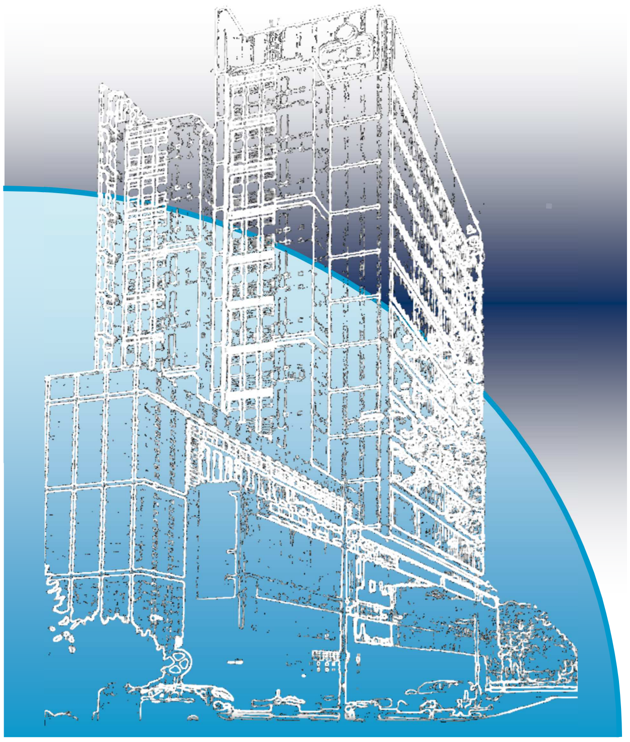

THE MANGEMENT BOARD'S REPORT ON THE OPERATIONS OF KREDYT BANK S.A. for the year 2012

Kredyt Bank S.A. merged with Bank Zachodni WBK S.A. on January 4, 2012

2012

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1. Merger of Kredyt Bank S.A. with Bank Zachodni WBK S.A.

1.1. The merger process

- On 27 February 2012, KBC Bank NV and Banco Santander S.A. signed an investment agreement in which the parties expressed their intention to merge Kredyt Bank S.A. and BZ WBK S.A. On the same day, Kredyt Bank S.A., BZ WBK S.A., KBC Bank NV and Banco Santander S.A. signed an agreement on starting work to merge Kredyt Bank S.A. and BZ WBK S.A. For KBC, it is the next stage of the further implementation of the strategic plan agreed with the European Commission which assumes the reimbursement of the public aid obtained by the Group. Santander wishes to strengthen its presence in Poland, which is one of its ten major markets.

- The Merger Plan agreed on and signed by Kredyt Bank S.A. and BZ WBK S.A. on 11 May 2012 provided that the merger would be carried out pursuant to Article 492 § 1 item 1 of the Code of Commercial Companies through the transfer of all the assets and liabilities of Kredyt Bank, being the target entity, to BZ WBK S.A., being the surviving entity, with the simultaneous increase in the share capital of BZ WBK S.A. through the issue of up to 18,907,458 series J ordinary bearer shares in BZ WBK S.A. with the nominal value of PLN 10.00 each, which will be allocated by BZ WBK S.A. to all existing shareholders of Kredyt Bank. As a result of the merger, these shareholders will become the shareholders of BZ WBK S.A. on the date of the merger, i.e. on the date of the registration of the merger in the register relevant to the registered seat of BZ WBK S.A.

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

  The merger depended on:
  1. Obtaining the permit of the Polish Financial Supervision Authority to the merger.
  2. Obtaining the permit of the Polish Financial Supervision Authority to the amendments to the statutes of BZ WBK S.A.
  3. Issuing by the European Commission of a decision declaring that the concentration of the Issuer and BZ WBK S.A. is in line with the common market.
  4. Confirming by the Polish Financial Supervision Authority that both the form and content of BZ WBK's information memorandum are equivalent to the information required to be included in a prospectus.
  5. The failure to object by the Polish Financial Supervision Authority to the acquisition by KBC Asset Management NV of the shares of KBC TFI S.A..
  6. Adopting by the Issuer's General Meeting of Shareholders a resolution concerning the merger with BZ WBK S.A.
  7. Adopting by the General Meeting of Shareholders of BZ WBK S.A. a resolution concerning the merger with the Issuer.

- The Opinion of a certified auditor (KPMG Audyt Sp. z o.o.) issued on 20 June 2012 from the audit of the Merger Plan for BZ WBK S.A. and Kredyt Bank S.A. claims, among other things, that:
  1) the Merger Plan of BZ WBK S.A. with Kredyt Bank S.A. was prepared, in all material aspects, in an accurate and proper manner;
  2) the share exchange ratio was properly determined in all material aspects;
  3) the methods applied to determine the ratio of the exchange of the shares of Kredyt Bank S.A. for the shares of BZ WBK S.A., as proposed in the Merger Plan, are justified;

4) no special difficulties were identified as regards the valuation of the shares in the merging Banks.

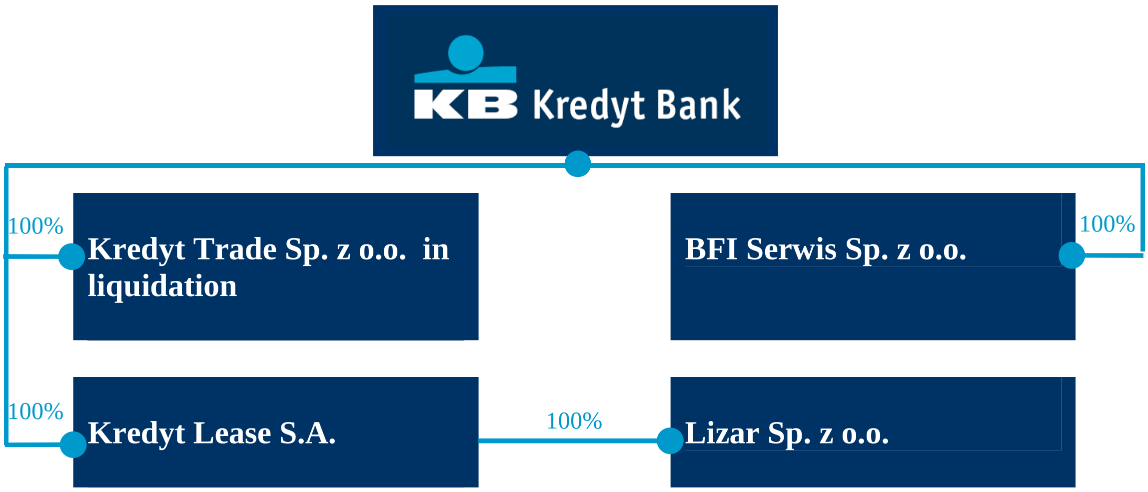
- The Polish Financial Supervision Authority, at the meeting held on 19 June 2012, found no reason to object to the planned, direct acquisition of the shares of KBC Towarzystwo Funduszy Inwestycyjnych S.A. by KBC Asset Management NV in the number resulting in exceeding the 50% limit of votes at the General Meeting of Shareholders.
- On 28.06.2012, the Management Board of Kredyt Bank S.A., acting pursuant to Article 504 § 1 and 2 of the Code of Commercial Companies, in relation to Article 402[1] of the Code of Commercial Companies, issued the first notice concerning the merger of Bank Zachodni WBK S.A. with Kredyt Bank S.A. At the same time, the Management Board of Kredyt Bank S.A. convened the Extraordinary General Meeting of Shareholders to adopt the resolution on the merger of Kredyt Bank S.A. with Bank Zachodni WBK S.A.
- The second notice about the planned merger of Kredyt Bank S.A. with Bank Zachodni WBK S.A. was issued on 16 July 2012.
- On 18 July 2012 the European Commission has decided not to oppose the acquisition of control over the Kredyt Bank by Banco Santander S.A., and consequently also by the Bank Zachodni WBK S.A., and to declare such acquisition of the control is compatible with the internal market and with the European Economic Area Agreement.
- On 25 July 2012, Kredyt Bank S.A. presented the written stance of the Bank's Management Board concerning the merger of Kredyt Bank Spółka Akcyjna with Bank Zachodni WBK Spółka Akcyjna.
  In the said stance, the Bank has notified that all economic and legal premises underlying the decision to merge Kredyt Bank S.A. with Bank Zachodni WBK S.A. described in the Merger Plan, are fully effective. In the opinion of the Bank's Management Board, also the arguments supporting the merger are fully effective.
  For the above reasons, the Bank's Management Board positively evaluated the impact of the planned merger upon the Bank's business and upholds its stance that the merger on the terms and conditions set out in the Merger Plan is in the interest of Kredyt Bank and its shareholders.
- On 30 July 2012, the Extraordinary General Meeting of Shareholders of Kredyt Bank S.A. adopted a resolution concerning the merger of Kredyt Bank S.A. with Bank Zachodni WBK S.A.
- On December 4, 2012 the Polish Financial Supervision Authority issued the decision under article 124(1) of the Banking Law consenting to the merger of the Kredyt Bank S.A. with Bank Zachodni WBK S.A. At the same day the Polish Financial Supervision Authority issued a decision pursuant to Art. 34 section 2 of the Banking Law, granting consent to introducing an amendment to the statute of Bank Zachodni WBK S.A. in relation to the merger of the Bank Zachodni WBK S.A. with Kredyt Bank S.A., which was approved by the extraordinary general meeting of shareholders on 30 July 2012 and involving an amendment to §10 of the BZ WBK's statute.
- On December 6, 2012 the Polish Financial Supervision Authority issued the decision confirming that both the form and content of the information memorandum are equivalent to the information required to be included in a prospectus in connection with the merger of the Bank Zachodni WBK S.A. with Kredyt Bank S.A., i.e. a decision pursuant to Art. 38 section 1 of the Act on Public Offering, the Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies, dated 29 July 2005.
- On January 4, 2013 the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register, registered the merger of Bank Zachodni WBK S.A. with Kredyt Bank S.A. (the "Merger"). The merger was effected in accordance with Art. 492 § 1 section 1 of the Code of Commercial Companies by way of a transfer of all of the assets of Kredyt Bank S.A.

