974
Net profit		**437 443**	**410 488**
Earnings per share (in PLN per share) including:	**24**	**1,61**	**1,51**
Net earnings per share on discontinued operations			**0,0036**

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

2. Balance sheet

in '000' PLN	Note	31.12.2006	Comparable data as at 31.12.2005
Assets			
Cash and balances with Central Bank	25	640 722	607 069
Receivables from banks	26	2 182 393	2 229 548
Allowance for impairment losses on receivables from banks	27	-2 753	-2 894
Financial assets at fair value through profit and loss, including held-for-trading assets	28	612 912	487 618
Derivatives valuation, including:	29	297 427	216 270
- hedging derivatives		3 403	716
Loans and advances to customers	30	12 907 835	12 192 581
Allowances for impairment losses on loans and advances to customers	31	-1 100 617	-2 319 248
Investments securities	32	5 902 663	6 709 651
- available for sale		3 453 890	4 417 819
- held to maturity		2 448 773	2 291 832
Equity investments classified as available-for-sale	34	73 831	91 375
Property, plant and equipement	35	325 050	341 065
Intangible assets	36	84 394	110 557
Deferred tax assets	37, 46	137 123	98 748
Current tax receivables		15 393	13 412
Held-for-sale fixed assets	38	10 571	5 848
Other assets	39	116 851	130 295
Total assets		**22 203 795**	**20 911 895**

in '000' PLN	Note	31.12.2006	Comparable data as at 31.12.2005
Liabilities			
Amounts due to Central Bank	40	1 990	0
Amounts due to banks	41	2 160 538	2 562 167
Valuation of derivatives, including:	29	296 474	220 155
- hedging derivatives		554	184
Amounts due to customers	42	15 618 881	14 592 699
Debt securities issued	43	0	402 435
Securities sold under repurchase agreements	44	1 053 928	368 701
Provisions	45	98 775	77 072
Other liabilities	47	511 847	439 367
Subordinated liabilities	48	421 619	589 581
Total liabilities		**20 164 052**	**19 252 177**
Equity			
Share capital	49	1 358 294	1 358 294
Share premium	49	104 789	0
Revaluation reserve	49	18 275	15 928
Reserve capital	49	120 942	120 942
Retained earnings (loss)		0	-245 934
Current net profit (loss) per Bank's shareholders		437 443	410 488
Total equity		**2 039 743**	**1 659 718**
Total equity and liabilities		**22 203 795**	**20 911 895**

3. Off-balance sheet items

in '000' PLN	Note	31.12.2006	Comparable data as at 31.12.2005
Contingent liabilities, granted and received		**5 207 977**	**4 300 859**
Liabilities granted, including:		4 706 170	3 788 786
- financial	50	3 497 903	2 660 911
- guarantees	50	1 208 267	1 127 875
Liabilities received, including:		501 807	512 073
- financial		205 139	12 699
- guarantees		296 668	499 374
Amounts due under sale/purchase transactions		**138 370 817**	**79 905 636**
Other:		**3 153 678**	**3 068 907**
- received collateral and guarantees		3 153 178	3 068 815
- other		500	92

4. Statement of changes in equity

Changes in the period 01.01.2006-31.12.2006

in '000' PLN	Share capital	Share premium	Revaluation reserve	Reserve capital	Retained earnings (loss)	Current net profit	Total equity
Equity balance as at 01.01.2006	**1 358 294**	**0**	**15 928**	**120 942**	**164 554**		**1 659 718**
Measurement of available-for-sale financial assets			1 972				1 972
Effect of the measurement of derivatives hedging future cash flows			1 195				1 195
Deferred tax on items recognized in the equity			-820				-820
Net profit recognized directly in equity			**2 347**				**2 347**
Net profit/loss for the period						437 443	437 443
Total recognized income and expenses			**2 347**			**437 443**	**439 790**
Write-down of profit		104 789			-104 789		0
Dividends paid					-59 765		-59 765
Equity balance at period end - 31.12.2006	**1 358 294**	**104 789**	**18 275**	**120 942**	**0**	**437 443**	**2 039 743**

Comparable data - changes in the period 01.01.2005-31.12.2005

in '000' PLN	Share capital	Share premium	Revaluation reserve	Reserve capital	Retained earnings (loss)	Current net profit	Total equity
Equity balance as at 01.01.2005	**1 358 294**	**350 910**	**8 059**	**173 779**	**-649 681**	**0**	**1 241 361**
Measurement of available-for-sale financial assets			11 377				**11 377**
Deferred tax on items recognized in the equity			-3 467				**-3 467**
Net profit recognized directly in equity			**7 910**				**7 910**
Net profit/loss for the period						410 488	**410 488**
Total recognized income and expenses			**7 910**			**410 488**	**418 398**
Covering retained loss		-350 910		-52 837	403 747		**0**
Other changes			-41				**-41**
Equity balance at period end - 31.12.2005	**1 358 294**	**0**	**15 928**	**120 942**	**-245 934**	**410 488**	**1 659 718**

5. Cash flow statement

in '000' PLN	Note	01.01.2006 - 30.12.2006	Comparable data for the period from 01.01.2005 to 31.12.2005
Net cash flow from operating activity		**-228 867**	**1 767 327**
Net profit (loss)		**437 443**	**410 488**
Adjustments of the reconciliation of net profit (loss) with net cash flow from operating activity:		**-666 310**	**1 356 839**
Current and deferred income tax recognized in net profit/(loss)		-10 562	-101 708
Unrealised gains (losses) on currency translation differences	59 b	-8 995	-65 988
Investing and financial activities		**-1 338 875**	**-309 425**
Depreciation		99 515	125 694
Impairment	59 c	-1 192 959	-341 459
Dividends		-1 027	-780
Interest	59 d	-265 643	-141 619
Movement in provisions		21 703	40 534
Profit (loss) on disposal of investments	59 e	-464	8 205
Net increase/decrease in operating assets (net of cash)		**-843 021**	**2 106 436**
Net increase/decrease in gross amounts due from banks	59 f	33 438	-297 514
Net increase/decrease in financial assets at fair value through profit and loss, including held-for-trading financial assets and the valuation of derivatives	59 g	-206 134	686 847
Net increase/decrease in gross loans and advances to customers		-715 254	1 738 412
Net increase/decrease in income tax receivables		-1 981	-8 305
Net increase/decrease in other assets	59 h	21 634	-13 511
Income tax paid		25 276	507
Net increase/decrease in operating liabilities		**1 535 143**	**-272 476**
Net increase/decrease in amounts due to Central Bank		1 990	0
Net increase/decrease in amounts due to banks	59 i	-384 512	1 377 741
Net increase/decrease in valuation of derivatives		76 319	-13 777
Net increase/decrease in amounts due to customers	59 j	1 121 921	-1 426 507
Net increase/decrease in liabilities related to securities sold under repurchase agreements		685 227	-350 071
Net increase/decrease in income tax expenses		-38 688	-507
Net increase/decrease in other liabilities	59 k	72 886	140 645
Net cash flow from operating activity		**-228 867**	**1 767 327**

in '000' PLN	Note	01.01.2006 - 30.12.2006	Comparable data for the period from 01.01.2005 to 31.12.2005
Net cash flow from investing activities		**1 052 116**	**-3 435 264**
Inflows		**42 816 200**	**43 614 714**
Disposal of tangible fixed assets and intangible assets		323	4 698
Disposal of shares in available-for-sale equity investments	59 l	17 012	0
Disposal of investment securities	59 ł	42 556 989	43 405 355
Dividends received on shares		1 027	780
Interest received	59 ł	240 849	167 041
Other inflows from investing activities		0	36 840
Outflows		**-41 764 084**	**-47 049 978**
Acquisition of tangible fixed assets and intangible assets		-86 432	-69 763
Acquisition of shares in equity investments classified as investments for sale		-50	-15 000
Acquisition of investment securities	59 ł	-41 677 602	-46 965 215
Net cash flow from investing activities		**1 052 116**	**-3 435 264**
Net cash flow from financing activities		**-803 313**	**-5 321**
Inflows		**0**	**996 140**
Receipts from received loans and advances		0	996 140
Outflows		**-803 313**	**-1 001 461**
Dividends paid		-59 765	0
Repayment of subordinated liabilities	59 n	-157 605	0
Repayment of borrowed loans and advances		-95 454	-886 286
Redemption of own bonds	59 o	-400 000	0
Other financial outflows	59 m	-90 489	-115 175
Net cash flow from financing activities		**-803 313**	**-5 321**
Balance sheet change in cash, including:		**19 936**	**-1 673 258**
Cash at period beginning		**2 248 801**	**3 922 059**
Cash at period end, including:	**59a**	**2 268 737**	**2 248 801**
Restricted cash		537 194	509 457

This financial statement of the Kredyt Bank S.A. was approved for publication by the Management Board of Kredyt Bank S.A. on 28 February 2007.

This financial statement was audited by an independent licensed certified auditor, Ernst & Young Audit Sp. z o.o. The audit was performed in line with Chapter 7 of the Accounting Act and the certified auditors' professional standards issued by the National Council of Auditors in Poland.

6. General information

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

Kredyt Bank S.A. is a listed universal bank, ranked among top 10 Polish banks in terms of total assets. It provides a wide range of 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 outlets and ATMs. In cooperation with TUiR Warta, the Bank was the first to offer bancassurance services.

KBC Banking and Insurance Capital Group

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

The KBC Group focuses on banc assurance-type operations for individual customers, provides services for businesses, is involved in assets management and other types of market activities. It is one of the three largest banking and insurance companies on its home market in Belgium. Moreover, it is one of the leading financial groups in Europe – geographically, its operations are focused in Central Europe which is regarded as the second home market; the KBC Group is also present in many other countries worldwide. Market capitalization of the KBC Group amounts to approximately EUR 30 billion.

In Poland the KBC Group is also a sole shareholder of TUiR WARTA S.A.

7. The description of major accounting principles applied for the purpose of preparing this financial statement

7.1. Declaration of compliance with IFRS

Under Article 45 clause 1c of the Act and under the decision of the General Meeting of Shareholders of Kredyt Bank S.A. of 25 April 2005, from 1 January 2005, the Bank's individual financial statements have been prepared in accordance with IAS/IFRS, as approved by the European Commission.

The Bank's financial statement for 2006 ended 31 December 2006 has been prepared in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) in force as at 31 December 2006 and approved by the European Commission. Matters not governed by the above-mentioned standards are regulated by the Accounting Act of 29 September 1994 (Journal of Laws of 2002 No. 76 item 694 as amended) and executive regulations thereto, and the Ordinance of the Minister of Finance of 19 October 2005 on current and interim information provided by issuers of securities (Journal of Laws of 2005 No. 209 item 1744).

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

As at 31 December 2006, the European Commission adopted a few IFRS and IFRIC which will become effective after 31 December 2006. From the point of view of this financial statement, IFRS 7 and IFRS 8 are the most important standards. IFRS 7 *Financial Instruments: Disclosures* (effective as at 1 January 2007) replaces IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* effective as at the date of preparing this financial statement and the disclosure requirements under IAS 32 *Financial Instruments: Disclosure and Presentation* and extends the scope of disclosures for financial instruments. IFRS 7 provides for quantitative and qualitative disclosures related to the management of risk resulting from financial instruments, including credit risk, liquidity risk and market risk. Earlier application of this standard is permitted. The Bank expects that disclosures related to the sensitivity analysis in the market risk management process will require certain additional information. The Bank is now being estimating the impact of IFRS 8 *Operating Segments* (effective as at 1 January 2009) on the Bank's financial statement.

Other standards and interpretations issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, and which are not in force yet, will not affect the Bank's financial statement to a large extent. The Bank plans to implement them within time limits set forth in standards and interpretations (without earlier application).

7.2. Basis of preparing this financial statement

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

This financial statement was prepared based on the assumption that the Bank remains a 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 this financial statement, there are no circumstances which could threaten the continuation of the business of the Bank.

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

The preparation of a financial statement in line with IFRS requires a professional judgment of the Bank's Management Board on the adopted accounting principles and accounting estimates applied with respect to balance sheet items and income statement items. Estimates are made basing on historical data and a number of assumptions based on the facts available 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.

Accounting estimates are verified on a regular basis. Changes in estimates are recognized in the financial statement in the period they were made. If such changes are also related to future periods, the assumptions being the basis for the estimates for future periods are also adjusted. The essential accounting estimates, which affect this financial statement, have been presented in Note 8.

The accounting principles adopted for preparing financial statements are applied on a continuous basis 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 as of the measurement date. Currency translation differences on non-monetary items measured at fair value through profit or loss are recognized in gains and losses on the change in fair value. Currency translation differences on non-monetary items, such as available-for-sale financial assets, are presented in revaluation reserve.

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

	31.12.2006	31.12.2005
EUR	3.8312	3.8598
USD	2.9105	3.2613
CHF	2.3842	2.4788

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

The Bank recognizes financial assets and liabilities in the balance sheet only when it is a party to a transaction.

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

The Bank excludes financial assets from the balance sheet when and only when contractual rights to cash flows from such financial assets expire. The Bank writes off loan receivables from the balance sheet to impairment charges when such receivables are lost receivables, particularly when:

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

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

7.5. Classification and measurement of financial assets and liabilities

7.5.1. Financial assets and liabilities at fair value through profit and loss

This category includes:

- held-for-trading assets or liabilities, i.e. those acquired or contracted with the intention of selling or repurchasing them in the nearest future. This category 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 and liabilities which, at the time of their initial recognition, were designated by the Bank to be measured at fair value through profit or loss for the following reason: the items are managed in a portfolio on the basis of the valuation of fair value and the management results are internally reported to respective decision-makers, mainly to Members of the Bank's Management Board.

Assets and liabilities are recognized at fair value from the date of the transaction. Fair value is determined on the basis of quotations on active markets, including prices of the latest transactions and generally adopted measurement models based on variables that can be observed in the market environment.

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

Outflows from assets disposal are calculated with the FIFO method.

Financial derivatives are recognized, from the transaction date, at fair value, without deductions of transaction expenses that can be incurred at the disposal. The transaction price is the best indicator of fair value at the initial recognition of a derivative. Following the transaction, for the purpose of the balance sheet measurement, fair value is determined on the basis of quotations on active markets, including prices of the latest transactions and generally adopted measurement models based on variables that can be observed in the market environment.

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

7.5.2. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments or fixed maturity that the Bank intends and is able to hold to maturity or by the date very close to maturity which does not exceed 3 months.

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

7.5.3. Loans and receivables

Loans and receivables are non-derivative financial assets, with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Bank borrows cash to customers for purposes other than generating short-term trading gains. This category includes amounts due from banks and customers, including purchased debt and investments in debt financial instruments, if they are not quoted on the active market.

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

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

7.5.4. Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value in the balance sheet. Changes in fair value are recognized in revaluation reserve until the financial asset is derecognised 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 based on the effective interest rate method.

If fair value cannot be determined, assets are recognized at cost less impairment charge. Impairment charge is recognized in the income statement.

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.

7.5.5. Equity investments

Investments in shares of the Bank's subsidiaries consolidated with the full method on the consolidated financial statement are recognized in the individual financial statement at cost having regard for impairment. If the impairment charge is higher than cost, the difference is recognized as a write-down for the Bank’s exposure other than capital exposure, e.g. credit exposure; and if there is no such exposure, provision is created and recognized as a liability. Impairment charge for capital investments is reversed in the income statement.

7.5.6. Financial liabilities not held for trading

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

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

7.5.7. Hedge accounting

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

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

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

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 and effective hedge, is recognized directly in equity through the statement of changes in equity;

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

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

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

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

7.5.8. Embedded derivatives

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

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

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic and the risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value and changes in fair value are not recognized in the income statement (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit and loss is not separated).

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

7.6. Impairment of financial assets

7.6.1. Assets carried at amortized cost

Loan receivables constitute the most critical portion of financial assets; they are the most exposed to impairment and are recognized in the Bank's balance sheet at amortised cost. The Bank assesses at each balance sheet date (at least once a quarter) whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets were impaired and impairment loss was incurred when, and only when, there is objective evidence of impairment resulting from one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Expected future losses are not recognized in the estimates of the current impairment. The list of objective circumstances indicating to impairment has been presented in Note 8.

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

Impairment charge is recognized in the income statement.

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

In the event where no objective evidence of loan impairment assessed on individual basis occurred, regardless of whether or not it constitutes a significant reporting item, such exposure is included in the credit portfolio of similar nature and the portfolio analysis of the impairment is conducted. Homogenous loans portfolios are created basing upon the similar characteristics of credit risks that are specific for the defined groups of customers and products. The portfolio impairment is measured basing on historical parameters of losses generated by similar assets portfolios. Historical trends for losses are cleared of one-off events and are updated against a current risk profile of homogenous groups of assets. Hence, the portfolios systematic risk is identified. The Bank verifies the methodology on a regular basis.

When the circumstances that indicate impairment cease to be identified, the impairment charge is reversed through the income statement.

7.6.2. Available-for-sale financial assets

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

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

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 recognised amounts and there is an intention to settle 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’) are not excluded from the balance sheet; they are only reclassified to pledged assets (available-for-sale assets), if the transferee has the contractual or common right to sell or pledge the collateral. Dues to counterparties are recognized in financial liabilities. Securities purchased under agreements to resell (‘reverse repos’) are recorded as loans and advances to other banks or customers, depending on their nature. The difference between the sale and repurchase prices is treated as interest and accrued over the life of the agreements using the effective interest method.

7.9. Tangible fixed assets

7.9.1. Owned fixed assets

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

The Bank, according to IFRS 1 on the preparation of the opening balance sheet as at 1 January 2005 according to IFRS, applied fair value as the deemed cost of tangible fixed assets.

Tangible fixed assets also include construction in progress and fixed assets put into use under the contracts of operating lease. Tangible fixed assets not used by the Bank, but are 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 fixed assets, expenses of the increase in value or of the replacement of parts of such fixed assets at the time of their incurrence, when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of improvement or replacement may be measured reliably. All other expenses are charged to the profit and loss account during the financial period in which they are incurred.

7.9.3. Depreciation

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

Estimated periods of expected economic useful life of fixed assets:

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

The assets' residual values and useful lives are reviewed on an annual basis. The Bank performs annual analysis of evidence and the tests for impairment of particular groups of fixed assets 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.

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

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 writes off activated expenses in the estimated useful life of 5 years.

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

The Bank's expenditure 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 amortization and any impairment charges.

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

7.10.3. Depreciation

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

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

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

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

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

7.11.1. Measurement of recoverable amount

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

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

From the adoption of IFRS by the Bank, the analysis of evidence and possible tests for impairment of intangible assets and tangible fixed assets are performed annually, and in the case of goodwill, once a year, regardless of whether the evidence of impairment occurred or not.

7.11.2. Reversal of impairment charge

Impairment loss for goodwill is not reversed.

In the case of other assets, impairment charge may be reversed if evidence of 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 recognized at fair value in the amount due less impairment charges.

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. Held-for-sale fixed assets and discontinued operations

Prior to the classification as 'held-for-sale', assets (and all assets and liabilities in the held-for-sale group) are revalued according to IFRS 5. Further, fixed assets and held-for-sale assets are measured at the lower of: present carrying amount or fair value less costs to sell.

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

7.15. Deferred tax assets and liabilities

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

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

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

Deferred tax liability is recognized for all positive temporary differences:

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

Deferred tax assets and deferred tax liabilities are determined using tax rates that are expected to be in force when an asset is realized or a provision is reversed, assuming tax rates (and tax regulations) 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 accounted for in equity.

The Bank sets off deferred tax assets with deferred tax liabilities.

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. Finance lease liabilities

Contracts of lease under which the Bank generally accepts all the risks and profits related to the use of assets are recognized by the Bank as tangible fixed assets. Payables due under finance lease contracts are presented by the Bank in the balance sheet in the amount equal to net leasing investment, in other liabilities.

Interest expense under financial lease contracts are recognized in net interest income in the amount paid against the lessees' invoices.

7.18. Provisions

The Bank recognizes provisions in the balance sheet when:

- the Bank has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- the amount of the future obligation can be estimated reliably.

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

7.18.1. Restructuring provision

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

7.18.2. Employee benefits

The Bank fails to operate a specific pension scheme for its employees, thus has no commitments to its employees in this respect. The Bank, as employers, fulfilling the obligations stipulated in the law, is obliged to withhold and pay social security and health insurance contributions for their employees and contributions to the Labour Fund and the Guaranteed Employee Benefits Fund. These payments are part of short-term employee benefits, including remuneration, bonuses, paid leaves. Short-term benefits are recognized in general expenses under general principles.

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

7.19. Equity

Share capital is recognized at nominal value in the amount compliant with the Bank's Memorandum and Articles of Association and the entry in the Court Register. Other equity is recognized in the balance sheet by types as required by law and the Bank's Memorandum and Articles of Association. 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. Particular items of equity are presented in notes.

7.20. 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 depending on whether some future event occurs, whose existence will be confirmed only at the time of the occurrence or non-occurrence of one or more uncertain future events not fully controlled by the Bank's entities;
- 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 fulfil the obligation is necessary, or the obligation amount cannot be determined reliably.

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

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

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

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

7.21. 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.

7.22. Net interest income

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

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

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

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

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

The effective interest rate is the rate that discounts a future, expected flow of 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 effective interest rate method is applied. In the case of instruments with undefined cash flows schedules, it is impossible to calculate the effective interest rate and commissions/fees are settled on the straight-line basis over time.

However, the method of recognizing particular types of commissions/fees settled over time in the income statement as interest income or fee and commission income, and the need for their settlement over time instead of one-off recognition in the income statement, depends on the economic nature of the commission/fee.

The items included in the commissions/fees settled over time include, e.g. fees for a positive appraisal of a loan application, commissions for granting a credit, commissions for releasing a credit, fees for establishing additional collateral, etc. The collection of the above commissions and fees constitutes an integral part of the return generated by a specific financial instrument. This category also includes fees and costs of changes of contractual terms, what modifies the value of initial effective interest rate. Any significant amendment to the terms of a given financial instrument in economic terms is connected with the expiry of the financial instrument of the previous type and creation of a new instrument with different characteristics.

The fees that are collected in this category include, among others, fees for preparing an annex changing a future cash flows schedule, fees for restructuring loan agreements, fees for postponement of payment dates, etc. The above-mentioned types of fees are deferred and settled over time in the income statement applying the effective interest rate method or on a straight-line basis, depending on the type of a product.

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

In the case of assets for which evidence of impairment was identified, interest income is charged to the income statement on the basis of net Investment defined as the difference between the gross exposure and impairment charge basing on effective interest rate applied to calculate impairment charge.

7.23. Net fee and commission income

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

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

7.24. Net trading income

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

7.25. Dividend income

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

7.26. Profit from the sale of receivables portfolio

Profit (loss) on the sale of doubtful receivables is determined by comparing net value of sold assets with the price paid for the assets, having regards for provisions for potential risk associated with the transaction. Profit from the sale of receivables is presented as a separate item in the income statement. Sold assets are excluded from the balance sheet on condition of transferring all rights and rewards from them onto the buyer.

7.27. Other operating income and expenses

Other operating income and expenses include items not related directly to the Bank's operations. These are in particular income and expenses on sale and liquidation of fixed assets, received and paid indemnities, income from debt recovery of receivables removed previously and the costs related to their recovery, income and expenses on other services provided or acquired by the Bank to a marginal extent.

7.28. Income tax

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

Current tax for the period is calculated by the Bank on the basis of the book profit before tax adjusted with income as stated in books, which, under the tax law in force, is not taxable income, and expenses which under the tax law in force are excluded from the tax base. Furthermore, the book profit before tax in the current year is adjusted to take account of the cash realization of income and expenses in the current reporting period, which are recognized in profit before tax in previous years.

Deferred income tax recognized as an element of tax charge on 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.

7.29. Comparable data

Accounting principles adopted to prepare this financial statement are applied in a continuous manner in all presented periods. The description of adjustments of comparable data has been presented in Note 69.

7.30. First time adoption of IFRS

Adopted accounting principles and adjustments of the opening balance due to the first adoption of IAS/IFRS as at 01.01.2004 and 01.01.2005 are presented in the financial statement as at 31.12.2005.

8. Accounting estimates

The preparation of financial statements in conformity with IFRS requires a professional judgment of a 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 statement in the period they were made. If such changes are also related to future periods, the assumptions being the basis for the estimates for future periods are also adjusted.

The most important accounting estimates prepared for the purpose of this financial statement refer to:

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

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 amortized cost and historical cost

Loan receivables constitute the most important part of financial assets recognized in the Bank's balance sheet at amortised cost or historical cost.

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

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

8.2.1. Evidence of impairment

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

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

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

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

8.2.2. Measurement of individual impairment

Individual impairment is measured for all loan receivables in the case of which certain individual evidence of impairment was identified with regard to all evidence of impairment for a given exposure and a given borrower, including mainly the credit risk and the risk of a borrower's insolvency, the probability of recovering amounts due, the transferability of assets being material collateral and the period of recovering amounts due and the collection of collateral. The process of estimating future expected cash flows is carried out in an especially dedicated IT tool.

In the case of receivables for which the only expected cash flow is the debt recovery value of the collateral, an estimation of the recoverability of such collateral on the basis of statistical data, collected by the Bank and updated on a regular basis, related to the historical effectiveness of debt recovery as well as present market value of particular types of collateral, adjusted with the costs of their recovery.

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

8.2.3. Measurement of portfolio impairment

In the event where no objective evidence of loan impairment assessed on individual basis occurred, regardless of whether or not it constitutes a significant reporting item, such exposure is included in the credit portfolio of similar nature and the portfolio analysis of the impairment is conducted.

Homogenous loans portfolios are created basing upon similar characteristics of credit risks that are specific for the defined groups of customers and products.

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

The process of estimating portfolio provision is performed on a quarterly basis. The following phenomena, apart from corrected historical trends, have material impact on the level of the portfolio provision:

- fluctuations in the receivables portfolio, for which individual impairment is not identified;
- the Bank's operating effectiveness within the processes of credit risk management, particularly taking into account the restructuring and debt collecting activities;
- Poland's macroeconomic situation and its direct impact on the material ratios applied in the banking sector;
- the Bank's credit policy for selected sectors of economy as well as receivables portfolios compared with the models adopted by other banks.

8.3. The value of deferred tax assets

The continuous positive trend in net operating income generated by the Bank and the results forecasts for further financial years are proof of the high probability of settling, in full amount, of all negative temporary differences forming the deferred tax asset. Therefore, as at 31 December 2006, the Bank, in the calculation of deferred tax, recognized the full amounts of all temporary differences which, in future reporting periods, will create a current income tax liability or receivable.

The accounting policy adopted by the Bank in this respect sets forth the obligation to analyse in detail each item generating a tax asset. As a result, categories are recognized at the level of probable future realization amount of tax receivables on this account. The probability of realizing net deferred tax asset is determined on the basis of financial plans and tax forecasts prepared by the Bank's Management Board, updated on an ongoing basis as at the end of each quarter, having regard for the prudence principle.

As at 31 December 2006, the Bank recognized deferred tax asset on all temporary differences.

9. Segment reporting

The Bank applies the basic division into industrial segments subject to the reporting requirement. Corporate Segment, Retail Segment, Treasury Segment and Investment Segment. 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 entails transactions with large companies (with annual income exceeding PLN 16 million) as well as state budgetary units at central and local levels. Beside the traditional deposit, credit and settlement services, other specific services are offered. They are tailored to customers' individual needs, e.g. organizing syndicates supporting investment projects, financing real estate transactions, financing foreign trade and bulk payments. The Bank's offer in this segment is expanded by the products of Kredyt Lease, which offers a complete range of services for companies in respect of leasing of fixed assets and real estates, and also of real estate trade.

Retail Segment incorporates products targeted at individual customers as well as Small and Medium-size Enterprises (SME), which annual income does not exceed PLN 16 million. The products on offer comprise a wide range of deposit and loan products, insurance products (banc assurance and assure banking) offered in co-operation with WARTA 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 the Internet network - KB24. Furthermore, the Bank's offer for this segment includes products offered by KBC TFI and comprising the sale of participation units in investment funds, and intermediation in the distribution of selected services in WARTA Group offer.

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

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

Profit from the sale of receivables portfolio is recognized in Other.

The segment's income and expenses had been determined before inter-segmental exclusions were made. The selling prices exercised among segments are calculated on the basis of the transfer prices methodology. Income and expenses that may not be rationally allocated to any of the segments are disclosed in 'unallocated costs' and 'unallocated income' items.

On 1 January 2006, the Bank implemented the costs allocation methodology based on 'activities costs accounts'. This methodology makes it possible to precisely analyse the profitability of particular types of products and customers and the measurement of the effectiveness of the segments operation. The allocation of costs per segments presented in the report was prepared on the basis of the said model and replaced the simplified method applied by the end of the previous year. As presented in the report in 2005, the simplified methodology involved the allocation of operating costs per segments with the application of allocation keys, such as structure of employment, usable area or additional keys developed on the basis of the measurement of the commitment of particular units in the operation of separate segments. Furthermore, which was also presented in interim reports, the definition of corporate customers was changed in 2006. The application of the present methodology to restate comparable data proved to be impractical.

Income statement for the period 01.01.2006-31.12.2006

	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Other	Exclusions	Total
1. Segment income (external)	413 751	793 697	497 469	14 961	128 918	0	**1 848 796**
2. Segment income (internal)	165 408	456 433	431 574	0	11	-1 053 426	**0**
3. Total segment income	**579 159**	**1 250 130**	**929 043**	**14 961**	**128 929**	**-1 053 426**	**1 848 796**
4. Segment expenses (external)	-115 785	-291 646	-203 090	-3 264	-25 669	0	**-639 454**
4a. Allocated costs	-105 011	-657 929	-9 720	-2 938	-39 044	0	**-814 642**
5. Segment expenses (internal)	-218 127	-207 141	-621 854	-6 304	0	1 053 426	**0**
6. Total segment expenses	**-438 923**	**-1 156 716**	**-834 664**	**-12 506**	**-64 713**	**1 053 426**	**-1 454 096**
7. Segment result	**140 236**	**93 414**	**94 379**	**2 455**	**64 216**	**0**	**394 700**
8. Net impairment charges for financial assets, other assets and provisions	**114 022**	**-53 130**	**0**	**-50**	**-28 661**	**0**	**32 181**
9. Segment result	**254 258**	**40 284**	**94 379**	**2 405**	**35 555**	**0**	**426 881**
11. Income tax	0	0	0	0	10 562	0	10 562
12. Net profit	**254 258**	**40 284**	**94 379**	**2 405**	**46 117**	**0**	**437 443**

Balance sheet as at 31.12.2006

	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Other	Total
1. Segment assets	6 148 397	5 572 483	9 607 394	271 995	0	**21 600 269**
2. Other assets (unallocated)	0	0	0	0	0	**603 526**
3. Total assets	**6 148 397**	**5 572 483**	**9 607 394**	**271 995**	**0**	**22 203 795**
4. Segment liabilities	4 165 601	11 425 444	3 945 375	0	0	**19 536 420**
5. Equity	0	0	0	2 039 743	0	**2 039 743**
6. Unallocated liabilities	0	0	0	0	0	**627 632**
7. Total liabilities and equity	**4 165 601**	**11 425 444**	**3 945 375**	**2 039 743**	**0**	**22 203 795**
1. Equity investments (costs of assets acquisition)	0	0	0	0	86 432	**86 432**
2. Depreciation	12 828	80 371	1 187	359	4 770	**99 515**

Comparable data - income statement for the period 01.01.2005-31.12.2005

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

Comparable data - balance sheet as at 31.12.2005

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

10. Interest income

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
On account of:		
Amounts due from banks	95 327	120 988
Loans and advances to customers, including:	773 805	926 990
- from financial sector	18 994	26 441
- from non-financial sector	725 456	834 150
- from the budgetary sector	29 355	66 399
Fixed yield securities	361 778	327 615
- at fair value through profit and loss	17 480	13 248
- available for sale	183 930	215 825
- held to maturity	160 368	98 542
Receivables from securities acquired under repurchase agreements	43	787
Hedging instruments	4 201	0
Total	**1 235 154**	**1 376 380**

Interest income includes interest calculated on an accrual basis, that the Bank, as at the balance sheet date, did not receive in cash, for which individual impairment was identified. Interest was calculated with the effective interest rate applied in discounting expected cash flows for the purpose of estimating the impairment of loan receivables. Interest in 2006 amounts to PLN 26,463 thousand and in 2005 amounts to PLN 43,519 thousand. Accrued interest was taken into account in the process of estimating impairment charges for theses receivables.

11. Interest expense

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
On account of:		
Amounts due to banks	73 952	69 868
Amounts due to customers	398 798	510 471
- from financial sector	36 180	67 908
- from non-financial sector	309 193	374 183
- from the budgetary sector	53 425	68 380
Securities sold under repurchase agreements	30 385	28 476
Issued securities, including:	17 114	33 530
- subordinated securities	17 114	33 530
Other subordinated liabilities	18 592	23 535
Hedging instruments	3 485	0
Other	21 721	14 822
Total	**564 047**	**680 702**
Net interest income	**671 107**	**695 678**

12. Fee and commission income

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Fees and commissions on loans	27 852	30 182
Fees and commissions on deposit-related transactions with customers	124 045	123 373
Fees and commissions due for the servicing of payment cards and ATMs	67 270	49 300
Fees and commissions on foreign clearing operations	15 871	13 275
Fees and commissions on guarantee commitments	12 479	8 715
Commission on distribution of investment and insurance services	44 122	18 782
Other fees and commissions	8 355	13 543
Total	**299 994**	**257 170**

13. Fee and commission expense

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Fees for mortgages insurance	3 742	0
Brokerages	1 076	926
Fees and commissions due for the servicing of payment cards and ATMs	20 750	13 727
Other fees and commissions	6 304	6 301
Total	**31 872**	**20 954**
Net fee and commission income	**268 122**	**236 216**

14. Dividend income

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Available-for-sale shares	1 027	780
Total	**1 027**	**780**

15. Net trading income

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Net trading income, including:		
- debt securities	219	6 852
- on derivatives	27 654	36 684
- foreign exchange	106 663	96 300
- other	0	2 138
Total	**134 536**	**141 974**

16. Profit (loss) on hedging

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Profit/loss on hedging and hedged transactions, including		
- on hedging derivatives	238	0
- on hedged derivatives	-290	0
Total	**-52**	**0**

17. Profit (loss) from investment activity

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Available-for-sale assets and held-to-maturity assets:		
- equity instruments	3 019	5 337
- debt instruments	8 749	-9 743
Total	**11 768**	**-4 406**

18. Net income from sale of receivables portfolio

On 14.04.2006, the Bank concluded with an external entity (BEST I Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty) an agreement on the sale of receivables of Kredyt Bank S.A. and Żagiel S.A. The maximum principal of sold receivables amounted to PLN 1,044,771 thousand, which makes the transaction the largest transaction so far on the Polish market. As a result of signing two disposal agreements of 9 and 16 June 2006, the principal of PLN 929,970 thousand, including the Bank's amount of PLN 696,413 thousand, was sold. Profit from the transaction, which affected net profit, amounted to PLN 123,026 thousand.

The Bank's sold receivables portfolio is divided as follows:

	Receivables (principal amount)
Balance sheet receivables	580 943
Receivables written off from the balance sheet	115 470
Total principal	**696 413**

19. Other operating income

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Sale or liquidation of fixed assets and assets to be disposed	1 168	2 206
Recovered bad debts and debt recovery costs	9 954	21 073
Other sale of receivables	8 730	0
Indemnities, penalties and fines received	95	6 235
Side income	9 312	10 219
Reversals of impairment on other debtors' receivables	4 489	5 154
Lease income	3 930	3 285
Other operating income	5 613	10 664
Total	**43 291**	**58 836**

20. General and administrative expenses

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Staff costs, including:	**383 852**	**362 277**
- salaries and wages	309 398	295 023
- salaries and wages mark-up	52 186	50 196
- employee benefits	12 571	10 165
- training expenses	9 697	6 893
Operating expense, including:	**331 276**	**313 015**
- costs of buildings maintenance and lease	102 749	101 246
- postal and telecommunication expenses	52 032	48 198
- IT systems operation costs	26 175	24 881
- promotion and advertising services	26 461	20 061
- costs of machinery repairs and services provided under warranties	12 353	10 627
- property protection costs	15 935	17 082
- costs of balance sheet audit, consulting and advisory	12 702	11 796
- leasing fees	13 937	19 553
- transportation costs	10 277	8 847
- other banking services	22 010	19 406

- materials purchase	11 442	6 532
- business trips costs	4 402	3 797
- taxes and fees	6 388	5 453
- other	14 413	15 536
Depreciation and amortization, including:	**99 515**	**125 694**
- fixed assets	59 111	83 171
- intangible assets	40 404	42 523
Total	**814 643**	**800 986**

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.

