

KREDYT BANK S.A.

from 4 January 2013 merged with Bank Zachodni WBK S.A.

**LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

I. GENERAL NOTES

1. Background

Kredyt Bank S.A., from 4 January 2013 merged with Bank Zachodni WBK S.A. ('the Bank', "BZ WBK S.A.") was incorporated the basis of a Notarial Deed dated 4 September 1990. Kredyt Bank S.A. registered office was located in Warsaw at Kasprzaka 2/8.

The Bank was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000019597 on 12 June 2001. On the date of making the entry to the National Court Register concerning the merger of Kredyt Bank S.A. and Bank Zachodni WBK S.A. (hereinafter 'BZ WBK S.A.') i.e. on 4 January 2013, Kredyt Bank S.A. ceased to be an autonomous business entity and was deleted from the National Court Register.

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

Kredyt Bank S.A. was a holding entity of the Kredyt Bank S.A. Capital Group. The information on transactions with related entities were included in note 52 of the additional notes and explanations ("additional information") to the audited financial statements for the year ended 31 December 2012.

The principal activities of the Kredyt Bank S.A. were as follows:

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

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

As at 31 December 2012, Kredyt Bank S.A. issued share capital amounted to 1,358,294 thousand zlotys and was divided into 271,658,880 shares of nominal value of 5 zlotys each share. Equity of Kredyt Bank S.A. as at that date amounted to 2,995,893 thousand zlotys.

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In accordance with excerpt from the Kredyt Bank's S.A. Shares Register submitted by Kredyt Bank's Corporate Office of 3 January 2013, the ownership structure of the Kredyt Bank's issued share capital as at 31 December 2012 was as follows:

	Number of shares	Number of votes	Par value of shares (in PLN thousands)	% of issued share capital
KBC Bank NV* (Brussels)	217,327,103	217,327,103	1,086,636	80.00%
Others	54.331.777	54,331,777	271,658	20.00%
Total	271,658,880	271,658,880	1.358,294	100.00%

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

According to information included in the Kredyt Bank's Share Register as at 3 January 2013, the following changes took place in the ownership structure of Kredyt Bank S.A. issued share capital during the financial year and between the balance sheet date and the date of the opinion:

- On the 26 January 2012, Kredyt Bank S.A. was informed by Pioneer Pekao Investment Management S.A. ("PPIM") about the reduction to 4.29% of total votes at the General Shareholders' Meeting of the bank relating to investment portfolios managed by PPIM. According to this information, the share in voting rights of Pioneer Fundusz Inwestycyjny Otwarty has been reduced to the level of 4.16% of votes at the General Shareholders' Meeting of the Kredyt Bank S.A.

On the date of making the entry to the National Court Register concerning the merger of Kredyt Bank S.A. and Bank Zachodni WBK S.A. i.e. on 4 January 2013, Kredyt Bank S.A. ceased to be an autonomous business entity and was deleted from the National Court Register.

There were no movements in the share capital of Kredyt Bank S.A. in the reporting period.

As at 7 March 2013, the Bank's Management Board was composed of:

Mateusz Morawiecki	- President of the Management Board
Andrzej Burliga	- Member of the Management Board
Michael McCarthy	- Member of the Management Board
Piotr Partyga	- Member of the Management Board
Marcin Prell	- Member of the Management Board
Mirosław Skiba	- Member of the Management Board
Feliks Szyszkowiak	- Member of the Management Board

Juan de Porras Aguirre	- Member of the Management Board
Eamonn Crowley	- Member of the Management Board
Marco Antonio Silva Rojas	- Member of the Management Board

There were the following changes in the Bank's Management Board during the reporting period as well as from the balance sheet date to the date of the opinion.