to Bank Zachodni WBK S.A. (a merger through acquisition) in exchange for newly issued series J shares in Bank Zachodni WBK S.A., to be allotted to all of the existing shareholders of Kredyt Bank S.A.

1.2. Organisation and capital links of Kredyt Bank S.A.

1.2.1. Equity investments, transactions with related parties

Kredyt Bank S.A. equity investments may be divided into investments in subordinates which create Kredyt Bank S.A. Capital Group, investments in infrastructural companies of the financial sector and shares acquired in the debt recovery and restructuring processes.
The Group's companies and ownership structure as at 31.12.2012 was as follows:



Investment plans, including equity investments
According to the Bank's development strategy which provides for the incorporation of a universal banking model, the Bank will focus on operations other than investment banking.
As at 31.12.2012, equity investments made by the Bank were mainly exposures towards the interests of such companies as KIR S.A., BIK S.A., GPW w Warszawie S.A., SWIFT and of the companies acquired as a result of debt recovery and restructuring processes. As at 31.12.2012, their share in the Bank's balance sheet was immaterial.

Related party transactions
In 2012, there were no significant non-standard transactions with related parties whose nature and terms were not related to the current operations. All transactions were concluded on market terms, without any exceptional or non-standard terms or conditions.
Transactions volumes and related income and expenses are presented in Note 52 to the annual financial statements of Kredyt Bank S.A. for the year ended on 31.12.2012.

1.2.2. Description of Kredyt Bank S.A.

Kredyt Bank S.A. was a universal bank which provided banking services tailored to the needs of all groups of clients. The wide scope of services provided by Kredyt Bank was addressed to individuals, business entities and local government entities. Kredyt Bank offered its clients easy access to its services through a wide network of outlets and ATMs, as well as Internet banking. Kredyt Bank divided its banking services into two key segments: (i) retail banking and (ii) corporate banking.

A significant part of the product offer was provided by the companies of the Kredyt Bank Group and KBC Group in Poland, including: in respect of lease services, Kredyt Lease S.A., which offered comprehensive fixed asset and property lease services to companies, the business of which will be acquired by BZ WBK after the Merger, as well as companies which were not covered by the planned Merger, i.e. KBC TFI S.A. (investment fund services) and KBC Securities S.A. (additional services to corporate clients in the area of investment banking).

Retail banking

Retail banking in Kredyt Bank covered the segment of individual customers and small companies (SOHO) whose annual sales do not exceed PLN 1 million.
Individual customers have been classified into three main segments: mass customers, medium-affluent customers and private banking customers.

According to the above segmentation and additional analyses, customers have been classified into sub-segments for which their potential product needs were identified, divided by existing and new customers. An example of such activities was the additional segmentation of small companies consisting of three key groups: businesses, professionals and housing communities.

Kredyt Bank differentiated its product offer to individual customers between the mass and private banking segments. Moreover, Kredyt Bank branches had, for example, dedicated advisors for affluent customers, a telephone line has been especially dedicated to those customers and a telemarketing line under the "Concerto - Nowa Bankowość Osobista" brand.

The network of own outlets was the core distribution channel through which Kredyt Bank was reaching retail customers with its offer. As at 31.12.2012, the network of retail outlets comprised 370 branches.
Financial brokers were the distribution channel supporting the sales of mortgages. At the end of 2012, the Bank cooperated with 21 major Polish financial intermediaries, who offer their services throughout Poland, as well as 1,090 local intermediaries.
KB24, an electronic banking system, and Call Center supplemented the traditional distribution channel. They allowed our customers to have an access to products and services 24 hours a day, seven days a week.

As at 31 December 2012, Kredyt Bank serviced 1,172 thousand individual customers and micro and small enterprises.

At the end of 2012, the number of KB24 users amounted to 559 thousand as compared to 517 thousand at the end of 2011 (an increase by 42 thousand). The number of bank transfers amounted to 16,478 thousand. It means more than 50% growth as far as the number of transactions is concerned and almost 8% growth of the number of KB24 users.

In 2012, the Bank continued the strategy of the growth in the Affluent Customers segment. In January and February, the Bank launched the advertising campaign for 'Program Concerto – Nowa Bankowość Osobista' ('Concerto Programme – New Personal Banking'). The campaign was carried out in the press, on the Internet and in the Bank's outlets throughout Poland. Concerto Programme consisted not only from the product offer but also the benefits supporting the activation and sales of products Three editions of supporting campaigns were performed. Within the framework of each campaign the customers who purchased selected products could obtain tickets for a chosen concert recommended by Wojciech Mann. More than 3,200 new and existing customers were invited to participate more than 100 concerts of such stars as Sting, Jose Carreras, Andrea Bocelli, Metallica, Elton John, Madonna, or Coldplay.

Enterprise banking

Under the Enterprise Banking segment, Kredyt Bank provided services based on the following criteria:

- the SME segment, customers with annual sales of from PLN 1 million to PLN 25 million (the separate business line of SME clients is managed under the corporate banking segment, which also offered product support for this business line);
- the corporate segment, customers with annual sales exceeding PLN 25 million (a separate business line managed under the corporate banking segment, which also offered product support for this business line).

The products offered by Kredyt Bank to the SME and corporate client segments covered:

- on-going servicing of the company;
- a credit offer and specialised financing products;
- deposits and investments;
- transaction banking products;
- financing and servicing trade products;
- treasury department transactions;

As at 31 December 2012, Kredyt Bank serviced 21.2 thousand corporate banking clients.

Kredyt Bank was a treasury securities dealer and a money market dealer. The Bank conducted transactions on the inter-bank market, both domestic and international transactions, on own account and on behalf of customers. Existing treasury products offer allowed to ensure appropriate services both to private banking customers and medium-sized and large companies. It covered, inter alia, the conclusion, for customers, of transactions hedging market risk, currency risk, interest rate risk and risk related to prices of raw materials.