Gross leasing payments paid by the Bank and recognized in particular reporting periods as operating expense were as follows (rent + VAT):

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Leasing payments	76 617	77 901

The major portions of fee 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:

	31.12.2006	Comparable data as at 31.12.2005
Future gross minimum leasing fees		
- up to 1 year	56 777	78 006
- between 1 and 5 years	168 556	201 013
- over 5 years	60 357	98 917
Total	**285 690**	**377 936**

Under operating leases, the Bank operates two Headquarters buildings, which, towards the end of 2004, were sold to companies not related to the Bank and are now leased 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 the financial leasing and, therefore, are classified as operating leasing contracts.

21. Change in impairment charges for assets and provisions

Creation of impairment charges for assets and provisions

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Creation of impairment charges for assets		
Credits and loans	837 114	489 131
Available-for- sale financial assets	876	16 564
Assets to be disposed, tangible fixed assets and intangible assets	11 098	18 032
Total impairment charges	**849 088**	**523 727**
Creation of impairment charges for provisions		
Provision for restructuring	12 482	0
Provisions for employee benefits	272	0
Provisions for future liabilities	20 578	11 373
Off-balance sheet liabilities	124 558	101 098
Total provisions	**157 890**	**112 471**
Total	**1 006 978**	**636 198**

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Reversal of impairment charges for assets		
Credits and loans	866 175	594 147
Available-for- sale financial assets	0	2 470
Assets to be disposed, tangible fixed assets and intangible assets	113	2 022
Total impairment charges	**866 288**	**598 639**
Provisions reversals		
Off-balance sheet liabilities	170 816	67 182
Other provisions	2 055	0
Total reversals of provisions	**172 871**	**67 182**
Total	**1 039 159**	**665 821**
Net impairment charges for financial assets, other assets and provisions	**32 181**	**29 623**

22. Other operating expenses

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Loss on the sale of debt and debt recovery costs	24 364	24 237
Other impairment charges	3 926	6 474
Insurance	5 837	8 552
Disposal or liquidation of fixed assets and intangible assets	2 480	2 427
Indemnities, penalties and fines paid	608	1 116
Other expenses	6 267	7 103
Total	**43 482**	**49 909**

23. Income tax expense in the income statement

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Current income tax	-28 633	-507
Deferred income tax	39 195	102 215
Income tax on net profit	**10 562**	**101 708**

Current income tax presented in the income statement

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Profit before tax	**426 881**	**307 806**
Net profit on discontinued operations	0	974
Permanent differences	**-148 141**	**-42 666**
Special purpose and other provisions	-572 718	-100 273
Dividends received	-1 389	-780
Depreciation – non tax deductible expenses	44	2 142
Penalty interest	608	1 116
Other, including:	425 314	55 129
- PFRON (State Fund for Rehabilitation of Disabled Persons)	4 032	3 784
- valuation of shares not held for sale	0	13 281
- loss on the sale of debt	399 972	43 348
- other	21 310	-5 284
Temporary differences	**-15 819**	**-113 145**
Interest on deposits	-7 920	-46 261
Cost of interest included in the bonds price	27 280	21 116
Valuation of derivative transactions (net asset and provision)	-2 001	-9 123
Tax goodwill	-44 643	-40 914
Accruals for expenses	29 940	11 339
Finance lease	-1 175	6 148
Interest to be received	-39 648	-44 852
Non-depreciated fixed assets subject to investment relief	231	919
Difference between accounting and tax depreciation rates	21 162	22 292
Provisions- temporary differences	22 513	-35 410
Commissions received settled according to EIR	-31 516	17 600
Due commissions on banking accounts	-7 751	2 218
Other temporary differences	17 709	-18 217
Total	**262 921**	**152 969**
Prior period tax losses settlements	-112 012	-149 984
Reliefs and donations	-257	-499
Tax base for income tax calculation	**150 652**	**2 487**

Tax rate	19%	19%
Income tax	**-28 624**	**-473**
Income tax withheld abroad non-deductible in Poland in the payment year	-9	-34
Total current income tax	**-28 633**	**-507**

Deferred income tax presented in the income statement

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Increase due to establishment and reversal of temporary differences	39 195	102 215
Total deferred tax	**39 195**	**102 215**

As mentioned in Chapter 8 of this financial statement, from 30 June 2005, due to the improving financial results, the Bank decided to recognize an excess of the deferred tax asset over deferred tax liability in the amount probable to be realized in the future. At the end of each quarter, the Bank assesses the probability of realizing net deferred tax asset and recognizes it in the amount of the probable future realization amount on that account, having regard for prudent valuation principle. The probability of realizing net deferred tax asset is determined on the basis of financial plans and tax forecasts prepared by the Bank's Management Board, updated on an ongoing basis as at the end of each quarter.

Reconciliation of effective tax rate

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Profit before tax	426 881	**307 806**
Net profit on discontinued operations	0	974
Theoretical effective tax burden on profit before tax	-81 107	-58 668
Permanent differences	28 147	8 107
Additional tax asset due to the change in the method of calculating an asset on temporary provisions	26 984	0
Temporary differences which become permanent	0	20 688
Recognized excess of asset regarding differences from prior years	36 499	102 215
Other	0	335
Losses from previous periods not recognized in deferred tax asset	0	28 497
Donations	48	95
Tax deductions	-256	0
Tax paid abroad deductible in Poland	256	473
Tax paid abroad non-deductible in Poland	-9	-34
Income tax expense in the income statement	**10 562**	**101 708**

24. Earnings per share (EPS)

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Net profit (loss)	437 443	410 488
Weighted average number of ordinary shares	271 658 880	271 658 880
Net profit (loss) per share	**1.61**	**1.51**

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

25. Cash and balances with Central Bank

By type

	31.12.2006	Comparable data as at 31.12.2005
Cash in hand	416 766	385 047
Current account in the central bank	223 956	222 022
Total	**640 722**	**607 069**

By currencies

	31.12.2006	Comparable data 31.12.2005
in PLN	600 897	551 100
In foreign currencies (by currency and translated into PLN)	39 825	55 969
- in EUR	19 830	29 556
- in USD	13 917	20 334
- in GBP	4 933	4 673
- in CHF	697	960
- other currencies	448	446
Total	**640 722**	**607 069**

26. Receivables from banks

By type

	31.12.2006	Comparable data 31.12.2005
Current accounts	29 774	22 531
Deposits in other banks	2 034 381	2 151 218
Loans and advances to banks	71 729	37 121
Purchased debt	25 963	0
Other	0	6
Interest	20 546	18 672
Total	**2 182 393**	**2 229 548**

By currencies

	31.12.2006	Comparable data 31.12.2005
in PLN	1 024 193	676 613
In foreign currencies (by currency and translated into PLN)	1 158 200	1 552 935
- in EUR	191 606	536 368
- in USD	814 831	931 001
- in GBP	33 658	32 852
- in CHF	95 951	37 655
- other currencies	22 154	15 059
Total	**2 182 393**	**2 229 548**

By maturity dates

	31.12.2006	Comparable data 31.12.2005
- up to 1 month	1 513 133	1 249 010
- 1-3 months	146 195	392 722
- 3-6 months	191 075	153 226
- 6 months to 1 year	136 062	375 904
- 1 - 3 years	110 750	0
- 3 - 5 years	61 879	37 120
- past due	2 753	2 894
- interest	20 546	18 672
Total	**2 182 393**	**2 229 548**

Gross receivables

	31.12.2006	Comparable data 31.12.2005
Receivables with no allowance for individual impairment	2 159 094	2 207 982
Receivables with allowances for individual impairment	2 753	2 894
Interest	20 546	18 672
Total	**2 182 393**	**2 229 548**

Average effective interest rates of term deposits in other banks were as follows (by main currencies):

	31.12.2006	Comparable data 31.12.2005
EUR	3.5	2.3
GBP	5.4	4.7
PLN	4.1	4.5
USD	5.2	4.2

All deposits were fixed interest rate deposits.

27. Allowances for impairment losses on receivables from banks

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Allowances for impairment losses on receivables from banks at period beginning	2 894	3 194
a) increase	0	0
b) decrease	141	0
c) utilization	0	300
- receivables written off in the year as bad debts	0	300
Period end	**2 753**	**2 894**

28. Financial assets at fair value through profit and loss account, including held-for-trading assets

	31.12.2006	Comparable data 31.12.2005
Held-for-trading debt securities	495 248	460 926
Financial assets at fair value through profit and loss	117 664	26 692
Total	**612 912**	**487 618**

	31.12.2006	Comparable data as at 31.12.2005
Debt securities	**608 735**	**487 618**
Treasury securities	608 124	202 189
- bonds	250 241	162 130
- bills	357 883	40 059
Central Bank securities	0	280 754
- bills	0	280 754
Other securities	611	4 675
- bonds	611	4 675
Participation units in investment funds	**4 177**	**0**
Total	**612 912**	**487 618**

	31.12.2006	Comparable data as at 31.12.2005
Listed		
- bonds	250 852	166 805
- bills	357 883	320 813
- participation units in investment funds	4 177	0
Total	**612 912**	**487 618**

Financial assets at fair value through profit and loss by currencies (by maturity dates)

	31.12.2006	Comparable data as at 31.12.2005
- up to 1 month	349 249	293 218
- 1-3 months	31 432	55
- 3-6 months	6 474	5 989
- 6 months to 1 year	8 683	51 452
- 1 - 3 years	51 091	63 077
- 3 - 5 years	118 736	13 612
- 5 - 10 years	37 498	55 133
- 10 - 20 years	5 572	5 082
- with unspecified maturity dates	4 177	0
Total	**612 912**	**487 618**

Financial assets at fair value through profit and loss by currencies

	31.12.2006	Comparable data as at 31.12.2005
in PLN	594 785	461 659
In foreign currencies (by currency and translated into PLN)	18 127	25 959
- in EUR	8 190	15 979
- in USD	9 794	9 291
- in GBP	143	689
Total	**612 912**	**487 618**

29. Valuation of financial instruments

Derivatives (by types)

	31.12.2006		Comparable data 31.12.2005	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate transactions	**244 093**	**258 084**	**161 378**	**178 384**
IRS	187 951	199 609	145 617	160 257
FRA	56 142	58 475	15 761	18 127
Foreign exchange transactions	**53 316**	**34 264**	**54 892**	**35 510**
FX swap	10 091	9 033	20 792	23 612
CIRS	24 961	5 910	17 997	0
Forward	7 635	8 893	5 754	5 595
Options purchased	10 324	0	10 180	0
Options sold	0	10 259	0	6 233
Other	305	169	169	70
Other	**18**	**0**	**0**	**0**
Futures	18	0	0	0
Embedded instruments	**0**	**4 126**	**0**	**6 261**
Total	**297 427**	**296 474**	**216 270**	**220 155**

Derivatives (by maturity dates)

	31.12.2006		Comparable data as at 31.12.2005	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate transactions (fair value)	**244 093**	**258 084**	**161 378**	**178 384**
Interest rate transactions (nominal value)	**68 532 762**	**60 594 823**	**38 991 520**	**32 705 565**
- up to 1 month	3 312 085	600 000	475 000	125 000
- 1-3 months	1 901 050	2 325 000	2 725 000	2 375 000
- 3-6 months	13 260 000	10 516 420	13 115 000	8 370 000
- 6 months to 1 year	23 295 370	22 335 204	19 681 000	19 010 000
- 1 - 3 years	25 913 000	24 061 299	2 364 000	2 332 000
- 3 - 5 years	643 657	600 300	418 920	346 965
- 5 - 10 years	207 600	156 600	212 600	146 600
Foreign exchange transactions (fair value)	**53 316**	**34 264**	**54 892**	**35 510**
Foreign exchange transactions (nominal value)	**4 364 418**	**4 350 481**	**3 957 279**	**3 944 799**
- up to 1 month	1 474 217	1 464 506	1 759 760	1 754 708
- 1-3 months	550 023	546 851	849 522	850 060
- 3-6 months	904 660	905 640	583 706	581 157
- 6 months to 1 year	1 276 770	1 277 470	377 141	379 520
- 1 - 3 years	158 748	156 014	387 150	379 354
Other (fair value)	**18**	**0**	**0**	**0**
Other (nominal value)	**0**	**3 839**	**0**	**0**
- 1-3 months	0	3 839	0	0
Total fair value (*	**297 427**	**292 348**	**216 270**	**213 894**
Total nominal value	**72 897 180**	**64 949 143**	**42 948 799**	**36 650 364**

* excluding embedded derivatives

30. Loans and advances to customers

By types

	31.12.2006	Comparable data as at 31.12.2005
Loans and advances	12 759 633	11 887 984
Purchased debt	30 060	91 120
Realized guarantees and sureties	31 728	64 618
Other receivables	77	69 032
Interest	86 337	79 827
Total	**12 907 835**	**12 192 581**

By currencies

	31.12.2006	Comparable data as at 31.12.2005
in PLN	9 371 727	9 000 981
In foreign currencies (by currency and translated into PLN)	3 536 108	3 191 600
- in EUR	1 387 007	1 409 786
- in USD	320 356	548 674
- in CHF	1 826 519	1 231 141
- other currencies	2 226	1 999
Total	**12 907 835**	**12 192 581**

By maturity dates

	31.12.2006	Comparable data as at 31.12.2005
- up to 1 month	326 101	246 010
- 1-3 months	575 958	679 240
- 3-6 months	699 006	545 116
- 6 months to 1 year	2 805 464	2 719 057
- 1 - 3 years	1 993 800	1 812 288
- 3 - 5 years	1 435 936	1 127 096
- 5 - 10 years	1 843 582	1 508 526
- 10 - 20 years	1 496 784	964 944
- over 20 years	664 365	419 051
- past due	980 502	2 091 426
- interest	86 337	79 827
Total	**12 907 835**	**12 192 581**

Receivables by customer types

	31.12.2006	Comparable data as at 31.12.2005
Natural persons*	**6 198 596**	**5 208 456**
- overdraft facilities	519 281	514 368
- purchased debt	4 157	25 861
- instalment term loans	2 510 365	2 630 716
- mortgage loans	3 163 274	2 035 351
- realized guarantees	1 519	2 160
Corporate customers	**6 054 977**	**6 238 756**
- overdraft facilities	1 067 449	934 801
- term loans	4 931 358	5 107 226
- purchased debt	25 884	65 239
- realized guarantees	30 209	62 458
- other receivables	77	69 032
Budget	**567 925**	**665 542**
- overdraft facilities	3 460	1 921
- term loans	564 446	663 601
- purchased debt	19	20
Interest	86 337	**79 827**
Total	**12 907 835**	**12 192 581**

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

Below, we present the share of floating interest rate products in the receivables portfolio.

	31.12.2006	Comparable data as at 31.12.2005
	85.9%	80%

Average effective interest rate

Average effective interest rates of loan receivables were as follows (by main currencies):

	31.12.2006	Comparable data as at 31.12.2005
CHF	4.1	4.1
EUR	5.4	4.6
PLN	9.2	9.6
USD	7.7	6.6

Classification by evidence of impairment

	31.12.2006	Comparable data 31.12.2005
Receivables with no allowance for individual impairment	11 004 177	8 940 476
Receivables with allowances for individual impairment	1 817 321	3 172 278
Interest	86 337	79 827
Total	**12 907 835**	**12 192 581**

As at 31 December 2006, the amount of non-amortized loan commissions settled with the effective interest rate, which, according to the concept of the measurement of financial assets at amortized cost decreases the value of gross receivables, amounted to PLN 88,655 thousand, and as at 31 December 2005, it amounted to PLN 123,563 thousand. The amounts were already recognized in total gross receivables.

Receivables quality ratio

According to the method of presenting the quality of loans and advances to customers applied in KBC Group, non-performing loans (NPL) were separated from the portfolio of loans for which evidence of impairment was identified. NPLs are defined as loans with delayed repayment of interest or principal exceeding 90 days.

in '000' PLN	31.12.2006	Comparable data 31.12.2005
Receivables with no allowance for individual impairment with interest	11 040 743	8 974 128
Receivables with allowance for individual impairment with interest	1 867 092	3 218 453
including: NPL with interest	1 090 607	2 272 328
Total gross loan and advances to customers	**12 907 835**	**12 192 581**
Impairment charges for loans and advances to customers	1 100 617	2 319 248
including: impairment charges for receivables with allowances for individual impairment	1 046 335	2 230 500
including: Impairment charges for NPL	795 763	1 807 374
Total net loans and advances to customers	**11 807 218**	**9 873 333**
The share of receivables with allowances for individual impairment in total gross receivables	**14.5%**	**26.4%**
Share of NPL in total gross receivables	**8.4%**	**18.6%**
Coverage of receivables with allowances for individual impairment with impairment charges	**56.0%**	**69.3%**
Coverage of NPL with impairment charges	**73.0%**	**79.5%**

The improvement of the quality of Bank's receivables portfolio ratios resulted to a large extent from the sale of receivables to the securitisation fund referred to in Note 18 and the write-off of non-recoverable receivables of PLN 478 million from the balance sheet to off-balance sheet items in 2006. Over the last 12 months, the value of the receivables for which evidence of impairment was identified decreased by 42 %. As a result, over the last 12 months, the quality ratio for the Bank's gross receivables portfolio improved by 11.9 p.p., and for NPLs by 10.2 p.p.

Loan securities accepted by the Bank

In the case of receivables for which impairment was identified, the total value of collateral approved by the Bank considered for estimated future cash flow (prior to discounting) is presented in the table below.

	31.12.2006	Comparable data 31.12.2005
Value of approved collateral	682 969	1 111 126

31. Allowances for impairment losses on loans and advances to customers

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Allowances for impairment charges for loans and advances to customers at period beginning	2 319 248	2 683 039
a) increase	**838 429**	**491 299**
- impairment charge for loans and advances	837 114	489 131
- other changes	1 315	0
- currency translation differences	0	2 168
b) decrease	**872 558**	**608 588**
- reversal of impairment charges for loans and advances	866 034	594 147
- other changes	1 283	0
- currency translation differences	5 241	14 441
c) utilization	**1 184 502**	**246 502**
- loan receivables written off in the period as bad debts	1 184 502	246 502
Period end	**1 100 617**	**2 319 248**

Portfolio impairment

Portfolio impairment of incurred but not reported (IBNR) credit losses for homogenous balance sheet and off-balance sheet receivables portfolios as at 31 December 2006 amounted to PLN 54,282 thousand, and as at 31 December 2005, to PLN 88,748 thousand.

32. Investment securities

	31.12.2006	Comparable data 31.12.2005
Available-for-sale securities	**3 453 890**	**4 417 819**
Treasury securities	2 888 291	2 037 957
- bonds	2 788 421	2 003 354
- bills	99 870	34 603
Central Bank securities	331 563	2 208 510
- bonds	331 563	336 847
- bills	0	1 871 663
Other securities	228 612	169 397
- bonds	228 612	159 382
- shares in investment funds	0	10 015
Equity securities	5 424	1 955
Held-to-maturity securities	**2 448 773**	**2 291 832**
Treasury securities	2 448 773	2 114 595
- bonds	2 448 773	2 114 595
Other securities	0	177 237
- bonds	0	177 237
Total	**5 902 663**	**6 709 651**

All investment securities classified in the portfolio of available-for-sale financial assets are measured at fair value, except for NBP bonds issued for the purpose of statutory reserve of banks, commercial bonds of the Industry Development Agency and non-listed equity investments (equity investments in shares of the Bank's Capital Group companies are presented in Note 32). NBP bonds and commercial bonds are measured at amortized cost, as there is no active market for them, and NBP bonds may only be redeemed by the issuer. Equity investments are recognized at cost, as there is also no active market for them and their fair value cannot be determined reliably.

	31.12.2006	Comparable data 31.12.2005
Available-for-sale securities	**3 453 890**	**4 417 819**
Listed	**3 115 034**	**4 261 501**
- shares	3 584	0
- bonds	3 011 580	2 345 220
- bills	99 870	1 906 266
- shares in investment funds	0	10 015
Non-listed	**338 856**	**156 318**
- shares	1 840	1 955
- bonds	337 016	154 363
Held-to-maturity securities	**2 448 773**	**2 291 832**
Listed	**2 448 773**	**2 291 832**
- bonds	2 448 773	2 291 832
Non-listed	**0**	**0**
Total	**5 902 663**	**6 709 651**

Movement in available-for-sale investment securities

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Period beginning	4 417 819	**1 780 585**
a) increase	40 868 056	45 818 202
- acquisition	40 834 046	45 742 805
- other increase	34 010	75 397
b) decrease	41 831 985	43 180 968
- sale	41 816 560	43 180 003
- other decrease	15 425	965
Period end	**3 453 890**	**4 417 819**

Movement of held-to-maturity investment securities

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Period beginning	2 291 832	**1 269 162**
a) increase	904 347	1 251 792
- acquisition	884 004	1 222 391
- other increase	20 343	29 401
b) decrease	747 406	229 122
- redemption	739 261	229 122
- other decrease	8 145	0
Period end	**2 448 773**	**2 291 832**

Maturities of available-for-sale investment securities

	31.12.2006	Comparable data 31.12.2005
- up to 1 month	110 173	1 871 663
- 1-3 months	23 800	48 025
- 3-6 months	327 403	149 613
- 6 months to 1 year	172 772	110 033
- 1 - 3 years	786 980	903 021
- 3 - 5 years	1 265 137	627 526
- 5 - 10 years	752 791	695 968
- 10 - 20 years	9 410	0
- with unspecified maturity dates	5 424	11 970
Total	**3 453 890**	**4 417 819**

Maturities of held-to-maturity investment securities

	31.12.2006	Comparable data 31.12.2005
- up to 1 month	14 740	0
- 1-3 months	23 447	26 960
- 3-6 months	306 214	168 179
- 6 months to 1 year	109 015	559 018
- 1 - 3 years	620 760	803 489
- 3 - 5 years	1 202 107	646 866
- 5 - 10 years	157 763	87 320
- 10 - 20 years	14 727	0
Total	**2 448 773**	**2 291 832**

Currency structure of available-for-sale investment securities

	31.12.2006	Comparable data 31.12.2005
in PLN	3 185 971	4 202 405
In foreign currencies (by currency and translated into PLN)	267 919	215 414
- in EUR	234 191	143 719
- in USD	33 728	71 695
Total	**3 453 890**	**4 417 819**

Currency structure of held-to-maturity investment securities

	31.12.2006	Comparable data 31.12.2005
in PLN	2 310 105	2 114 595
In foreign currencies (by currency and translated into PLN)	138 668	177 237
- in EUR	97 462	82 050
- in USD	41 206	95 187
Total	**2 448 773**	**2 291 832**

33. Financial assets subject to hedge accounting

As at 31.12.2006

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 4.41% (31.12.2006)	every 6 months
50 000	24.09.2011	variable 4.41% (31.12.2006)	every 6 months
36 000	24.09.2011	variable 4.41% (31.12.2006)	every 6 months

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Valuation in 2006 recognized in equity
		coupon received	coupon paid	coupon received	coupon paid	
100 000	24.09.2009	fixed 5.32%	WIBOR 6M	annually	every 6 months	1 164
50 000	25.09.2008	fixed 5.25%	WIBOR 6M	annually	every 6 months	411
36 000	23.03.2009	fixed 4.38%	WIBOR 6M	annually	every 6 months	-311
					Total	**1 264**

Financial assets subject to cash flow hedge accounting

- loans portfolio

Hedged assets – overdraft loans portfolio of PLN 100,000 thousand based on WIBOR O/N rate.

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Valuation in 2006 recognized in equity
		coupon received	coupon paid	coupon received	coupon paid	
50 000	14.12.2009	fixed 4.78%	WIBOR 3M	annually	every quarter	-44
50 000	18.12.2009	fixed 4.78%	WIBOR 3M	annually	every quarter	-25
					Total	**-69**

The aim of the hedge is the change of floating interest rate cash flows generated by 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 fixed interest rate. The hedge involves two 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 loans portfolio and receives cash flows at fixed interest rate with required maturity. The above structure makes it possible to change the floating interest rate into fixed interest rate without the necessity of employing additional liquid cash for the purchase of new assets (e.g. fixed coupon bonds), at the same time ensuring stable impact on the Bank's result by recognizing changes of fair value of swaps in the Bank's equity.

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 in 2006 recognized in the income statement
25 389	24.10.2013	fixed 5%	annually	-455

IRS's hedging fair value of bonds

Nominal value	Maturity date	Interest rate		Coupon rate payment	
		coupon received	coupon paid	coupon received	coupon paid
26 000	03.10.2013	WIBOR 3M	fixed 4.595%	every quarter	annually

Comparable data as at 31.12.2005

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 in 2005 recognized in the income statement
25 389	24.10.2013	fix 5%	annually	-374
24 118	24.11.2010	fix 6%	annually	50
14 400	24.03.2010	fix 5.75%	annually	-194
			Total	**-518**

IRS's hedging fair value of bonds

Nominal value	Maturity date	Interest rate		Coupon rate payment	
		coupon received	coupon paid	coupon received	coupon paid
26 000	03.10.2013	WIBOR 6M	fix 4.595%	every 6 months	annually
25 000	16.12.2010	WIBOR 3M	fix 5.11%	every quarter	annually
15 000	12.04.2010	WIBOR 3M	fix 4.66%	every quarter	annually

The rules of recognizing and measuring the effectiveness of the hedges for transactions subject to hedge accounting are described in Note 6.5.7 of this financial statement.

34. Equity investments classified as available-for-sale

	31.12.2006	Comparable data 31.12.2005
In entities of the financial sector	2 598	35 154
In entities of the non-financial sector	71 233	56 221
Total	**73 831**	**91 375**

The Bank sold, to BFI Serwis Sp. z o.o. (the Bank's subsidiary), 16 720 shares in BFI Serwis Sp. z o.o. in order to cancel them. They accounted for 86.86% stake in the share capital and the total number of votes at the General Meeting of Shareholders of BFI Serwis Sp. z o.o. Following the sale of the shares, the Bank holds 2,529 shares in BFI Serwis Sp. z o.o., i.e. 99.96% stake in the share capital and the total number of votes at the General Meeting of Shareholders of BFI Serwis Sp. z o.o.

Under an agreement of 26 July 2006, the Bank acquired, from DOM JMJ Sp. z o.o., 40 shares in Reliz Sp. z o.o. with the nominal value of PLN 625 each. The acquired shares are subject to a full impairment charge. The acquired shares account for 100% stake in the share capital and the votes at the General Meeting of Shareholders of the company.

On 31 October 2006, Kredyt Trade Sp. z o.o. merged with KB Zarządzanie Aktywami S.A. and Victoria Development Sp. z o. o. As the result of the combination, Victoria Development Sp. z o.o. and KB Zarządzanie Aktywami S.A. ceased to exist and their assets were transferred to Kredyt Trade Sp. z o.o. As at the date of the combination, total capitals of Kredyt Trade Sp. z o.o. were equal to total capitals of combined companies.

The Bank sold, to Zakłady Odzieżowe Bytom S.A., 160,195 registered shares of Zakłady Przemysłu Jedwabniczego Dolwis S.A. based in Leśna, which accounted for 50.06% of the share capital of ZPJ Dolwis S.A. and 50.06% of votes at the General Meeting of Shareholders of ZPJ Dolwis S.A. Nominal value of shares in ZPJ Dolwis S.A. amounts to PLN 1.57 per share. The book value of disposed shares in the Bank's books amounted to PLN 0. The shares selling price amounted to PLN 167 thousand.

CAPITAL INVESTMENTS IN SHARES OF SUBORDINATED COMPANIES AS AT 31.12.2006

Lp.	a	b	c	d	e						f			g			h	i	j
	Company	Line of business	Carrying amount of shares	Total assets	Shareholders' capital, including:						Liabilities, including:			Receivables, including:			Sales	Bank's stake in capital (%)	Bank's share in total number of shares
						Share capital	reserve capital	Other shareholders' capital,	Retained earnings	Net profit (loss)		short-term liabilities	long-term liabilities		short-term receivables	long-term receivables			
1	Kredyt Trade Sp z.o.o.	Organisation of trainings	69 809	140 574	97 564	64 179	24 852	8 533	690	7 843	43 010	23 583	19 427	110 136	72 840	37 296	49 595	99,99	99,99
2	BFI Serwis Sp z.o.o.	Banking investments	2 529	2 974	2 972	2 530	0	442	-77	519	2	2	0	2 364	2 364	0	401	99,96	99,96
3	Żagiel S.A.	Intermediaries in retail sales	0	97 574	49 612	23 964	97 015	-71 367	3 815	-77 182	47 962	47 962	0	74 118	74 034	84	140 121	100	100
4	Kredyt Lease S.A.	Leasing services	0	210 447	7 744	27 501	12 525	-32 282	-34 143	1 861	202 703	77 839	124 864	178 428	74 363	104 065	28 386	99,98	99,98
5	Kredyt International Finance B.V.	Financial services	69	2 474	1 443	67	0	1 376	3 579	-1 558	1 031	1 031	0	2 474	2 474	0	9	100,00	100,00
6	Net Banking Sp z.o.o.	Internet banking	1 424	1 643	1 631	1 424	0	22	0	22	12	12	0	1 643	1 643	0	41	99,96	99,96
7	Reliz	Estate management	0	235 334	-9 478	50	0	-9 528	-3 472	-6 056	244 812	14 527	230 285	3 014	2 614	400	24 193	100,00	100,00
	Total balance sheet value of shares		73 831																

CAPITAL INVESTMENTS IN SHARES OF SUBORDINATED COMPANIES AS AT 31.12.2005																			
Lp.	a	b	c	d	e						f			g			h	i	j
	company	line of business	carrying amount of shares	total assets	shareholders' capital, including	share capital	reserve capital	other shareholders' capital	retained earnings	net profit (loss)	liabilities including:	short-term liabilities	long-term liabilities	receivables	short-term receivab	long-term receivables	sales	Bank's stake in capital (%)	Bank's share in total number of
1	Kredyt Trade Sp z.o.o.	organisation of trainings	36 697	141 850	42 373	27 500	10 883	3 990	670	3 320	63 156	13 288	49 868	72 840	23 798	49 042	48 485	99,99	99,99
2	BFI Serwis Sp z.o.o.	banking investments	19 249	19 546	19 527	19 250	4 081	-3 805	0	-3 805	19	19	0	17 103	17 103	0	872	99,99	99,99
3	Victoria Development Sp z.o.o	construction services	18 100	36 554	36 544	6 466		30 078		453				32 223	32 223		1 882	99,99	99,99
4	Żagiel S.A.	intermediaries in retail sale	0	199 279	126 794	23 964	76 205	26 625	7 608	17 017	41 013	41 013		287 129	5 581	281 548	176 816	100	100
5	Kredyt Lease S.A.	leasing services	826	168 770	4 872	27 501	12 525	-35 154	-22 929	-12 225	160 959	59 069	101 890	184 935	62 280	122 655	35 170	99,96	99,96
6	Kredyt International Finance B.V.	financial services	67	2 888	2 725	67		2 658	4 816	-1 521				1 940	1 940		35 170	100,00	100,00
7	PTE Kredyt Bank S.A.	open pension fund management	0	0	0	0		0	0	0				0	0		0	100,00	100,00
8	Net Banking Sp z.o.o.	internet banking	1 424	1 623	1 609	1 425	0	184	0	45	14	14	0	1 623	1 623	0	69	99,96	99,96
9	KB Zarzadzanie Aktywami S.A.	funds' asset management	15 012	16 487	16 478	15 012	246	1 220	380	840	9	9	0	16 487	16 487	0	11 789	100,00	100,00
10	Zakłady Przemysłu Jedwabniczego "Dolwis" S.A.	production of fabrics, textile industry	0	34 552	11 058	502	8 766	-1 986		-1 986	23 246	23 246		10 128	10 025	103	31 168	74,85	74,85
	total balance sheet value of shares		91 375																

On 22 December 2005, the Extraordinary General Meeting of Shareholders of PTE Kredyt Bank S.A. approved the company's winding-up report and on 23 December 2005 the financial statement was submitted, along with the resolution of the Extraordinary General Meeting of Shareholders, to the Registry Court for the capital city of Warsaw, with a request to delete PTE Kredyt Bank S.A. from the National Court Register.