- On the date of the merger of Kredyt Bank S.A. with Bank Zachodni WBK S.A. i.e. on 4 January 2013, contracts with current Management Board's Members have been terminated, composed of as at that date:

Maciej Bardan	- President of the Management Board
Umberto Arts	- Vice-President of the Management Board
Mariusz Kaczmarek	- Vice-President of the Management Board
Zbigniew Kudaś	- Vice-President of the Management Board
Piotr Sztrauch	- Vice-President of the Management Board
Jerzy Śledziwski	- Vice-President of the Management Board
- From 4 January 2013 in rights and obligation of Company's Management Board Members enter management Board of Bank Zachodni WBK S.A. composed of:

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

2. Financial Statements

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 of Kredyt Bank S.A. on 22 February 2012 to audit the Kredyt Bank S.A. financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 11 June 2012 with the Kredyt Bank's Management Board, we have audited the financial statements for the year ended 31 December 2012.

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 a qualified opinion with emphasis on matter paragraph dated 7 March 2013, stating the following:

“To the Supervisory Board of Bank Zachodni WBK S.A.

1. We have audited the attached standalone financial statements for the year ended 31 December 2012 of Kredyt Bank S.A., from 4 January 2013 merged with Bank Zachodni WBK S.A. (merged entities hereafter ‘the Bank’), located in Warsaw at 2/8 Kasprzaka St., containing the income statement for the period from 1 January 2012 to 31 December 2012, the statement of comprehensive income for the period from 1 January 2012 to 31 December 2012, balance sheet as at 31 December 2012, the statement of changes in equity for the period from 1 January 2012 to 31 December 2012, the statement of cash flow for the period from 1 January 2012 to 31 December 2021 and the summary of significant accounting policies and other explanatory notes (‘the attached standalone financial statements’).
2. The truth and fairness¹ of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Bank’s Management Board. In addition, the Bank’s Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors’ Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – ‘the Accounting Act’). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Kredyt Bank S.A. and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit, except as discussed in paragraph 4 below, of the attached financial statements in accordance with:
 - chapter 7 of the Accounting Act,
 - national auditing standards issued by the National Council of Statutory Auditors in Poland,

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

¹ Translation of the following expression in Polish: ‘rzetelność i jasność’

² Translation of the following expression in Polish: ‘rzetelnie i jasno’

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 standalone financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached standalone financial statements treated as a whole.

4. As described in the note 4 of additional information to the attached standalone financial statements Management Board of Bank Zachodni WBK S.A. after the merger with Kredyt Bank S.A. has performed the analysis of the credit risk relating to Kredyt Bank S.A. loan portfolio as at 31 December 2012. The analysis has been based on new assumptions towards collection scenarios weighted by their probabilities and significantly discounted collaterals for selected individual exposures as well as changed parameters for the calculation of the collective impairment. As a result of the above analysis the Bank has increased the level of loan impairment allowances in the attached standalone financial statements by approx. PLN 319 million for the loans assessed individually and by approx. PLN 258 million for the loans assessed collectively. We have performed a review of the above analysis and based on such review we concluded that we have not been presented with sufficient evidence supporting approx. PLN 333 million of the above increases of impairment allowances. Therefore, we are not able to give our opinion on the reasonableness of such part of the additional loan impairment allowances as at 31 December 2012, and the corresponding impairment charge in the profit and loss for the year ended 31 December 2012 as well as approx. PLN 61 million of deferred tax asset, which has been recognised in relation to such additional loan impairment allowances and the corresponding tax credit in the profit and loss for 2012.

Additionally, the amount of PLN 258 million out of the above increase in impairment allowances which relates to losses incurred but not recorded ('IBNR') and collective impairment was presented in line "Provisions" in the liabilities which is not compliant with the adopted accounting standards.

5. In our opinion, except for the potential effects of the matters described in paragraph 4 in relation to the reasonableness of the additional impairment allowances and relating deferred tax asset as well as the improper presentation of part of the additional impairment allowances in line "Provisions", in the attached financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of Kredyt Bank S.A. operations for the period from 1 January 2012 to 31 December 2012, as well as its financial position³ as at 31 December 2012;
 - have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and based on properly maintained accounting records;
 - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Bank's Statutes.
6. Without further qualifying our opinion, we draw attention to the fact that as described in note 2.2 to the attached standalone financial statements, on 4 January 2013 the merger of

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

Kredyt Bank S.A. and Bank Zachodni WBK S.A. took place and the operations of Kredyt Bank S.A. will be continued within the merged Bank. The Bank's Management Board prepared the attached financial statements on a going concern basis as operations of Kredyt Bank S.A. will be continued in the merged Bank.