Moreover, Kredyt Bank has established relations with domestic and foreign banks providing FX/MM, custody, trade finance and payment services.

Additionally, Kredyt Bank offered trusteeship services, including the maintenance of securities accounts for both retail and corporate segment customers. For a special group of customers, i.e. investment funds, Kredyt Bank also played a role of a custodian bank and issue sponsor. Kredyt Bank hold an authorisation from the PFSA to maintain securities accounts; it was also a direct participant of the NDS as a custodian bank and a participant of the Securities Register managed by NBP.

The Enterprises Banking Function comprised the Departments of the SME Macroregions Network and of the Corporate Banking Centers Network. They managed the sale of the business lines of SME and Corporate customers. The product support for both business lines was provided centrally by transactional and loan products managers, by Treasury Dealers and by the marketing team, located in Warsaw. The operational support and after-sales service were provided by the Business Service Center located in Lublin. The support in the loans area were provided to both segments by the Loan Documentation Office as well as Loan Administration and Debts Discount Handling Office. In addition, there was the sales management information team that provided required MIS data and manages the extensive CRM system. Cash services were provided in branches and retail affiliates of KB S.A. throughout Poland.

The services to the SME customers were provided by ten Macroregions of Small and Medium-Sized Enterprises (SME). The sales model in the SME segment was based on mobile SME Consultants, who acquired new customers and managed the portfolio of their existing customers. New customers were acquired mainly by SME Sale Development Teams operating in Macroregions. The SME Consultants, located in nearly 50 towns and cities throughout Poland, had a direct contact with their customers in a given region and ensured the provision of further products and services.

The services to Corporate customers were rendered by 13 Corporate Banking Centers located in: Białystok, Bydgoszcz, Gdańsk, Katowice, Kraków, Lublin, Łódź, Poznań, Rzeszów, Szczecin, Warsaw (two Centers) and in Wrocław. The Centers covering the largest geographical areas had their additional representative outlets in smaller towns (Ciechanów, Jelenia Góra, Kielce, Koszalin, Legnica, Leszno, Łomża, Olsztyn, Piła, Radom, Siedlce, Zielona Góra).
Direct contact with customers was maintained, and the whole cooperation was managed, by Customer Assistants located throughout Poland. In the case of specialist services, they were supported by mobile product specialists from the Bank's head office in Warsaw; and in the case of Treasury products, they were also supported by Dealers located additionally in the so-called 'Tri-city agglomeration' (Gdańsk, Gdynia, Sopot), as well as in Poznań and Katowice.

In addition, a crucial part of the product offer was provided by the companies of Kredyt Bank Group and KBC Group in Poland, including: in the case of leasing services — Kredyt Lease S.A. which offered a complete services to companies regarding the lease of fixed assets and real properties as well as the long-term lease of and fleet services for vehicles; and KBC TFI S.A. — an offer of investment funds.

1.2.3. Shareholding structure of Kredyt Bank S.A. as of December 31, 2012

As at 31.12.2012, the Bank's share capital totalled PLN 1,358,294,400 and was divided into 271,658,880 shares with the nominal value of PLN 5.00 each. The Bank's shares were registered shares and bearer shares; they were not preference shares and each share entitled its holder to one vote at the Bank's General Meeting of Shareholders. All the Bank's shares were admitted to public trading on the regulated market. In comparison to the share capital as at 31.12.2011, the Bank's share capital did not change.

The table below presents the Shareholders of Kredyt Bank S.A. (including associates) holding over 5% of total votes at the General Meeting of Shareholders of Kredyt Bank S.A. as at 31.12.2012.

Shareholder	Line of business	Number of shares and votes at the Bank's GMS	Share in votes and in share capital (in %)
KBC Bank NV – a subsidiary of KBC Group	Banking	217 327 103	80.00

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

1.2.4. The authorities of Kredyt Bank S.A.

The Bank's Management Board managed the Bank's affairs and represented it vis-à-vis third parties. The Management Board's President used to be appointed and dismissed by the Supervisory Board. The Management Board's Vice Presidents and Members used to be appointed and dismissed by the Supervisory Board upon the request or with the consent of the Management Board's President, having regard for the requirements stipulated in the Banking Law.

As at 31.12.2012, the Management Board of Kredyt Bank S.A. was composed of:

Name	Position
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
Jerzy Śledziewski	Vice President of the Management Board
Piotr Sztrauch	Vice President of the Management Board

The Supervisory Board supervised the Bank's operations in all areas of its business on an ongoing basis. The particular duties of the Supervisory Board included the examination of all requests and matters which had to 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; supervision over the implementation of the internal audit system; determination of the policy of borrowing and extending loans; and approving Bank's long-term development plans and annual financial plans. The Supervisory Board used to be elected by the Bank's General Meeting of Shareholders.

On 25 May 2012, the Bank's Management Board was notified that the Chairman of the Supervisory Board of Kredyt Bank S.A. had received Mr. Jarosław Parkot's resignation from his membership in the Supervisory Board as from the date of the Ordinary General Meeting of Shareholders of Kredyt Bank S.A., i.e. 25 May 2012.

On 25 May 2012, the Ordinary General Meeting of Shareholders of Kredyt Bank S.A. adopted Resolution No. 25/2012 concerning amendments in the composition of the Supervisory Board of Kredyt Bank S.A., appointing, as from 25 May 2012, Ms. Lidia Jabłonowska-Luba as a member of the Bank's Supervisory Board.

As a result, as at 31.12.2012, the Supervisory Board of Kredyt Bank S.A. was composed of:

Name	Position
Andrzej Witkowski	Chairman of the Supervisory Board
Adam Noga	Vice Chairman of the Supervisory Board
Marko Voljč	Member of the Supervisory Board
Ronny Delchambre	Member of the Supervisory Board
Guy Libot	Member of the Supervisory Board
Stefan Kawalec	Member of the Supervisory Board
Lidia Jabłonowska-Luba	Member of the Supervisory Board

1.2.5. Financial highlights of 2012 vs. the previous year

The net loss of the Kredyt Bank S.A. amounted to PLN -184.0m in 2012 comparing to the net profit of PLN 310.3 gained in the year 2011.

Financial Highlights	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Net loans and advances to customers	27 717 099	28 840 369	27 025 777	25 772 236	26 925 698
Deposits from customers	30 480 113	28 094 775	25 710 004	22 521 686	20 555 309
Net operating income	1 460 518	1 566 217	1 498 569	1 801 604	1 413 309
Operating profit	534 713	602 231	607 547	940 895	522 463
Profit (loss) before tax	(195 477)	408 520	142 969	156 604	389 379
Net profit (loss)	(184 031)	310 318	111 239	165 301	301 072
ROE	(6,1%)	10,6%	4,1%	6,3%	12,5%
ROA	(0,4%)	0,7%	0,3%	0,4%	0,9%
CIR	63,4%	61,5%	59,5%	47,8%	63,0%
Capital adequacy ratio	12,8%	12,7%	12,8%	12,1%	8,9%
Impaired loans / total gross loans	10,0%	8,6%	10,1%	9,1%	5,4%

The key internal factors affecting the KB's performance in 2012 included:

- Higher net impairment losses on financial assets and other assets and provisions, which amounted to PLN -736.4m compared with PLN -198.8m in 2011, including net impairment losses on loans and advances at PLN -422,3m vs. PLN -172.4m in 2011. The Management Board of Bank Zachodni WBK S.A., after the merger with Kredyt Bank S.A., reviewed the judgment related to impairment of individually significant credit exposures with evidence of impairment as of 31.12.2012. As a result, the total adjustment to the level of impairment, provisions for off-balance sheet items and accrued interest for individually significant exposures amounted to PLN 319 million of which PLN 28.6 million related to interest. Moreover, the Management Board of Bank Zachodni WBK S.A. after the merger with Kredyt Bank S.A. has performed an analysis of the impairment allowance for the retail and SME credit exposures calculated on the portfolio basis that were included in the balance sheet of Kredyt Bank S.A. for both non-impaired portfolio and portfolio of receivables with evidence for impairment. Resulting from the above changes the impairment allowance for portfolio calculated loans has been increased by the amount of PLN 258 million.
- The decrease of the Bank's total income was primarily attributable to the changed approach to funding of credit activity by increasing the share of customer deposits in total liabilities and equity. The focus on attracting customer deposits and using them in the SWAP transactions forced adoption of a more competitive pricing policy for deposit products. The net interest income in 2012 amounted to PLN 735.7m, 34.7% decrease y-o-y. The difference was to the certain extent compensated by a considerable improvement in trading income (up 286.1% to PLN 303.7m), which includes a part of the results from SWAP transactions.
- The decrease of total operating costs by 5.1% y-o-y to PLN 957.3 m, with staff expenses amounting to PLN 438.8m (up 1.6%), and general and administrative expenses to PLN 420.7m (down 4.5%). The decrease in general and administrative expenses primarily resulted from a 20.1% decrease in ICT costs and a 43.2% decrease in promotion and advertising costs.
- Decrease of gross loans to customers by 3.0% over the 12 months, mainly as a result of appreciation of PLN (CHF rate fell by 6.8%), which led to a decrease in the value of the retail mortgage portfolio. Personal loans decreased by 4.5% to PLN 22,077.7m while business loans increased by 1.8% to PLN 7,221.1m.
- Increase of deposits from customers over the 12 months by 8.5% as a result of an increase in retail deposits (+6.2% y-o-y) and business deposits (+12.4 y-o-y) to PLN 18,989.7m and PLN 11,490.4m, respectively.

- Loans to deposits ratio was 90.9% as at 31 December 2012 compared with 102.7% as at 31 December 2011.

The key external factors affecting the Bank's performance in 2012 were as follows:

- Weakening economy in Poland leading to a slower GDP growth, which in turn affected consumption and investments, thus reducing demand for credit.
- Downturn in the euro zone, which had a negative bearing on financial markets, resulting in slower sales of investment products throughout 2012.
- Stronger price competition in the deposits market, an effect of legal changes relating to taxation on the income from bank deposits and concerns about availability of funding sources for the banking business in 2012.
- Regulatory changes resulting in withdrawal of foreign currency home loans from the offer.
- An investment agreement signed on 27 February 2012 between KBC Bank NV and Banco Santander SA with the intention of merging Kredyt Bank and BZ WBK, and an agreement between these four entities to commence steps towards finalisation of the merger between Kredyt Bank and BZ WBK.

1.3. Justification of the merger of Kredyt Bank S.A. with Bank Zachodni WBK S.A.

As a result of the merger, the complementary businesses of the two banks will be integrated, which will increase the scope of the services offered and will expand the customer base, thus strengthening the bank's market penetration potential. With the economies of scale and harmonised risk management, the bank's profitability and effectiveness will increase. Cost synergies will be primarily achieved by improvement of processes, adoption of the most effective operational solutions, merger and optimisation of organisational structures and integration of IT systems. Revenue synergies will result from combination of the complementary offerings, cross-selling of both banks' products, harmonisation of service styles and increase in productivity. The merger will position the bank among the top three universal banks in Poland, and with the blended knowledge and experience of the two banks, the merged entity will be more effective and will boast a higher quality of its solutions. The higher number of Bank Zachodni WBK shares in free float will ensure they are more liquid and more attractive for investors.

1.4. Other events and agreements significant for the operations of Kredyt Bank S.A. in 2012

- On 17 January 2012, Kredyt-Trade Sp. z o.o., a wholly-owned (indirectly and directly) subsidiary of Kredyt Bank S.A., signed an agreement on the sale of its 30% stake in KBC TFI S.A. to KBC Asset Management NV. The completion of the said transaction was subject to no objection from the Polish Financial Supervision Authority.

  As the Polish Financial Supervision Authority, at the meeting held on 19 June 2012, found no reason to object to the planned, direct acquisition of the shares of KBC Towarzystwo Funduszy Inwestycyjnych S.A. by KBC Asset Management NV in the number resulting in exceeding the 50% limit of votes at the General Meeting of Shareholders, on 21 June 2012, Kredyt-Trade Sp. z o.o. a wholly-owned (indirectly and directly) subsidiary of Kredyt Bank S.A., signed the final agreement on the sale of its 30% stake in KBC TFI S.A. to KBC Asset Management NV and completed the said transaction. The price obtained by Kredyt Trade Sp. z o.o. for the said stake in KBC TFI S.A. was PLN 37.5 million.

  The impact of the said sale of the 30% stake in KBC TFI S.A. upon the net financial result of Kredyt Bank S.A. Capital Group amounted to PLN 11.5 million and was recognized in the results for the second quarter of 2012.

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

- On 25 May 2012, the Ordinary General Meeting of Shareholders of Kredyt Bank S.A. adopted, among other things, the resolution concerning the distribution of profit for 2011, which provides for its allocation to the charge for the general risk fund (PLN 80,209,000) and to the Bank's supplementary capital (PLN 230,109,322.72).

- On 29 June 2012, the Extraordinary General Meeting of Shareholders of Kredyt Trade Sp. z o.o. based in Warsaw, a wholly-owned (directly and indirectly) subsidiary of Kredyt Bank S.A., adopted the resolution concerning the dissolution and liquidation of Kredyt Trade Sp. z o.o.

- The Management Board of Kredyt Bank S.A. ('the Bank') has notified that the European Investment Bank based in Luxembourg confirmed the signing, on 29.06.2012, of the agreement under which Kredyt Bank S.A. obtained a credit line in the amount representing the equivalent of EUR 100 million in CHF.
  As part of this credit line, the Bank can acquire funds in tranches with maturities of four years (the equivalent of EUR 25 million in CHF) and seven years (the equivalent of EUR 50 million in CHF) in the case of the single repayment and up to ten years (the equivalent of EUR 25 million in CHF) in the case of the repayment in instalments.
  The interest rate on the obtained funds will be based on 3-month LIBOR rates for CHF.
  The funds acquired by the Bank will be secured with a financial pledge on the Treasury bonds held by the Bank.
  The funds acquired under the agreement will be allocated for the financing of lending and leasing transactions concluded with small and medium-sized enterprises and with entities employing less than 3,000 employees.

- On 23 July 2012, the Management Board of Reliz Sp. z o.o. (a wholly-owned subsidiary of Kredyt Bank S.A.) submitted to the XI Commercial Insolvency and Arrangement Division of the District Court for Poznań-Old Town, an application concerning the bankruptcy of Reliz Sp. z o.o. by liquidation of its assets.

- On 31 July 2012, Kredyt Bank S.A. received the information that KBC Bank NV finalized the sale of 100% of the shares of Żagiel S.A. to Santander Consumer Finanse S.A. for the price of PLN 10 million. The agreement concluded on 16.12.2009 between Kredyt Bank S.A. and KBC Bank N.V. provided that the risk of Kredyt Bank would be limited to 10% of the sale price, i.e. PLN 35 million, if KBC sold the shares of Żagiel to an outside entity for the price lower than PLN 350,000 thousand.
  On 31 July 2012, Kredyt Bank S.A. received a call for the payment of PLN 35 million to KBC Bank NV resulting from the agreement concluded on 16.12.2009. Due to the establishment in December 2011 of a provision for the said obligation, its satisfaction will not affect the income statement of Kredyt Bank S.A. Capital Group in 2012.

- On August 14, 2012 the XI Commercial Insolvency and Arrangement Division of District Court of Poznan - Old Town issued a decision declaring bankruptcy of Reliz Sp. z o.o. (100 owned subsidiary of Kredyt Bank S.A.) by liquidation of its assets. The above mentioned decision became final on August 28, 2012.