35. Property, plant and equipement

	31.12.2006	Comparable data 31.12.2005
Fixed assets, including:	**275 498**	**301 840**
- land	6 973	6 973
- buildings and premises	145 486	158 416
- plant and machinery	47 526	66 844
- motor vehicles	9 465	3 428
- other fixed assets	66 048	66 179
Construction in progress	49 552	39 225
Total	**325 050**	**341 065**

Movement of fixed assets

For the period of 12 months ended 31.12.2006

	Land	Buildings and premises	Plant and machinery	Motor vehicles	Other fixed assets	Construction in progress	Total fixed assets
a) Gross fixed assets as at 01.01.2006	7 585	209 138	440 710	7 505	125 714	39 225	829 877
b) increase	0	1 828	22 085	8 525	14 448	30 976	77 862
- acquisition	0	1 781	20 918	0	14 448	30 976	68 123
- other increase	0	47	1 167	8 525	0	0	9 739
c) decrease	214	10 557	23 928	1 686	3 637	20 649	60 671
- sale	0	0	7 597	1 495	0	0	9 092
- liquidation	0	235	12 577	128	3 036	0	15 976
- other decrease	214	10 322	3 754	63	601	20 649	35 603
d) gross fixed assets as at 31.12.2006	7 371	200 409	438 867	14 344	136 525	49 552	847 068
e) accumulated depreciation of fixed assets as at 01.01.2006	203	35 170	371 618	4 077	58 823	0	469 891
f) Net fixed assets as at 01.01.2006	6 973	158 416	66 844	3 428	66 179	39 225	341 065
g) changes in depreciation	0	3 906	18 148	562	10 561	0	33 177
- amortization	0	4 847	39 844	1 909	12 511	0	59 111
- sale	0	0	-7 579	-1 290	0	0	-8 869
- liquidation	0	-104	-12 154	-35	-1 781	0	-14 074
- other changes	0	-837	-1 963	-22	-169	0	-2 991
h) accumulated amortization (depreciation) as at 31.12.2006	203	39 076	389 766	4 639	69 384	0	503 068
i) impairment charges as at 01.01.2006	409	15 552	2 248	0	712	0	18 921
- increase	0	845	357	281	505	0	1 988
- decrease	214	550	1 030	41	124	0	1 959
j) impairment charges as at 31.12.2006	195	15 847	1 575	240	1 093	0	18 950
Net fixed assets as at 31.12.2006	**6 973**	**145 486**	**47 526**	**9 465**	**66 048**	**49 552**	**325 050**

Comparable data for the period of 12 months ended 31.12.2005

	land (including right to perpetual usufruct of land)	buildings, premises and civil- and hydro-engineering structures	plant and machinery	motor vehicles	other fixed assets	construction in progress	total fixed assets
a) Gross fixed assets as at 01.01.2005	6 473	178 211	454 445	7 671	127 646	18 312	**792 758**
b) Increase	1 349	32 644	17 873	2 799	2 054	21 114	**77 833**
- acquisition	1 349	20 105	17 873	191	2 054	12 309	**53 881**
- other increase	0	12 539	0	2 608	0	8 805	**23 952**
c) Decrease	237	1 717	31 608	2 965	3 986	201	**40 714**
- sale	14	1 219	21 691	2 829	476	0	**26 229**
- liquidation	52	34	8 717	136	2 876	0	**11 815**
- other decrease	171	464	1 200	0	634	201	**2 670**
d) Gross fixed assets as at 31.12.2005	7 585	209 138	440 710	7 505	125 714	39 225	**829 877**
e) accumulated depreciation of fixed assets as at 01.01.2005	155	30 993	335 601	5 830	48 895	0	**421 474**
f) Net fixed assets as at 01.01.2005	6 318	146 030	117 252	1 227	77 356	12 690	**360 873**
g) changes in depreciation	48	4 177	36 017	-1 753	9 928	0	**48 417**
- amortization	65	4 797	65 118	1 038	12 153	0	**83 171**
- sale	0	-57	-18 510	-2 711	-402	0	**-21 680**
- liquidation	0	-170	-8 388	-80	-1 688	0	**-10 326**
- other changes	-17	-393	-2 203	0	-135	0	**-2 748**
h) accumulated amortization (depreciation) as at 31.12.2005	203	35 170	371 618	4 077	58 823	0	**469 891**
i) impairment charges as at 01.01.2005	0	1 188	1 592	614	1 395	5 622	**10 411**
- increase	409	14 364	814	0	0	0	**15 587**
- decrease	0	0	158	614	683	5 622	**7 077**
j) impairment charges as at 31.12.2005	409	15 552	2 248	0	712	0	**18 921**
Net fixed assets as at 31.12.2005	**6 973**	**158 416**	**66 844**	**3 428**	**66 179**	**39 225**	**341 065**

36. Intangible assets

	31.12.2006	Comparable data 31.12.2005
Patents, licenses and similar rights, including:	59 954	100 480
- software	59 954	100 480
Other intangible assets	24 440	10 077
Total	**84 394**	**110 557**

Movement of intangible assets

For the period of 12 months ended 31.12.2006

	Patents, licenses and similar rights	including: software	Other intangible assets	Total intangible assets
a) gross intangible assets as at 01.01.2006	259 742	259 742	36 229	**295 971**
b) increase	3 861	3 861	15 836	**19 697**
- acquisition	2 719	2 719	15 590	**18 309**
- other increase	1 142	1 142	246	**1 388**
c) decrease	5 670	5 670	19 726	**25 396**
- sale	120	120	0	**120**
- liquidation	4 613	4 613	18 561	**23 174**
- other decrease	937	937	1 165	**2 102**
a) gross intangible assets as at 31.12.2006	257 933	257 933	32 339	**290 272**
e) accumulated amortization (depreciation) as at 01.01.2006	157 909	157 909	26 152	**184 061**
f) net intangible assets as at 01.01.2006	100 480	100 480	10 077	**110 557**
g) depreciation in the period	35 474	35 474	-18 253	**17 221**
- amortization	40 100	40 100	304	**40 404**
- sale	-20	-20	0	**-20**
- liquidation	-4 606	-4 606	-18 557	**-23 163**
h) accumulated amortization (depreciation) as at 31.12.2006	193 383	193 383	7 899	**201 282**
i) impairment charges as at 01.01.2006	1 353	1 353	0	**1 353**
- increase	4 179	4 179	0	**4 179**
- decrease	936	936	0	**936**
j) impairment charges as at 31.12.2006	4 596	4 596	0	**4 596**
Net intangible assets as at 31.12.2006	**59 954**	**59 954**	**24 440**	**84 394**

Comparable data for the period of 12 months ended 31.12.2005

	Patents, licenses and similar rights	**including: software**	**Other intangible assets**	**Total intangible assets**
a) gross intangible assets as at 01.01.2005	239 887	239 887	45 982	**285 869**
b) increase	24 555	24 555	6 436	**30 991**
- acquisition	9 446	9 446	6 436	**15 882**
- other increase	15 109	15 109	0	**15 109**
c) decrease	4 700	4 700	16 189	**20 889**
- sale	2 877	2 877	0	**2 877**
- other decrease	1 823	1 823	16 189	**18 012**
a) gross intangible assets as at 31.12.2005	259 742	259 742	36 229	**295 971**
e) accumulated amortization (depreciation) as at 01.01.2005	120 516	120 516	26 456	**146 972**
f) net intangible assets as at 01.01.2005	119 194	119 194	19 526	**138 720**
g) depreciation in the period	37 393	37 393	-304	**37 089**
- amortization	41 721	41 721	802	**42 523**
- sale	-2 728	-2 728	0	**-2 728**
- liquidation	-1 635	-1 635	-720	**-2 355**
- other changes	35	35	-386	**-351**
h) accumulated amortization (depreciation) as at 31.12.2005	157 909	157 909	26 152	**184 061**
i) impairment charges as at 01.01.2005	177	177	0	**177**
- increase	1 176	1 176	0	**1 176**
j) impairment charges as at 31.12.2005	1 353	1 353	0	**1 353**
Net intangible assets as at 31.12.2005	**100 480**	**100 480**	**10 077**	**110 557**

37. Deferred tax assets

Calculation of deferred tax assets	31.12.2006	Comparable data 31.12.2005	change in 2006
Interest on deposits	40 137	48 056	-7 919
Cost of interest included in the bonds price	117 891	90 611	27 280
Valuation of financial instruments	45 753	53 326	-7 573
Tax goodwill	11 950	56 593	-44 643
Commissions received settled according to EIR	100 458	131 974	-31 516
Accruals for expenses	91 420	61 480	29 940
Finance lease	22 510	23 685	-1 175
Provisions- temporary differences	668 932	454 630	214 302
Valuation of available-for-sale securities	3 204	2 520	684
Tax losses to be settled in future	0	112 012	-112 012
Due commissions on banking accounts	10 983	18 734	-7 751
Other	44 164	25 961	18 203
Total	**1 157 402**	**1 079 582**	**77 820**
Tax rate	19%	19%	0
Deferred tax asset	**219 906**	**205 121**	**14 785**
- with capitals	609	479	130
- with income statement	219 297	204 642	14 655
recognized asset with result	0	36 499	-36 499
Assets recognized in the income statement	219 297	168 142	51 155
Total deferred tax assets	**219 906**	**168 621**	**51 285**
Actual non-recognized change in negative temporary differences – Note 46	-82 783	-69 873	**-12 910**
Net deferred tax assets	**137 123**	**98 748**	**38 375**

38. Held-for-sale fixed assets

The Bank recognized fixed assets to be sold in *"tangible fixed assets"*, which are presented according to the adopted accounting principles. Separated assets include real estates which are no longer used by in the Bank's operations.

	31.12.2006	Comparable data 31.12.2005
Held-for-sale fixed assets	14 951	5 848
Impairment charges	4 380	0
Net held-for-sale fixed assets	10 571	5 848

39. Other assets

	31.12.2006	Comparable data 31.12.2005
Various debtors*	93 961	118 254
Prepaid expenses	21 581	9 419
Other assets	1 309	2 622
Total	**116 851**	**130 295**

* The item contains: amounts due from the sale of financial and fixed assets, returnable security deposits paid by the Bank under finance and operating lease agreements for real estates used by the Bank, settlements under paying cards, amounts due to the State Treasury.

40. Amounts due to Central Bank

Amounts due to Central Bank (by types)

	31.12.2006	Comparable data 31.12.2005
Deposits	1 966	0
Interest	24	0
Total	**1 990**	**0**

Amounts due to Central Bank (by currencies)

	31.12.2006	Comparable data 31.12.2005
in PLN	1 990	0
Total	**1 990**	**0**

Amounts due to Central Bank (by maturity dates)

	31.12.2006	Comparable data 31.12.2005
- up to 1 month	41	0
- 3-6 months	1 925	0
- interest	24	0
Total	**1 990**	**0**

41. Amounts due to banks

Amounts due to banks (by types)

	31.12.2006	Comparable data 31.12.2005
Current accounts	51 026	20 000
Term deposits	1 172 363	1 587 919
Loans and advances	931 688	949 858
Interest	5 461	4 390
Total	**2 160 538**	**2 562 167**

Amounts due to banks (by currencies)

	31.12.2006	Comparable data 31.12.2005
in PLN	717 544	944 116
In foreign currencies (by currency and translated into PLN)	1 442 994	1 618 051
- in EUR	681 278	835 429
- in USD	336 176	406 690
- in CHF	419 508	373 628
- other currencies	6 032	2 304
Total	**2 160 538**	**2 562 167**

Amounts due to banks (by maturity dates)

	31.12.2006	Comparable data 31.12.2005
- up to 1 month	1 113 365	1 462 522
- 1-3 months	75 024	115 355
- 3-6 months	35 000	15 016
- 6 months to 1 year	0	15 000
- 1 - 3 years	0	23
- 3 - 5 years	931 688	949 695
- 5 - 10 years	0	166
- interest	5 461	4 390
Total	**2 160 538**	**2 562 167**

Average effective interest rates of deposits accepted from other banks

Average effective interest rates of term deposits accepted from other banks were as follows (by main currencies):

	31.12.2006	Comparable data as at 31.12.2005
EUR	3.7	2.4
PLN	4.4	4.3
CHF	2.0	0
USD	5.3	4.4

All deposits were fixed interest rate deposits.

42. Amounts due to customers

Amounts due to customers (by types)

	31.12.2006	Comparable data 31.12.2005
Current accounts	9 523 989	6 734 181
Term deposits	6 061 078	7 724 822
Loans and advances	0	95 448
Interest	33 814	38 248
Total	**15 618 881**	**14 592 699**

In connection with the termination of the recovery plan in the first half of 2005, a loan from the Banking Guarantee Fund was repaid. Its carrying amount as at 31 December 2005 amounted to PLN 95,448 thousand.

Amounts due to customers (by currencies)

	31.12.2006	Comparable data 31.12.2005
in PLN	12 632 495	11 862 947
In foreign currencies (by currency and translated into PLN)	2 986 386	2 729 752
- in EUR	1 430 077	1 308 165
- in USD	1 424 897	1 292 503
- in GBP	111 430	105 301
- in CHF	10 018	11 116
- other currencies	9 964	12 667
Total	**15 618 881**	**14 592 699**

Amounts due to customers (by maturity dates)

	31.12.2006	Comparable data 31.12.2005
- up to 1 month	13 055 984	10 827 052
- 1-3 months	1 240 235	1 828 946
- 3-6 months	765 073	894 819
- 6 months to 1 year	378 044	677 193
- 1 - 3 years	24 683	213 739
- 3 - 5 years	77 861	5 049
- 5 - 10 years	42 026	106 054
- 10 - 20 years	988	1 599
- over 20 years	173	0
- interest	33 814	38 248
Total	**15 618 881**	**14 592 699**

Amounts due to customers by customer types

	31.12.2006	Comparable data 31.12.2005
Natural persons*	**9 750 826**	**9 063 921**
- in current account	6 100 542	3 841 765
- term deposits	3 650 284	5 222 156
Corporate customers	**4 024 965**	**3 801 937**
- in current account	2 037 196	1 597 024
- term deposits	1 987 769	2 109 465
- loans and advances	0	95 448
Budget	**1 809 276**	**1 688 593**
- in current account	1 386 251	1 295 392
- term deposits	423 025	393 201
Interest	**33 814**	**38 248**
Total	**15 618 881**	**14 592 699**

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

The share of fixed interest rate accounts in customers' deposits is presented in the table below.

	31.12.2006	Comparable data 31.12.2005
	41%	52%

Average effective interest rates of customer deposits were as follows (by main currencies):

	31.12.2006	Comparable data as at 31.12.2005
EUR	2.0	1.4
GBP	2.7	2.3
PLN	2.7	2.8
USD	3.3	1.8

43. Debt securities issued

	31.12.2006	Comparable data 31.12.2005
Bonds	0	400 000
Interest	0	2 435
Total	**0**	**402 435**

On 8 August 2006, the Bank redeemed banking securities amounting to PLN 400 million, issued by the Bank under the programme of the issue of registered perpetual banking securities on 23 December 2003 (Tranche I - PLN 330 million) and on 28 July 2004 (Tranche II – PLN 70 million).

The interest rate of the securities was based on WIBOR 6M with market margin. The issue was taken over by the KBC Group entities and, under the decision of the Banking Supervisory Committee, it was classified as the Bank's equity.

44. Securities sold under repurchase agreements

	31.12.2006		Comparable data as at 31.12.2005	
Liabilities		average %		average %
- up to 1 month	1 032 774	3.74	367 656	4.35
- 1-3 months	20 501	3.95	0	
Interest	653		1 045	
Total	**1 053 928**		**368 701**	

45. Provisions

	31.12.2006	Comparable data 31.12.2005
Employee benefits provision	933	869
Provision for off-balance sheet items	17 594	63 039
Restructuring provision	10 988	0
Provision for litigation	69 260	13 164
Total	**98 775**	**77 072**

Movement of provisions

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Period beginning	**77 072**	**36 538**
- employee benefits provision	869	938
- provision for off-balance sheet items	63 039	30 967
- restructuring provision	0	2 000
- provision for litigation	13 164	2 633
a) established provisions	**157 890**	**112 471**
- employee benefits provision	272	0
- provision for off-balance sheet items	124 558	101 098
- restructuring provision	12 482	
- provision for litigation	20 578	11 373
b) utilization	**-4 831**	**-2 911**
- employee benefits provision	-136	-69
- restructuring provision	-1 494	-2 000
- provision for litigation	-3 201	-842
c) reversal	**-172 871**	**-67 182**
- employee benefits provision	-72	0
- provision for off-balance sheet items	-170 816	-67 182
- provision for litigation	-1 983	0
d) other changes	**41 515**	**-1 844**
- employee benefits provision	0	0
- provision for off-balance sheet items	813	-1 844
- provision for litigation	40 702	0
Period end	**98 775**	**77 072**
- employee benefits provision	933	869
- provision for off-balance sheet items	17 594	63 039
- restructuring provision	10 988	0
- provision for litigation	69 260	13 164
Period end	**98 775**	**77 072**

‘Provisions for employee benefits’ are composed of provisions for retirement benefits.

Major items recognized in the provision for litigation are as follows: a security in case of negative result of litigation in cases against the Bank; security for payment of the fine imposed by the President of the Office for Competition and Customer Protection; a security for possible costs of the representation in proceedings at law related to the sale of receivables.

Restructuring provision entails the costs of employment and fixed assets restructuring to be incurred while performing the next stage of the rebuilding of the Bank’s structure resulting from the implemented Bank’s strategy.

46. Deferred tax liability

	31.12.2006	Comparable data 31.12.2005	change in 2006
Accrued interest to be received	302 297	212 877	89 420
Unamortized fixed assets – investment tax relief	5 125	5 357	-5 572
Financial instruments transactions	44 365	49 937	-232
Difference between accounting and tax depreciation	57 500	78 662	-21 162
Valuation of available-for-sale securities	25 765	20 765	5 000
Other	649	156	493
Total	**435 701**	**367 754**	**67 947**
Tax rate	19%	19%	0
Deferred tax liability decreasing deferred tax assets	**82 783**	**69 873**	**12 910**
- charged to revaluation reserve	4 895	3 946	949
- charged to income statement	77 888	65 927	11 961
Deferred tax liability	**82 783**	**69 873**	**12 910**

47. Other liabilities

	31.12.2006	Comparable data 31.12.2005
CSBF liabilities	7 033	0
Amounts due to the State Treasury	16 781	16 961
Various creditors	41 074	64 624
Expenses and income settled over time	65 637	50 682
Leasing payables	65 304	74 479
Inter-bank clearings	316 018	232 621
Total	**511 847**	**439 367**

Finance lease liabilities

Finance lease rentals result from contracts concluded with the companies of the Bank's Capital Group. Finance lease contracts under which the Bank is a lessee are related to real estate and movables that the Bank applies in the normal course of business. All contracts are executed on market terms, without any exceptional or non-standard terms or conditions.

	31.12.2006	Comparable data as at 31.12.2005
Gross finance lease rentals	**96 385**	**119 188**
Future minimum interest expense	31 081	44 709
Net finance lease rentals	65 304	74 479
Future minimum lease rentals for each period	**96 385**	**119 188**
Below 1 year	25 470	32 092
Between 1 and 5 years	70 121	79 219
Over 5 years	794	7 877
Net finance lease rentals	**65 304**	**74 682**
Below 1 year	14 954	19 960
Between 1 and 5 years	49 694	49 743
Over 5 years	656	4 979

48. Subordinated liabilities

	31.12.2006	Comparable data 31.12.2005
Liabilities	421 434	587 643
Interest	185	1 938
Total	**421 619**	**589 581**

As at 31.12.2006

Entity	Loan value by currency	Loan value in PLN '000'	Interest rate terms	Maturity date	Subordinated liabilities	Accrued interest
KBC Bank N.V. O/Dublin	EUR	110 000	3M EURIBOR +1.20p.p.	25.05.2008	421 434	185
Total					**421 434**	**185**

On 17 January 2006, on the first maturity date, a subordinated loan of USD 50,000 thousand, granted by the consortium of KBC Bank N.V., Dublin branch and Banco Espirito Santo S.A. Madrid was repaid.

Comparable data as at 31.12.2005

Entity	Loan value by currency	Loan value in PLN '000'	Interest rate terms	Maturity date	Subordinated liabilities	Accrued interest
KBC Bank N.V. branch in Dublin Banco Espirito Santo S.A. Madrid	USD	50 000	3M LIBOR +1.25p.p.	17.01.2006	163 065	1 859
KBC Bank N.V. branch in Dublin	EUR	110 000	3M EURIBOR +1.20p.p.	25.05.2008	424 578	79
Total					**587 643**	**1 938**

Movement of subordinated liabilities

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Period beginning	589 581	599 286
a) increase	18 592	23 535
- accrued interest	18 592	23 535
b) decrease	186 554	33 240
- paid interest	20 345	22 673
- repayment of subordinated loan	157 605	0
- currency translation differences from translation of subordinated loan in foreign currency	8 604	10 567
Period end	**421 619**	**589 581**

49. Equity

Share capital

As at 31.12.2006, the Bank's share capital totalled PLN 1,358,294 thousand 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 General Meeting of Shareholders. All Bank's shares are admitted to public trading.

The analysis of registered shares and bearer shares presented below was prepared as at 31.12.2006.

In the period, the share capital did not change.

Registered shares

Shareholders of the parent company hold 68,060 registered shares, which accounts for 0.03% of the share capital. Registered shares as at 31.12.2006:

Series	Number of shares
A	2 942
C	1 425
F	5 792
P	31 238
S1	26 663
Total	**68 060**

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

Bearer shares

Shareholders of the parent company hold 271,590,820 bearer shares which accounts for 99.97% 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, 7,386,470 became bearer shares. Bearer shares as at 31.12.2006:

(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	3 658 444
H	3 777 350	S1	823 470
I	5 600 000		
J	4 400 000		
K	2 278 814		
L	2 000 000		
M	10 000 000		
N	847 000		
O	25 000 000		
R	32 583 993		
T	49 301 056		
U	63 387 072		
W	60 368 640		
Total	**264 204 350**	**Total**	**7 386 470**
Total bearer shares			**271 590 820**

As at 31.12.2006, as many as 271,590,820 bearer shares were traded on the main market of the Warsaw Stock Exchange. And, as at 31.12.2005, the number of shares traded on the stock exchange amounted to 271,583,872.

The shareholding structure changed as compared to the structure as at 31.12.2005 presented in the Bank's financial statement.

On 02.2006.2006, KBC Bank NV, implementing the Resolution of the Commission for Banking Supervision No. 81/KNB/01 of 17.09.2001, according to which 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., sold 15,014,772 shares of Kredyt Bank S.A., i.e. 5.53% of the votes and share capital to Sofina S.A. Prior to the sale, KBC Bank NV held 232,341,875 shares of Kredyt Bank S.A., i.e. 85.53% share in the share capital of Kredyt Bank S.A. Following the sale, KBC Bank NV holds 217,327,103 shares of Kredyt Banku S.A., i.e. 80% share in the share capital of Kredyt Bank S.A.

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 31.12.2006.

Shareholder	Line of business	**Number of shares and votes at the GMS**	**Share in votes and share capital (%)**
KBC Bank NV*	Banking	217 327 103	80.00
Sofina SA	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.*

Capital reserve

	31.12.2006	**Comparable data 31.12.2005**
Retained from the distribution of profit in previous years	104 789	0
Other	0	0
Total share premium	**104 789**	**0**

Under Resolution No. 4/2006 of the General Meeting of Shareholders of Kredyt Bank S.A. of 31 May 2006, net profit for the financial year 2005 was allocated, inter alia, to the Bank's capital reserve amounting to PLN 104,789,078.91.

Revaluation reserve

	31.12.2006	Comparable data 31.12.2005
Valuation of available-for-sale financial assets	21 367	19 395
Valuation of derivatives hedging future cash flows	1 195	0
Deferred income tax	-4 287	-3 467
Total revaluation reserve	**18 275**	**15 928**

Other reserve capitals

	31.12.2006	Comparable data 31.12.2005
General banking risk fund created from profit	120 942	120 942
Total other reserve capitals	**120 942**	**120 942**

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

50. Contingent liabilities granted

Guarantees

	31.12.2006	Comparable data 31.12.2005
- up to 1 month	32 357	73 485
- 1-3 months	81 590	58 410
- 3-6 months	45 526	168 949
- 6 months to 1 year	188 361	169 826
- 1 - 3 years	367 445	211 912
- 3 - 5 years	192 540	208 631
- over 5 years	300 448	236 662
Total	**1 208 267**	**1 127 875**

For financing

	31.12.2006	Comparable data 31.12.2005
- up to 1 month	177 696	172 315
- 1-3 months	216 508	203 009
- 3-6 months	303 576	230 737
- 6 months to 1 year	842 799	1 068 824
- 1 - 3 years	478 020	250 106
- 3 - 5 years	406 438	259 737
- over 5 years	1 072 866	476 183
Total	**3 497 903**	**2 660 911**

By types

	31.12.2006	Comparable data 31.12.2005
For financing	**3 497 903**	**2 660 911**
- undrawn credit lines	1 847 912	1 179 786
- undrawn overdraft facilities	1 314 585	1 249 574
- limits on credit cards	222 651	192 818
- opened import letters of credit	69 088	27 482
- term deposits to be released	43 667	11 251
Guarantees	**1 208 267**	**1 127 875**
- for bills of exchange	0	712
- guarantees granted	1 207 616	1 125 941
- export letters of credit	651	1 222
Total	**4 706 170**	**3 788 786**

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

The Bank treats guarantees granted and unconditional financing liabilities as an exposure with credit risk for the purpose of credit risk management. The assessment of risk under issued guarantees and unconditional financing liabilities 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 and unconditional financing liabilities, issued to particular borrowers are at the same time analysed for the occurrence of the impairment premises and the measurement of impairment charges.

As at 31.12.2006, the provision for the guarantees granted and unconditional financing liabilities amounted PLN 17,594 thousand, when as at 31.12.2005, PLN 63,039 thousand. These amounts are presented in Note 45 as an element of "provisions for off-balance sheet liabilities".

51. Capital adequacy ratio

	31.12.2006	Comparable data 31.12.2005
Capital requirement, including:	1 167 878	983 693
- credit risk	1 142 751	968 218
- market risk	10 649	5 561
- other risk	14 478	9 914
Equity and short-term capital	**1 963 378**	**1 993 147**
- share capital	1 358 294	1 358 294
- reserve capital	104 789	0
- revaluation reserve included in equity	18 275	15 928
- other reserve capitals	120 942	120 942
- subordinated liabilities	168 573	254 747
- shares in financial entities	-13 267	-44 092
- intangible assets	-82 792	-108 131
- retained profit / loss	0	-245 934
- issue of own securities	0	400 000
- short-term capital	25 127	15 475
- current net profit	263 437	225 918
Capital adequacy ratio (%)	**13.45**	**16.21**

Capital adequacy ratio was calculated as required by the regulations of the National Bank of Poland in force as at 31.12.2006 and 31.12.2005.

52. Discontinued operations

The Bank did not carry out operations that were discontinued in 2006.

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

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

Income statement

	01.01.2005 - 31.03.2005
Income:	
- interest	963
- fees and commissions	2 612
- financial income	12
- other operating income	423
- reversal of impairment charges	38
Total income	**4 048**
Expenses:	
- fees and commissions	-2
- costs of financial activities	-8
- functioning costs, including:	-1 945
- staff costs	-1 169
- material costs	-725
- taxes and fees	-4
- amortization	-47
- creation of impairment charges	-61
- other operating expenses	-1 058
Total expenses	**-3 074**
Profit before tax	**974**
Income tax expense	0
Net profit on discontinued operations	**974**
Earnings per share	**0,0036**

Balance sheet

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

53. Social assets and the Company Social Benefit Fund

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 basis charge. The fund has no tangible fixed assets. The objective of the Fund is to subsidize and support the Company's employee-related operations, loans borrowed to employees and other employee-related expenses.

The Bank set off the Fund receivables and liabilities, net liabilities amount to PLN 7,033 thousand.

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

	31.12.2006	Comparable data 31.12.2005
Employee cash loans	6 472	9 014
Fund-related payables	13 505	14 133
Balance after set-off	7 033	5 119
Charges to the fund in the period	2 600	2 639

54. Employee benefits

54.1 Employee Stock Ownership Plan

No employee stock ownership plan is implemented in the Bank.

54.2 Retirement benefits and other benefits after retirement

The Bank pays retirement severance pays to employees who retire 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.

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Period beginning	869	938
Provision creation	272	
Provision utilization	136	69
Provision reversal	72	0
Total	**933**	**869**

Major assumptions adopted by the actuary as at the balance sheet date are as follows:

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Discount rate (%)	5.0	4.5
Projected inflation rate (%)	2.5	2.5
Projected remunerations growth rate (%)	2.0	2.5

To calculate provisions for retirement severance pays for the periods, the following employee turnaround ratios were applied:

	31.12.2006		Comparable data as at 31.12.2005	
age	**male employees**	**female employees**	**male employees**	**female employees**
- below 36 year	20.3%	14.1%	19.0%	13.2%
- 36 - 40 years	16.9%	11.7%	15.9%	11.0%
- 40 - 45 years	14.1%	9.8%	13.2%	9.2%
- over 45 years	11.7%	8.1%	11.0%	7.7%

54.3 Benefits related to the dissolution of employment

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Period beginning	0	2 000
Establishment	9 553	0
Utilization	1 494	2 000
Period end	**8 059**	**0**

55. Related party transactions

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

Transactions with related parties are standard banking operations, provided at arm's length: granting loans, issuing bank guarantees, issuing own securities, accepting deposits, borrowing loans, currency transactions, transactions made in derivatives. The volumes of transactions and related income and expense have been presented below:

As at 31.12.2006

Assets	Subsidiaries	Parent company - KBC Bank NV	KBC Group*	Total as at 31.12.2006
Amounts due from banks	0	237 434	346 232	**583 666**
Held-for-trading financial assets	0	45 289	765	**46 054**
Loans and advances to customers	428 319	0	15 219	**443 538**
Other assets	7 910	23	12 641	**20 574**
Total assets	**436 229**	**282 746**	**374 857**	**1 093 832**

Liabilities	Subsidiaries	Parent company - KBC Bank NV	KBC Group*	Total as at 31.12.2006
Amounts due to banks	0	948 958	15 784	**964 742**
Held-for-trading financial liabilities	0	47 565	49	**47 614**
Amounts due to customers	68 070	0	306 018	**374 088**
Subordinated liabilities	0	421 619	0	**421 619**
Other liabilities	76 223	371	103	**76 697**
Total liabilities	**144 293**	**1 418 513**	**321 954**	**1 884 760**

Off-balance sheet items	Subsidiaries	Parent company - KBC Bank NV	KBC Group*	Total as at 31.12.2006
Guarantees granted	4 421	10 548	1 135	**16 104**
Guarantees received	0	0	7 999	**7 999**
Derivatives	0	10 290 804	365 251	**10 656 055**
Amounts due under sale/purchase transactions	0	319 146	81 779	**400 925**
Total off-balance sheet items	**4 421**	**10 620 498**	**456 164**	**11 081 083**

Income	Subsidiaries	Parent company - KBC Bank NV	KBC Group*	Total for 2006
Interest income	11 936	10 156	15 543	**37 635**
Fee and commission income (**	316	41	13 704	**14 061**
Net trading income	-505	0	0	**-505**
Other operating income	6 663	30	2 409	**9 102**
Total income	**18 410**	**10 227**	**31 656**	**60 293**

(** income in cash

Expenses	Subsidiaries	Parent company - KBC Bank NV	KBC Group*	Total for 2006
Interest expense	16 024	61 732	4 958	**82 714**
Fee and commission expense	1 660	0	11 947	**13 607**
The costs of the Bank's operating and administrative expenses	26 841	4 403	2 719	**33 963**
Total expenses	**44 525**	**66 135**	**19 624**	**130 284**

* including WARTA S.A.

Comparable data as at 31.12.2005

Assets	Subsidiaries	Parent company - KBC Bank NV	KBC Group*	Total as at 31.12.2005
Amounts due from banks	0	159 373	439 076	**598 449**
Held-for-trading financial assets	0	60 054	0	**60 054**
Loans and advances to customers	265 363	0	21 032	**286 395**
Other assets	6 818	9 103	939	**16 860**
Total assets	**272 181**	**228 530**	**461 047**	**961 758**

Liabilities	Subsidiaries	Parent company - KBC Bank NV	KBC Group*	Total as at 31.12.2005
Amounts due to banks	0	958 264	3 490	**961 754**
Held-for-trading financial liabilities	0	46 365	0	**46 365**
Amounts due to customers	59 075	0	134 806	**193 881**
Issued debt securities	0	402 435	0	**402 435**
Subordinated liabilities	0	589 581	0	**589 581**
Other liabilities	72 634	4 443	527	**77 604**
Total liabilities	**131 709**	**2 001 088**	**138 823**	**2 271 620**

Off-balance sheet items	Subsidiaries	Parent company - KBC Bank NV	KBC Group*	Total as at 31.12.2005
Guarantees granted	1 718	61 827	87 550	**151 095**
Guarantees received	0	90 039	0	**90 039**
Derivatives	0	5 504 638	104 926	**5 609 564**
Total off-balance sheet items	**1 718**	**5 656 504**	**192 476**	**5 850 698**

Income	Subsidiaries	Parent company - KBC Bank NV	KBC Group*	Total for 2005
Interest income	19 332	11 694	8 087	**39 113**
Fee and commission income (**	6 988	43	3 757	**7 051**
Net trading income	321	0	0	**321**
Other operating income	4 244	392	4 687	**13 060**
Total income	**30 885**	**12 129**	**16 531**	**59 545**

(** cash revenue

Expenses	Subsidiaries	Parent company - KBC Bank NV	KBC Group*	Total for 2005
Interest expense	40 898	62 573	6 654	**110 125**
Fee and commission expense	81 529	0	0	**81 529**
Other operating expenses	21 312	0	0	**21 312**
The costs of the Bank's operating and administrative expenses	22 213	3 050	10 217	**35 480**
Total expenses	**165 952**	**65 623**	**16 871**	**248 446**

* including WARTA S.A.

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

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

Bank’s Management Board	01.01.2006 – 31.12.2006				
	Basic pay	Bonus	Other benefits	Severance pay	Total
Richardson Ronald	1 030	0	133	0	1 163
Arts Umberto	461	0	507	0	968
Kokot Krzysztof	1 004	180	99	0	1 283
Kozik Konrad	564	0	0	0	564
Kroker-Jachiewicz Małgorzata	431	384	17	6 098	6 930
Libot Guy	567	722	0	0	1 289
Mierzwiński Bohdan	915	799	34	0	1 748
Total	**4 972**	**2 085**	**790**	**6 098**	**13 945**

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

Bank's Supervising Board		01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
		Basic pay	Basic pay
1	Witkowski Andrzej	268	263
2	Noga Adam	255	198
3	Bergen Andre	84	198
4	Docx Rita	184	176
5	Florquin Frans	84	198
6	Gillet Francois	18	0
7	Hollows John	117	0
8	Kulikowski Feliks	200	198
9	Michałowski Marek	200	198
10	Philips Luc	117	0
11	Toczek Józef	201	198
12	Vanhevel Jan	117	0
13	Mampaey Dirk	0	22
14	Vojc Marko	84	198
	Total	**1 929**	**1 847**

Total remuneration of the Members of the Supervisory Board and the Management Board of Kredyt Bank S.A.

Benefit	**01.01.2006-31.12.2006**	**Comparable data 01.01.2005-31.12.2005**
Short-term employee benefits	9 408	10 276
Benefits paid after employment termination	368	47
Severance pays	6 098	0
Total	**15 874**	**10 323**

In 2005 and 2006, the Members of the Management Board and the Members of the Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

All disclosed information concerning the members of the Management Board and the members of the Supervisory Board is 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.

57. 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 31.12.2006, total indebtedness related to loans and advances, and cash loan granted by the Bank amounted to:

- for members of the Bank's Management Board – PLN 363 thousand;
- for members of the Bank's Supervisory Board – PLN 858 thousand.
- for the Bank's employees - PLN 144,766 thousand.

As at 31.12.2005, total indebtedness related to loans and advances, and cash loan granted by the Bank amounted to:

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

As at 31.12.2006, the total indebtness of Members of the Management Board and Supervisory Board of the Bank is paid on a regular basis, due indebtness is not present. Past due debts of employees amount to PLN 345 thousand.

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

All disclosed information concerning the members of the Management Board and the members of the Supervisory Board is presented in this Note and no other material information on loans and advances to the members of the Management Board and the members of the Supervisory Board of the Bank, subsidiaries is available.

58. Employment structure

	31.12.2006	Comparable data as at 31.12.2005
- Head Office	2 130	2 098
- branches and affiliates	3 419	3 432
Total	**5 549**	**5 530**

59. Cash flow statement - additional information

a) Cash and cash equivalents

	31.12.2006	Comparable data as at 31.12.2005
Cash and balances with Central Bank	640 722	607 069
Due from other banks	1 628 015	1 641 732
Cash and cash equivalents	**2 268 737**	**2 248 801**

In 'cash and cash equivalents', the Bank presents obligatory reserve held in line with the adequate regulations, on NBP account, marked as restricted cash.

b) Operating activity - unrealised gains/losses on currency translation differences

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Currency translation differences for investment securities	18 473	-3 251
Currency translation differences on held-for-trading financial assets	-317	-651
Currency translation differences on equity investments	-2	0
Currency translation differences on subordinated liabilities	-8 665	-10 567
Currency translation differences for received loans	-18 484	-51 519
Total	**-8 995**	**-65 988**

c) Operating activity - impairment

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Net increase/decrease in impairment of amounts due from banks	-141	-300
Net increase/decrease in impairment of loans and advances to customers	-1 218 631	-363 791
Net increase/decrease in impairment of tangible fixed assets and intangible assets	3 272	9 686
Net increase/decrease in impairment of equity investments	876	12 530
Net increase/decrease in impairment of equity investments	21 665	416
Total	**-1 192 959**	**-341 459**

d) Operating activity - interest

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Interest on investment securities	-324 302	-214 977
Interest on borrowed loans	22 953	16 294
Interest on issued debt securities	17 114	33 529
Interest on subordinated liabilities	18 592	23 535
Total	**-265 643**	**-141 619**

e) Operating activity – gains/losses from the sale of investments

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Sale of equity investments	-292	0
Gains (losses) from the sale of available-for-sale investment securities	-1 881	8 126
Sale of tangible fixed assets and intangible assets	1 709	79
Total	**-464**	**8 205**

f) Amounts due from banks

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Balance sheet change in net values	47 014	469 953
Change in Nostro accounts - cash	3 535	9 837
Change in term deposits up to 3 months - cash	-17 252	-777 604
Impairment	141	300
Total	**33 438**	**-297 514**

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

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Balance sheet change in financial assets at fair value through profit and loss, including held-for-trading financial assets	-125 294	683 017
Balance sheet change in the valuation of derivatives	-81 157	3 179
Currency translation differences in operating activity	317	651
Total	**-206 134**	**686 847**

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

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Balance sheet change in other assets	13 444	44 617
Balance sheet change in assets for sale	-4 723	0
Other net increase/decrease in tangible fixed assets and intangible assets	23 791	-22 344
Valuation of available-for-sale assets	-24 036	-46 146
Other changes	13 158	10 362
Total	**21 634**	**-13 511**

i) Amounts due to banks

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Balance sheet change	-401 629	1 437 034
Receipts from granted loans and advances	0	-996 140
Currency translation differences from borrowed loans in operating activity	18 484	51 519
Repayment of borrowed loan	0	886 286
Interest on borrowed loans in operating activity	-22 953	-16 294
Interest paid on borrowed loans - presentation in financial activity	21 586	15 336
Total	**-384 512**	**1 377 741**

j) Amounts due to customers

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Balance sheet change	1 026 182	-1 426 507
Repayment of Banking Guarantee Fund (BGF) loan - presentation in financial activity	95 454	0
Payment of interest on BGF loan - presentation in financial activity	285	0
Total	**1 121 921**	**-1 426 507**

k) Operating activity - net increase/decrease in other liabilities

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Balance sheet change of other liabilities	72 480	113 229
Repayment of leasing payables	28 785	27 922
Other changes	-28 379	-506
Total	**72 886**	**140 645**

l) Equity investments classified as available-for-sale

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Balance sheet change	17 544	34 370
Acquisition of shares in subsidiaries	50	15 000
Shares to cash swap	0	-36 840
Gains on the sale of investments in operating activity	292	0
Currency translation differences	2	0
Impairment in operating activity	-876	-12 530
Total	**17 012**	**0**

ł) Net increase/decrease in investment securities

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Acquisition in investment activity	-41 677 602	-46 965 215
Disposal in investment activity	42 556 989	43 405 355
Interest received in investment activity	240 849	167 041
Net increase/decrease in interest receivables in operating activity	-324 302	-214 977
Valuation of available-for-sale investment securities in operating activity	-29 084	-38 020
Change in impairment of available-for-sale investment securities in operating activity	21 665	416
Currency translation differences in operating activity	18 473	-3 251
Balance sheet change	**806 988**	**-3 648 651**

m) Financing activity – other financing expenses

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Interest repayment on loans received	-21 586	-15 336
Interest repayment on BGF loan	-285	0
Interest repayment on subordinated liabilities	-20 284	-22 673
Interest payment on own issue payables	-19 549	-49 244
Payment of leasing payables	-28 785	-27 922
Total	**-90 489**	**-115 175**

n) Subordinated liabilities

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Balance sheet change	**-167 962**	**-9 705**
Payment of interest on subordinated liabilities - presentation in financial activity	20 284	22 673
Accrued interest on subordinated liabilities - presentation in operating activity	-18 592	-23 535
Currency translation differences on subordinated liabilities - presentation in operating activity	8 665	10 567
Total	**-157 605**	**0**

o) Issued debt securities

	01.01.2006-31.12.2006	Comparable data 01.01.2005-31.12.2005
Balance sheet change	-402 435	-15 715
Accrued interest on issued debt securities - presentation in operating activity	-17 114	-33 529
Interest payment on own issue payables	19 549	49 244
Redemption of treasury bonds	**-400 000**	**0**

60. Changes in the Bank's Capital Group

Changes in the Bank's Capital Group in 2006 are described in Note 34 hereof.