7. We have read the Directors' Report on the operations of Kredyt Bank S.A. for the year ended 31 December 2012 ('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 art. 49 para 2 of the Accounting Act."

We conducted the audit of the financial statements during the period from 5 November 2012 to 7 March 2013. We were present at the Company's head office from 10 November 2012 to 21 December 2013 and from 2 January 2012 to 7 March 2013.

2.2 Representations provided and data availability

The Bank's Management Board confirmed its responsibility for the truth and fairness⁴ of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 7 March 2013, confirming that:

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

and confirmed that the information provided to us was true and fair to the best of the Bank's 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

Kredyt Bank S.A. financial statements for the year ended 31 December 2011 were audited by Dorota Snarska-Kuman, key certified auditor no. 9667, acting on behalf of Ernst & Young Audit sp. z o.o. located in Warsaw at Rondo ONZ 1. On 22 February 2012, the key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2011. Kredyt Bank S.A. financial statements for the year ended 31 December 2011 were approved by the General Shareholders' Meeting on 25 May 2012, and the shareholders resolved to appropriate the 2011 net profit as follows:

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

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General Risk Fund	80.209
Reserve capital	230.109

	310.318
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The financial statements for the financial year ended 31 December 2011 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 on operations of Kredyt Bank S.A., were filed on 1 June 2012 with the National Court Register.

The introduction to the financial statements, the profit and loss statement for the period from 1 January 2011 to 31 December 2011, the statement of comprehensive income for the period from 1 January 2011 to 31 December 2011, the balance sheet as at 31 December 2011, the statement of changes in equity and the cash flow statement for the period from 1 January 2011 to 31 December 2011 together with the auditors' opinion and a copy of the resolution approving the consolidated financial statements were published on 2 October 2012 in Monitor Polski B No. 2318.

The closing balances as at 31 December 2011 were correctly brought forward in the accounts as the opening balances at 1 January 2012.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Kredyt Bank S.A. for the years 2010 - 2012. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2011 and 31 December 2012.

	2012	2011	2010
Total assets	40,258,606	41,55,380	43,000,255
Shareholders' equity	2,995,893	3,037,718	2,817,243
Net profit/ loss	(184,031)	310,318	111,239
 Capital adequacy ratio	 12.80%	 12.72%	 12.85%
 Profitability ratio	 (21.11%)	 42.78%	 16.05%
result before taxation			
general and administrative expenses			

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	2012	2011	2010
Cost to income ratio	63.39%	61.32%	59.46%
<u>general and administrative expenses</u> total operating income less other operating expenses			
Return on equity (ROE)	(6.10%)	10.60%	4.07%
<u>net result</u> average shareholders' equity			
Return on assets	(0.45%)	0.73%	0.27%
<u>net result</u> average assets			
Rate of inflation:			
yearly average	3.7%	4.3%	2.6%
December to December	2.4%	4.6%	3.1%

In the audit opinion we have included qualifications regarding additional impairment allowances of Kredyt Bank's S. A. loans portfolio and relating deferred tax asset as well as the improper presentation of part of the additional impairment allowances in line "Provisions" in the liabilities as described in point 4 of the audit opinion.

3.2 Comments

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

- Net loss for 2012 amounted to 184,031 thousand zloty in comparison to the net profit of 310.318 thousand zlotys in 2011 and 111,239 thousand zlotys in 2010.
- Compared 2011, there was a decrease in total assets of Kredyt Bank S.A. in 2012. The total assets as at 31 December 2012 amounted to 40.258.606 thousand zloty.
- The profitability ratio increased from 16.05% in 2010 to 42.78% in 2011 and decreased to (21,11%) in 2012.
- Cost to income ratio increased from 59.46% in 2010 to 61.32% in 2011 and subsequently increased to 63.39% in 2012.
- Return on equity ratio increased from 4.07% in 2010 to 10.60% in 2011 and subsequently decreased to (6.10%) in 2012.