- Pursuant to the Resolution no. 837/2012 dated August 24, 2012 of the Management Board of the Warsaw Stock Exchange as well as the Resolutions no 638/12 dated 28 August 2012 and no 641/12 dated 30 August 2012 of the Management Board of National Depository for Securities, 425 bearer shares created as a result of the conversion of 425 registered shares of series F of Kredyt Bank S.A. marked with code PLKRDTB00029 was assimilated on August 31, 2012 with 271,593,016 shares marked with code PLKRDTB00011. The shares included in assimilation received code PLKRDTB00011. The shares mentioned above were introduced by the Warsaw Stock Exchange, in an ordinary manner, to the stock exchange trading on primary market as from August 31, 2012.

- The Management Board of the Warsaw Stock Exchange (WSE) took the Resolution No. 1326/2012 dated 20 December 2012 on the suspension on the WSE Main List of trading in shares of Kredyt Bank S.A. in connection with the merger of Kredyt Bank S.A. with Bank Zachodni WBK S.A. The Resolution of the WSE Management Board provided suspension of Kredyt Bank S.A. shares coded as "PLKRDTB00011" as from January 2, 2013 until the day of their delisting, i.e. January 25, 2013.
- On January 22, 2013 the Management Board of the Warsaw Stock Exchange (WSE) took the resolution on o exclusion from exchange trading on WSE Main List the shares of Kredyt Bank S.A. as from January 25, 2013.

In the year 2012, the Bank did not enter into any material agreements with the central bank or the regulatory authorities.

2. Development of Kredyt Bank S.A. activity in 2012

2.1. Strategic Objectives of Kredyt Bank in 2012

In the autumn of 2010, Kredyt Bank adopted its strategy for 2010 – 2012. Its key objectives included achievement of satisfactory performance and a business risk reduction. It focused on organic growth as the preferred business model. The strategy was pursued in 2011 and 2012.

Overall Strategic Objectives for 2010 – 2012

- Improve customer service quality and promote recognition of the bank's new image;
- Achieve a sustainable, profitable growth in selected segments and products to ensure protection of the brand value;
- Achieve and sustain sizeable market share in selected areas;
- Attain a return for shareholders in the form of a two-digit ROE and a cost to income ratio of approximately 55%; maintain the solvency ratio above 10%.

Target Customer Segments in the Retail Banking Area:

- Mass customers;
- Medium affluent and affluent customers;
- Private banking customers (PB);
- Micro enterprises (SOHO)

Target Customer Segments in the Business Banking Area:

- Small and medium-sized enterprises (SMEs);
- Middle-sized corporations (MidCap);

Execution:

- Development of the three strategic business lines: Retail Banking, Mortgage Factory, Business Banking and an independent, integrated risk and capital management function.
- Banking model focusing on development and strengthening of relationships with customers through selected products and services; Ambition to become a leader in selected products and services.
- An independent and integrated Risk Management function, with business lines remaining fully responsible for the financial result, including for the cost for risk; Mitigation of credit risk through a prudent credit policy, focus on co-operation with solid and reliable customers, and monitoring of the customer's position.
- Organisational changes geared towards centralisation and improvement of product development and management, distribution and customer service.
- Reliance on the implemented cost management model to ensure the best match between costs and the income-generation potential; Reduction of fixed costs and an increased share of variable costs.
- In addition to the renewable long-term financial support from the bank's main shareholder, KBC Group, ensuring a significant increase in the share of customer deposits in total liabilities and equity.
- In the retail segment, focus on increasing the share in retail deposits and in the mutual funds market; Continued growth of the deposit base, acquisition of new business, channelling the acquired funds to the investment products.
- In the business segment, focus on diversification of the credit portfolio – customer base to grow faster than the portfolio value; Limited funding of large property and syndication deals, increasing business with the existing customers.
- Increasing the share of fee income in the total income from the corporate segment (including currency exchange, trade finance and transactional banking); Acquisition of new customers and an increase in income from the SME segment (including an increase in fee income from transactional banking and currency exchange transactions).

2.2. Description of the financial standing of Kredyt Bank S.A. in 2012

2.2.1. Profit and loss account

Net result of Kredyt Bank S.A. in 2012

The net loss of the Bank amounted to PLN -184.0m in 2012 comparing to the net profit of PLN 310.3m in the previous year. The most important factors that influenced the differences between the compared periods were as follows:

- The increase of net impairment losses on financial assets and other assets and provisions, which amounted to PLN -730.2m compared with PLN -193.7m in 2011, including net impairment losses on loans and advances at PLN -418.7m vs. PLN -170.2m in 2011. The said growth was mainly caused by the increase of net impairment losses in both enterprise and retail segments.

- A change of the approach to the financing of the lending activities by increasing the share of deposits from customers in total equity and liabilities, which adversely affected the net interest income;
- The sale of the treasury bonds in the second half of 2012 from the available-for-sale portfolio, which estimated influence on the 2012 was equal to PLN 45.1m;
- The sale of the retail receivables portfolio in the first half of 2011; the total impact of the said sale upon the net result in 2011 amount to PLN 62.7m,
- Lower HR costs, general and administrative expenses and other operating costs.

The main items of Kredyt Bank income statement are presented in the table below:

In PLN m	2012	2011	Change y/y %
Total income	**1.492,0**	**1.610,6**	**-7,4%**
Net interest income	735,7	1.126,2	-34,7%
Net fee and commission income	338,8	314,5	7,7%
Other income	417,5	169,9	145,7%
Total costs	**(957,3)**	**(1.008,3)**	**-5,1%**
Staff expenses and general and administrative expenses	(859,6)	(872,4)	-1,5%
Amortisation	(66,2)	(82,4)	-19,6%
Other operating costs	(31,5)	(53,5)	-41,1%
Net impairment losses on financial assets, other assets and provisions	**(730,2)**	**(193,7)**	**276,9%**
Profit (loss) before tax	**(195,5)**	**408,5**	**-**
Income tax	11,4	(98,2)	-
Net profit (loss)	**(184,0)**	**310,3**	**-**

Total income

Total income of Kredyt Bank S.A. amounted to PLN 1,492.0m in 2012 and was by 7.4% lower vs. the year 2011.

Net interest income

Net interest income amounted to PLN 735.7m and was by 34.7% lower y-o-y. The Bank focused on the acquisition of both retail and business deposits in 2012. The approach resulted from the change of the policy concerning the financing of lending activities. The Bank was striving to become independent from the interbank market direct financing by increasing the share of customers' deposits in the total equity and liabilities and by increasing the scale of SWAP transactions. Partially, it was also associated with expiry of the long-term borrowings obtained in previous years. It entailed the need to apply a competitive pricing policy for deposit products for retail customers and resulted in the increased pressure on margins.

As a result of the increased scale of SWAP transactions, the interest income resulting from CIRS and FX Swap transactions not covered by the hedge accounting was included to the net trading income.

Interest income amounted to PLN 2,260.6m and was by 3.8% lower in comparison with 2011. The most significant drop was observed in the area of interest income from debt securities (-15.3%) and it was connected with the decrease of average value of the portfolio. Interest expense amounted to PLN 1,524.9m in 2012 and was by 24.6% higher compared with the last year, including interest expenses related to deposits from non-financial sector customers, which were higher by 32.8%.

Net fee and commission income

The table below presents the structure of commission income in 2011 and 2012:

In PLN m	2012	2011	Change y/y %
Fee and commission income	**372,2**	**354,5**	**5,0%**
Lending activity	46,6	40,2	15,8%
Account maintenance and transactions	130,7	135,8	-3,8%
Payments cards and ATMs (net)	72,5	69,5	4,3%
Cross-border settlements	18,5	16,1	14,4%
Guarantee commitments	25,5	22,7	12,2%
Distribution and management of investment and insurance products	69,1	59,3	16,4%
Other custody services	2,2	3,5	-37,3%
Others	7,3	7,3	-0,5%
Fees and commissions costs	**(33,4)**	**(40,0)**	**-16,5%**
Brokerage fees	(1,0)	(1,8)	-46,5%
Loan insurance	(12,9)	(20,7)	-37,6%
Credit information	(7,2)	(6,2)	15,0%
Other	(12,3)	(11,2)	10,0%
Net fee and commission income	**338,8**	**314,5**	**7,7%**

In 2012, net fees and commission income amounted to PLN 338.8m and was by 7.7% higher vs. 2011.
The Bank gained higher commissions on the distribution and management of combined investment and insurance products (increase by 16.4%), including, first of all those collected on distribution of investment-insurance products as well as insurance intermediation, which neutralised the drop of income relating to the distribution and management of mutual funds.