61. Asset pledged as collateral

As at 31.12.2006, the following assets in the form of Treasury bills and bonds were collateral for the Bank's own liabilities:

- Treasury bonds of the nominal value of PLN 73,620 thousand and of the carrying amount of PLN 78,140 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 1,000,000 thousand and of the carrying amount of PLN 1,015,235 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 1,000,057 thousand and of the carrying amount of PLN 1,038,716 thousand as well as Treasury bills with the nominal value of PLN 15,070 thousand and the carrying amount of PLN 15,039 thousand pledged in relation to REPO transactions with customers.
- Treasury bonds of the nominal value of PLN 500 thousand and of the carrying amount of PLN 495 thousand were a guarantee deposit for futures.

As at 31.12.2005, 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 100,500 thousand and of the carrying amount of PLN 110,981 thousand were collateral for a loan borrowed by the Bank of PLN 95,454 thousand and the security for interest payments on the loan. The loan was borrowed by the Bank from the Banking Guarantee Fund for the restructuring of assets and liabilities acquired from Polski Kredyt Bank S.A. pursuant to the recovery plan.

- Treasury bonds of the nominal value of PLN 27,640 thousand and of the carrying amount of PLN 30,523 thousand were securities for the protection fund for guaranteed cash in the Banking Guarantee Fund and were deposited in the National Depository for Securities.
- Treasury bonds of the nominal value of PLN 550,000 thousand and of the carrying amount of PLN 512,175 thousand as security for possible borrowing of a lombard loan in the National Bank of Poland (NBP).
- Treasury bonds of the nominal value of PLN 353,268 thousand and of the carrying amount of PLN 367,747 thousand pledged in relation to REPO transactions with customers.

62. Changes in the composition of the Management and Supervisory Boards of Kredyt Bank S.A in 2006

At the meeting of the Bank's Supervisory Board held on 13 April 2006, Ms. Małgorzata Kroker-Jachiewicz, Vice President of the Bank's Management Board, declared that she did not intend to run for the position in the Bank's Management Board for the term that commences following the next Annual General Meeting of the Bank's Shareholders.

On 31 May 2006, the Supervisory Board of Kredyt Bank S.A. appointed the Bank's Management Board for the next five-year term of office. Mr. Ronald Richardson was appointed the President of the Management Board of Kredyt Bank S.A.

The remaining Members of the Management Board selected by the Bank's Supervisory Board:

Mr. Guy Libot	- Vice President of the Management Board, Vice CEO
Mr. Krzysztof Kokot	- Vice President of the Management Board, Vice CEO
Mr. Konrad Kozik	- Vice President of the Management Board, Vice CEO
Mr. Bohdan Mierzwiński	- Vice President of the Management Board, Vice CEO

On 11 July 2006, Mr. Guy Libot, Vice President of the Management Board, resigned from his position of Vice President of the Management Board of Kredyt Bank S.A., and a member of the Management Board of Kredyt Bank S.A. on 23 July 2006.

On 24 July 2006, Mr. Umberto Arts was appointed Vice President of the Management Board of Kredyt Bank S.A.

As at 31.12.2006, the Management Board of Kredyt Bank S.A. was composed of:

Mr. Ronald Richardson	- President of the Management Board, CEO
Mr. Umberto Arts	- Vice President of the Management Board, Vice CEO
Mr. Krzysztof Kokot	- Vice President of the Management Board, Vice CEO
Mr. Konrad Kozik	- Vice President of the Management Board, Vice CEO
Mr. Bohdan Mierzwiński	- Vice President of the Management Board, Vice CEO

The Supervisory Board, at the meeting on 21 December 2006, adopted a resolution on increasing the number of the Members of the Management Board to 6 persons and on 1 January 2007 appointed a new Member of the Management Board of Kredyt Bank S.A., Mr. Michał Oziembło.

On 31 May 2006, the Annual General Meeting of Shareholders of Kredyt Bank S.A., as 31 May 2006 appointed Mr. Jan Vanhevel, Mr. Luc Philips and Mr. John Hollows as members of the Supervisory Board of Kredyt Bank S.A.

On 29 November 2006, the Supervisory Board of Kredyt Bank S.A., in connection with the resignation of Ms. Riet Docx from her office in the Supervisory Board, appointed Mr. Francois Gillet, a representative of Sofina SA, a company which is a shareholder of Kredyt Bank S.A., as a member of the Supervisory Board.

As at 31.12.2006, the Supervisory Board of Kredyt Bank S.A. was composed of:

Mr. Andrzej Witkowski	- 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. Adam Noga	- Member of the Supervisory Board
Mr. Luc Philips	- Member of the Supervisory Board
Mr. Józef Toczek	- Member of the Supervisory Board
Mr. Jan Vanhevel	- Member of the Supervisory Board

63. Restructuring program

In May 2006, in relation to the covering of the balance sheet losses that occurred in 2002 and 2003, the Bank’s improving financial performance and high and safe capital adequacy ratio, the Bank received an opinion from the Commission for Banking Supervision stating that the chief objectives of the restructuring program were met and, in such circumstances, the Commission failed to find any reasons to continue restructuring measures in Kredyt Bank S.A.

64. Seasonality or cyclical nature of operations

The Bank's operations are not of seasonal nature.

65. Non-typical factors and events

Either in 2006 and in 2005, 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.

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

In 2006, the Bank did not issue any debt and equity securities and did not redeem own equity securities.

On 08.08.2006, the Bank redeemed banking securities amounting to PLN 400 million, issued by the Bank under the programme of the issue of registered perpetual banking securities on 23 December 2003 (Tranche I - PLN 330 million) and on 28 July 2004 (Tranche II – PLN 70 million).

The redemption of debt securities will lower the costs of the Bank's long-term financing.

In 2005, the Bank did not issue, redeem or repay any debt and equity securities.

67. Dividends paid and declared

On 15 February 2007, the Bank’s Management Board adopted a resolution on referring for examination, to the Bank’s Supervisory Board, a request to recommend, to the Bank’s General Meeting of Shareholders, the draft resolution on the distribution of profit for 2006, which envisages the payment of dividend to shareholders amounting to ca. PLN 100,000 thousand.

On 31 May 2006, the General Meeting of the Bank’s Shareholders adopted a resolution on the payment of gross dividend for 2005 amounting to PLN 0.22 per share. Total dividend amounted to PLN 59,764,953.60, where 271,658,880 shares of Kredyt Bank S.A., series A to W inclusive, are entitled to dividend. The right to dividend was established on 29 June 2006. Dividend was disbursed on 18 July 2006.

In 2005, the Bank did not pay dividend.

68. Post-balance sheet events

After the balance sheet date, by the publication date of this financial statement, no material events affecting the structure of balance sheet items and the financial result for the financial year ended 31.12.2006 occurred.

69. Comparable data

With respect to comparable data included in this financial report, there were changes in the presentation of figures included in the financial statement of the Bank in 2005. The changes aimed at the adjustment of comparable data to the format applied as at 31.12.2006.

	Published data	Changes	Comparable data	Explanation
	31.12.2005		31.12.2005	
ASSETS				
Financial assets (*)	10 247 262	-216 270	10 030 992	a)
Derivatives valuation, including:	0	216 270	216 270	a)
- Hedging derivatives	0	716	716	
Gross loans and advances to customers	12 192 581	0	12 192 581	
Allowances for impairment charges for loans and advances to customers	-2 319 248	0	-2 319 248	
Equity investments classified as available-for-sale (**)	91 375	0	91 375	
Held-for-sale fixed assets		5 848	5 848	b)
Other assets (***)	601 177	-5 848	595 329	b)
Deferred tax assets	98 748	0	98 748	
TOTAL ASSETS	**20 911 895**	**0**	**20 911 895**	

	Published data	Changes	Comparable data	Explanation
	31.12.2005		31.12.2005	
LIABILITIES				
Financial liabilities (****)	18 735 738	-220 155	18 515 583	a)
Derivatives valuation, including:	0	220 155	220 155	a)
- Hedging derivatives	0	184	184	
Other liabilities and provisions	516 439	0	516 439	
Total liabilities	**19 252 177**	**0**	**19 252 177**	
Total equity	**1 659 718**	**0**	**1 659 718**	
TOTAL EQUITY AND LIABILITIES	**20 911 895**	**0**	**20 911 895**	

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

(**) - the item contains: investments in subsidiaries;

(***) the item contains: tangible fixed assets, intangible assets, goodwill of subordinated companies and other assets.

(****) the item contains: amounts due to banks and customers, held-for-trading financial liabilities, issued debt securities, securities sold under repurchase agreements, subordinated liabilities.

Explanation of major reclassifications:

a) separation of derivatives valuation, including: valuation of hedging derivatives

b) separation of held-for-sale fixed assets.

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

70.1. Fair value

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

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, and whose fair value may be estimated on the basis of the above models.

As at 31.12.2006

	Carrying amount	Fair value
Assets		
Cash and balances with Central Bank	640 722	640 722
Net amounts due from banks	2 179 640	2 179 640
Net loans and advances to customers	11 807 218	11 829 817
Investment securities	2 861 460	2 913 996

	Carrying amount	Carrying value
Liabilities		
Amounts due to banks and Central Bank	2 162 528	2 162 528
Amounts due to customers	15 618 881	15 619 631
Other financial liabilities recognized in the balance sheet at amortized cost (*	1 475 547	1 475 547

(* The item contains: liabilities, subordinated liabilities and securities sold under repurchase agreements

Comparable data as at 31.12.2005

	Carrying amount	Fair value
Assets		
Cash and balances with Central Bank	607 069	607 069
Net amounts due from banks	2 226 654	2 226 654
Net loans and advances to customers	9 873 333	10 043 708
Investment securities	2 727 027	2 812 233

	Carrying amount	Fair value
Liabilities		
Amounts due to banks	2 562 167	2 562 167
Amounts due to customers	14 592 699	14 596 364
Other financial liabilities recognized in the balance sheet at amortized cost (*	1 360 717	1 360 717

(* The item contains: issued debt securities, subordinated liabilities and securities sold under repurchase agreements

70.2. Amounts due from banks and loans and advances to customers

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

Poland does not have an active market on which loans and receivables may be traded, therefore, it is not possible to reliably determine the market price of these assets. Estimates performed on the basis of the models of measurement relying on discounted expected cash flows of the principal and interest is the best reflection of the fair value. Expected cash flows assume the same credit risk, which is taken into consideration in the case of the measurement at amortized cost. The discount rate is the market rate as at 31.12.2006 plus credit margin offered on the market for particular loan facilities and specific customer groups/segments.

As provided for in Note 26, short-term deposits are the major part of term deposits on the inter-bank market. In addition, as presented in Note 30, floating interest rate facilities are the bulk of loans and receivables. Due to these features, fair value of such products when no individual impairment has been identified is similar to their book value.

70.3. Fixed interest rate loans and advances to customers

As regards fixed interest rate facilities, the major parts are instalment and cash loans granted by the Bank and through Żagiel. As at the balance sheet date, average maturity of those loans did not exceed two years. Fair value of those assets as at 31.12.2006 was estimated for homogeneous product sub-portfolios relying on real schedules of future principal and interest instalments for each credit account. Weighted average effective interest rate was applied for the discount offered to new customers.

For the purpose of comparable data, fair value was established on the basis of homogenous product portfolios, where interest cash flows with the average maturity were estimated based on weighted average of effective interest rate of contracts active as at 31.12.2005.

70.4. Floating interest rate loans and advances to customers

The Bank has split the loan portfolio into types of products and groups of customers for the purpose of the fair value estimation of floating interest rate loans and advances to customers. For each credit account active as at 31.12.2006, the future cash flow schedule was developed on the basis of real repayment schedule of principal and interest instalments. The discount rate used were expected market rates increased with margins offered for new clients. The most important valuation adjustment to fair value is associated with long-term mortgage and investment loans.

For the purpose of comparable data, expected cash flows have been estimated till the maturity of products based on average credit margins estimated as at 31.12.2005 and expected benchmark rates resulting from the curve of the interest rates term structure for different currencies at these dates.

70.5. Loans and advances with identified impairment charge

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

As the Bank does not grant new loan facilities to borrowers with similar credit risk profiles, the Bank has decided that the fair value of those receivables will be the present value of expected nominal cash flows (from the planned cash recovery and the sale of collateral) determined in the process of estimation of the loan impairment allowance discounted with expected benchmark rates resulting from the curve of the interest rates term structure as at 31.12.2006. If nominal cash flows are expected to be in a foreign currency, expected interest rates for this currency were applied for discounts.

70.6. 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. Held-for-sale debt securities not measured at fair value in the balance sheet are also measured in this way. The market prices of securities applied in the measurement of fair value, for both categories of assets, do not take into consideration any potential adjustments resulting from the limited liquidity of the market or transaction costs.

The Bank does not have any material commitment in shares of the companies that are recognized at historical cost; these are shares in subsidiaries and equity investments of minority nature. The subsidiaries operate as a supporting activity for the Bank’s activity, therefore its difficult to reliably estimate its fair value. Minority interests are 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.

70.7. 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, current receivables and customer liabilities.

70.8. 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.

Borrowed long-term cash loans and issued debt securities are based on floating market rate, which is revaluated every six months. Fixed credit margin as at 31.12.2006, as the transactions were performed within the KBC Group, and the curve of the interest rates term structure as at this date were applied to estimate fair value on the basis of the models of measurement based on discounted expected cash flows.

On the basis of the above-mentioned characteristics of financial liabilities and the assumptions adopted for the measurement models, estimated fair value of financial liabilities not held for trading is not considerably different from their carrying amount as at the date of this financial statement.

71. Information on proceedings before courts or public administration authority

In 2006, 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 equity.

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

71.1. The cases in which the Bank is a plaintiff

With reference to the Bank’s failure in the litigation against Inspektoria Towarzystwa Salezjańskiego (Salesian Society Inspectorate) in Wrocław, the guarantor of loans granted by the Bank from February to August 2001 to four entities: St. Jan Bosko's Roman-Catholic Parish, St. Jack's Roman-Catholic Parish and two monastic houses of the Salesian Society in Lublin, the Bank is now pursuing claims by the reason of groundless enrichment against church institutions for the total amount of PLN 14,567,292.83 with possible extension of the suit. First hearings have already taken place. The defendants replied to lawsuits and applied for the dismissal of all receivables. Witnesses were examined. Upon the Bank’s request, accounting experts prepared reports to determine whether the resources obtained from lombard loans were transferred to the accounts of the parish and monastic houses and determine the way of disposing the resources from these accounts.

71.2. The cases in which the Bank is a defendant

The highest claim cases are as follows:

- Three 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 4 March 1997, granted a syndicated loan to LFO. The loan was secured by, among others, a registered pledge on the company's fixed assets and the surety of the State Treasury up to 60 % of the drawn amount of the loan and accrued interest. As the investment project for which the loan was extended had not been completed and the dates of the payment of commitments had not been met, the Bank, representing the syndicate, terminated the agreement under its terms and conditions and called LFO to pay claims. The proceedings related to the Bank's exercise of the collateral under the loan agreement were unsuccessful; as a result, on 28 March 2003, the Bank, on behalf of syndicate members, called the Minister of Finance representing the State Treasury to pay USD 12.7 million, i.e. 60% of the drawn loan amount and USD 1.6 million of interest. The Finance Minister refused to exercise the surety. The banks, members of the syndicate, approached the court in order to concede the enforceability clause to the banking executory title (BET) issued on 1 December 2004 against the State Treasury. On 23.05.2006, the Bank received the enforceability clause to BET. The court debt collector enforced the whole claim for the Bank, i.e. PLN 8,120,120.03 on account of the repayment of loan principle and interest, and PLN 30,045.00 on account of expenses.
  - The Minister of Finance, on behalf of the State Treasury, requested for determination whether the syndicated loan agreement concluded between LFO and a syndicate of five banks expired on 28 February 1998 as a result of the failure to satisfy a contractual condition, i.e. failure to provide certain documents and the resulting expiry of the commitment of the State Treasury as the guarantor of the loan under the guarantor's agreement concluded on 1 July 1997 by the Bank, acting on behalf of the five banks, and the State Treasury. The State Treasury is represented by the General Public Prosecutor's Office of the State Treasury. The General Public Prosecutor's Office of the State Treasury will probably try to prove that loan agreement is invalid, and the amounts recovered by the Bank from the State Treasury in enforcement proceedings are undue payments.
  - Claims of LFO for damages amounting to PLN 119,477 thousand due to the termination of a loan agreement. The suit was filed on 18.06.03. The Bank is of the opinion that LFO claims are not based on any actual and legal grounds. On 16 March 2005, the court rejected the suit by LFO. At present, after being heard by courts of all instances, the case was referred to the Circuit Court in Warsaw. The hearing date has not been scheduled yet. On 26.06.2006, bankruptcy of Laboratorium Frakcjonowania Osocza Sp. z o.o. was declared. The court received the debtor's complaint about the bankruptcy declaration.
  - LFO claims to deprive the executory title of the enforceability clause. The suit was filed on 06.01.2005. The value of the object of the dispute amounts to PLN 102,154 thousand (for all syndicate members, the Bank's portion amounts to PLN 6,787 thousand). The banking executory title was partially deprived of enforceability, i.e. in

the amount of PLN 252,377.13. At the same time, the court upheld the enforceability of BET in the amount of PLN 101,901,864.67 thousand. The plaintiff appealed against the judgment. On 25 May 2006, the Appeal Court dismissed the plaintiff's appeal against the judgment of the Circuit Court to deprive the executory title of the enforceability clause. On 06.09.2006, the trustee in bankruptcy of Laboratorium Frakcjonowania Osocza Sp. z o.o. appealed to the Supreme Court.

- Trustee in bankruptcy of a company operating in the real estate developing sector (the name of the company is subject to confidentiality application) claims for payment of indemnity of PLN 32,256 thousand by the reason of effecting by the Bank of financial orders from the company's account on the basis of bank transfers orders and cheques bearing a forged signature of one of the persons authorized to represent the company in dealings with the Bank. The suit was filed on 6 February 2004. On 13 January 2005, the court suspended the proceedings until criminal proceeding is over. On 20 September 2005, under the court's decision, the civil proceedings were initiated in connection with the sentence in a criminal case pertaining to the forgery of signatures on cheques. The next hearing is scheduled for 13 September 2006. The case was adjourned by 21.11.2006 as the main witness forging documents did not appear in court. At the hearing on 21 November 2006, the plaintiff limited its claim for interest. The total amount claimed by the plaintiff amounts to PLN 20,665,590.30.

- A suit filed by MSG Investment Sp. z o.o. in liquidation. The debtor claims that, as a result of debt recovery measures, he lost PLN 25 million (no calculations are presented in the suit). The plaintiff claims that the Bank:
  - failed to reduce the loan with the value of things whose ownership was transferred as security for a debt that the Bank requested from PHZ MARBEL Sp. z o.o. (the entity is not a borrower) prior to the date of loan agreement termination. The things have not been transferred to the Bank by this entity;
  - as a result of proceedings to secure claims initiated by the Bank, movables of MSG Investement Sp. z o.o. were seized and, as a result, the debtor had to close his restaurants and lost the right to use the trademark.

- The suit filed by the receiver of Mars S.A. in bankruptcy proceedings with possible arrangement with creditors. The receiver claims from Żagiel S.A. the reimbursement of PLN 5,543,827.16 deducted by Żagiel S.A. after 04.11.2005, i.e. after the bankruptcy of Mars S.A. was declared. On 21 November 2006, the first instance court entered its judgment. The court adjudicated, from Żagiel S.A., the claimed amount of PLN 5,543,827.16 with statutory interest and proceedings costs. The amount was adjudicated on account of the payment by Żagiel S.A. to Mars S.A. of the commission and the price for goods sold by Mars S.A. in credit in cooperation with Żagiel S.A. As determined by the first instance court, the claims of Mars S.A. towards Żagiel S.A. were of temporary nature and arose upon the extension of further loans under the cooperation agreement, i.e. also after the day of declaring Mars. S.A. bankrupt.

As a result, the disputed deduction was not permitted. On 15 December 2006, Żagiel S.A. appealed against the judgment of the first instance court.

- The court proceedings concerning a loan totalling PLN 2,900,000 extended by the Bank to its client in September 1999 to purchase securities. The Client claims damages for the loss of profit due to the decline in the value of assets on the account in the period of its freeze and failure to generate profit that he might have generated if he had had free access to the account, e.g. loss of profit related to unexercised pre-emptive right offered to him and the failure to take up new shares. The plaintiff also demands amounts collected by the Bank after the termination of the agreement. The key element of the suit is the claim based on the potential opportunity of acquiring shares of a certain company and of their sale at a high price also in the said period (PLN 8,000,000). The value of the object of the dispute amounts to PLN 10,048,652 thousand.

  On 30 October 2006, the Bank responded to the suit. The date of the court hearing has not been determined yet.

- On 17 January 2001, the President of the Office for Competition and Customer Protection, upon the request of Polska Organizacja Handlu i Dystrybucji, initiated proceedings concerning competition-restricting practices of VISA and MasterCard as well as 20 banks, including Kredyt Bank S.A. On 29 December 2006, the President of the Office for Competition and Customer Protection issued the decision in which:

  1. they recognized that Kredyt Bank S.A. and other Banks applied competition-restricting practices which violate the ban referred to in Article 81. 1 of the Treaty establishing the European Community and Article 5. 1.1 on the protection of competition and consumers, i.e. applying practices which involve entering into an agreement concerning the determination of intercharge fee rate on transactions made with VISA and MasterCard cards in Poland;
  2. it was not discovered that a competition-restricting practice was applied, which involved the coordination of measures to restrict access for entrepreneurs, who failed to enter into agreements, to the market of services related to the regulation of consumers' payments to commercial entities for purchases made with cards;
  3. they imposed a fine on Kredyt Bank of PLN 12,158,370;
  4. HSBC Bank Polska S.A. was fined with PLN 192,990 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 intercharge fee rate.

  The Bank undertook legal measures to appeal against the decision of the President of the Office for Competition and Customer Protection. The measures comprise the following two aspects of the President's decision:

  1. appealing against the decision as regards its aspects directly affecting Kredyt Bank S.A.,

2. appealing against the decision on behalf of HSBC;
3. appealing against the immediate enforceability of the decision as regards the participation in the agreement concerning the determination of intercharge fee rate.

- In relation to a loan transaction to finance the construction of Altus building in Katowice, the Bank and Reliz Sp. z o.o. are involved in certain disputes of legal nature. 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 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 in the Bank's balance sheet.

72. Custodian services

An offer of the Bank's custodian services entails managing 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 depository, a transfer agent and issue sponsor.

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

This Department is also a custodian bank for investment funds, deposits securities not traded on organized market, registered in securities registered and on sub-fiduciary accounts in domestic and foreign financial institutions.

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

The Bank settles customers' transactions as required by KDPW, NBP and other institutions organizing trade in securities, and acts as an intermediary in the exercise of rights arising from securities, e.g. dividends, pre-emptive rights, interest, redemptions, splits, new issues, general meetings of shareholders.

As a depository for investment funds, the Bank offers the following services:

- keeping the register of a fund’s assets;
- ensuring accurate and proper calculation of NAV and NAVPS;
- ensuring the proper settlement of contracts on a fund’s assets;
- supervision of the fund’s investment activities.

As a transfer agent for investment funds, the Bank offers the following services:

- opening and keeping registers of the fund shareholders;
- providing distribution network software;
- processing orders of the fund shareholders;
- operating the fund distribution network;
- preparing and posting correspondence to the fund shareholders;
- providing information to shareholders (including call center services);
- calculating the number and the allocation of shares;
- supervising the settlements with the fund shareholders by the depositary;
- preparing reports for the funds.

Issue sponsor is responsible for securities admitted to trading on an organized market, including investment certificates of investment funds. It entails the registration of investors’ securities not deposited on securities accounts. The chief tasks of an issue sponsor related to investment certificates are as follows:

- issuing acknowledgments of the acquisition of certificates and share certificates;
- keeping and updating the register of a fund shareholders;
- verifying the acknowledgments of certificate acquisition;
- processing payments related to the redemption of certificates on redemption dates to accounts of holders entered in the issue sponsor’s register;
- processing the payments due to the shareholders and related to a fund liquidation for holders of certificates entered into the issue sponsor’s register.

In 2006, income related to the management of securities accounts and registers as well as the services of an issue sponsor amounted to PLN 3,733 thousand as compared to PLN 2,104 thousand in 2005.

73. Risk management at Kredyt Bank S.A.

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

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

Particular risks are dealt with directly by specialized Committees:

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

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

The Risk Management Department deals with the measurement and monitoring of all types of risks at Kredyt Bank. It is the only unit reporting all risk-related issues, 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.

73.1. Credit risk

The Bank's credit risk is defined as the risk of non-payment of amounts due if a borrower, guarantors, reassurer, contractor or issuer loses its creditworthiness.

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

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

The portfolio risk management is the responsibility of the Credit Risk Committee. In particular, the Credit Risk Committee is responsible for the following:

- acceptance and substantial supervision over the methods of credit risk measurement;
- recommending to the Bank's Management Board and the Supervisory Board admissible level of credit risk in the Bank's and subsidiaries' balance sheets;
- expressing opinions on the Bank's credit policy;
- expressing opinions on creation of write-downs and valuation of collateral;
- expressing opinions on internal credit limits;

- changing risk limits and approval of limit exceeds within the powers of the Bank's Management Board;
- substantial supervision over the program of the Bank's adjustment to the requirements of the New Capital Accord related to credit risk;
- approval of the new products in terms of credit risk.

The Bank manages the credit risk, applying different tools. The monitoring of the Bank's exposure concentration in customers or groups of related customers (in accordance with applicable banking law), and also the monitoring of the utilization of the industry exposure concentration limits.

As at 31 December 2006, the limits of the concentration were not exceeded.

Exposure towards 10 major corporate customers of the Group

Company	Share (%) in the portfolio as at 31.12.2006	Comparable data – share (%) in portfolio as at 31.12.2005
Customer 1	4.2	2.7
Customer 2	2.8	2.3
Customer 3	2.4	2.0
Customer 4	2.1	1.9
Customer 5	2.0	1.9
Customer 6	1.9	1.5
Customer 7	1.7	1.4
Customer 8	1.5	1.4
Customer 9	1.4	1.2
Customer 10	1.2	1.2
Total	**21.2**	**17.5**

The Bank also monitors the use of industrial exposure concentration limits established by the Bank to diversify risk.

As at 31 December 2006, the industrial limits of the exposure concentration were not exceeded.

Exposure in industrial segments

Industry	Exposure % 31.12.2006	Comparable data Exposure % 31.12.2005
Production activities	29.8	28.8
Retail and wholesale; repairs of motor vehicles and articles for personal and home use	20.6	22.9
Real estate administration and lease	14.2	14.6
Financial intermediation	10.4	8.1
Public administration and national defence, legally guaranteed social care	7	8.4
Construction	4.3	3.5
Supplies of electricity, gas and water	4.1	4.9
Transport, storing and communication	3.6	1.6
Agriculture, hunting and forestry	2	2.3
Hotels and restaurants	1.3	1.6
Other services for municipalities, social and individual services	1.1	1.4
Health care and social care	1	0.5
Education	0.5	1.2
Mining	0.1	0.2
Other	0	0
Total	**100**	**100**

Geographical exposure

Province	Gross loans structure (%) 31.12.2006	Comparable data Gross loans structure in % 31.12.2005
Mazowieckie	20.8	18.5
Lubelskie	14.6	15.8
Dolnośląskie	10.5	9.1
Wielkopolskie	10.1	9.7
Śląskie	8.1	10.9
Małopolskie	7.8	6.3
Pomorskie	7.4	7.6
Zachodniopomorskie	3.8	3.8
Łódzkie	3.5	4.6
Podlaskie	3.3	3.2
Podkarpackie	2.5	1.7
Warmińsko-mazurskie	2.5	2.3
Kujawsko-pomorskie	2.1	2.3
Świętokrzyskie	1.3	1.5
Lubuskie	1	0.8
Opolskie	0.6	0.8
Non-resident	0.1	1.1
Total	**100**	**100**

To limit the risk of exposure concentration, the Bank tries to expand loan extending activities for SMEs and individual customers.

The Bank continues works related to the implementation of the New Capital Accord. With regard to credit risk, successive conversion from less advanced approaches (Standard Method) to more advanced approaches (Internal Ratings Method: Basic and Advanced) is planned.

The Programme on Quantitative Assessment of Credit Risk - QCR (Quantitative Credit Risk) Programme - was created in 2004 to complete credit risk tasks associated with the New Capital Accord. The implementation of the programme will facilitate among others:

- development and implementation of credit risk measurement models;
- development and implementation of databases and tools facilitating the collection of data for the purposes of model development and their testing;
- reorganisation of the credit process taking into account the established level of risk;
- development and implementation of RAROC concept at the Bank;
- development of tools and reporting standards for the purposes of calculating capital adequacy by the standard method and internal ratings.

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

The preparations to implement the Standard Method are now related to preliminary tests of the information system applied to calculate the level of risk-weighted assets. And, in the case of the Internal Ratings Method (basic one), efforts are focused on collecting appropriate time series of data and developing PD, LGD and EaD models. The Bank has already implemented rating models covering a significant part of both corporate and retail loan portfolio.

73.2. Risk metrics underlying the calculations for the credit risk capital requirement set forth in the Banking Law.

As at 31.12.2006

Balance sheet instruments

Instrument	Carrying amount	Risk weighted value
Cash	416 766	0
Receivables	14 347 936	11 464 698
Debt securities	5 851 175	0
Other securities, shares	240 385	240 385
Fixed assets	335 622	335 622
Intangible assets	1 603	1 603
Other	221 756	66 571
Total banking portfolio	**21 415 243**	**12 108 879**
Trading portfolio	788 552	1413
Total balance sheet instruments	**22 203 795**	**12 110 292**

Off-balance sheet instruments

Instrument	Nominal value	Balance sheet equivalent	Risk weighted value
Interest rate instruments	573 600	6 322	1 264
Foreign exchange instruments	8 986	0	0
Other instruments	3 839	249	125
Total derivatives	**586 425**	**6 571**	**1 389**

Other off–balance sheet items – banking portfolio

Instrument	Carrying amount	Credit equivalent	Risk weighted value
Credit lines	3 374 417	1 283 904	1 239 766
Guarantees granted	1 200 754	971 869	775 713
Letters of credit	69 738	69 738	69 218
Other	124 357	124 357	89 423
Total	**4 769 266**	**2 449 868**	**2 174 120**

	Risk weighted value	Capital requirement
Total credit risk exposure (banking portfolio)	**14 284 388**	**1 142 751**

Comparable data as at 31.12.2005

Balance sheet instruments

Instrument	Carrying amount	Risk weighted value
Cash	385 048	0
Receivables	12 420 762	9 508 997
Debt securities	6 538 299	0
Other securities, shares	227 573	227 573
Fixed assets	346 913	346 913
Intangible assets	2 426	2 426
Other	298 020	72 602
Total banking portfolio	**20 219 041**	**10 158 511**
Trading portfolio	692 854	1 530
Total balance sheet instruments	**20 911 895**	**10 160 041**

Off-balance sheet instruments

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

Other off–balance sheet – banking portfolio

Instrument	Carrying amount	Credit equivalent	Risk weighted value
Credit lines	2 612 053	1 041 078	1 027 645
Guarantees granted	1 073 738	913 098	883 619
Letters of credit	28 705	28 705	28 705
Other	11 250	11 250	2 250
Total	**3 725 746**	**1 994 131**	**1 942 219**

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

73.3.Operating risk

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

In 2006, the Bank developed the operating risk management policy, which determines standards of identifying, appraising and monitoring the risk level and profile, in accordance with the standard method of determining capital requirements. The methodology covers, apart from determining the profile of operating risk based on historical data concerning the disclosed events, the identification of current and potential threats, as a result of cyclical self-assessment processes. In business areas, the Bank also implemented standards of mitigating key risks, particularly taking into account the risks which are characterized by low incidence but significant impact on financial result.

Since 2005, KBC Group has been implementing standards which constitute a set of best practices, applied in significant subsidiaries. One of the basic functions of group's standard is reduction of the risk by determining a minimal set of controlling points for chosen business areas and supporting processes.

In 2006, the Bank applied the group's standards related to outsourcing, development of the new treasury products, management of access authorization to IT systems and audit trails management, management of compliance risk under "Know Your Client" programme and submitting reports on detected irregularities, auditing, data collecting and retention, ensuring activities continuity.

In 2006, cyclical self-assessment processes were also initiated by business entities. The main objective is the identification of operating risk with existing control mechanisms and increasing the awareness of risk existence and its scale. Part of those processes has been already finished, by applying the solutions approved by the Operating Risk Committee, resulting from the analysis.

The operating risk coordinators, directly supporting the management staff of business units, play a crucial role in applying operating risk management tools and techniques. Coordinators were appointed in 2004 and their role is systematically increasing.

In 2006, the Bank determined the rules of seeking data on profit before tax by business lines, for the calculation of minimum capital requirement for operating risk determined within the New Capital Accord.

The infrastructure of management and methodology are coherent within the Bank and its subsidiaries. Identification and operating risk rating tools are identical. The whole process is supervised by the Operating Risk Committee which is managed by President of the Management Board.

73.4.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 interest rates, exchange rates and prices of shares and their market volatility.

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

The Bank's activity is divided into two parts: trading book and banking book. Due to different nature of open positions, the risk is monitored in each book separately.

73.5. Trading Book

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

Value at Risk (VaR) is the basic metric of risk in trading portfolio; it is calculated by historical method in the time horizon of 10 days, taking into account market figures for the previous 250 days. Value at Risk means such value that the probability of the Bank's loss exceeding this value amount to 1%.

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

	Limit	**31.12.2006**	**Data for the second half of 2006**		
			Average	Minimum	Maximum
VaR	3000.0	237.8	294.7	135.5	673.1

In 2005, the risk amount was calculated separately for interest rate position and currency position. As at 30.12.2005, risk amounts added up to EUR 257.96 thousand (interest rate positions) and EUR 147.31 thousand (Bank's currency position).

Interest rate risk

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

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

All above-mentioned limits concern the total trading book. Trading Book Unit in the Cash Management Department managing the Trading Book is divided into two sections (with the primary term of instruments as the basic division criterion): Short Term Desk (instruments up to 2 years) 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	**31.12.2006**	**Data for the second half of 2006**		
			Average	Minimum	Maximum
Short term Desk	1300.0	212.7	190.9	58.9	429.0
Long Term Desk	1300.0	153.7	203.8	90.6	577.6

VaR for particular sections – in EUR '000'

	Limit	**Comparable data 31.12.2005**	**Data for the second half of 2005**		
			Average	Minimum	Maximum
Short term Desk	900.0	193.44	402.0	116.9	849.8
Long Term Desk	1300.0	120.14	120.0	52.0	411.8

In 2005, STD investment horizon was one year. In 2006, STD investment horizon was extended to 2 years and, as a result, STD limit was increased.

Currency risk

Currency position

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

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

Foreign exchange options

The Bank also offers foreign exchange options. The Bank does not maintain options portfolio for its own account, i.e. The options on the inter-banking market are the options hedging the position resulting from transactions with customers. Therefore, the market risk in the portfolio of foreign exchange option transactions does not exist.

Capital market risk

The Bank does not operate on the stock market within the trading book.

Capital requirements

The capital requirements for the trading book as of 31 December 2006 and 31 December 2005 are as follows:

Capital requirements for the trading book (data in PLN '000)

	31.12.2006	Comparable data 31.12.2005
Specific risk of debt instruments	49	54
General interest rate risk	14 429	9 859
Settlement risk and counterparty risk	10 649	5 561
Total capital requirement in the trading book	**25 127**	**15 474**

73.5.1. Banking book

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

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:

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

An analysis of the interest rate gap applied in the interest rate risk management of the banking book is based on information on particular items of the Bank's balance sheet as well as off-balance items sensitive to changes of interest rates. In the case of financial instruments without defined maturity date (according to 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.