- Return on assets ratio increased from 0.27% in 2010 to 0.73% in 2011 and subsequently to decreased to (0.45%) in 2012.

The Bank's solvency ratio amounted 12,80% as at 31 December 2012 as compared to 12,72% at the end of 2011 and 12,85% at the end of 2010.

3.3 Going concern

As described in point 6 of the audit opinion, in note 2.2 to the attached financial statements, on 4 January 2013 the merger of Kredyt Bank S.A. and Bank Zachodni WBK S.A. took place and the operations of Kredyt Bank S.A. will be continued within the merged Bank. The Bank's Management Board prepared the attached financial statements on a going concern basis as operations of Kredyt Bank S.A. will be continued in the merged Bank.

In addition, as stated in note 2.2 of explanatory notes to the audited financial statements of Kredyt Bank S.A. for the year ended 31 December 2012 the Bank's Management Board stated that the that the financial statements was prepared on the assumption that Kredyt Bank S.A will continue as a going concern for a period of at least twelve months subsequent to 31 December 2012 and that there are no circumstances that would indicate a threat to its continued activity.

3.4 Application of regulation mitigating banking risk

As at 31 December 2012, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolution of the Polish Financial Supervision Committee ('KNF') envisaged banking regulatory norms in relation to following items:

- concentration of credit risk,
- concentration of investments in shares,
- solvency,
- liquidity,
- level of obligatory reserve,
- capital adequacy.

During the 2012 audit we have not identified any facts indicating that during the period from 1 January 2012 to 31 December 2012 Kredyt Bank S.A. did not comply with the above regulations. In addition, we have received written representation from the Bank's Management Board that during the financial year the banking regulatory norms were not breached.

3.5 Correctness of calculation of capital adequacy ratio

During our audit, except as described below, we have not identified any significant irregularities in relation to the calculation of the capital adequacy ratio as of 31 December 2012 in accordance with Resolution No. 76/2010 of the Polish Financial Supervision Committee of 10 March 2010 on the scope and detailed principles of the capital

requirements against particular risks (Official Journal of the Polish Financial Supervision Committee No. 2, dated 9 April 2010 with further amendments).

As described in point 4 of the audit opinion, in note 4 to the audited financial statements, the Bank has presented addition impairment allowances, which relates to incurred but not reported losses ('IBNR') and collective impairment allowances in the amount of 258 million in line "Provisions" in the liabilities, what resulted, that the adjustment was not included while calculating Risk-Weighted Assets and as a result credit risk capital requirement. If the additional impairment allowance had been included in the calculation of capital adequacy ratio, capital adequacy ratio would have been higher

II. DETAILED REPORT

1. Accounting System

Kredyt Bank S.A. accounts are kept using the the Profile computer system, Oracle Financials, Murex, LoanIQ and Flexcube at the Kredyt Bank S.A. head office. The Bank has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – ‘the Accounting Act’), including a chart of accounts approved by the Bank’s Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of Kredyt Bank S.A. assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2012.

In the audit opinion we have included qualifications regarding additional impairment allowances and relating deferred tax asset as well as the improper presentation of part of the additional impairment allowances in line “Provisions” in the liabilities as described in point 4 of the audit opinion.

Verification of assets and liabilities was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2012.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2012 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union.

4. Directors' Report

We have read the Directors’ Report on the operations of Kredyt Bank S.A. for the year ended 31 December 2012 (‘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 art. 49 par. 2 of the Accounting Act.

5. Materiality level

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

6. Comments and results of inspection

During the reporting period a comprehensive inspection was carried out in the Bank by Polish Financial Supervision Authority. In accordance with received written representation dated 7 March 2013 in the Bank's Management Board opinion results of the inspection do not have material impact on the financial statements of Kredyt Bank S.A. for the year ended on 31 December 2012.

7. Conformity with Law and Regulations

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

8. Work of Experts

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

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

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

Key Certified Auditor

Partner

Jolanta Alvarado Rodriguez
Certified auditor
No 11299

Dominik Januszewski
Certified auditor
No 9707

Warsaw, 7 March 2013