Fees and commissions relating to lending activities (an increase of 15.8%) were also higher. It was inter alia the effect of increase in the share of overdrafts in the business loans portfolio.
A slight improvement (an increase of 4.3%) was also noted in the net income from cards processing and ATMs maintenance.

Strengthening of cooperation with the existing customers and the successful acquisition of new business customers led to an increase in the fees and commissions from cross-border settlements and guarantee commitments by 14.4% and 12.2% respectively.

The negative factor was the decrease (-3.8%) in the fees and commissions for current account maintenance and transactions.

Net income from trading and investment activities (including dividend income and net income from hedging instruments and hedged items).

Net income from trading and investment activities (including dividend income and net income from hedging instruments and hedged items) amounted to PLN 363.8m in 2012 and was by 342.7% (by PLN 281.6m) higher vs. 2011.

Net trading income amounted to PLN 303.7m in 2012 and was by 286.1% higher vs. 2011. Such significant improvement resulted from the growth of the scale of the transactions (including SWAP transactions) not covered by hedge accounting.
The improvement of the result was also connected with significantly more favourable valuation of shares from the portfolio of financial assets measured upon initial recognition at fair value through profit and loss, and marketable debt securities.

Net income from investment activities amounted to PLN 60.3m in 2012 vs. PLN 1.1m in 2011. It was mainly caused by the sale of treasury bonds from the available-for-sale portfolio in the second half of 2012. The positive profitability impact of this transaction amounted to PLN 55.7m.

Other operating income

Other operating income amounted to PLN 53.7m in 2012 and was by 38.8% lower compared with 2011.
This line also shows income relating to the sale or liquidation of property, plant and equipment, rental income, revenue from the recovery of bad debts, received compensations and reversal of impairment losses on other debtors.
The decrease in income (vs. 2011) was mainly due to lower reversal of provisions related to incentive programmes (by PLN 13.8m).

Total costs

In PLN m	2012	2011	change y/y %
Staff, general and administrative expenses, including:	(859,6)	(872,5)	-1,5%
- Staff expenses	(438,8)	(432,0)	1,6%
- General and administrative expenses	(420,7)	(440,4)	-4,5%
Depreciation / Amortisation	(66,2)	(82,4)	-19,6%
Other operating costs	(31,5)	(53,5)	-41,1%
Total	**(957,3)**	**(1.008,3)**	**-5,1%**

Total costs of Kredyt Bank S.A. amounted to PLN 957.3m in 2012 (-5.1% vs. 2011). These savings neutralised the slight decrease in income (by -5.1%), so the cost / income ratio remained unchanged at 63.4%. The total costs line includes the integration costs of PLN 19.4m connected with the merger of Kredyt Bank with Bank Zachodni WBK.

Staff expenses amounted to PLN 438.8m in 2012 (an increase of 1.6% vs. 2011). The change was inter alia connected with the increase in salaries due to the salary review that took place at the end of the first half of 2012.

General and administrative expenses of Kredyt Bank S.A. were PLN 420.7m in 2012 (decreasing by 4.5% vs. 2011) The most significant savings were obtained in the area of promotion and marketing (a decrease of 43.2%) and ICT costs (a decrease of 20.1%). The highest increases were observed in the costs of lease of buildings (+6.9%), advisory costs (+17.3%) and property protection costs (by +47.9%). In the latter two cases the increases were related to the process of the merger with Bank Zachodni WBK.

Depreciation / amortisation amounted to PLN 66.2m in 2012 and was by 19.6% lower compared with 2011 as a result of the changes in depreciation rates for certain fixed assets and the liquidation of selected fixed assets.

Other operating expenses amounted to PLN 31.5m in 2012 and were by 41.1% lower compared with 2011, mainly as a result of lower debt recovery expenses relating to Consumer Finance.

Net impairment losses on financial assets, other assets and provisions

Net impairment losses on financial assets, other assets and provisions amounted to PLN -730.2m in 2012 in comparison with PLN -193.7m in 2011 (a 276.9% increase in the charge to the profit and loss account). Excluding the previously mentioned sale of receivables, which took place in the first half of 2011 (PLN +85,0m), the amount presented in this line would amount to PLN -730.2m in 2012 and PLN -278.7m in 2011 (an 162.0% increase in the charge to the profit and loss account).

The Management Board of Bank Zachodni WBK S.A., after the merger with Kredyt Bank S.A., reviewed the judgment related to impairment of individually significant credit exposures with evidence of impairment as of 31.12.2012. Effective from the review, the level of impairment and provisions for off-balance sheet items were calculated based on new scenarios for loan recovery (weighted with the probability of its realisation) and significantly higher discount factors for collaterals. Also new circumstances were taken into account that emerged after the balance sheet date and affected the previous estimations. As a result, the total adjustment to the level of impairment, provisions for off-balance sheet items and accrued interest for individually significant exposures amounted to PLN 319 million of which PLN 28.6 million related to interest.
Moreover, the Management Board of Bank Zachodni WBK S.A. after the merger with Kredyt Bank S.A. has performed an analysis of the impairment allowance for the retail and SME credit exposures calculated on the portfolio basis that were included in the balance sheet of Kredyt Bank S.A. for both non-impaired portfolio and portfolio of receivables with evidence for impairment. As a result of the performed analysis changes have been introduced to the existing approach for calculation of parameters, in particular for length of the period considered for historical data used for LGD determination, and also for selected IBNR portfolios introducing adjustments to the values of PD and LIP.
Resulting from the above changes the impairment allowance for portfolio calculated loans has been increased by the amount of PLN 258 million.

2.2.2. Assets structure

Assets

In PLN m	31.12.2012	31.12.2011	Change %
Cash and balances with Central Bank	963,4	784,6	22,8%
Gross loans and advances to banks	1 179,7	1 188,0	-0,7%
Impairment losses on loans and advances to banks	0,0	0,0	
Receivables from sell-buy-back securities	117,7	0,0	
Financial assets designated upon initial recognition as measured at fair value through profit or loss	38,4	79,9	-52,0%
Financial assets held for trading (excluding derivatives)	325,1	60,5	437,4%
Derivatives, including:	1 155,2	1 071,1	7,9%
- derivatives used as hedging instruments	118,6	95,6	24,1%
Gross loans and advances to customers	29 298,8	30 210,0	-3,0%
Impairment losses on loans and advances to customers	-1 581,7	-1 369,6	15,5%
Investment securities	7 973,8	8 676,0	-8,1%
- available for sale	5 425,2	5 259,3	3,2%
- held to maturity	2 548,6	3 416,7	-25,4%
Investments in associates accounted for using the equity method	64,5	64,6	-0,1%
Property, plant and equipment	225,4	261,6	-13,8%
Intangible assets	95,2	60,5	57,4%
Deferred tax assets	307,0	242,9	26,4%
Income tax receivable	0,0	116,9	-100,0%
Non-current assets held for sale	14,4	17,5	-17,7%
Investment properties	2,8	2,0	37,7%
Other assets	78,9	84,8	-7,0%
Total assets	**40 258,6**	**41 551,4**	**-3,1%**

Total assets of Kredyt Bank S.A. amounted to PLN 40,258.6m as at 31.12.2012 compared to PLN 41,551.4m as at 31.12.2011 and were lower by 3.1%.