The banking book comprises the following items:

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

Interest rate risk analysis

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

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

The interest rate gaps diagrams in particular currencies based on internal system of transfer rates are presented below.
As 31.12.2006 fell on Sunday, gaps for working days were presented, i.e. day preceding and following the last day of the year. Visible differences in the shape of gaps between theses days result from the revaluation of certain floating interest rate positions which, for the material part of financial instruments, is carried out on the first day of each month. The description of diagrams presented below is prepared for 02.01.2007.

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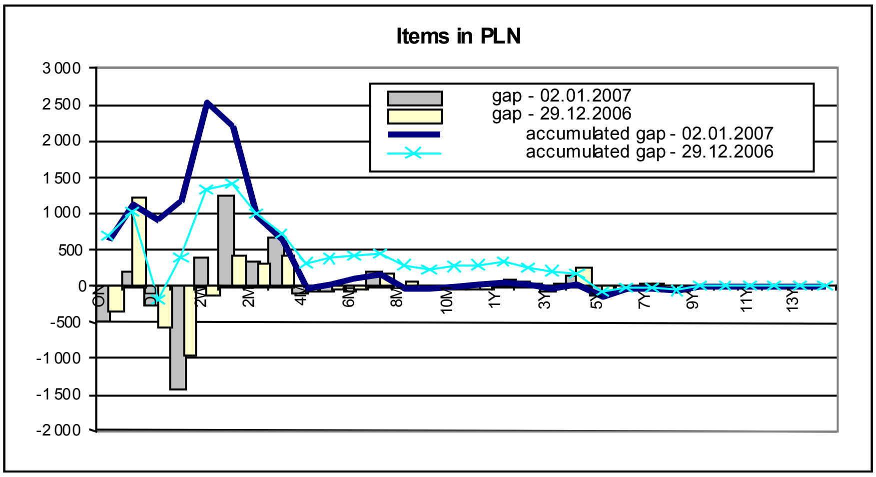
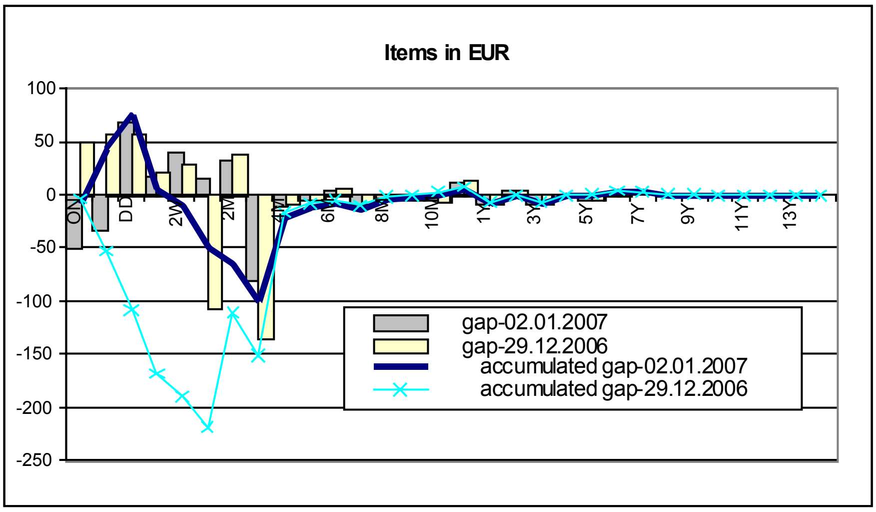
PLN



Gap for items in PLN shows the following mismatches: 5Y, 4Y and 7M term ranges result from the mismatch in benchmarking portfolios of savings and current accounts between bonds and financing deposits. The positive gap in term ranges from 2W to 3M is a result of a mismatch of volumes of floating interest rate loans and deposits. The gap is closed with OIS transactions, which, in the diagram is illustrated as a gap in 1W term range. Negative mismatch in ON and DD term range is generated by the unstable part of current deposits and savings accounts and short-term customer deposits.

- EUR



Negative gap in 3M term range resulting from floating interest rate loans accepted from KBC Dublin, which are a substantial position in this currency, is characteristic for euro.
The mismatch resulting from loans is set off by floating interest rate customer loans and CIRS; it is illustrated by a positive gap in DD-2M term range. However, negative mismatch visible in TN-ON term ranges result from CIRS (TN) and savings and current accounts (ON).

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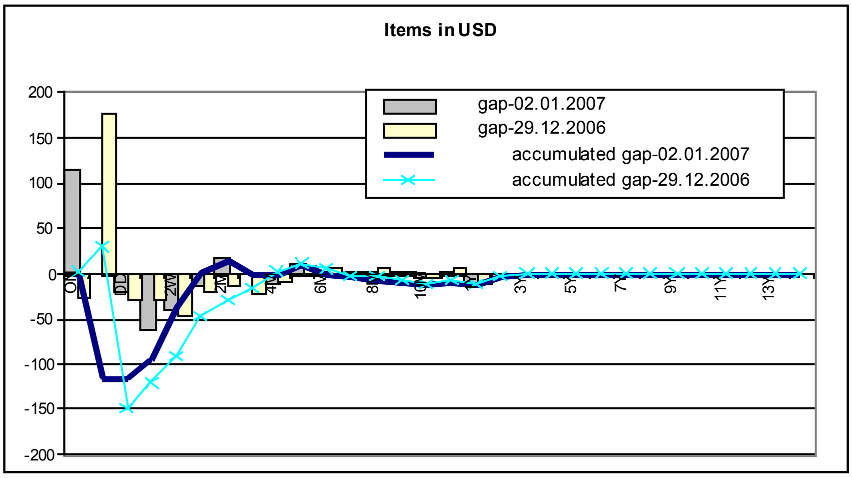
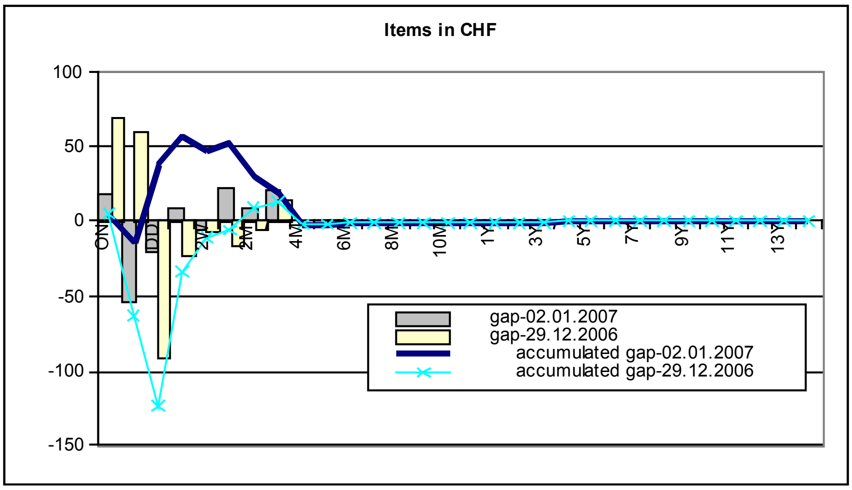
USD



As regards USD, customers' fixed interest rate deposits are key positions; they determine the balance and the shape of the gap in this currency, creating a negative mismatch in 2W to 1Y term ranges. Positive gaps in 2M and 5M ranges result from swaps (2M) and a deposit granted in the Trading Book (5M). The gap caused by deposits is closed with OIS (positive mismatch in ON term range).

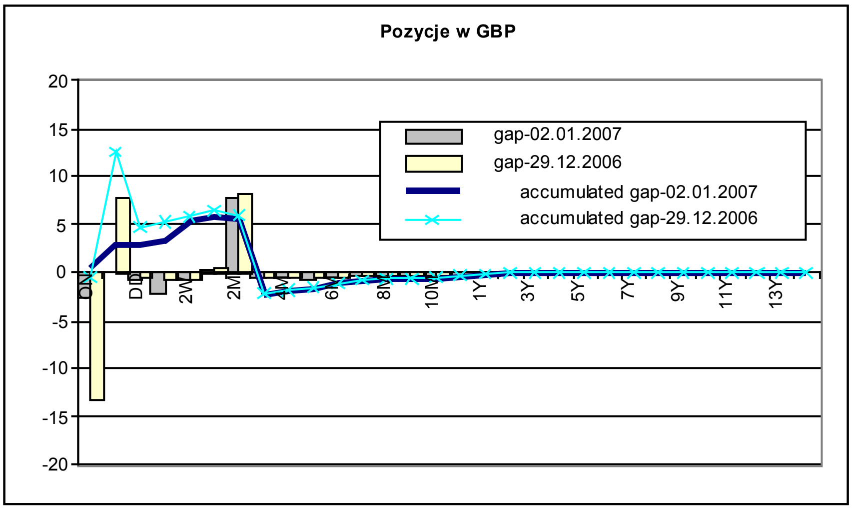
- CHF



Positive gap in 1W and 2M-3M term ranges is the result of floating interest rate customer loans. The change of the gap from positive to negative in DD term range results from CIRS, and the acceptance of a deposit from the trading book in TN term range.

The closing of the exposure noticeable in ON term range was affected by overdraft facilities and a deposit extended to the trading book.

-GBP



Negative mismatch is created by customers' deposits, mainly with fixed interest rate and current deposits in ON term range.
The gap in 1M-2M term ranges is positive due to CIRS.

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

Currency/portfolio		BPV in millions of original currency 31.12.2006		Currency/portfolio		BPV in millions of original currency Comparable data 31.12.2005	
PLN	Hedging	-0.143	-0.219	PLN	Hedging	0.223	0.100
	Transformation		-0.007		Transformation		0.035
USD		0.006		USD		0.012	
EUR	Hedging	0.014	0.017	EUR	Hedging	0.008	0.012
	Transformation		-0.003		Transformation		-0.005
CHF		-0.007		CHF		0.004	
GBP		0.000		GBP		0.001	

The use of BPV limit (being the aggregate of absolute values for all currencies, Hedging and Free Capital portfolios) as at 02.01.2007 amounted to:

	31.12.2006	Comparable data 31.12.2005
Limit in millions EUR	1.000	1.000
BPV in millions EUR	0.060	0.077

73.6. Hedge accounting

Fair value hedging accounting

As at 31 December 2006, the Bank continued to apply hedge accounting for fair value hedge for asset swaps. The purpose of hedge accounting is to hedge fixed interest rate bonds with IRS, on which the Bank pays fixed interest rate and receives floating interest rate.

As at 31 December 2006, one asset-swap transaction fulfilled the condition of high hedge effectiveness.

Hedge accounting of cash flows

In March 2006, the Bank applied hedge accounting of cash flows for the first time to secure cash flows resulting from floating interest rate bonds. The hedge of cash flows from floating interest rate bonds consist in the conclusion of IRS transaction in which the Bank receives fixed and pays floating cash flows.

And, as at 31 December 2006, the Bank applied hedge accounting also to the part of loans portfolio based on O/N rate. The hedge consist in creating swap structure composed of revolving OIS transaction (the Bank pays cash flow based on O/N rate) and standard IRS transaction in which the Bank pays cash flow based on floating interest rate adjusted to OIS maturity date and receives fixed interest flows. Hedged risk in this case is interest rate risk resulting from change of short-term interest rates.

As at 31 December 2006, all concluded cash flows hedge transactions fulfilled hedge high effectiveness condition (3 asset-swap transactions and 2 transactions hedging a part of the loan portfolio).

73.7. Currency risk

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

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

a) determines the value of the highest monthly interest and principal repayment instalment for the applied loan with the assumption that 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 understand as loan value/collateral value ratio);

c) additionally, the applicant is informed about foreign exchange risk,

73.8. Liquidity risk

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

The Bank hedges the liquidity risk by:

- maintenance of appropriate level of cash, taking into account volume of statutory provisions;
- the 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.

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

An analysis of the Bank's liquidity is performed mainly on the basis of the liquidity gap report and the assessment of the deposit base stability e.g. by 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.

To facilitate the liquidity monitoring risk, the Bank applies the following liquidity limits:

- Stock Liquidity Ratio (SLR) – short-term liquidity ratio;
- Coverage Ratio (CR) - strategic liquidity ratio which informs about the degree of financing long-term assets with long-term liabilities.

In 2006, on the basis of historical data, the rules of making the liquidity gap real were implemented. The process of making the gap real is aimed at presenting a more realistic picture of liquidity; the Bank endeavours to model customers' behaviour (the quantity of revolving term deposits, amounts of extended but still undrawn loans) and take into account results of those analyses in the picture of the Bank's liquidity.

- <u>The stability of the deposits base</u>

A stable deposit base, not affected by seasonal phenomena, is the basic source of the Bank's financing.

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

The stability of the deposits base is particularly secured with cash from individual customers. At the end of December 2006, the percentage of individual customers' deposits was at the level of 55%. More volatile deposits of the financial sector, business entities and the public sector accounted for 5%, 29% and 11% of the deposits respectively.

Current deposits and negotiable term deposits account for 57% of the base, whereas the remaining 43% are term deposits (16%) and savings accounts (27%). Continuously increasing share of savings accounts at the expense of term deposits results from their advantageous interest rate and higher flexibility of cash withdrawings. Very good, from the viewpoint of the stability, is the structure of savings accounts by entities: individual customers' cash accounts for as much as 93%.

The structure of term deposits (except for interbank term deposits and negotiable term deposits) is advantageous from the point of view of initial maturity date. As at 31.12.2006 and 31.12.2005, it was as follows:

	31.12.2006	Comparable data as at 31.12.2005
- up to 1 week	2%	13%
- up to 1 month	23%	6%
- up to 3 months	26%	29%
- up to 6 months	18%	24%
- up to 12 months	24%	16%
- up to 24 months	2%	2%
- other	5%	10%

In terms of a currency type, the structure of the deposit base as at 31.12.2006 and 31.12.2005 was as follows:

	31.12.2006	Comparable data as at 31.12.2005
PLN	80.8%	80.9%
USD	9.1%	9.0%
EUR	9.2%	9.2%
GBP	0.7%	0.7%
CHF	0.1%	0.1%
Other	0.1%	0.1%

Signatures of all Management Board Members

Date 28.02.2007	Ronald Richardson	President of the Management Board	....
Date 28.02.2007	Umberto Arts	Vice-President of the Management Board	....
Date 28.02.2007	Krzysztof Kokot	Vice-President of the Management Board	....
Date 28.02.2007	Konrad Kozik	Vice-President of the Management Board	....
Date 28.02.2007	Bohdan Mierzwiński	Vice-President of the Management Board	....
Date 28.02.2007	Michał Oziembło	Vice-President of the Management Board	....

Signature of a person responsible for keeping the account books

Date 28.02.2007	Maria Beata Kucińska	Chief Accountant of the Bank	....

The Management Board's report on the operations of Kredyt Bank S.A. in the period covered by this financial statement ended 31.12.2006

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1. Results of Kredyt Bank S.A. in the years 2004 - 2006

In 2006, Kredyt Bank S.A. generated its record high net profit of PLN 437,443 thousand. It was higher by 6.6% from net profit generated in the previous year and almost three times as high as net profit in 2004.

ROE, reached a high level similar to the figure achieved in the previous year and was equal to 23.6%, ROA amounted to 2.0% as in 2005.

The most significant factor that affected the financial result was the sale of receivables from the portfolios of Kredyt Bank S.A. and Żagiel S.A. performed in the first half of 2006. The impact of the transaction, having regard for its costs, provisions for risks associated with the transaction and the tax effect, upon the the Group's net profit amounted to PLN 108 382 thousand.

Unlike in 2005, apart from the restructuring of the portfolio of non-performing loans and the reduction of the operating costs, the Management Board focused on the development of sale and acceleration of efforts aiming at the establishment of a banking and insurance group in cooperation with WARTA S.A

In 2006 the previous unsatisfactory trends regarding the loan- and deposit-related activities were reversed. As compared to the end of 2005 net loans and advances to customers increased by 19.6% i.e. by PLN 1,933.9 million thus exceeding the 2004 level by 2.5%. Significant improvement was also noticeable in the case of the sale of deposits and the acquisition of customers' resources. The total value of amounts due to customers and of participation units in investment funds of KBC TFI sold via the Bank's network increased by 13.4% as compared to 2005. At the same time, the Bank's share in the market of the sale of investment funds increased.

In 2006, efforts aiming at the restructuring of impaired loans portfolio were drawing to a close. They allowed the Bank to significantly improve the quality of the portfolio measured against the share of receivables for which individual premises of impairment were identified in total gross loan receivables. At the end of 2006, the ratio amounted to 14.5%, i.e. it decreased from 26.4% as at the end of 2005 and 28.0% as at the end of 2004.

Measures to reduce the portfolio of impaired loans resulted in the reduction of its volume in 2006 by 42.0%, i.e. by PLN 1,351,361 thousand, and, as compared to the figures as at the end of 2004, by 52.2%, i.e. by PLN 2,042,793 thousand. The factors which resulted in such a significant improvement entailed the above-mentioned sale of debts due to which gross carrying amount of non-performing loans portfolio decreased by ca. PLN 581 million, and writing off non-recoverable receivables of PLN 478 million from the balance sheet to off-balance sheet items in the fourth quarter of 2006.

Apart from the above-mentioned operations, the Bank undertook wide-scale restructuring and debt recovery measures which allowed it to achieve, in 2006, a positive balance of net impairment charges for financial assets, other assets and provisions of PLN 32,181 thousand.

Cost/income ratio, including the results of the sale of debt in 2006 amounted to 67.4% and was lower than in 2005 by 6.8 p.p. The maintenance and further improvement of the Bank's effectiveness will become one of the most essential financial objectives for 2007 and further years.

Both these and other measures taken by Kredyt Bank S.A. aim at further improvement of basic figures and financial relations and, as a result, meeting expectations of both customers and shareholders.

Basic figures and financial relations	31.12.2006	31.12.2005	31.12.2004
ROE	23.6%	26.0%	11.9%
ROA	2.0%	2.0%	0.6%
CIR	67.4%	74.2%	80.9%
Capital adequacy ratio	13.5%	16.2%	14.4%
Net profit	437 443	410 488	126 528
Loans for which evidence for impairment was identified/total gross loans and advances to customers	14.5%	26.4%	28.0%

2. Kredyt Bank S.A. and the conditions of its operation in 2006

2.1. Economic situation in Poland and banking sector in 2006

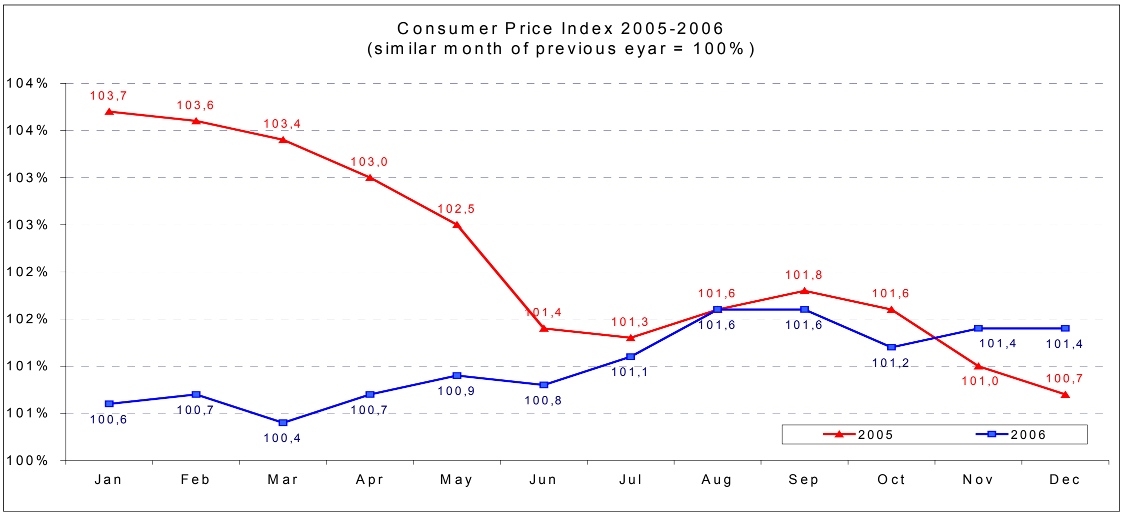
Overall economic situation in Poland in 2006

We witnessed a very good year in Polish economy. Following a slightly worse first quarter, in which adverse weather conditions negatively affected the investment growth, further quarters resulted in the bulk of cases in positive changes. Annual GDP growth increased from 3.5% in 2005 to 5.8% in 2006. The growth resulted primarily from a significant improvement in domestic demand levels, including mainly strong growth in capital expenditure supported by aid from the European Union, relatively non-restrictive monetary policy of the central bank and a lenient loan policy of commercial banks. Despite the observed acceleration of the domestic demand, import increased only slightly faster than export. Although, throughout the year, trade did not drive GDP levels, however, better than expected results of the economies of the main trading partners of Poland and the appreciation of the Polish zloty slower than in the previous year made it possible to sustain high export growth. The trends observed since the beginning of the year consolidated in the last quarter of 2006.

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

- dynamic improvement of domestic demand,
- noticeable improvement of the labour market,
- further growth in the building industry,
- growing level of Union funds absorption,
- further growth in financial profitability of enterprises,
- particularly successful implementation of the State budget and budgets of administrative units (the deficit on the level lower than assumed in the 2006 schedule and significant surplas in budgets of Territorial Administrative Units) and good perspectives for the 2007 budget,
- continuing stable international investment position of Poland, achieved due to substantial growth in export and the inflow of financial aid from the EU as well as increasing inflow of direct foreign investments;

Throughout 2006, a slight increase in consumer prices occurred (on a year-to-year basis) being a direct effect of the rise in prices on the global fuels market as well as the temporary increase in annual dynamics of food prices which resulted from the last year’s drought. The volatility of the inflation rate was a result, first of all, of all supply-related factors, and substantial economic growth throughout the year did not result in a greater pressure on price increase. The Inflation rate calculated on a year-to-year basis only once and for a short period of time exceeded the bottom limit of approved fluctuations scale around the inflation target determined by the National Bank of Poland. At the end of 2006, inflation (measured with CPI) equaled 1.4% i.e. it was below the bottom limit established by the Monetary Policy Council for the year 2006 regarding the inflationary target of 2.5% ± 1p.p. y/y.



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

- uncertain fate of the public finances reform that has been announced for years now;
- potentially unstable political environment,
- small share of investments in GDP.

The increased share of investments in GDP is the key problem and, at the same time, the main threat for the fast medium-term economic growth. Effective use of EU financial support both under the already closed allocation for the years 2004-2006 and the new budget perspective for the years 2007-2013 will be of particular importance in this respect.

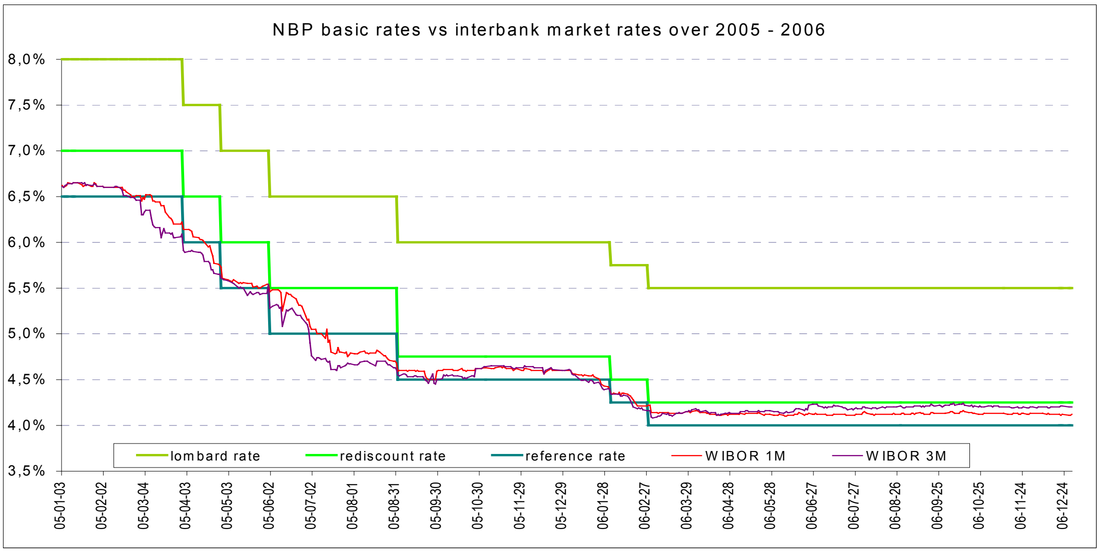
Monetary policy of the National Bank of Poland in 2006

At the beginning of 2006, the Monetary Policy Council, in response to the continuing record low inflation rate and advantageous perspectives for further quarters, decreased interest rates twice (by the total of 50 basis points). Further on during the year, the interest rates of the central bank remained stable.

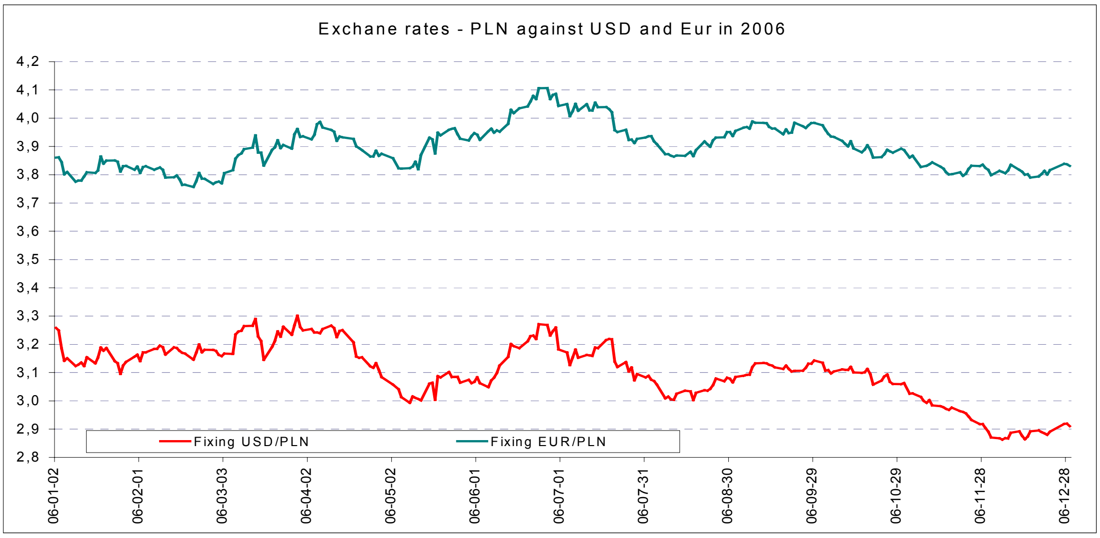
The long-awaited recovery in investments and noticeable improvement on the labour market driving domestic consumption could be an argument for an increase in interest rates, however the stable and relatively fast growth of labour productivity limited the pressure on an increase in prices.

At the end of 2006, the basic interest rates of the central bank were as follows:

- reference rate 4.0% p.a.,
- lombard rate 5.5% p.a.,
- rediscount rate 4.25% p.a.,
- NBP deposit rate 2.5% p.a.



The Polish zloty, following a significant decline in the second quarter of 2006 (in response to concerns regarding the collapse of the governing coalition and unexpected dismissal of Zyta Gilowska, Deputy Prime Minister), was successively gaining against euro further on during the year. The Polish currency, on the one hand, was supported by solid macro-economic foundations, including the relatively low current account deficit and balanced, inflation-free economic growth. The increase in the global risk appetite, beneficial for the Polish zloty and other currencies of Central and Eastern Europe was an additional positive factor. At the end of December 2006, the exchange rates were as follows: PLN 3.83 per 1 EUR and PLN 2.91 per 1 USD.



Outlook for the Polish economy in 2007

The domestic consumption and fast-growing investments will remain the main drivers of the economic growth in 2007. The recovery of the internal demand since the beginning of the previous year will contribute to the enhancement of the upward trends in import. These trends, despite quite positive growth perspectives in Eurozone and less pessimistic projections concerning the decline in business conditions in the USA will eventually translate into an increase in the current account deficit.

The solid, although less dynamic than in 2006, growth in internal demand will result primarily from good individual consumption levels and the maintenance of large-scale investment activity in the economy. Further improvement on the labour market, including the gradual increase in employment and salaries in enterprises and salaries in the governmental sector, will be the main driver of the improved consumption level. The sound, double-digit investment growth should be supported by both solid consumption demand (at home and abroad), a high level of free financial resources of Polish enterprises and almost record low interest rates. The simplification of complex EU assistance application procedures, declared by the government, which so far have been the main barrier in this process, will also be vital.

The noticeable improvement in the situation on the labour market, particularly the substantial growth in salaries in enterprises, has been accompanied so far by a solid increase in labour productivity. Due to this process, throughout the previous year an inflation rate remained curbed. It seems that the pressure on the growth of salaries on a similar scale will continue also in further years, which, having regard for slightly worse economic conditions, will translate into a decline in labour productivity. However, taking into account the absence of greater shocks on the food and fuels markets, the next year's inflation rate will remain below the inflation target of the National Bank of Poland, i.e. 2.5% y/y. The pressure on salaries will manifest itself as a growing base inflation rate, which may persuade the Monetary Policy Council to slightly increase interest rates in the first half of the year.

In 2007, PLN exchange rate should remain strong due to fundamental factors, such as relevantly low deficit on current accounts and the influx of direct foreign investments fully covering the above deficit. PLN exchange rate will also depend, though to a smaller extent than in the previous years, on the political situation. Markets will be particularly exposed to political risk in summer months, i.e. in the period of more in-depth works on the budget for 2008. Also the external environment will positively affect the stable although, as predicted, much less rapid appreciation of the Polish zloty. Relatively positive perspectives for the world economy will restrict the probability of a rapid outflow of speculative capital from emerging markets.

Banking sector in 2006

The year 2006 was very successful for the banking market. Positive, earlier trends were enhanced. The majority of commercial banks recorded the highest financial results ever[1] and improved effectiveness ratios. The portfolios of loans and advances to customers and amounts due to customers went up. The financing of real estate market was growing particularly fast.

The loans market was characterized by the expansion of loans for households. In the first half of 2006, an average monthly increase in volumes of receivables amounted to 2.3% (against 1.5% in the previous year). It was generated mainly due to record high results of the sale of mortgages (300.5 thousand loan agreements for the total value of PLN 42.5 billion). In the second half of the year, despite the implementation of so called Recommendation S aiming to curb demand for currency

[1] According to preliminary data of the General Inspectorate of Banking Supervision, net profit of the banking sector after 4 quarters of 2006 amounted to PLN 10.14 billion and were higher than net profit in the previous year by 21%. ROE at the end of 2006 amounted to 22.4% against 20.6% recorded in the previous year. The share of non-performing loans in the loans portfolio decreased to 7.4% from 11% in 2005.

mortgage loans, the growth in loans was even faster[2]. The average, monthly increase in receivables volumes added up to 2.5%. At the end of the year, mortgages were over 40% of household debts in banks. The improvement on the labour market and the growing optimism concerning a future financial situation resulted in the revival of the consumer credits market (cash loans, instalment loans, credit cards). Their annual growth exceeded 25% at the end of 2006.

Slightly different trends dominated the market of loans for institutional customers. In the first half of the year, the sector recovered from the stagnation in the value of the debt of enterprises in banks. In the second half of the year, average monthly growth of this debt amounted to 1.5% (against 0.1% in the previous year). Stable market parameters (inflation rate, interest rates) and advantageous economic perspectives (especially for investments) affected the growth trend in loan exposures. At the same time, more and more banks made greater efforts to improve services and capture SME customers.

Increased income (increase in salaries and employment) and advantageous conditions at Warsaw Stock Exchange contributed to material growth in financial assets of households. The year 2006 resulted in substantial growth of the importance of investment funds for levels and structure of customers' savings. The value of financial resources in mutuals increased during the year by over 60%, while the value of resources deposited on bank accounts by only 5%. The main reason for such deep (spanning one year) relocation of financial surpluses was the bull market at Warsaw Stock Exchange. As a result, the share of investment funds in the portfolio of household savings exceeded 12%. The share of deposits, despite nominal absolute volume increases, continued to decrease relatively to 42% at the end of the year.

In such conditions, deposits of corporate customers were an important source of external funding for the banking sector. At the end of the year, the growth of amounts due from banks to business entities exceeded 22% (y/y). It stemmed from very advantageous business conditions and very good results of enterprises which invested their financial surpluses (in view of no final rebound in investment) in banks.

The general stability of consumer prices and interest rates resulted in a very advantageous climate for the promotion and the sale of products on the financial market. Interest income was the basic element of the operating result of banks. The improvement of net interest income was an effect of an increase in volumes and the maintenance of deposit margins[3]. The majority of top 10 banks focused on a few strategic market segments: mortgage loans and consumer credits, credit cards, investment funds and SMEs. The expansion of the product offer resulted in an increase and, at the same time, diversification of non-interest income.

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[2] The implementation of Reccomendation S (in July 2006) resulted in a change in the structure of turnover, however, it did not hinder demand. The share of currency loans in the sale of mortgages decreased from the average level of 75% in the fist half of 2006 to 64% in the second half. The decrease was compensated for with surplus by a fast growth of PLN loans. The boom on the market was stimulated to a large extent by customers' concerns related to further growth in the prices of flats, and, on the other hand, the pro-sale marketing policy of banks. As a result, the amount of mortgages extended in 2006 exceeded PLN 41 billion, i.e. 70% more than in the previous year (according to the Polish Bank Association)

[3] Contrary to deposits, loan margins were subject to a stronger price competition. It was related both to low-margin mortgages and high-yield consumer loans. However, the declines were not substantial. The margin (understood as the difference between average interest rates of agreements and the average inter-bank interest rate) in the first case dropped from 8.4% in the first half of the year to 8.2% in the second half of 2006, i.e. by 0.2 p.p. In the second case, the drop was also at the level of 0.2 p.p.

The trends of developing bancassurance services and establishing closer cooperation between banks and insurers, not only in business relations but also in capital relations, was initiated.

In response to a growing demand in advantageous business conditions, the leading banks proceeded to expand the distribution network. First of all, the network of own branches was expanded, but, in a few cases, also the network of partner establishments (franchises) was developed. The major feature of the new outlets is the focus on sales. The network of external financial intermediaries specializing in the sales of consumer finance products became another fast-growing distribution channel. In 2006, the growth in the importance of financial intermediary companies was perceptible mainly on the loan market[4].

Business conditions on the market of financial services in 2006 had a positive impact on the operation of Kredyt Bank S.A. Advantageous conditions were created to implement restructuring plans and network development plans. As a result, the selling potential of the Bank and the opportunities of restructuring its market shares increased. The boom on the market of investment funds and mortgages was one of the factors which contributed to the success of the Bank's sale, despite changes in the legal environment concerning the qualitative limitations of the expansion of mortgages[5].

2.2. Organization and capital relations

2.2.1 Shareholding structure

As at 31.12.2006 the Bank's share capital totaled PLN 1 358 294 400 and was divided into 271 658 880 shares with the nominal value of PLN 5.00 each. The Bank's shares are registered shares and bearer shares; they are not preference shares and each share entitles its holder to one vote at the Bank's General Meeting of Shareholders. All Bank's shares are admitted to public trading. As compared to 31.12.2005 the Bank's share capital did not change. However, changes were introduced to the shareholding structure.

On 02.06.2006, KBC Bank NV implementing the Resolution of the Commission for Banking Supervision No. 81/KNB/01 of 17 September 2001, according to which 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., sold 15,014,772 shares of Kredyt Bank S.A. to Sofina S.A. constituting 5.53% share in the capital and votes. Before the sale transaction, KBC Bank NV had 232,341,875 shares of Kredyt Bank S.A. accounting for 85.53% share in the share capital of Kredyt Bank S.A. After the transaction, KBC Bank NV has 217,327,103 shares of Kredyt Bank S.A. constituting 80% share in the share capital of Kredyt Bank S.A.

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

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[4] It is estimated that in 2006 intermediaries sold loans of PLN 11 billion. (79% y/y), which constituted 16% of the total value of sold loans on the financial market in this period.

[5] As in the whole sector, also in KB S.A., so called 'Reccommendation S' did not hinder the growth of the sale of mortgages. However, it triggered changes that the Bank made in the structure of sales, mainly to increase the share of PLN loans extended in the second half of 2006.

A table below presents a list of Shareholders of Kredyt Bank S.A. holding over 5% of votes at GMS of Kredyt Bank S.A as at 31.12.2006.