Net loans and advances to customers and investment securities are the items with the biggest share in the assets structure; as at the end of 2012, they jointly accounted for 88.7% of the total assets (a decrease of 1.6 p.p. vs. the end of 2011) The major changes in the assets structure as compared to the end of the first half of 2011 were as follows:

- decrease in the share of receivables related to investment securities in total assets from 20.9% to 19.8%. The change resulted from the decline in the wholesale short-term financing invested in liquid assets, an effect of the policy of increasing the share of customer deposits in the structure of financing,
- insignificant increase in the share of net loans and advances to customers in total assets from 69.4% to 68.8% as at the end of 2012.

Due to the large share of FX mortgages in the total portfolio, the appreciation of PLN against CHF and EUR led to a decrease in total assets as compared to the end of 2011. At the end of 2012, the CHF exchange rate was PLN 3.39 and EUR exchange rate was PLN 4.09 (PLN 3.63 and PLN 4.42 at the end 2011). Excluding the fluctuations in the rates of the key foreign currencies of the balance sheet, the total assets would be insignificantly lower comparing to 2011 (a drop by 0.4%).
The ratio of net loans to customers to deposits from customer has improved by 11.7 p.p. and amounted to 90.9% as at the end of 2012.

Credit portfolio

Gross loans and advances to customers (PLN m)	2012	2011	Change%
Retail customers *	**22 077,7**	**23 117,9**	**-4,5%**
- overdraft facilities	927,1	1 004,6	-7,7%
- purchased debt	593,8	810,2	-26,7%
- term loans**	2 685,8	2 843,3	-5,5%
- cash and instalment loans	17 418,6	17 984,9	-3,1%
- other mortgage-backed loans***	392,0	421,8	-7,1%
- home loans	17,5	14,4	21,4%
- realized guarantees	1,2	1,5	-19,7%
- other receivables	41,7	37,3	11,9%
Corporates and SMEs	**7 023,7**	**6 892,0**	**1,9%**
- overdraft facilities	2 350,0	2 020,0	16,3%
- term loans**	4 341,5	4 547,5	-4,5%
- purchased debt	172,3	216,7	-20,5%
- paid guarantees	91,9	36,1	154,5%
- other receivables	20,3	19,6	3,6%
- debt securities classified as loan receivables	47,7	52,1	-8,6%
Budget	**197,4**	**200,2**	**-1,4%**
- overdraft facilities	7,3	4,8	52,8%
- term loans**	97,6	107,0	-8,7%
- purchased receivables	0,0	20,0	-100,0%
- debt securities classified as loan receivables	92,5	68,5	35,1%
Total	**29 298,8**	**30 210,0**	**-3,0%**

* includes amounts due from natural persons, individual entrepreneurs, individual farmers and non-commercial institutions providing services to households
** includes mainly investment and working capital loans
*** includes equity releases and mortgage-backed refinancing loans

As at the end of 2012, gross loans and advances to customers amounted to PLN 29,298.8m and were by 3.0% lower vs. the end of 2011. The observed decline resulted mainly from the appreciation of PLN vs. the main currencies of the balance sheet (CHF, EUR, USD).

Loans to retail customers decreased by 4.5% to PLN 22,077.7m compared with the end of 2011. The decrease was mainly observed in the mortgage portfolio, which mainly comprises loans denominated in CHF and EUR. Excluding fluctuation of rates of the key currencies, the value of the total mortgage portfolio would increase by 1.6% vs. the end of 2011 and the decline of the value of the mortgage portfolio denominated in FX would amount to -0.4%.

The total amount of loans and advances to corporate clients, SMEs and the public sector grew by 1.8% to PLN 7,221.1m in 2012. The most significant change in the structure was the increase in the share of short term financing in the form of overdrafts.

At the end of 2012, the share of loans and advances with indications of impairment in total gross loans and advances to customers amounted to 10.0% vs. 8.6% at the end of 2011. The growth was mainly driven by the investment loans and working capital loans to corporate clients and SMEs.

2.2.3. Structure of liabilities and equity

Liabilities and equity

Total liabilities and equity (PLN m)	2012	2011	Change %
Amounts due to Central Bank	0,0	0,0	-
Amounts due to banks	3 763,7	8 060,2	-53,3%
Liabilities arising from sell-buy-back securities	94,9	0,0	-
Financial liabilities held for trading (excluding derivatives)	115,4	0,0	-
Derivatives, including:	1 227,5	982,9	24,9%
- derivatives used as hedging instruments	62,4	1,7	3636,7%
Deposits from customers	30 480,1	28 094,8	8,5%
Income tax liability	6,7	0,0	-
Provisions	358,8	91,1	293,7%
Other liabilities	244,1	248,1	-1,6%
Subordinated liabilities	971,5	1 036,5	-6,3%
Total equity	2 995,9	3 037,7	-1,4%
Total liabilities and equity	**40 258,6**	**41 551,4**	**-3,1%**

As a result of strong acquisition of customers' funds (deposits from customers increased by 8.5% vs. the end of 2011) and the decrease in the current financing from KBC Group, the share of amounts due to banks in the total amount of liabilities and equity has declined to 9.3% as at the end of 2012 vs. 19.4% as at the end of 2011. Funds sourced from KBC Group entities constituted majority of this figure.

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As of the end of 2012 the value of loans and advances, term deposits and funds in current accounts obtained from KBC Group entities amounted to PLN 5,114.1m ((including subordinated liabilities), which accounted for 12.7% of total liabilities and equity.

Deposit Base

Deposits from KB's customers (PLN m)	2012	2011	Change %
Natural persons*	**18 989,7**	**17 876,4**	**6,2%**
- personal accounts, including savings accounts	10 854,6	11 677,1	-7,0%
- term deposits	8 029,1	6 026,1	33,2%
- other	106,0	173,2	-38,8%
Corporates and SMEs	**9 906,3**	**8 759,6**	**13,1%**
- current accounts	4 364,7	3 953,0	10,4%
- term deposits	4 320,0	3 925,1	10,1%
- loans and advances**	1 215,5	879,4	38,2%
- other	6,2	2,0	206,3%
Public sector	**1 584,1**	**1 458,8**	**8,6%**
- current accounts	984,1	1 055,9	-6,8%
- term deposits	582,0	401,1	45,1%
- other	18,0	1,8	918,1%
Total	**30 480,1**	**28 094,8**	**8,5%**

* deposits from natural persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households
** comprises cash loans from the European Investment Bank, which, according to the segmentation of the National Bank of Poland, is presented in the corporate customers segment.

As at the end of 2012, like the year before, deposits from customers were the main item of liabilities. This line increased during 12 months of 2012 by 8.5% to PLN 30,480.1m. The share deposits from customers in total liabilities and equity amounted to 75.7% at the end of 2012, and increased by 8.1 p.p. vs. the end of 2011.

Deposits from retail customers increased by 6.2% in 2012 to PLN 18,989.7m. A considerable decline in current account and saving account balances was caused, among other things, by the flow of funds to term deposits, which offered the most attractive interest rates.

Deposits from corporate clients, SMS and the public sector increased by a total of 12.4% to PLN 11,490.4m, mainly as a result of successful acquisition of SME deposits.
This line also shows the balance of the loan from the European Investment Bank for the financing of enterprises.

2.3. Kredyt Bank S.A. ratings

As at 31 December 2012, the ratings assigned to Kredyt Bank by Fitch Ratings were as follows:

- Long-Term Issuer Default Rating (IDR): affirmed at BBB, removed from Rating Watch Positive, Outlook Stable;
- Short-Term Issuer Default Rating (IDR): affirmed at F3, removed from Rating Watch Positive;
- Viability Rating: "bb+", remaining on Rating Watch Positive;
- Support Rating: affirmed at “2”, removed from Rating Watch Positive.

On 10 January 2013, Fitch Ratings upgraded the Viability Rating to “bbb” and removed it from Rating Watch Positive.

Also, as a result of finalisation of the merger between Bank Zachodni WBK and Kredyt Bank, all the latter's ratings were removed.