Shareholder	Line of business	Number of shares/votes at the GMS	Share in votes and share capital (%)
KBC Bank NV*	Banking	217 327 103	80.00
Sofina SA	Investment company	15 014 772	5.53

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

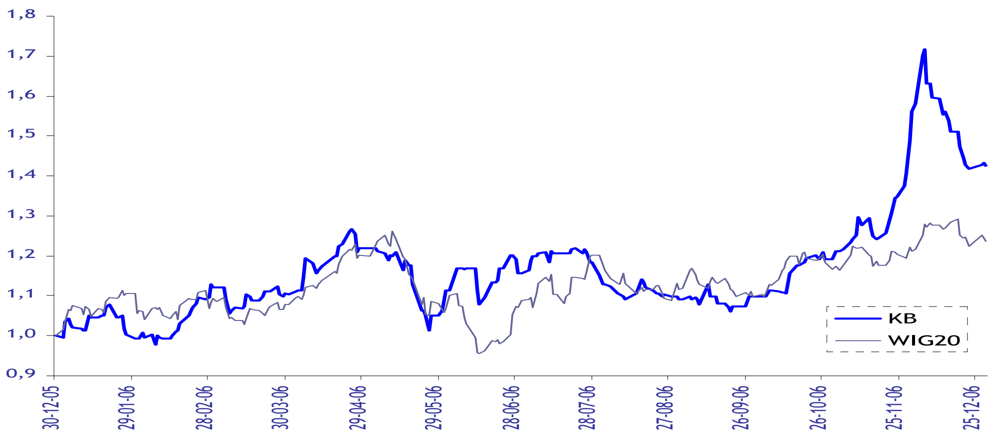
Share prices of Kredyt Bank S.A. at Warsaw Stock Exchange

The improvement of financial results and business accomplishments of KB S.A. in 2006 translated into a substantial increase in the prices of the Bank's shares at Warsaw Stock Exchange. For three quarters of 2006, the share price of KB S.A. was subject to trends observed worldwide. In the last quarter, relative strength of the Bank's shares was much ahead of changes in WIG 20.

Basic figures and financial relations	29.12.2006	30.12.2005	Zmiana%
Price of shares of KB S.A. (PLN)	20.09	14.10	42.5%
WIG 20	3 285	2 655	23.7%
WIG Banks	70 858	47 361	49.6%
Profit per share* (PLN)	1.72	1.53	12.4%
Book value per share* (PLN)	7.70	6.19	24.4%

*calculated on the basis of consolidated data

The Bank's market value at the closing price at the last stock exchange session in 2006 amounted to PLN 5,457.6 million, and P/BV ratio was at the level of 2.74. For comparison purposes, at the first session in the year, the Bank's shares were valued at the total of PLN 3,857.6 million, at P/BV of 2.41. Thus, investments in the shares of KB S.A. generated 42% rate of return annually. It was higher than the annual growth of WIG 20 (ca. 24%).



2.2.2 Authorities of the Bank

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

At the session of the Supervisory Board of Kredyt Bank held on 13.04.2006, Małgorzata Kroker-Jachiewicz, the Vice-President of the Bank's Management Board, informed that she did not intend to apply for an office in the Bank's Management Board for the term beginning after the date of the nearest Ordinary General Meeting of Shareholders of the Bank. The Supervisory Board thanked Małgorzata Kroker-Jachiewicz for many years of work for Kredyt Bank, managing the Bank in the time difficult for the Company, her contribution to the implementation of the Bank's strategy as well as the achievements on managerial positions held by her.

On 31.05.2006, the Supervisory Board of Kredyt Bank S.A. appointed the Bank's Management Board for the new five-year term. Ronald Richardson was appointed for the position of President of the Management Board of Kredyt Bank S.A. Then, the Bank's Supervisory Board, on a motion of President Ronald Richardson, appointed other Members of the Management Board of the Bank.

On 11.07.2006, Guy Libot, the Vice President of the Management Board, due to his acceptance of a job offer within KBC Group's structures outside Poland, placed his resignation from the position of the Vice President and his membership in the Management Board of Kredyt Bank S.A. as from 23.07.2006. As from 24.07.2006, pursuant to the decision of the Supervisory Board of 31.05.2006, Umberto Arts holds the position of Vice President of the Management Board of Kredyt Bank S.A.

As at 31.12.2006 the Management Board of Kredyt Bank S.A. was composed of:

Ronald Richardson	- President of the Management Board,
Umberto Arts	- Vice President of the Management Board,
Bohdan Mierzwiński	- Vice President of the Management Board,
Krzysztof Kokot	- Vice President of the Management Board,
Konrad Kozik	- Vice President of the Management Board.

On 21.12.2006 the Supervisory Board of Kredyt Bank S.A. passed a resolution on increasing a number of the Bank's Management Board Members to 6 persons and as at 01.01.2007 appointed Mr. Michał Oziembło for the position of Vice President of the Management Board of Kredyt Bank S.A. responsible for the Consumer Finance Division.

The Supervisory Board exercises a permanent supervision over the Bank's activities in all areas of its operation. The particular duties of the Supervisory Board include 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 appointed by the General Meeting of Shareholders.

On 31.05.2006, due to the earlier resignation by: Andre Bergen, Frans Florquin and Marko Voljc from their positions in the Supervisory Board of Kredyt Bank S.A., the Ordinary General Meeting of Shareholders of Kredyt Bank S.A. passed a resolution on appointing, as from 31.05.2006, Jan Vanhevel, Luc Philips and John Hollows to the composition of the Supervisory Board of Kredyt Banku S.A. The resignations mentioned above were due to changes to the organizational structure of KBC Group.

On 29.11.2006, the Supervisory Board of Kredyt Bank S.A., in connection with the resignation of Ms. Riet Docx from her office in the Supervisory Board, appointed Mr. Francois Gillet, a representative of Sofina SA, a company which is a shareholder of Kredyt Bank S.A., as a member of the Supervisory Board.

As at 31.12.2006 the Supervisory Board of Kredyt Bank S.A. was composed of:

Andrzej Witkowski - Chairman of the Supervisory Board,

Francois Gillet - Member of the Supervisory Board,

John Hollows - Member of the Supervisory Board.

Feliks Kulikowski - Member of the Supervisory Board,

Marek Michałowski - Member of the Supervisory Board,

Adam Noga - Member of the Supervisory Board,

Luc Philips - Member of the Supervisory Board,

Józef Toczek - Member of the Supervisory Board,

Jan Vanhevel - Member of the Supervisory Board.

The Bank's shares held by members of management and supervisory authorities

As at the publication date of this report, i.e. 28.02.2007, in relation to the state as at the publication date of the consolidated annual financial statement for 2005, a number of the Bank's shares held by Members of the Bank's Management Board and Members of the Bank's Supervisory Board decreased by 100 shares as a result of changes in the composition of the Bank's Management Board.

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

	Shares of Kredyt Bank S.A.		**Shares in subsidiaries and associates**	
	Number of shares	**Nominal value (in '000' PLN)**	**Number of shares**	**Nominal value (in '000' PLN)**
Members of the Management Board	5 000	25	0	0
Ronald Richardson	5 000	25	0	0
Members of the Supervisory Board	1 000	5	0	0
Marek Michałowski	1 000	5	0	0

Remuneration of persons managing and supervising the Bank

Detailed information on remuneration of persons managing and supervising the Bank and contracts entered into by the Issuer and managing persons are presented in Note 56 to the financial statement of Kredyt Bank S.A. for 2006.

Employment contracts concluded with three members of the Bank's Management Board stipulate payment of a compensation in the case of the termination of the contract of employment due to the dismissal from the Management Board which will amount to i:

- 24 times the average monthly remuneration, if the time by the end of the term of office of the Bank's Management Board is 24 months and more;
- the product of average monthly remuneration and of the number of months remaining by the termination of the term of office of the Bank's Management Board, however not less than 12 times the average monthly remuneration, if the time by the end of the term of office of the Bank's Management Board is less than 24 months.

All the three contracts include a condition clause that a compensation is not received if the contract has been terminated due to a recall from the composition of the Management Board resulting from :

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

In addition, in the case of not entering into a new agreement due to the failure to appoint a new Employee as a member of the Management Board for the next term of office, he will be entitled to obtain 12 times the average monthly remuneration.

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

2.2.3 Investment plans, including capital investments

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

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

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

As at 31.12.2006 capital investments made outside the Group were mainly investments in shares of such companies as KIR S.A., BIK S.A., G.P.W. S.A., SWIFT and shares taken in the debt recovery and restructuring process. As at 31.12.2006 their share in the Group's balance sheet was immaterial. A detailed list of the Bank's capital investments in subsidiaries and associates has been presented in Note 34 to the financial statement of Kredyt Bank S.A. for 2006.

2.2.4 Related party transactions

In 2006 no significant transactions with related parties had place, total value of which, 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 did not stem from current operating activities.

2.3. Strategy of Kredyt Bank S.A.

The main assumption of the main shareholder's strategy, reflected in the strategy of Kredyt Bank S.A., is to accomplish higher and higher levels of growth and returns without expanding the Bank's risk. Having regard for the present high market price of the internal growth, Kredyt Bank S.A. prefers the business model which entails limited development. However, it does not exclude acquisitions supplementing internal growth.

As assumed by the main shareholder, the policy of increasing dividend levels will be pursued.

The Bank's strategic goals:

In terms of their position on the retail market:

- focus on 'mass' and 'upper mass' customers as well as SMEs (including companies with annual sales up to PLN 16 million),
- focus on key products (consumer and mortgage loans, credit cards, current and savings accounts, investment funds and products linked to an insurance offer of Warta S.A.);

In terms of their position on the corporate market:

- focus on services to medium-sized companies, including customers of other KBC Group members operating in Poland,
- focus on the increase in customer relations efficiency through the sale of additional products. Beside traditional loans and deposits, these are mainly: cash management, trade financing, market risk management instruments and leasing.

In terms of their financial standing (golas for the whole KBC Group):

- a medium-term goal entails the achievement of ROE at the level of 18.5%,
- a medium-term goal entails the achievement of cost/income ratio at the level of 55%.

Methods of the goals accomplishment:

- implementation of the bancassurance model in cooperation with WARTA S.A. Group, on the basis of the major shareholder's experience,
- development of consumer finance,
- consolidation of the Bank's new brand and close cooperation with entities of KBC Group in Poland to provide the customers with complete, professional and modern offer of financial services with limited costs of its development,
- increasing network effectiveness and its expansion (the process of creating 120 new outlets launched in 2006), creating mobile sale teams, activating alternative distribution channels,
- high quality of services and customer satisfaction.

2.4. Corporate governance

The Management Board of Kredyt Bank S.A. attaches great importance to applying Corporate Governance rules in the management process. Corporate Governance is a set of regulations necessary to maintain proper relations between interests of all entities and natural persons involved in the company's operation.

According to the Management Board, a proper proportions between executives, shareholders, customers and employees is an essential factor leading to stable development of the Bank in the long term and, accordingly, to an increase in its value as a stable and effective partner.

Compliance function

In the opinion of the Bank's Management Board the compliance function is one of the fundamental rules of Kredyt Bank activities, which is reflected in internal regulations. The Bank, as a public trust institution, is specially obliged to run business in an ethical way and to comply with applicable laws and social standards. In the case of Kredyt Bank, high pressure on compliance function results also from fact that Kredyt Bank S.A. is a member of KBC, a Belgian banking and insurance group, and is obliged to implement the assumptions of the Group's policy concerning the compliance function.

Since November 2003, the Compliance Department has been operating in the Bank. The department is to undertake independent measures aimed at monitoring and promoting the observance of the regulations of fair and ethical Bank's operation.

The Compliance Department is particularly responsible for the following priority areas of the compliance policy: prevention of introducing assets from illegal or undisclosed sources into financial trading (money laundering), prevention of tax fraud (study of their mechanisms), transactions on financial instruments, transactions based on internal information (insider trading), price manipulations, compliance with the privacy law, transactions concluded by employees on their own account, issues concerning transgressing powers by employees, bank secrets, prevention of misappropriation and general financial ethics issues.

The Ethics, Procedures and Control Unit has been established within the Compliance Department. Its main objective is to supervise the observance of the financial ethics rules, initiating explanatory and auditory proceedings and cooperate with the ethics unit of the Bank's major shareholder.

According to the established compliance function policy, the Bank applies the following codes (subject to continuous revisions): 'KBC Group Members Code of Conduct' and 'The Code of Ethics for Employees of Kredyt Bank S.A.'. The ethics rules set forth in the Code of Ethics for Employees of Kredyt Bank S.A.are addressed to all staff members also including managers and executive officers. They arise from the general moral standards and are basic guidelines to be observed by the Bank's employees performing their tasks (honesty, loyalty, professionalism, reliability and due diligence).

Best practices in public companies

Kredyt Bank S.A. applies, developed by the Good Practices Committee and recommended by Warsaw Stock Exchange, corporate governance rules concerning joint stock companies admitted to stock exchange trading set forth in the document 'The 2005 Best Practices in Public Companies'.

On 29 June 2006, the Management Board of Kredyt Bank S.A, submitted, in a form of a current report, a statement on the application of corporate governance rules in Kredyt Bank S.A., set forth in the Resolution of the General Meeting of Shareholders of Kredyt Bank S.A. of 25 April 2005 with amendments in Rules 42 and 43.

The Bank declared its intention to observe 46 out of 48 Rules. In the case of Rule 20 which specifies the role of independent members of the Supervisory Board, at present, the Bank respects provisions on the number of independent members in the Supervisory Board. As many as five of nine members of the Supervisory Board are not connected with the Bank's strategic shareholder, with the Bank or with its employees. Works are underway to define detailed criteria of independence which will be set forth in the Bank's Memorandum and Articles of Association. In the case of Rule 43, which governs the selection of the Bank's auditor, Kredyt Bank Memorandum and Articles of Association state that it is the responsibility of the Supervisory Board.

Under the corporate governance rules, the Bank adopted the By-laws of its three governing bodies: the Management Board, the Supervisory Board and the General Meeting of Shareholders.

Members of the Supervisory Board have proper education; most of them are graduates of law or economics faculties. Besides, all members of the Supervisory Board have long experience in business management.

The Supervisory Board comprises the Audit Committee and the Remuneration Committee. If needed, the Supervisory Board can also appoint another Committees, determine their powers and procedures. The Audit Committee supervises the activities of the Bank's organizational units responsible for internal audit, risk management and compliance function. The Remuneration Committee supervises employees issues and remunerations, especially salaries of the Bank's Managements Board members.

The by-laws of the Bank's General Meeting of Shareholders determine detailed rules for conducting the meeting and adopting resolutions. The by-laws determine, among other things, rules for shareholders' participation in the General Meeting and detailed regulations concerning the appointment of the Supervisory Board by voting in separate groups.

The Bank, observing the corporate governance rules, presents, also on its website, in investor relations section, periodical and current stock exchange reports, basic internal regulations and other information which make it possible to evaluate the operation of the company reliably.

Social responsibility

As a modern institution with a pro-social approach, Kredyt Bank is actively involved in charity, sponsoring and CSR. In the area of social responsibility, Kredyt Bank focuses its activities on supporting the youngest and the needy.

In 2006 the Bank gave financial and material assistance to about 120 institutions, contributing to treatment and rehabilitation of children as well as supporting the victims of construction disaster in

Chorzów and dead miners' relatives of Halemba. Beside financial aid, the Bank provided schools and orphanages with computer equipment, books, educational programs and hospitals with diagnostic equipment.

Care for the children that need help most was reflected in Kredyt Bank's sponsoring activity. Once again the Bank supported 'A Postcard to Santa Claus' philantropic campaign. For the first time the Bank got engaged in 'And you can become Santa Claus', a television campaign, and became one of the supporters of family orphanages. The Bank assisted in building Dom Misia Ratownika [House of Teddy Bear the Rescuer] where psychological help is offered to children who suffered injuries in car accidents.

The second pillar of Kredyt Bank's sponsoring activities in 2006 was the area of culture where the company sustained its role as a patron of art. One of the most prestigious events of the previous year was the first night of 'Giovanni' in Rozmaitości Theatre and the first night of 'Kopia Mistrza', a film by Agnieszka Holland. Thanks to the Bank's help young directors of the State Theatre School in Cracow could take part in workshops during which new versions of such spectacles as 'Midsummer's Night Dream', 'The Second Fall' and 'Godot, Akt III' were presented.

In 2006 Kredyt Bank undertook to sponsor an extraordinary project of preparing music workshops for teachers the goal of which was to make the participants familiar with different aspects of music. Kredyt Bank's initiative was recognized by the Commitment to Europe and the bank was awarded a prize of Arts& Business Award.

2.5. Business risks

The main rule for Kredyt Bank's strategy is to fully control and minimize risks. Their level can be defined as low or decreasing. The Bank's governing bodies, explicitly the Supervisory Board and the Management 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 the opinion about the actions of the Management Board in this respect.

Particular risks are dealt with directly by specialized Committees supervised by Members of the Management Board, with at least two of them in the composition of each committee:

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

The Risk Management Department is involved in the measurement and monitoring of all types of risks in Kredyt Bank. It is the only unit reporting all risk-related issues, fully independent of business units.

More detailed data concerning risk management in Kredyt Bank S.A. are presented in Note 73 to the Financial Statement of Kredyt Bank S.A. for 2006.

2.5.1. Credit risk

Credit policy

Kredyt Bank S.A. follows a prudent credit risk policy. The basic aim is to prevent the impairment of credit portfolio and reduce to minimum the share of receivables for which evidence of impairment was identified in total loan receivables. The primary assumptions of the credit policy are as follows:

- clear-cut division of sale and credit risk management functions;
- permanent monitoring and early identification of hazards;
- centralization of decision-making powers in the credit process and in the process of the management of the portfolio of credits for which evidence of impairment was identified;
- risk diversification;
- limited financing of higher-risk business activities.

Credit risk management

The Bank's credit risk is defined as the risk of non-payment of amounts due if a borrower, guarantor, reassurer, contractor or issuer loses its creditworthiness. Credit risk is managed taking into account the credit risk aspect corresponding to individual transactions and from the portfolio perspective. The Bank developed and implemented rules of identifying evidence of and testing impairment according to IAS 39.

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

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

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

- risk measurement model - PD (Probability of Default),

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

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

The Bank manages the credit risk, applying different tools. Basic ones include monitoring of the Bank's exposure concentration in customers or groups of related customers (in accordance with applicable banking law), and also monitoring of the utilization of the industry exposure concentration limits. As at 31 December 2006, the limits of the concentration were not exceeded.

Exposure in industrial segments

Industry	Exposure (%) 31.12.2006	Exposure (%) 31.12.2005
Production activities	29.8	28.8
Retail and wholesale; repairs of motor vehicles and articles for personal and home use	20.6	22.9
Real estate administration and lease	14.2	14.6
Public administration and national defense, legally guaranteed social care	10.4	8.1
Financial intermediation	7.0	8.4
Supplies of electricity, gas and water	4.3	3.5
Construction	4.1	4.9
Other services for municipalities, social and individual services	3.6	1.6
Agriculture, hunting and forestry	2.0	2.3
Hotels and restaurants	1.3	1.6
Transport, storage and communication	1.1	1.4
Education	1.0	0.5
Health care and social care	0.5	1.2
Other	0.1	0.2
Total	**100**	**100**

Exposure towards the Bank's 10 major institutional customers

Company	Share (%) in the portfolio as at 31.12.2006	Share (%) in the portfolio as at 31.12.2005
Customer 1	4.2	2.7
Customer 2	2.8	2.3
Customer 3	2.4	2.0
Customer 4	2.1	1.9
Customer 5	2.0	1.9
Customer 6	1.9	1.5
Customer 7	1.7	1.4
Customer 8	1.5	1.4
Customer 9	1.4	1.2
Customer 10	1.2	1.2
Total	**21.2**	**17.5**

Geographical structure of exposure

Province	Gross loans structure (%) 31.12.2006	Gross loans structure (%) 31.12.2005
Mazowieckie	20.8	18.5
Lubelskie	14.6	15.8
Dolnośląskie	10.5	9.1
Wielkopolskie	10.1	9.7
Śląskie	8.1	10.9
Małopolskie	7.8	6.3
Pomorskie	7.4	7.6
Zachodniopomorskie	3.8	3.8
Łódzkie	3.5	4.6
Podlaskie	3.3	3.2
Podkarpackie	2.5	1.7
Warmińsko-mazurskie	2.5	2.3
Kujawsko-pomorskie	2.1	2.3
Świętokrzyskie	1.3	1.5
Lubuskie	1.0	0.8
Opolskie	0.6	0.8
non-resident	0.1	1.1
Total	**100**	**100**

The Bank is continuing works on implementation of the requirements of the New Capital Accord. In the area of credit risk, the Bank plans to gradually shift from less advanced methods (Standard Method) to more advanced approaches (Internal Ratings Method: Basic and Advanced). To complete tasks related to credit risk under the New Capital Accord, the Programme on Quantitative Assessment of Credit Risk - QCR (Quantitative Credit Risk) Programme was launched in 2004, under which the Bank would be able to:

- develop and implement credit risk measurement models;
- develop and implement databases and tools facilitating collection of data for the purposes of models development and testing;
- reorganize the credit process taking into account the established level of risk;
- develop and implement RAROC concept (the system of calculating effectiveness of cooperation with a customer at various levels).
- develop and implement databases on credit risk, reporting tools and standards for the purposes of calculating capital adequacy according to standard and internal ratings methods.

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

The preparations to implement the Standard Method are now related to preliminary tests of the information system applied to calculate the level of risk-weighted assets. And, in the case of the Internal Ratings Method (basic) efforts are focused on collecting appropriate time series of data and developing PD, LGD and EaD models. The Bank has already implemented rating models covering a significant part of both corporate and retail loan portfolios.

2.5.2. Liquidity risk

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

The Bank hedges the liquidity risk by:

- maintenance of an appropriate level of cash, taking into account the volume of statutory provisions,
- maintenance of an appropriate size of liquid securities (government bonds) portfolios,
- performing transactions on derivatives,
- maintenance of a diversified portfolio of deposits as regards terms and customers,
- access to the inter-bank market and open market transactions,

- access to the lombard loan,

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

The analysis of the Bank's liquidity is performed mainly on the basis of the assessment of the deposit base stability and the liquidity gap report through, 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 applies the following liquidity limits:

- Stock Liquidity Ratio (SLR) – short-term liquidity ratio
- Coverage Ratio (CR) – strategic liquidity ratio informing about level of financing long-term assets with long-term liabilities.

In 2006, on the basis of historical data, the rules for making the liquidity gap real were implemented. The process of making the gap real is aimed at presenting a more realistic picture of liquidity; the Bank endeavors to model customers' behaviour (the quantity of revolving term deposits, amounts of extended but still undrawn loans) and taking into account results of those analyses in the picture of the Bank's liquidity.

Stability of the deposits base

A stable deposit base is the main source of the Bank's financing. The diversification of the deposit base allows for the Bank's independence of any specific market segment, customer group or specific deposit type. Except for Mazowieckie Province, the deposits are not concentrated in one specific region. Amounts due to customers by provinces are as follows:

Province	Deposits structure (%) 31.12.2006	Deposits structure (%) 31.12.2005
Mazowieckie	29.4	29.7
Dolnośląskie	8.8	9.5
Śląskie	7.1	6.7
Małopolskie	7.1	6.8
Wielkopolskie	6.8	5.9
Pomorskie	6.7	6.8
Łódzkie	6.2	6.4
Podlaskie	5.8	6.2
Lubelskie	5.6	5.5
Podkarpackie	4.5	4.8
Zachodniopomorskie	3.5	3.3
Kujawsko-pomorskie	2.9	3.0
Warmińsko-mazurskie	2.1	1.9
Świętokrzyskie	1.6	1.4
Lubuskie	1.1	1.2
Opolskie	0.8	0.9
Total	**100**	**100**

The stability of the deposits base is particularly secured with cash from individual customers. At the end of December 2006, the percentage of individual customers' deposits was at the level of 55%. More volatile deposits of the financial sector, business entities and the public sector accounted for 5%, 29% and 11% of the deposits respectively.

Current deposits and negotiable term deposits account for 57% of the base, whereas the remaining 43% comprises term deposits (16%) and savings accounts (27%). A continuously increasing share of savings accounts at the expense of term deposits results from their advantageous interest rate and higher flexibility of cash withdrawings. From the viewpoint of the stability, the structure of savings accounts by entities is very good: individual customers' cash accounts for as much as 93%.

Customers' deposit (by maturities)

	31.12.2006	31.12.2005	Change
- up to 1 month	13 055 984	10 827 052	20.6%
- 1-3 months	1 240 235	1 828 946	-32.2%
- 3-6 months	765 073	894 819	-14.5%
- 6 months to 1 year	378 044	677 193	-44.2%
- 1 - 3 years	24 683	213 739	-88,5%
- 3 - 5 years	77 861	5 049	1442.1%
- 5 - 10 years	42 026	106 054	-60.4%
- 10 - 20 years	988	1 599	-38.2%
- over 20 years	173	0	
- interest	33 814	38 248	-11.6%
Total	**15 618 881**	**14 592 699**	**7.%**

Gross amounts due from customers by maturities

	31.12.2006	31.12.2005	Change
- up to 1 month	326 101	246 010	32.6%
- 1-3 months	575 958	679 240	-15.2%
- 3-6 months	699 006	545 116	28.2%
- 6 months to 1 year	2 805 464	2 719 057	3.2%
- 1 - 3 years	1 993 800	1 812 288	10.0%
- 3 - 5 years	1 435 936	1 127 096	27.4%
- 5 - 10 years	1 843 582	1 508 526	22.2%
- 10 - 20 years	1 496 784	964 944	55.1%
- over 20 years	664 365	419 051	58.5%
- past due	980 502	2 091 426	-53.1%
- interest	86 337	79 827	8.2%
Total	**12 907 835**	**12 192 581**	**5.9%**

2.5.3. 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 actively operate on the shares market (investments in stocks are long-term investments or strategic investments in subsidiaries) so among market risks there are interest rate and exchange rate risks in the Bank. The Bank does not trade on the commodity markets.

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

Trading book

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

Value at Risk (VaR) is the basic metric of risk in trading portfolio; it is calculated by a historical method in the time horizon of 10 days, taking into account market figures for the previous 250 days. Value at Risk means such value that the probability of the Bank's loss exceeding this value amount to 1%.

Value at Risk (calculated for the whole Trading Book – comprises both interest rate risk and exchange rate risk) – data in EUR '000'

	limit	**31.12.2006**	Data for the second half of 2006		
			Average	Min	Max
VaR	3000.0	237.8	294.7	135.5	673.1

Trading book – interest rate risk

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

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

All above-mentioned limits concern the total trading book. The trading Book Unit in the Cash Management Department managing the Trading Book is divided into two sections (with the primary term of instruments as the basic division criterion): Short Term Desk (instruments up to 2 years) and

Long Term Desk. Internal VaR limits and stop-loss (maximum acceptable loss) restrict the activities of particular sections.

Value at Risk for particular sections – data in EUR '000'

	limit	**31.12.2006**	**Data for the second half of 2006**		
			Średnia	Min	Max
Short term Desk	1300.0	212.7	190.9	58.9	429.0
Long Term Desk	1300.0	153.7	203.8	90.6	577.6

Trading book – exchange rate risk

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

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

The Bank also offers foreign exchange options. The Bank does not maintain options portfolio for its own account, i.e. the Bank does not pursue speculative activity on the options market. The 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 foreign exchange option transactions does not exist.

Trading book – capital market risk

The Bank does not operate on the stock market within the trading book.

Capital requirements

The capital requirements for the trading book as of 31 December 2006 and 31 December 2005 are as follows:

Capital requirements for the trading book (data in PLN '000)

	31.12.2006	**31.12.2005**
Specific risk of debt instruments	49	54
General interest rate risk	14 429	9 859
Settlement risk and counterparty risk	10 649	5 561
Total capital requirement in the trading book	**25 127**	**15 474**

Banking book

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

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:

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

An analysis of the interest rate gap applied in the interest rate risk management of the banking book is based on information on particular items of the Bank's balance sheet as well as off-balance items sensitive to changes of interest rates. In the case of financial instruments without a 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 more effective management of risk associated with this type of instruments and for the generation of constant income from investments of these assets.

The banking book comprises the following items:

Hedging - item resulting from the operations of branches (along with hedging transactions):

- benchmark portfolios of current accounts in PLN, EUR and USD,
- benchmark portfolio of savings accounts in PLN,
- branch position, except for the part of stable current accounts and savings accounts,

Transformation, including:

- benchmark portfolio of Free Capital,
- item with credit risk (Credit Book).

Average interest rates in Kredyt Bank S.A. in 2006

Average effective interest rates of customer term deposits were as follows (by main currencies):

	31.12.2006	31.12.2005
EUR	2.0	1.4
GBP	2.7	2.3
PLN	2.7	2.8
USD	3.3	1.8

Average effective interest rates of loan receivables were as follows (by main currencies):

	31.12.2006	31.12.2005
CHF	4.1	4.1
EUR	5.4	4.6
PLN	9.2	9.6
USD	7.7	6.6

Hedge accounting

As at 31.12.2006, Kredyt Bank continued to apply hedge accounting for fair value hedge for asset swaps. The purpose of hedge accounting is to hedge fixed interest rate bonds – IRS (fix to float). As at 31.12.2006, one asset-swap transaction fulfilled the condition of high hedge effectiveness.

In 2006, Kredyt Bank, for the first time, applied hedge accounting for cash flow. The purpose of hedge accounting is to hedge cash flows from floating interest rate bonds, and since December, Kredyt Bank has also been hedging cash flows from floating interest rate loans. Hedged risk in this case is interest rate risk resulting from a change of short-term interest rates.

The hedge of cash flows from floating interest rate bonds consists in the conclusion of IRS transaction in which the Bank receives fixed and pays floating cash flows. And, as at 31.12.2006, the Bank applied hedge accounting also to the part of loans portfolio based on O/N rate. The hedge consists in creating swap structure composed of revolving OIS transaction (the Bank pays cash flow based on O/N rate) and standard IRS transaction in which the Bank pays cash flow based on a floating interest rate adjusted to OIS maturity date and receives fixed interest flows.

As at 31.12.2006, all concluded cash flows hedge transactions fulfilled hedge high effectiveness condition (3 asset-swap transactions and 2 transactions hedging a part of the loan portfolio). Total fair value transactions amounted to PLN 2.2 million; the amount recognised in equity in 2006 amounted PLN 1,2 million. As at 31.12.2006, Kredyt Bank did not apply hedge accounting for net investments in a foreign unit.

Embedded derivatives

The Bank recognizes embedded derivatives. As at 31.12.2006, the measurement of embedded derivatives amounted PLN 4.1 million.

Banking book – exchange rate risk

As it was mentioned above, currency position is managed in the trading book. The items related to the Bank's customers' transactions arising during a day are transferred, via internal transactions, to the Trading Book.

It should be stressed that the exchange rate risk at Kredyt Bank is perceived not only as the risk occurring for open currency position, but also as the risk of a change in the value of certain products as a result of changes in exchange rates; particularly in the case of loans granted in foreign currencies. In order to reduce the credit risk that grows in the case of an increase in an exchange rate of the currency a loan is granted in (this also refers to loans granted in PLN, with their value indexed to the foreign currency exchange rate), loan agreements for institutional customers contain clauses on establishment of additional collateral or permit to translate the loan, when the customer does not generate income in the loan currency. In order to hedge a customer's exchange rate risk they are exposed to, they are offered derivatives (forwards, options).

In order to mitigate exchange rate risk on granting mortgage loan in foreign currency to individual customers, the Bank, analyzing the creditworthiness:

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

b) additionally, the applicant is informed about foreign exchange risk,
c) furthermore the Bank, upon granting loan in foreign currency, calculates the maximum level of LtV (*Loan To Value)* ratio on a higher level than for loans in PLN (LtV ratio should be understand as loan value/collateral value ratio).

2.5.4. Operating risk

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

In 2006, the Bank developed an operating risk management policy, which determines standards of identifying, appraising and monitoring the risk level and profile, in accordance with the standard method of determining capital requirements. The methodology covers, apart from determining the profile of operating risk based on historical data concerning the disclosed events, identification of current and potential threats, as a result of cyclical self-assessment processes. In business areas, the Bank also implemented standards of mitigating key risks, particularly taking into account the risks which are characterized by low incidence but a significant impact on the financial result.

Since 2005, KBC Group has been implementing standards which constitute a set of best practices, applied in significant subsidiaries. Reduction of the risk by determining a minimal set of controlling points for chosen business areas and supporting processes is one of the basic functions of Group's standard.

In 2006, the Bank applied the Group's standards related to outsourcing, development of the new treasury products, management of access authorization to IT systems and audit trails management, management of compliance risk, auditing, data collecting and retention, ensuring continuity of activities.

In 2006, cyclical self-assessment processes were also initiated by business entities.

The main objective is to identify operating risk with existing control mechanisms and to increase the awareness of risk existence and its scale. A part of those processes has been already finished, by applying the solutions approved by the Operating Risk Committee, resulting from the analysis.

Operating risk coordinators, directly supporting the management staff of business units, play a crucial role in applying operating risk management tools and techniques. Coordinators were appointed in 2004 and their role is systematically increasing.

In 2006, the Bank determined the rules of seeking data on profit before tax by business lines, for the calculation of minimum capital requirement for operating risk determined within the New Capital Accord.

The infrastructure of management and methodology are coherent within the Bank and its subsidiaries. Identification and operating risk rating tools are identical. The whole process is supervised by the Operating Risk Committee which is managed by the President of the Management Board.

2.6. Events and contracts material for the Bank's operation in 2006

The following events and contracts were material for the Bank's operations in 2006:

- On 17.01.2006 Kredyt Bank S.A. repaid a subordinated loan extended under the agreement of 28.04.2000 with KBC Bank, Dublin Branch and Banco Espirito Santo for the amount of USD 50,000 thousand.
- On 14.04.2006 Kredyt Bank S.A. and Żagiel S.A. (a subsidiary of Kredyt Bank S.A) concluded with BEST I Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty agreements on the sale of a part of the receivables portfolios of Kredyt Bank S.A. and Żagiel S.A. for the total amount of max. PLN 1,044,771,054.80.
- On 29.05.2006 the Bank received from the Commission for Banking Supervision an opinion which confirmed that the fundamental objectives of the Recovery Plan were satisfied and, in this situation, the Commission for Banking Supervision failed to find any reasons to continue recovery actions by KB S.A.
- On 31.05.2006, the General Meeting of Shareholders of KB S.A. passed a resolution to pay dividend for the financial year 2005 in the gross amount of PLN 0.22 per share. The total amount of the dividend was equal to PLN 59,764,953.60 and 271,658,880 A to W shares of Kredyt Bank S.A. were participating shares. 29.06.2006 was the day of dividend declaration and the dividend was paid as on 18.07.2006.
- On 02.06.2006, KBC Bank N.V. concluded with Sofina SA, an European investment company from Brussels, a transaction of sale of 15,014,772 shares of Kredyt Bank S.A., constituting 5.53% share in the capital and votes at the General Meeting of Shareholders of Kredyt Bank S.A. Before the transaction, Sofina SA did not have any shares of KB S.A. After the transaction, KBC Bank N.V. has an 80% share in the share capital of KB S.A. and pursuant to the Resolution of the Commission for Banking Supervision No. 81/KNB/01 of 17 September 2001, is entitled to exercise no more than 75% of votes at the General Meeting of Shareholders of KB S.A. KBC Bank N.V. does not intend to change the number of its shares of Kredyt Bank S.A. within the next 12 months.
- On 09.06.2006 and 16.06.2006, performing the agreement of the sale of a part of loss receivables portfolios of Kredyt Bank S.A. and Żagiel S.A., entered into on April 14, 2006, Kredyt Bank S.A. and Żagiel S.A. concluded with BEST I Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty real agreements. The total value of the receivables, owned by the Bank, sold under the above-mentioned agreements amounted to PLN 696 413 thousand.
- On 26.07.2006, Kredyt Bank S.A. purchased from DOM JMJ Sp. z o.o. 40 shares in Reliz Sp. z o.o. of the nominal value amounting to PLN 625 each, constituting 100% share in the capital and votes at the General Meeting of Shareholders of Reliz Sp. z o.o. The total price of the shares purchased was PLN 25,000. Reliz Sp. z o.o. is the owner of a multi-purpose building. Following the transaction, KB S.A. intends to continue the present business of the Company.
- On 08.08.2006, Kredyt Bank S.A. redeemed banking securities amounting to PLN 400 million, issued by KB S.A. under the programme of the issue of registered perpetual banking securities on 23.12.2003 (Tranche I – PLN 330 million) and on 28.07.2004 (Tranche II – PLN 70 million). The transaction made by KB S.A. will lower the costs of the Bank's long-term financing.

- On 17.08.2006, Fitch Ratings, an international rating company raised a long-term rating for Kredyt Bank S.A. from 'A' to 'A+'. The remaining ratings remained unchanged. The increase in the long-term rating was justified by the Agency with a higher rating for Poland raised from 'A' to 'A+'. According to the changed rating, Fitch Ratings altered the rating long-term perspective from 'positive' to 'stable'.
- On 02.11.2006, Kredyt Bank S.A. was informed about the registration of the combination of Kredyt Trade Sp. z o.o. with KB Zarządzanie Aktywami S.A. and Victoria Development Sp. z o.o. on 31.10.2006, according to the Decision of the District Court for the capital city of Warsaw, XII Division of the National Court Register. As the result of the registration of the combination, Victoria Development Sp. z o.o. and KB Zarządzanie Aktywami S.A. were deleted from the National Court Register and their assets were transferred to Kredyt Trade Sp. z o.o. As the result of the combination, the share capital of Kredyt Trade Sp. z o.o. increased by PLN 36,697,900 through the merger issue of 366,799 shares with the nominal value of PLN 100 each. The share capital of Kredyt Trade Sp. z o.o. after combination amounts to PLN 64,179,400 and is divided into 641,794 shares with the nominal value of PLN 100 each. Before the registration of the combination, the share capital of Kredyt Trade Sp. z o.o. amounted to PLN 27,499,500 and was divided into 274,995 shares with the nominal value of PLN 100 each. After the combination, the shareholders of Kredyt Trade Sp. z o.o. are as follows: Kredyt Bank S.A. with the number of shares of 641,770 (the share in the share capital and votes - 99.996%) and Kredyt Lease S.A. with the number of shares of 24 (the share in the share capital and votes - 0.004%)
- On 24.11.2006, BFI Serwis Sp. z o.o. (a subsidiary of Kredyt Bank) received a copy of the Decision of the District Court for the capital city of Warsaw on the entry, on 31.10.2006, in the National Court Register, of a decrease in the share capital of BFI Serwis Sp. z o.o. The share capital was decreased due to the cancellation of 16,720 shares which BFI Serwis Sp. z o.o. bought from Kredyt Bank S.A. in order to cancel them. After the registration of the decrease, the share capital of BFI Serwis Sp. z o.o. amounts to PLN 2,530,000 and is divided into 2,530 shares with the nominal value of PLN 1000 each. KB S.A. has 2,529 shares i.e. 99,96% share in the share capital and votes at the general meeting of shareholders. One share is owned by Kredyt Trade Sp. z o.o. (the subsidiary of KB S.A.) i.e. it has 0.04% share in the share capital and votes at the general meeting of shareholders.
- On 29.11.2006, the Supervisory Board of Kredyt Bank S.A., in connection with the resignation of Ms. Riet Docx from her office in the Supervisory Board, co-opted Mr. Francois Gillet, a representative of Sofina SA, a company which is a shareholder of Kredyt Bank S.A., as a member of the Supervisory Board.
- The Supervisory Board of Kredyt Bank S.A., at the session on 21.12.2006, adopted a resolution on increasing the number of the Members of the Management Board to 6 persons and on 01.01.2007 appointed a new Member of the Management Board of Kredyt Bank S.A., Mr. Michał Oziembło, as Vice-President of the Management Board responsible for Consumer Finance.

In 2006, Kredyt Bank S.A. did not enter into any material agreements with the central bank or the regulatory authorities.

Major post-balance sheet events

On 01.01.2007, Mr. Michał Oziembło joined the Management Board of Kredyt Bank S.A. as a Vice-President of the Management Board responsible for Consumer Finance. He is responsible for the development and implementation of consumer finance strategy and policy, development of processes and procedures, credit risk modelling, recovering retail amounts due and IT issues related to consumer finance.

On 15.02.2007, the Bank's Management Board adopted a resolution on referring for examination, to the Bank's Supervisory Board, a request to recommend, to the Bank's General Meeting of Shareholders, the draft resolution on the distribution of profit for 2006, which envisages the payment of dividend to shareholders amounting to ca. PLN 100,000 thousand.

On 23.02.2007, Moody's Investors Service changed Kredyt Bank S.A.'s financial strength rating from D- to D, due to implementing a new ratings calculation methodology.

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

On 27.04.2006, the Bank entered into an agreement with Ernst&Young Audit Sp. z o.o. in Warsaw, an entity authorized to audit financial statements, on the review of the individual and consolidated half-year financial statement of the Bank and of the Group and the audit and review of the individual and consolidated annual financial statement as well as the reporting packet for the year 2006. The total remuneration under this agreement amounted to PLN 1,416 thousand net (remmuneration value for 2005 statements: PLN 1,407 thousand). The remaining, total remuneration under agreements with an entity authorized to audit financial statements, due or paid on accounts other than audit or review of half-year and annual statements iamounted in 2006 to net PLN 520 thousand (in 2005 it was equal to PLN 995 thousand).

3. Products, services and areas of operation of Kredyt Bank S.A.

3.1. Retail Banking

3.1.1. Results, areas of operation and distribution channels of retail banking

Retail Segment in Kredyt Bank S.A. is defined as service of individual customers as well as Small and Medium-size Enterprises (SME), whose annual income does not exceed PLN 16 million. The Private Banking clients service has been separated within the retail segment. A number of the Bank's clients in the retail and SME segments is growing systematically. There was an increase of 6.6% in comparison with the figures as at 31.12.2005.

in '000'	31.12.2006	30.09.2006	30.06.2006	31.03.2006	31.12.2005
Individual customers	**849**	**839**	**824**	**810**	**797**
SME	87	87	85	84	81
Total number of customers	936	926	909	894	878

Kredyt Bank offers a full range of financial services, due to close cooperation of the Bank, the entities of its capital group and entities of KBC Group in Poland. The offer entails:

- traditional banking facilities,
- consumer finance products developed jointly with Żagiel S.A.,
- insurance products created in cooperation with Warta S.A.,
- KBC TFI products (selling participation units in investment funds),
- leasing products of Kredyt Lease.

The traditional network of the Bank's branches is the main channel of distribution. As at 31.12.2006, it comprised 336 branches, subbranches, banking outlets and agencies located all over Poland. This network is managed by 10 regional branches located in the biggest Polish cities.

Private Banking customers are served separately by 11 branches reporting directly to the Private Banking Department of the Bank's Head Office.

To improve speed and standard of service for small and medium-sized enterprises there were created mobile force teams. A chain of retail branches provides direct cash payment service.

Additionally to the chain created by the Bank, there operates a distribution chain of Żagiel S.A. which in 2006 was of 200 branches, 500 agents and 30,000 cooperating shops. In 2006, Żagiel S.A. launched the expansion of the chain called Kredyt Punkt. As at 31.12.2006, under the brand of Kredyt Punkt, there operated ca. 100 entities offering, apart from cash loans, installment loans and credit cards, selected services provided by the Bank and Warta S.A.

In the second half of 2006, measures aimed at launching the sale of banking facilities through the distribution chain of Warta Group were taken. This project is a pivotal measure concerning the implementation of cross-selling banking and insurance products.

KB 24 internet system is the second basic distribution channel of products addressed at retail customers. At the end of 2006, a number of KB24 users was equal to 228 thousand as compared to 165 thousand at the end of 2005 (an increase by 38.2%).

in '000'	31.12.2006	30.09.2006	30.06.2006	31.03.2006	31.12.2005
Number of KB24 users	**228**	213	200	189	165
Number of wire transfers via KB24 in the quarter	2 614	2 223	2 152	2 034	1 925

3.1.2. Product strategy in retail banking area

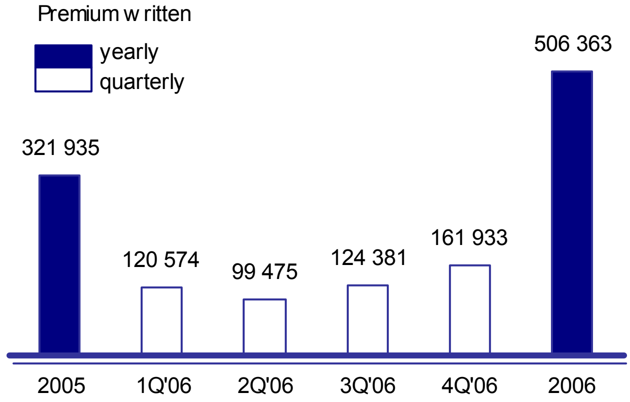
In 2006, Kredyt Bank continued its action aiming at the development of the retail banking, pursuant to the strategy adopted in Autumn 2005. Basic elements of the product strategy are as follows:

- launching new bancassurance products in cooperation with Warta Group and the development of cross-selling banking and insurance products,
- expansion of the cooperation with KBC TFI in terms of the distribution of participation units in investment funds,
- development of consumer finance products in cooperation with Żagiel,
- mortgage loans,

- credit cards,
- traditional deposit products - personal accounts and saving accounts,
- products for SMEs.

Bancassurance – cooperation with TUiR WARTA Group

The extension of bancassurance offer and selling insurance products through the Bank's network are the basic assumptions of Kredyt Bank S.A.'s strategy. In 2006, the value of gross written premium under life and property insurance agreements of Warta S.A. Group sold by Kredyt Bank S.A. Group increased, as compared to 2005, by 57.3% and amounted to PLN 506 million.



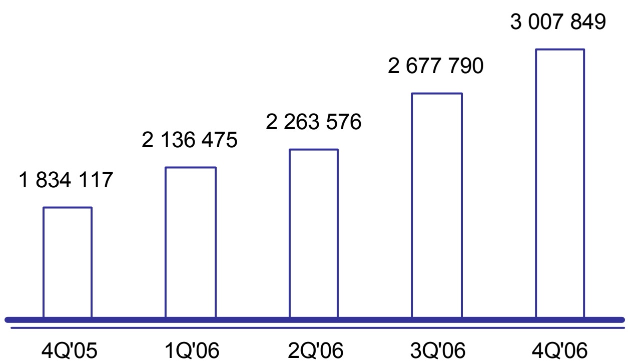
Basic groups of products sold through the network of Kredyt Bank S.A. Group are as follows:

- investment and insurance products – deposit products connected with life insurance, open-end and close-end investment funds with life insurance,
- insurance agreements connected with loans – insurance agreements for borrowers of Żagiel 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).

Investment funds – cooperation with KBC TFI

As at 31.12.2006, the total value of net assets in investment funds sold via the Bank's distribution network and managed by KBC TFI S.A. amounted to PLN 3,008 million which represents an increase by over 64.0% in comparison with figures as at 31.12.2005.

Values of funds assets at the end of quarters of 2006 has been presented below (in PLN ths).



As of the end of the fourth quarter of 2006, TFI S.A. managed investment funds for the total amount of PLN 6.7 billion. The value of assets in investment funds managed by KBC TFI amounted to PLN 3.9 billion, which, as at the end of the fourth quarter of 2006, accounted for the Society's market share of 3.9%. The Society was ranked sixth among all Investment Fund Societies in Poland.

As of the end of 2006, KBC TFI S.A. managed 24 investment funds:

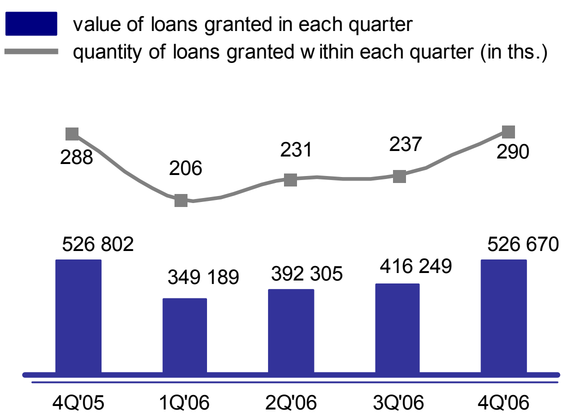
- 5 open-end investment funds (KBC Pieniężny FIO, KBC Papierów Dłużnych FIO, KBC Obligacyjny FIO, KBC Stabilny FIO and KBC Aktywny FIO as well as KBC Akcyjny FIO);
- 4 specialized open-end investment funds (KBC ALFA SFIO, KBC BETA SFIO, KBC GAMMA SFIO, KBC Portfel VIP SFIO) where KBC Portfel VIP SFIO is an umbrella fund with 3 separated sub-funds (KBC Portfel Pieniężny, KBC Portfel Obligacyjny, KBC Portfel Akcyjny);
- 1 closed-end investment fund investing in foreign investment funds denominated in US Dollars (KBC Dolar FIZ);
- 14 closed-end capital guaranteed funds (KB Kapitał Plus FIZ, KB Kapitał Plus II FIZ, KB Kapitał Plus III FIZ, KB Klik Europa FIZ, KB Klik Ameryka FIZ, KBC Złoty Dolar FIZ i KBC Elita FIZ, KBC Indeks Nieruchomości, KBC Byki i Niedźwiedzie, KBC Klik Plus FIZ KBC ELITA II FIZ, KBC PLUS FIZ, KBC Index Światowych Nieruchomości FIZ, KBC Finansowy FIZ).

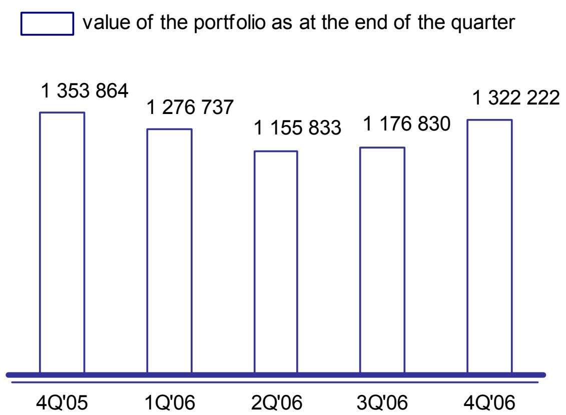
Installment and cash loans – cooperation with Żagiel S.A.

After the period of a decline in sales connected with the bankruptcy of one of retail distributors, the sale of retail loans and credits through Żagiel in the fourth quarter of 2006 amounted to PLN 527 million, i.e. the level recorded in the fourth quarter of 2005.

'Kredyt Punkt' – a new distribution network being built by Żagiel in the second half of 2006 has increased mainly the dynamics of the cash loans sales what resulted in an increase in the value of cash loans granted both in the third and in the fourth quarter of 2006. Over 100 units provide services under the brand name of 'Kredyt Punkt' (in total a number of Żagiel's outlets amount to 200). Thanks to strengthening of this element of the sales process, the Company managed to limit the risk resulting from the cooperation with external distributors and to re-buid the size of the last year's sales.

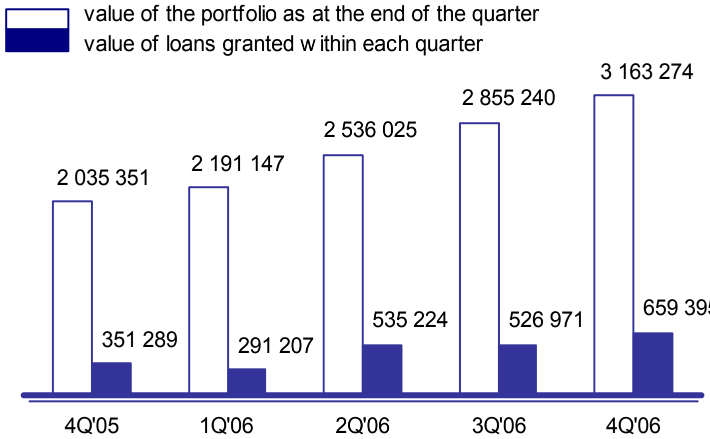
The diagrams below present loans portfolio volume and sale in PLN '000 and in thousands of facilities.

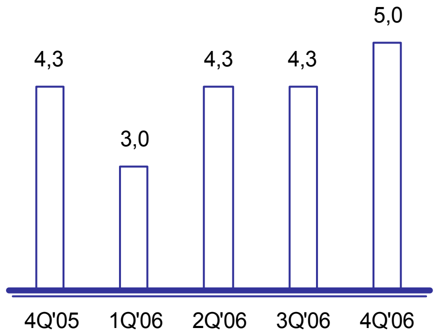


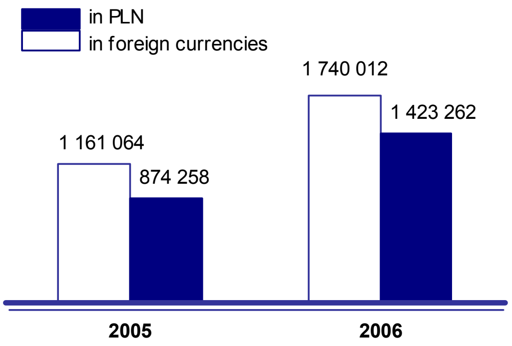


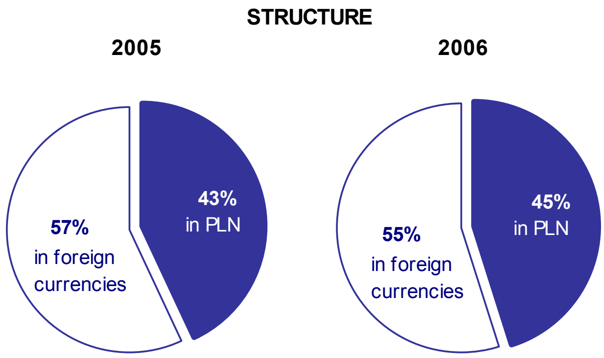
Mortgage loans

In 2006, the Bank granted 16.6 thousand mortgage loans for the total amount of PLN 2,012.8 million. In comparison with the previous year, the sales of loans increased in terms of their value by 111.5%. The indebtness under mortgages amounted to PLN 3,163.3 million (an increase by 55% as compared to previous year's figures). The diagrams below present mortgage loans portfolio volume and sale in PLN '000' and in thousands of facilities.



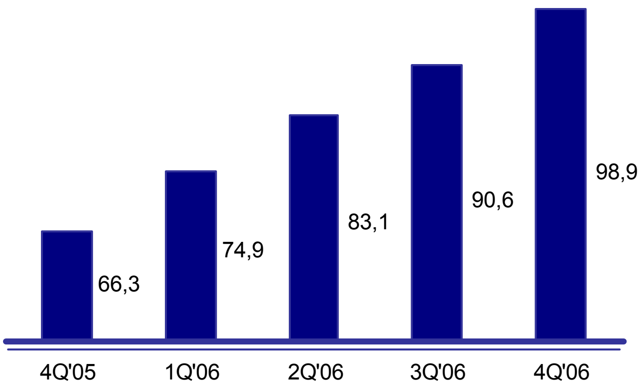






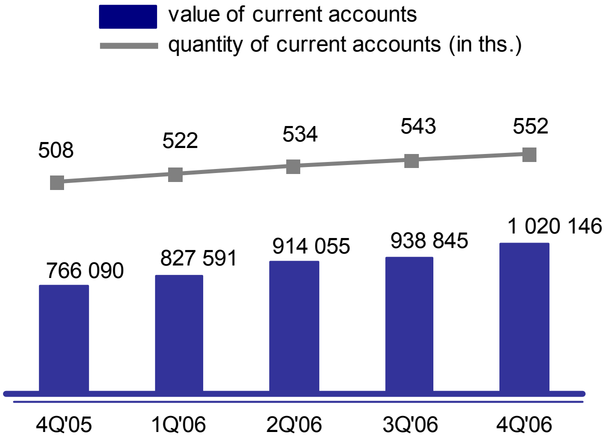
Credit cards

At the end of 2006, a number of active credit cards sold by Kredyt Bank S.A. amounted to 98,9 thousand (an increase by 49.2% as compared to the end of 2005). The diagram below presents active credit cards at the end of the period in thousands.

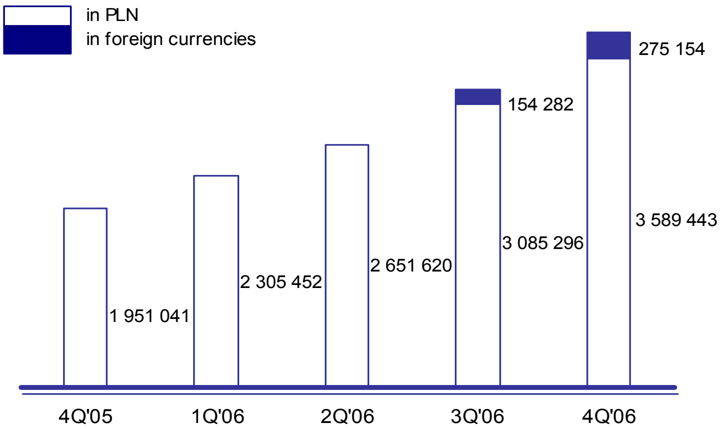


Traditional deposit products

On 31.12.2006, a number of current accounts was by 8.7% higher than the figures recorded on 31.12.2005.

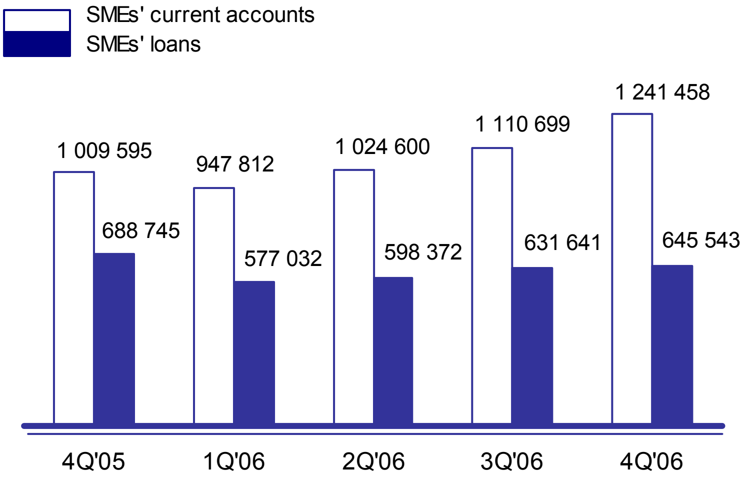


The volumes on the savings accounts, which is one of the Bank's basic depositary products, are growing steadily: as at the end of 2006, the value of deposited cash amounted to nearly PLN 3.9 billion, which represents an increase of 87.6% as compared to the end of 2005. In the second half of the year, the Bank launched a new saving account in foreign currencies. The diagram below presents cash deposited on saving accounts in PLN and foreign currencies at the end of period in PLN '000'.



Small and medium-sized enterprises

At the end of 2006, the value of credits granted to small and medium-sized enterprises increased by 2.2% in comparison with the end of the third quarter of 2006 and dropped by 6.3% as compared to the fourth quarter of 2005. After four quarters of 2006, the value of funds on current accounts of SME clients was higher by 23% than in the analogous period of 2005. Cash deposited on savings accounts of SMEs and indebtedness related to loans, in PLN '000', at the end of the period is presented on the diagram below.



3.2. Corporate Banking

3.2.1. Results, areas of operation and distribution channels of corporate banking

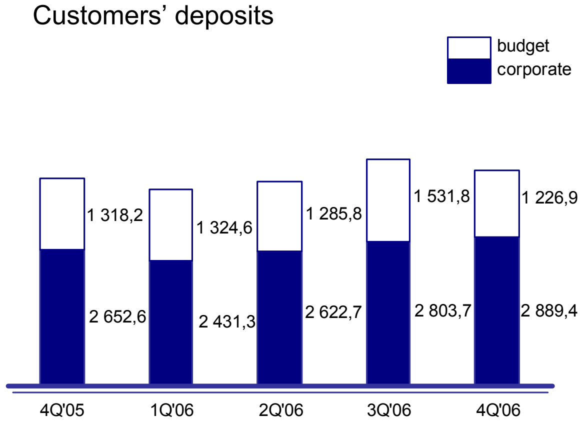
Corporate Segment performs transactions with large companies (with annual income exceeding PLN 16 million) as well as state budgetary units at the central and local levels.

Corporate customers are served (apart from cash payments and counter services) by 12 Coporate Banking Centres in Białystok, Bydgoszcz, Gdańsk, Katowice, Kraków, Lublin, Łódź, Poznań, Rzeszów, Szczecin, Warsaw and Wrocław. An additional center in Warsaw was established for the strategic customers sub-segment. Account Managers are responsible for direct customer relations. In case of specialist products, they are supported by the employees of organizational units of the Head Office.

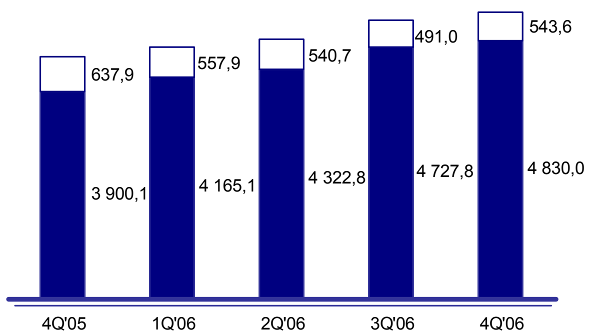
In the case of leasing products, customers are served by units and employees of Kredyt Lease, which offers a complete range of services for companies in respect of leasing of fixed assets and real estates, and also of real estate trade. In the case of corporate finance, customers are served in cooperation with KBC Securities.

The measures in 2006 aimed at an increase in the Bank's shares in corporate customers segment and enhancement of the Bank's image as an easily accessible bank which offers complete highest quality services for large companies. As a result of the campaigns, the volume of deposits and corporate customers' working loans portfolio were on a stable rise in 2006. The decline in deposits noticeable in the fourth quarter of 2006 resulted from seasonal volatility in the budget subsegment. The figures below present deposits and working loans of corporate segment customers at period end in PLN millions.

Customers' deposits



Customers' loans



3.2.2. Product strategy in corporate banking area

In 2006, Kredyt Bank took measures to align the existing offer to customers' needs and improve sales organization and customer service 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;

- developing leasing services in cooperation with Kredyt Lease in KB S.A. network.

The Bank offers a full range of services for corporate customers, both traditional banking products and treasury products, trade finance and corporate finance. The offer is tailored both to the specific character resulting from the customer's size and the nature of its operations: large corporations, medium-sized enterprises, state-owned entities, social associations and organizations.

The Bank offers a full range of traditional loan facilities, such as investment loans, working capital loans in credit or current account, revolving and non-revolving loans, payment and foreign currency facilities. At the same time, customers may also take advantage of other credit-related services, such as factoring, leasing, bank guarantees and sureties, organization of and services related to the issue of debt securities.

Traditional deposit products, including term deposits, current accounts, payment cards, consolidated current accounts (which make it possible to service multi-branch companies and adjust the liquidity management strategy to the specific nature of a company) supplement transaction banking products such as Bulk Payment System (which makes it possible to identify details of payments, their assignment and settlement against respective settlement accounts of debtors in the customer's accounting system) and cash management products, such as closed payments, disbursements in Bank's Branches, other payments to accounts.

Trade finanse is a separate group of services. The Bank offers, among others: export financing loans, payments under own letters of credits, guarantees in foreign trade, documentary letters of credit, transfers and cheques in foreign trade, purchase and sale of foreign currencies and forfeiting. As a consequence of new trade finance products being launched, the Bank is perceived as one of the most active participants in the area of Polish export financing.

In response to increasing customers' needs concerning financial risk hedging, the Bank continues to expand its offer with new derivative products, particularly option-based strategies of currency risk hedging.

In addition, the Bank's clients have, through KBC Securities, an access to corporate finance facilities, such as consulting on mergers and acquisitions, privatization of state-owned enterprises, capital restructuring and seeking new investors for companies. Within the above tasks, the Bank also provides partial services, such as: complete assessment of investment projects, assistance in preparation of corporate development strategies, company valuations, due diligence, preparing memoranda, business plans and negotiations on the customer's behalf.

3.3. 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 for stabilization and development of existing corporate customer 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. In 2006, further growth in the number of option transactions hedging the market risk was recorded.

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, such as European Investment Bank, European Reconstruction and Development Bank, Visa International. Due to the base of 35,000 SWIFT keys exchanged with other institutions, the Bank is able to exchange correspondence with banks and service foreign trade in the majority of countries worldwide.

As at 31.12.2006, Kredyt Bank managed 9 LORO accounts in foreign currencies and 31 LORO accounts in PLN for 34 correspondent banks (32 foreign banks and 2 national banks). The network of NOSTRO accounts included 19 accounts in 17 banks and it fully satisfied the clearing needs of Kredyt Bank.

3.4. Custody services and investment activities

Kredyt Bank S.A. holds an authorization of the Polish Securities and Exchange Commission to manage securities accounts; it is also a direct participant of the National Depository for Securities (KDPW) as a Depository and the participant of the Securities Register (RPW) managed by the National Bank of Poland (NBP).

The custodian services of the Bank entail managing accounts of securities, hold in KDPW or RPW, for domestic and foreign, both institutional and private customers. For the special group of customers, i.e. investment funds. The Bank also plays a role of a depository, transfer agent and an issue sponsor.

The Bank also deposits securities not traded on organized market, registered in securities registers and on sub-fiduciary accounts in domestic and foreign financial institutions.

4. Financial results of Kredyt Bank S.A. in 2006

4.1. Income statement structure

The Bank's profit before tax in 2006 amounted to PLN 426 881 thousand and increased by 38.7% as compared to PLN 307,806 thousand generated in 2005. The Bank's net profit for 2006 amounted to PLN 437,443 thousand and was by 6.8% higher than the last year's figure. The following factors contributed to the material improvement of the financial result as compared to 2005:

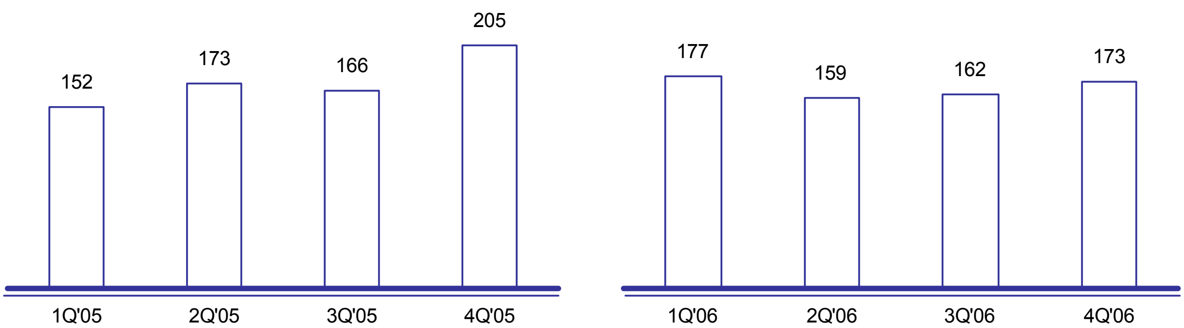
- sale of a part of the non-performing loans portfolio in the first half of the year – an impact of the transaction on consolidated net profit, including the transaction costs, provisions for risks associated with the transaction and the tax effect, amounted to PLN 123,026 thousand,
- effective restructuring and debt recovery measures alongside strict control and a low level of credit risk;
- change in the sales structure which involved an increase in the business scale in the Bank's strategic areas, such as mortgage loans, the sale of investment funds participation units and of insurance policies. The process was combined with an increase in the share of income generated from the above-mentioned areas in the Bank's total revenue.
- effective management of the Bank's operating expenses.

The main items from the Bank's income statement are presented below.

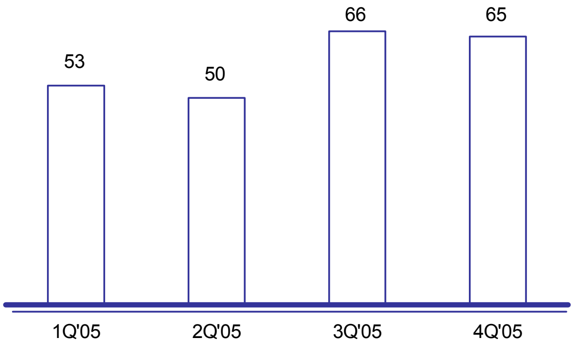
in '000' PLN	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005	Change
Net interest income	671 107	695 678	-3.5%
Net fee and commission income	268 122	236 216	13.5%
Net trading income and profit from investment activity (including dividend income and net income on hedging and hedged transactions)	147 279	138 348	6.5%
Profit on the sale of receivables portfolio	123 026	0	
Result on other operating income/expenses	-191	8 927	-102.1%
Total income	**1 209 343**	**1 079 169**	**12.1%**
General and administrative expenses and depreciation	-814 643	-800 986	1.7%
Net impairment charges for loan receivables and other assets and provisions	32 181	29 623	8.6%
Income tax expense	10 562	101 708	-89.6%
Net profit (loss) from discontinued activities	0	974	
Net profit	**437 443**	**410 488**	**6.6%**

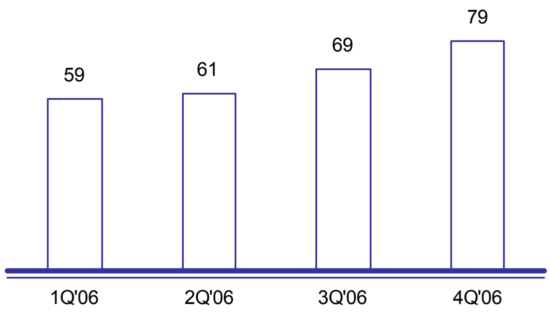
Net interest and fee and commission income generated by the Bank in 2006 amounted to PLN 939,229 thousand and was similar to net interest income and net fee and commission income generated in 2005 (an increase by 0.8%). As compared to 2005, its structure changed. Products strategic for the Bank such as mortgage loan, the sale of participation units in investment funds and insurance products offered in cooperation with TUiR WARTA S.A. generated a considerably greater share.

As compared to the first half of the previous year, net interest income was lower by 3.5%, and net fee and commission income was higher by 13.5%. The following factors adversely affected net interest income as compared to 2005 figures: a decrease in margins on mortgage loans, installment credits and term deposits in PLN as well as an increase in the share of securities portfolio in total assets. Quarterly net interest income in the years 2005-2006 is presented in the figures below (in millions of PLN):



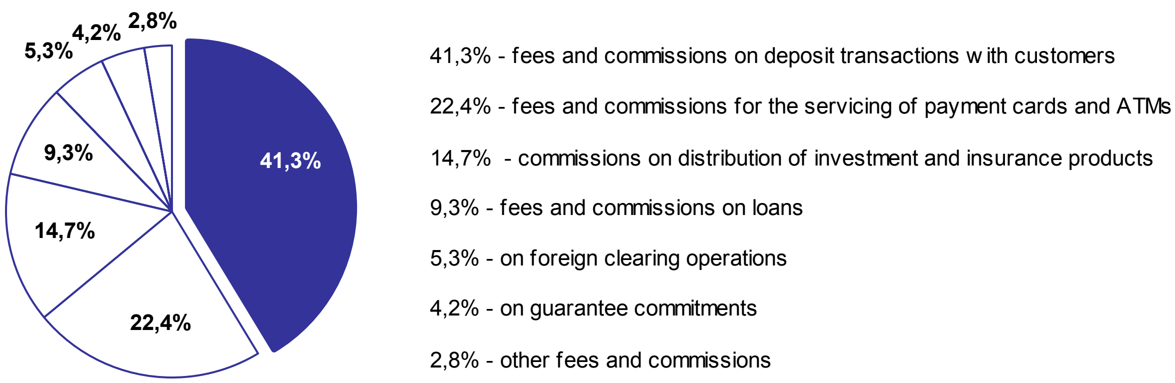
A noticeable increase in net fee and commission income realized in subsequent quarters of 2006 was a positive result of sales restructuring. Quarterly net fee and commission income in the years 2005-2006 is presented in the figures below (in millions of PLN):



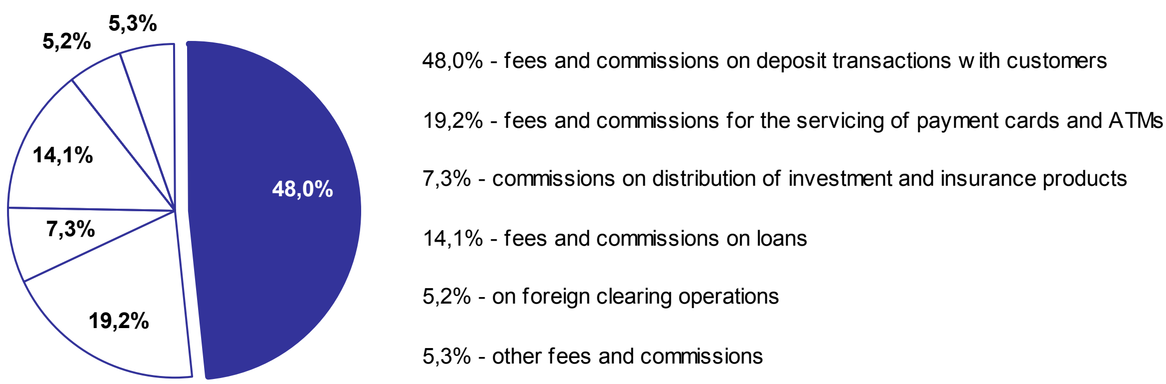


In 2006, as compared to 2005, the structure of fee and commission income changed. An increase in the share of fees and commissions from the sale of investment and insurance products, credit cards, payment cards and foreign trade transactions was as assumed by the Bank.

The structure of fee and commission income in 2006:



The structure of fee and commission income in 2005:



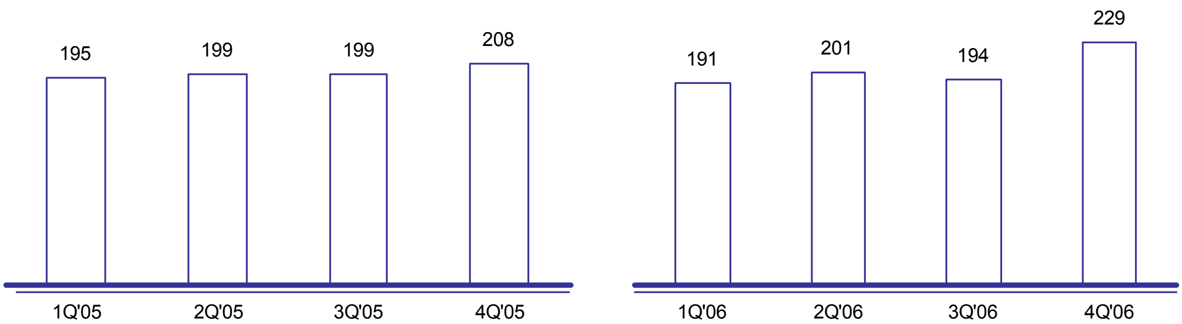
Net trading income and profit from investment activity (including income from dividends and net income on hedging and hedged transactions) in 2006 amounted to PLN 147,279 thousand, i.e. 6.5% more than in 2005. Profit/(loss) from investment activity was higher than in the previous year and amounted to PLN 11,637 thousand as compared to the loss of PLN 4,406 thousand in 2005. The result entails results on the portfolio of available-for-sale assets and held-to-maturity assets. Improvement of the result, as compared to last year's figures, was recorded for debt instruments.

Profit from the sale of receivables portfolio – the impact of the transaction on consolidated net profit, including the transaction costs, provisions for risks associated with the transaction and the tax effect, amounted to PLN 108,382 thousand. Detailed information on the sold receivables portfolio are presented in the chapter on changes in the quality of the loan portfolio in the half-year financial statement of Kredyt Bank S.A.

In 2006, the Bank's functioning costs amounted to PLN 814,643 thousand and were by 1.7% higher as compared to last year figures.

In the case of staff costs, an increase in such costs was related mainly to sales support (incentive systems associated with sales results, awards for the accomplishment of sales objectives and training costs).

In the case of material costs, the biggest increase was recorded for advertising and marketing costs related to the intensification of promotional campaigns. Additionally, the increase in costs in 2006 was affected by network development and restructuring costs, an increase in leasing fees and postal and telecommunication costs. These increases were set off by a decrease in depreciation costs and other administrative expenses, including mainly buildings maintenance and lease costs. Operating costs, general administrative expenses and depreciation costs, in particular quarters of 2005 and 2006, are presented in the figures below (in millions of PLN):



Cost/income ratio (CIR) for 2006 was equal to 67.4%, what is an improvement by 6.9 p.p. as compared to the year 2005. The ratio level was affected by the profit on the sale of the receivables portfolio.

In 2006, the value of net impairment charges for loan receivables and other assets and provisions amounted to +PLN 32,181 thousand against PLN +29,623 thousand in 2005.

The continuous positive trend in net operating income generated by the Bank is a proof of the high probability of future realization of negative temporary differences currently identified in income tax settlement. Therefore, in 2006, as in a comparable period, the Bank recognized an excess of deferred tax assets over deferred tax liability in its income statment. Deferred income tax was added to the Bank's result in 2006 and amounted to PLN 39,195 thousand. In the corresponding period of 2005, it amounted to PLN 102,215 thousand.

4.2. Assets structure

The Bank's total assets as at 31.12.2006 amounted to PLN 22,203,795 thousand against PLN 20,911,895 thousand as at 31.12.2005 and were up by 6.2 %.

Net loans and advances to customers and investment securities constituting althogether at the end of 2006 79.8% of the total assets are the basic items with the largest share in the assets structure.

The most essential changes in the assets structure in comparison with the end of 2005 are as follows:

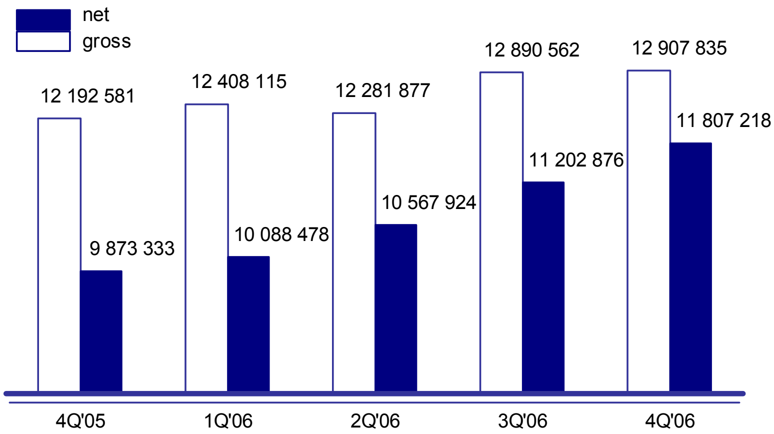
- increase in the stake of net loans and advances to customers from 47.2% to 53.2%. This is the result of a material increase in the new loan activity, which allowed the Bank to reverse the noticeable downward trend in the previous year;
- decreased share of investment securities in total assets from 32.1% to 26.6%.

The value of particular assets is presented in the table below (in '000' PLN):

	31.12.2006	**31.12.2005**	**Change**
Cash and balances with Central Bank	640 722	607 069	5.5%
Amounts due from banks	2 182 393	2 229 548	-2.1%
Allowance for impairment losses for recivables due from banks	-2 753	-2 894	-4.9%
Financial assets at fair value through profit or loss, including held-for-trading assets	612 912	487 618	25.7%
Valuation of derivatives, including:	297 427	216 270	37.5%
- hedging derivatives	3 403	716	375.3%
Loans and advances to customers	12 907 835	12 192 581	5.9%
Allowance for Impairment losses for loans and advances to customers	-1 100 617	-2 319 248	-52.5%
Investment securities	5 902 663	6 709 651	-12.0%
- available-for-sale	3 453 890	4 417 819	-21.8%
- held-to-maturity	2 448 773	2 291 832	6.8%
Equity investments available-for-sale	73 831	91 375	-19.2%
Tangible fixed assets	325 050	341 065	-4.7%
Intangible assets	84 394	110 557	-23.7%
Deferred tax assets	137 123	98 748	38.9%
Current tax receivables	15 393	13 412	14.8%
Held-for-trading fixed assets	10 571	5 848	80.8%
Other assets	116 851	130 295	-10.3%
Total assets	**22 203 795**	**20 911 895**	**6.2%**

An increased scale of the Bank's lending activities in 2006 is noticeable in net terms. At the end of 2006, net loans amounted to PLN 11,807,218 thousand as compared to PLN 9,873,333 thousand at the end of 2005 (increase by 19.6%).

The increase resulted mainly from good results on the sale of mortgage loans. The diagram below presents customers' loan receivables at period end in thousands of PLN.



The increase in gross loan receivables is much slower due to the sale of debts in the first half of 2006 and writing off non-performing receivables to provisions in the fourth quarter of 2006.

Credit portfolio quality

In 2006, the Bank continued a process of reducing non-performing loans portfolio though effective restructuring and debt recovery measures.

The decrease in non-performing loans was greatly affected by the sale of a part of non-performing loan receivables from the Bank's portfolio and the portfolio of Żagiel S.A. in June 2006. Under the agreement entered into on 14.04.2006 and two regulative agreements signed with BEST and Niestandaryzowany Fundusz Inwestycyjny on 9.06.2006 and 16.06.2006, capital of PLN 929,970 thousand was sold (recognized both in the balance sheet and in off-balance sheet items). Out of this amount, PLN 581 million were receivables recognized in the Bank's balance sheet.

In the fourth quarter of 2006, the Bank wrote off non-recoverable receivables from the balance sheet to off-balance sheet items. The total value of the principal amount of receivables written off in 2006 added up to PLN 478 million.

As a result of the said transaction and the improvement of retail loans sale, the share of receivables for which evidence of impairment was identified in total gross advances to customers decreased more than twice. At the end of 200 6 , the ratio was at the level of 14.5% against 26.4% at the end of 2005. Over the last 12 months, the value of non-performing receivables, i.e. those for which evidence of individual impairment was identified, decreased by 42.0%.

The Bank applies prudence principle when estimating credit risk related to individual credit exposures as well as the portfolio receivables. As at 31.12.2006 the coverage ratio of receivables for which evidence of impairment was identified with impairment charges amounted to 56.0%.

According to the method of presenting the quality of loan receivables portfolio applied by KBC Group, non-performing loans (NPL) were separated from the portfolio of loans for which impairment was identified. NPL are defined in KBC Group as loans for which repayment of interest or principal is delayed over 90 days.

in '000' PLN	31.12.2006	31.12.2005	Change
Receivables for which evidence for individual impairment was not identified	11 040 743	8 974 128	23.0%
Receivables for which evidence for individual impairment was identified	1 867 092	3 218 453	-42.0%
including NPL	1 090 607	2 272 328	-52.0%
Total loans and advances to customers (incl. interest)	**12 907 835**	**12 192 581**	**5.9%**
Impairment charges for loans and advances to customers	1 100 617	2 319 248	-52.5%
including: impairment charges for receivables for which evidence for individual impairment was identified	1 046 335	2 230 500	-53.1%
including: impairment charges for NPL	795 763	1 807 374	-56.0%
Total net loans and advances to customers	**11 807 218**	**9 873 333**	**19.6%**
Receivables for which individual evidence for impairment was identified to total gross receivables	**14.5%**	**26.4%**	**-11.9%**
NPL to total gross receivables	**8.4%**	**18.6%**	**-10.2%**
Coverage of receivables for which individual evidence for impairment was identified	**56.0%**	**69.3%**	**-13.3%**
Coverage of NPL with impairment charges	**73.0%**	**79.5%**	**-6.5%**

The number and value of executory titles and the value of securities established on customers' accounts or assets

In 2006, in the course of debt collection measures aimed at recovering debts from non-paying customers, the Bank issued 24,194 banking executory titles for the total amount of PLN 97.5 million. In 2005, 22 448 banking executory titles for the total amount of PLN 186.9 million were issued.

In the case of receivables for which impairment was identified, the total value of collateral approved by the Bank considered for estimated future cash flow (prior to discounting) as at 31.12.2006 amounted to PLN 682,967 thousand. As at 31.12.2005, the value amounted to PLN 1,111,126 thousand.

Loans and credits by types of customers

Further increase in the share of loan receivables due from natural persons in total loans and advances to customers as assumed in the strategy is the most important change in the structure of the Bank's loan portfolio. As at 31.12.2006 it amounted to 48.0% i.e. increased by 5.3 p.p. as compared to the end of 2005.

	31.12.2006	31.12.2005	Change in p.p.
Natural persons*	**48.0%**	**42.7%**	**5.3**
- overdraft facilities	8.4%	9.9%	-1.5
- purchased debt	0.1%	0.5%	-0.4
- term loans	40.5%	50.5%	-10.0
- mortgages	51.0%	39.1%	12.0
- realized guarantees	0.0%	0.0%	0.0
Corporate customers	**46.9%**	**51.2%**	**-4.3**
- overdraft facilities	17.6%	15.0%	2.6
- term loans	81.4%	81.9%	-0.4
- purchased debt	0.4%	1.0%	-0.6
- realized guarantees	0,5%	1.0%	-0.5
-pozostałe należności	0.0%	1.1%	-1.1
Budget	**4.4%**	**5.5%**	**-1.1**
- overdraft facilities	0.6%	0.3%	0.3
- term loans	99.4%	99.7%	-0.3
- purchased debt	0.0%	0.0%	0.0
Interest	**0.7%**	**0.7%**	0.0
Total	**100.0%**	**100.0%**	**0.0**

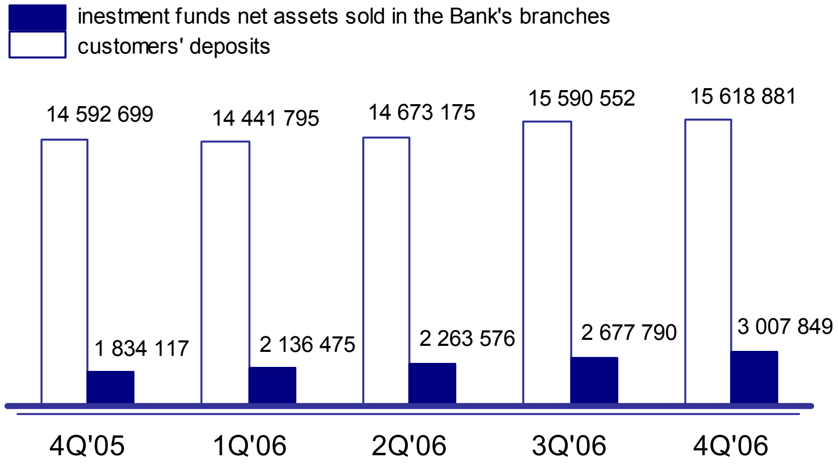
- the item contains: amounts due from private persons, individual entrepreneurs, individual farmers, noncommercial institutions providing services for households

4.3. Liabilities and equity structure

At the end of 2006, liabilities structure remained virtually unaltered as compared to the end of 2005. The main category, i.e. amounts due to customers, increased over the last 12 months by 7.0%, i.e. slightly faster than the growth rate of an increase in the balance sheet total and constitutes 70.0% of of total liabilities and equity (increase by 0.5p.p.).

The only slight changes in the structure were related to the growth by 1.3 p.p. of the share of shareholders' equity, accompanied by a simultaneous decrease in the share of subordinated liabilities by 0.9 p.p., a decline in amounts due to banks by 2.5 p.p. and a simultaneous increase in the share of amounts due related to securities disposed under repurchase agreements by 3.0 p.p. as well as the total redemption of banking securities (in 2005 they accounted for 1.9% of liabilities and equity). The changes are the result of action aiming at the improvement of the operation financing costs.

In 2006, the Bank recorded, as assumed in its strategy, an increase in the sale of participation units of investment funds managed by KBC TFI. In the last 12 months, the value of assets of investment funds sold through the Bank has increased by 64.0% to the level of PLN 3,008 million. In terms of total assets of investment funds and deposits, the increase in customer resources in 2006 amounted to 13.4%. The diagram below illustrates values in thousands of PLN, at period end.



The value of particular liabilities and equity is presented in the table below (in ‘000’ PLN):

	31.12.2006	**31.12.2005**	**Change**
Amounts due to central bank	1 990	0	
Amounts due to banks	2 160 538	2 562 167	-15.7%
Held-for-trading financial liabilities	0	0	
Valuation of derivatives, including:	296 474	220 155	34.7%
- hedging derivatives	554	184	201.1%
Amounts due to customers	15 618 881	14 592 699	7.0%
Debt securities issued	0	402 435	-100.0%
Securities sold under repurchase agreements	1 053 928	368 701	185.8%
Income tax			
Provisions	98 775	77 072	28.2%
Deferred tax liability			
Other liabilities	511 847	439 367	16.5%
Subordinated liabilities	421 619	589 581	-28.5%
Shareholders’ equity	2 039 743	1 659 718	22.9%
Total liabilities and equity	**22 203 795**	**20 911 895**	**6.2%**

Customers’ deposits by types

At the end of the previous year, in the structure of customers’ deposits, continuation of last year’s upward tendency of the share of current deposits, both individual and corporate, was noticed. The share of particular segments did not change materially.

Customers' deposits	31.12.2006	31.12.2005	Change in p.p.
Individuals*	**62.4%**	**62.1%**	0.3
- in current account	62.6%	42.4%	20.2
- term deposits	37.4%	57.6%	-20.2
Corporate customers	**25.8%**	**26.1%**	**-0.3**
- in current account	50.6%	42.0%	8.6
- term deposits	49.4%	55.5%	-6.1
- loans and advances	0.0%	2.5%	-2.5
Budget	**11.6%**	**11.6%**	**0.0**
- in current account	76.6%	76.7%	-0.1
- term deposits	23.4%	23.3%	0.1
Interest	**0.2%**	**0.3%**	**-0.1**
Total	**100.0%**	**100.0%**	**0.0**

- the item contains: amounts due from private persons, individual entrepreneurs, individual farmers, noncommercial institutions providing services for households

Loans and advances borrowed by the Bank and loan agreements

In connection with the termination of the recovery plan in the first half of 2005, a loan from the Banking Guarantee Fund was repaid. Its carrying amount as at 31.12.2005 amounted to PLN 95,448 thousand.

4.4. Off-balance sheet items

The value of particular off-balance sheet items is presented in the table below (in '000' PLN):

	31.12.2006	31.12.2005	Change
Contingent liabilities, granted and received	5 207 977	4 300 859	21.1%
1. Liabilities granted, including:	4 706 170	3 788 786	24.2%
a) financial	3 497 903	2 660 911	31.5%
b) guarantee	1 208 267	1 127 875	7.1%
2. Liabilities received	501 807	512 073	-2.0%
a) financial	205 139	12 699	1515.4%
b) guarantees	296 668	499 374	-40.6%
Amounts due under sale/purchase transactions	138 370 817	79 905 636	73.2%
Other	3 153 678	3 068 907	2.8%
- received securities and guarantees	3 153 178	3 068 815	2.7%
- other	500	92	443.5%

A noticeable increase in the value of off-balance sheet items, mainly amounts due related to sale/purchase transactions, is an effect of an increase in the business activity and larger numbers of transactions with customers.

Guarantees and sureties issued, including those granted to the Issuer's related parties

As at 31.12.2006 the Bank issued guarantees with the total value of at least 10% of the Bank's shareholders' equity to one company and its subsidiaries. The guarantees were issued for the total amounts of PLN 216,261 thousand. Their average maturities as at 31.12.2006 were one year and ten months.

As at 31.12.2005 the Bank issued guarantees with the total value of at least 10% of the Bank's shareholders' equity to two companies and their subsidiaries. The guarantees were issued for the total amounts of: PLN 235,735 thousand and PLN 176,601 thousand. Their average maturities as at 31.12.2005 were one year two months and seven months respectively.

The above guarantees were issued on market terms. The Bank's remuneration for issuing the guarantees was also determined on market terms.

5. Ratings of the Bank's financial reliability

At 31.12.2006, Kredyt Bank S.A. had the following ratings of financial reliability:

Moody`s Investors Service

Long-term deposits rating	**A2**
Short-term deposits rating	**P1**
Financial strength	**D-**
Outlook rating	**Stable**

On 19 September 2005, Moody`s Investors Service, an international rating agency, upgraded the Bank's financial strength rating from 'E+' to 'D-', which implies stable growth outlook. The agency noted that the upgrade of the financial strength rating was associated with the improvement of the Bank's financial standing. The agency also emphasized the substantial decrease in operating expenses and the high level of the Bank's capital adequacy ratio.

On 23.02.2007, due to the implementation of a new ratings calculations methodology, Moody's Investors Service changed the financial strength rating of Kredyt Bank S.A. from 'D-' to 'D'.

Fitch Ratings

Long-term rating	**A+**
Short-term rating	**F1**
Support rating	**1**
Individual rating	**D**
Outlook for long-term rating	**Stable**

On 17.08.2006, Fitch Ratings, an international rating agency, increased the long-term rating of Kredyt Bank S.A. from ‘A’ to ‘A+’. The remaining ratings remained unchanged. The increase in the long-term rating was justified by the Agency with a higher rating for Poland raised from ‘A’ to ‘A+’. According to the changed rating, Fitch Ratings altered the rating long-term perspective from ‘positive’ to ‘stable’.

The agency stressed that long- and short-term ratings include the support of KBC Bank NV, a strategic investor, rated by Fitch Ratings at AA- level.

6. The Bank’s outlook and growth drivers

External factors

In 2006, the growth trend for the financial sector in the Polish economy consolidated. All types of financial institutions recorded an increase in the value of their assets. As in previous years, banks were the most important entities which took advantage of positive business conditions. Due to the economic potential, Poland is the largest market, also for financial services, among new EU members.

2006*	Poland	Czech Republic	Slovakia	Hungary
GDP (in billions of euro)	269	113	44	90
Per capita GDP (euro)	7 040	10 980	8 150	8 930
Population (millions)	38.2	10,2	5,4	10,1
Banking sector assets/GDP	67%	107%	95%	85%
Rating (Fitch)	A-/Stable	A/Stable	A/Stable	BBB+/Negative

* estimates or forecasts

sources: European Central Bank, Eurostat, central banks and statistical offices of particular countries, the European Commission

The so called ‘banking’ ratio, i.e. banking sector assets to GDP ratio, was on the rise and reached the level of 67%. It is three times higher than the analogous relation in Eurozone, but, at the same time, is a measure of the growth potential of the Polish market in the long-term process of the integration with more mature EU markets. In recent years, Poland has made substantial progress as regards the economic convergence with Eurozone in terms of:

- prices stability criteria;
- budgetary situation;
- long-term interest rates.

Ensuring the permanent character of the convergence remains a crucial issue. Further ongoing and reliable fiscal consolidation (with budget deficit below 3% of GDP) will be a key issue in the context of the present demographic situation and the level of professional activity.

The operation of the Polish financial system (including the banking system) evolves to a larger and larger extent and is affected by processes related to the establishment of a single pan-European financial market.

The increase in the stability of the Polish financial sector, increase in the banking ratio and qualitative changes related to the implementation of new regulatory and technological solutions are advantageous for the expansion of banking services.

Assuming that the Polish economy is and will be growing, the perspectives for the banking sector development are positive. In 2007, the positive correlation of high GDP growth[6] and good financial condition of retail customers (salaries, consumption) and corporate customers (profits) will continue. Further growth in money demand, mainly deposits, will consolidate this trend.

We expect that the deposit base will still compete with interest-free saving and investment products. The Banks will also take advantage of the high growth potential of bancassurance and cash payments market. The improved income levels of the population will trigger the inflow of cash to investment funds, although its growth may slow down as compared to 2006 figures (due to the possible price adjustment on the stock market).

As regards money creation factors, the growth trend in receivables from domestic sectors will continue. First and foremost, further growth in the volumes of mortgages and consumer loans is expected which, in turn, should translate into the development of the distribution network.

The growth trend in corporate customers' receivables will be pursued. Their increase will result, among other factors, from the extensive employment of production capabilities, the inflow of EU funds and good conditions in the construction industry. SME sector is expected to be the area of extremely high volumes growth potential.

The perspectives and pace of development of particular banks in Poland will depend not only on the continuation of local conditions, but also on strategic measures of large financial groups (banks' main shareholders) operating in Europe. They set the directions for further consolidation of the Polish financial market. They will be reflected both by M&A[7] and strategic alliances of banks with insurance companies, cellular phone operators and networks of hypermarkets and ATMs.

Internal factors

Intensification of the cooperation with WARTA S.A., aiming at bancassurance development, the establishment of a banking and insurance group and optimizing the synergy effect are listed among the most essential internal factors contributing to the Bank's development. Bancassurance concept in Poland becomes more and more popular, which is evidenced by competitive projects appearing in 2006. Apart from the cooperation in terms of sales and customer service, in 2006 the Bank completed organizational changes in Kredyt Bank S.A. Groups and WARTA S.A. to better adjust the management model to the needs rooted in the implemented bancassurance business model. The changes aim at the maximum use of synergy effects both in the sales and support function.

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[6] GDP growth assumed in the state budget for 2007 is at the level of 4.6%. However, the present forecasts of the Ministry of Finance demonstrate that the growth may be much higher, i.e. over 6%. Macro-economic results, supported by the fast growth in investments, the improvement in the budget situation and mild inflation surroundings were rated high by Fitch Ratings. In January 2007, the agency increased the rating for Poland for its debt in foreign and national currency. The stable perspective of these ratings was additionally confirmed.

[7] The year 2007 will be the time of the merger of Pekao S.A. and a part of BPH and the sale of separated 'mini-BPH'.

Reorganization and development of the consumer finance function on the basis of the existing cooperation with Żagiel and the experience and know-how of KBC Group, the main shareholder of Kredyt Bank S.A., is the other key objective for the future year. The changes will be a part of the reorganization of retail operations of the whole KBC Group related to the decision on the establishment in the group of a new consumer finance products factory. The establishment of the new entity is KBC's response to the growing consumer loans segment in Belgium and Central Europe. Further growth in demand for credit cards and retail loans is expected particularly in Eastern Europe. The final objective is to become the leading player on the consumer finance market in Belgium and in Central Europe. First, the organizational changes will be implemented in Belgium, Poland and the Czech Republic. Poland will become a coordinating centre.

One of the financial objectives of Kredyt Bank S.A. is to increase effectiveness measured with expenses/income ratio. The implementation of the adopted strategy of income growth depends, among other factors, on the success of the program of network development. The following issues will affect strategic objectives: continuation of effective credit risk management and ongoing control and adjustment of operating costs to the scale of operations

7. Statements of the Management Board

Under Article 95 clause1 p.5 and p.6 of the Regulation by the Polish Council of Ministers of 19.10.2005 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 statement:

7.1. 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 consolidated financial statement of Kredyt Bank S.A. covering the period from 01.01.2006 to 31.12.2006 along with the comparable data was prepared according to the accounting principles effective in the Bank and present a true and fair view of the financial standing, assets and financial result of Kredyt Bank S.A. In addition, the Management Board of Kredyt Bank S.A. hereby declares that the annual Management Board's report presents a true picture of the development and accomplishments as well as the situation (including the description of basic risks and threats) of Kredyt Bank S.A. in 2006.

7.2. 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 consolidated financial statement of Kredyt Bank S.A. as at 31.12.2006 was appointed as required by law. This entity and certified auditors performing the audit complied with the conditions on the issue of impartial and independent audit report, as required by the Polish law

Signatures of all Management Board Members

Date 28.02.2006	Ronald Richardson	President of the Management Board	....
Date 28.02.2006	Umberto Arts	Vice-President of the Management Board	....
Date 28.02.2006	Krzysztof Kokot	Vice-President of the Management Board	....
Date 28.02.2006	Konrad Kozik	Vice-President of the Management Board	....
Date 28.02.2006	Bohdan Mierzwiński	Vice-President of the Management Board	....
Date 28.02.2006	Michał Oziembło	Vice-President of the 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 2006

I. GENERAL NOTES

1. Background

Kredyt Bank S.A (hereinafter 'the Company', 'the Bank') was incorporated on the basis of a Notarial Deed dated September 4, 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 Capital Group S.A. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 55 and 34 of the Additional Notes and Explanations to the audited financial statements for the year ended 31 December 2006.

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

(in thousand zlotys)

- acquire and disposal of properties,
- financial consulting and advisory services,
- issuing electronic money instruments

As at 31 December 2006, 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 złoty each. Equity as at that date amounted to 2,039,743 thousand zlotys. During the reporting period Bank's share capital remained unchanged.

The structure, as at 31 December 2005, of shareholders changed in 2006. On 2 June 2006 KBC Bank NV realizing Decree of Commission for Banking Supervision No. 81/KNB/01 from 17 September 2001, according to which KBC Bank NV is entitled to perform not more than 75% of votes at the General Shareholder's Meeting of Kredyt Bank S.A., sold to Sofina S.A. 15,014,772 shares of Kredyt Bank S.A., which accounted for 5,53% of share in votes and share capital. Before the transaction KBC NV owned 232,341,875 shares of Kredyt Bank S.A., which constituted 85,53% share in the share capital of Kredyt Bank S.A. After the sale transaction KBC Bank NV owns 217,327,103 shares of Kredyt Bank S.A., accounting for 80% of share in the share capital of Kredyt Bank S.A.

In accordance with Bank's share register as at 28 February 2007, the ownership structure of the Bank's issued share capital as at 31 December 2006 was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
KBC Bank N.V. (Brussels)	217.327.103	217.327.103	1.086.635.515	80,00%
Sofina S.A.	15.014.772	15.014.772	75.073.860	5,53%
Other	39.317.005	39.317.005	196.585.025	14,47%
	--------------	-------------	----------------	-------------
Total	271.658.880	271.658.880	1.358.294.400	100,00%
	=====	=====	=====	=====

During the meeting of Bank's Supervisory Board held as at 13 April 2006 Mrs. Małgorzata Kroker-Jachiewicz, Vice-President of the Management Board resigned from running for Bank's Management Board for a term beginning from 31 May 2006, i.e. which is a date of Ordinary Shareholder's Meeting.

As at 31 May 2006 the Bank's Supervisory Board elected Bank's Management Board for a new 5 year-long period. Mr. Ronald Richardson was appointed the President of the Management Board of Kredyt Bank S.A.

Other Board Members were chosen by the Bank's Supervisory Board:

Guy Libot	- Vice-President of the Management Board,
Krzysztof Kokot	- Vice-President of the Management Board,
Konrad Kozik	- Vice-President of the Management Board,
Bohdan Mierzwiński	- Vice-President of the Management Board,

As at 11 July 2006 Mr. Guy Libot resigned from function of Vice-President of the Management Board as well as from membership in Bank's Management Board as at 23 July 2006.

As at 24 July 2006 Mr. Umberto Arts took a position of Vice-President of the Management Board.

During the meeting as at 21 December 2006 Bank's Supervisory Board passed a resolution to increase the number of Management Board's members to six people and appointed Mr. Michał Oziembło for a position of a Management Board's Vice-President as at 1 January 2007.

2. Financial Statements

As at 25 April 2005 the General Shareholders' Meeting passed a resolution concerning preparation of financial statements, starting from 2005, in accordance with International Financial Reporting Standards as adopted by the 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 as at 13 April 2006 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 concluded on 27 April 2006 with the Bank's Management Board, we have audited the financial statements for the year ended 31 December 2006.

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 unqualified auditor's opinion dated 28 February 2007, 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 2006 of Kredyt Bank S.A. (the "Bank") located in Warsaw, Kasprzaka 2/8 street, containing:
   - the balance sheet as at 31 December 2006 with total assets amounting to 22,203,795 thousand zlotys,
   - the profit and loss account for the period from 1 January 2006 to 31 December 2006 with a net profit amounting to 437,443 thousand zlotys,

- the statement of changes in shareholders' equity for the period from 1 January 2006 to 31 December 2006 with a net increase in shareholders' equity amounting to 380,025 thousand zlotys,
- the cash flow statement for the period from 1 January 2006 to 31 December 2006 with a net cash inflow amounting to 19,936 thousand zlotys and
- the additional notes and explanations

('the attached financial statements').

2. The truth and fairness[1] of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2] and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.

3. We conducted our audit of the attached financial statements in accordance with the following regulations 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 Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2006 to 31 December 2006, as well as its financial position[3] as at 31 December 2006;
   - have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU 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 articles of association.

5. We have read the 'Directors' Report for the period from 1 January 2006 to 31 December 2006 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

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

19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744)".

We conducted the audit of the Bank's financial statements during the period from 6 November 2006 to 28 February 2007. We were present at the Bank's head office from 6 November 2006 to 1 December 2006 and from 4 January 2007 to 28 February 2007.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness[4] of the financial statements and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 28 February 2007, 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,

It was confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

2.3 Financial statements for prior financial year

The Bank's financial statements for the year ended 31 December 2005 were audited by Dorota Snarska-Kuman, Certified Auditor No. 9667/7232, acting on behalf of Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw at Rondo ONZ 1 and registered on the list of entities authorised to audit financial statements under no. 130. The certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2005. The Bank's financial statements for the year ended 31 December 2005 were approved as at 31 May 2006 by the General Shareholders' Meeting, at which the shareholders made a resolution that net profit for the year 2005 will be distributed in the following way:

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

(in thousand zlotys)

Appropriation of profit for 2005

Cover of loss from previous years	245,934
Dividends for the shareholders	59,765
Supplementary capital	104,789

Total	410,488
	========

The financial statements for the financial year ended 31 December 2005, 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 delivered as at 14 June 2006 to the National Court Register.

The introduction to the financial statements, the balance sheet as at 31 December 2005, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2005, 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. 1500 on 27 December 2006.

The closing balances as at 31 December 2005 were correctly brought forward in the accounts as the opening balances at 1 January 2006.

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 2005 - 2006. The ratios were calculated on the basis of financial information included in the financial statements for the year ended 31 December 2006. The selected financial information and data for 2004 were not presented as the Bank changed in 2005 the accounting policies into International Financial Reporting Standards as adopted by the EU and the comparable data for earlier periods are not fully comparable.

	2006	**2005***
Total assets	22,203,795	20,911,895
Shareholders' equity	2,039,743	1,659,718
Net profit/ loss	437,443	410,488
Capital adequacy ratio according to NBP methodology	13.45%	16.21%
Profitability ratio	52.40%	38.43%

$$\frac{\text{Profit before taxation}}{\text{Total costs}}$$

(in thousand zlotys)

	2006	2005*
Costs to income ratio	67.36%	74.22%
Total costs / Operating income		
Return on Equity (ROE)	23.65%	26.01%
Net profit / Average shareholders' equity		
Return on Assets (ROA)	2.03%	1.96%**
Net profit / Average assets		

* Comparable data
** Average assets for 2005 were calculated on basis of total assets as at 31 December 2004 presented in financial statement for the year ended 31 December 2005 prepared in accordance with International Accounting Standards

Rate of inflation:		
Yearly average	1.0%	2.1%
December 2006 to December 2005	1.4%	0.7%

3.2 Comments

The following trends were observed based on the above financial ratios:

- Net profit for 2006 amounted to 437,443 thousand zlotys in comparison to the net profit for 2005 amounting to 410,488 thousand zlotys.
- There was an increase of the total assets. The total assets as at 31 December 2006 amounted to 22,203,795 thousand zlotys
- The profitability ratio increased from 38.43% in 2005 to 52.40% in 2006,
- Cost to income ratio decreased to 67.36% in 2006 from 74.22% in 2005,
- As at 31 December 2006 the return on equity ratio decreased to 23.65% from 26.01% in 2005.
- As at 31 December 2006 the return on asset ratio increased to 2.03% as compared with 1.96% in 2005,
- The Bank's solvency ratio calculated in accordance with NBP methodology amounted to 13.45% as at 31 December 2006 as compared with 16.21% as at the end of 2005.

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 2006 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 audited financial statements for the year ended 31 December 2006, the Management Board has stated that the financial statements were prepared under the assumption that the Bank will continue as a going concern for a period of at least twelve months subsequent to 31 December 2006 and that there are no circumstances that would indicate a threat to its continued activity.

3.4 Application of regulations mitigating banking risk

As at 31 December 2006, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolutions of the Commission for Banking Supervision envisaged banking regulatory norms in relation to the 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 our audit we have not identified any facts indicating that during the period from 1 January 2006 to 31 December 2006 the Bank did not comply with the above regulations. We have received written representation from the Management Board that during the year the banking regulatory norms were not breached.

3.5. Correctness of calculation of solvency ratio

During our audit we have not identified any irregularities in relation to the calculation of the capital adequacy ratio as of 31 December 2006 in accordance with Resolution no 4/2004 of the Commission for Banking Supervision dated 8 September 2004 "The scope of and specific principles used for determining capital requirements relating to particular risks, including the exceeding of concentration limits, the method and specific principles used for calculation of a bank's solvency ratio, taking into account the relations existing between banks and other subsidiaries or entities operating within the same holding, and specification of additional items in the bank's balance sheet to be recognised jointly with the bank's capital in the capital adequacy statement, including the scope and method of specifying such items".

II. DETAILED REPORT

1. Accounting System

The Bank's accounts are kept using the Profile, Oracle Financials, FlexCube and Bankier computer systems at the Bank's head office. The Bank has up-to-date documentation, as required by 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;
- support of business transactions by relevant 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 2006.
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 2006.

3. Additional notes and explanations

The additional notes and explanations to the financial statements for the year ended 31 December 2006 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Bank's activities in the period from 1 January 2006 to 31 December 2006 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements are consistent with the 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 No. 209, item 1744).

5. Materiality Level

When determining the materiality level, professional judgement was applied taking into account the specific characteristics 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.

7. Work of Experts

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

- real estate experts - in calculations regarding the level of loan impairment we took into consideration the valuations of collaterals, prepared by property appraisers, that were required engaged by the Bank;
- actuary – actuarial calculation of provision for retirement benefits.

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

Dorota Snarska-Kuman
Certified Auditor No. 9667/7232

Jacek Hryniuk
Certified Auditor No. 9262/6958

Warsaw, 28 February 2007