Listed below are all the rating decisions taken by Fitch Ratings for Kredyt Bank in 2012:

- On 3 February 2012, Fitch Ratings decided to cut the Long-Term Issuer Default Rating to "BBB" from "A-", and to maintain it on Rating Watch Evolving. Changes made by Fitch Ratings were as follows:
  - Long-Term Issuer Default Rating (IDR): downgraded to "BBB" from "A-", maintained Rating Watch Evolving;
  - Short-Term Issuer Default Rating (IDR): downgraded to "F3" from "F2", maintained Rating Watch Evolving;
  - Viability Rating: "bb+", no changes;
  - Support Rating: downgraded to "2" from "1", removed Rating Watch Negative, placed on Rating Watch Evolving;

  The rating decision followed the downgrade of KBC Bank rating to "A-" from "A" that took place on 31 January 2012. The downgrade of the Long-Term IDR reflected the reduced likelihood of KBC's ability to support Kredyt Bank. Fitch again looked at the differences between KBC rating and Kredyt Bank rating in the context of KBC's intention to sell its stake in KB and the fact that the investment into Kredyt Bank was no longer strategic. In effect, Fitch widened the gap between the rating of KBC Bank and the rating of Kredyt Bank to two notches.
  At the same time, in Fitch's opinion, the KB rating reflected KBC's strong commitment to support Kredyt Bank as long as KBC remained its majority shareholder.

- On 14 June 2012, Fitch Ratings affirmed the Long-Term IDR of Kredyt Bank at BBB, and removed it from Rating Watch Positive. Changes made by Fitch Ratings and the ratings assigned as at 30 June 2012 were as follows:
  - Long-Term Issuer Default Rating (IDR): affirmed at BBB, removed from Rating Watch Positive, Outlook Stable;
  - Short-Term Issuer Default Rating (IDR): affirmed at "F3, removed from Rating Watch Positive;
  - Viability Rating: "bb+" (no changes), remaining on Rating Watch Positive;
  - Support Rating: affirmed at "2", removed from Rating Watch Positive;

  The affirmed Long-Term IDR and its removal from the Watch List Positive reflected Fitch's opinion that the IDR of the entity formed through the merger of Kredyt Bank and Bank Zachodni WBK was most likely to remain at the same level as the current IDR of Kredyt Bank, which results from the support of the parent entity KBC ("A-"/Stable).
  Maintaining the Viability Rating on Rating Watch Positive reflected the agency's belief in the possible upgrade of the rating as a result of the merger.

2.4. Corporate Governance Rules

Since the implementation of Corporate Governance principles (for the first time, they were incorporated by the authorities of the Warsaw Stock Exchange in 2002), Kredyt Bank S.A. declared its adherence to them and made every effort to apply recommendations and corporate governance principles to the largest possible extent.

On 1 January 2008, Corporate Governance rules enlisted in the document entitled 'The Code of Best Practice for WSE Listed Companies' came into force (Resolution of the Stock Exchange Board No. 12/1170/2007 of 4 July 2007).
In further years, the Best Practice was revised by virtue of Resolution No. 17/1249/2010 of 19 May 2010, effective from 1 July 2010.

On the basis of above rules, reports on their applications in the years 2007 – 2011 were prepared; they constitute a part of annual financial statements.

In 2011, the Warsaw Stock Exchange made amendments by virtue of Resolution No. 15/1282/2011 of 31 August 2011 and Resolution No. 20/1287/2011 of 19 October 2011. The principles came into force on 1 January 2012.

The Bank approved of the corporate governance rules by virtue of the resolutions of the Ordinary General Meeting of Shareholders of Kredyt Bank S.A. No. 25/2008 of 28 May 2008 and No. 26/2011 of 25 May 2011.

According to the rules of the corporate governance, the Bank applies the By-laws of the Supervisory Board and of the Management Board, as well as the By-laws of the General Meeting of the Bank's Shareholders.

The Audit, Risk and Compliance Committee and the Remunerations Committee operated within the Supervisory Board. If need be, the Supervisory Board could appoint other Committees, defining their scope and operating mode. The Audit, Risk and Compliance Committee supervised the coherence, effectiveness and performance of the internal control system, compliance rules and the risk management systems functioning in the Bank. The Remunerations Committee supervised employee issues and salaries, especially the salaries of the Bank's Management Board Members. The By-laws of the General Meeting of Shareholders of the Bank defined detailed rules of the meeting procedure and of adopting resolutions.

On 14 July 2011, Kredyt Bank S.A. was classified for the first time in RESPECT index of responsible companies, as a company meeting the highest responsible management standards among the companies listed on the Warsaw Stock Exchange. The assessment of company's corporate governance practices was one of the elements of a given company's classification in the index. On 31 January 2012, Kredyt Bank was classified again in this group. As a confirmation of its activities of a socially responsible company, the Bank drew up and published the CSR Report for 2009-2011. The Report was a summary and, at the same time, an in-depth diagnosis of the activities carried out by Kredyt Bank in the area of CSR. It presented a condensed picture of the organization management and the results in the area of corporate social responsibility. It took into account social, ethical and ecological aspects of the Bank's operations as well as its approach to contacts with stakeholders, including employees, customers, shareholders, suppliers and local communities.

3. Risk management

The Bank's supervisory bodies, explicitly the Management Board and the Supervisory Board, played the most important role in the risk management process.
The Bank's Supervisory Board, through the Audit, Risk and Compliance Committees, was informed about the most vital decisions and gave opinions about the actions of the Management Board in this respect.
In 2012, the Risk and Capital Committee, directed by the member of the Bank's Management Board responsible for risk and capital management, directly managed, controlled and monitored risk.

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

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

These units monitored and reported all risk-related aspects, at the same time being fully independent of the Bank's business units. In the process of the risk identification, measurement and management, the Bank applied techniques relevant to a given type of risk.

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

3.1. Credit risk

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

The credit risk management process in the Bank entailed the following phases:

- risk identification;
- risk measurement (e.g. maximum approach, risk weighted assets, Exposure At Default – EAD, Expected Loss – EL, Unexpected Loss – UL);
- risk monitoring, particularly as regards the compliance of the risk profile with the determined risk appetite and established limits (e.g. exposures concentrations related to loans used to finance commercial properties, related to residential properties, industrial properties, professional properties and commercial properties);
- reporting;
- analyses and formulation of recommendations;
- a decision-making process.

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

- Supervisory Board;
- Audit, Risk and Compliance Committees;
- Bank's Management Board;
- Risk and Capital Committee;
- Retail Loans Risk Department;

- Corporate and SME Loans Risk Department;
- Business lines managers;
- Audit and Inspection Department.

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

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

The portfolio risk management was the main responsibility of the Corporate and SME Loans Risk Department, Retail Loans Risk Department, as well as of the Risk and Capital Committee. The main tasks of the Risk and Capital Committee were as follows:

- supporting the Management Board in the following areas: developing and reviewing the risk and capital management system, including the structures, processes, empowerments and policies, informing about the risk management system, monitoring the implementation status of the risk management system, establishing tolerance to risk – risk appetite, establishing the structure of internal risk limits consistent with the risk appetite, monitoring the implementation status of measures taken in response to observed risk;
- taking measures in response to observed risk, including cyclical reviews of the structure, processes, empowerments and policies in the area of risk and capital management, internal risk limits and corrective measures (e.g. changes in the risk parameters for the Bank's products) related to the risk and capital management below the materiality threshold;
- monitoring the risk and capital profile (including the use of limits, stress-testing, the use of the regulatory capital and of the economic capital) on the basis of the overall risk report;
- deciding on the issues of the rating and modeling system;
- reporting risk management issues to the Bank's Management Board; also informing the Bank's Management Board about decisions aimed at making the defined risk and yield ratios reach pre-determined levels;
- taking decisions concerning credit risk related to the powers granted by the Management Board.

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

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

Having regard for the existing macroeconomic situation, which is characterized by a high level of uncertainty as regards the future evolution and a relatively low rate of its improvement, the Bank focused on the monitoring of credit risk with the use of cyclical and provisional reports and analyses in order to response fast to disadvantageous trends in the quality of the loans portfolio. The Bank established early warning signs within portfolio limits, the principles for their monitoring and procedure in the case they are exceeded. On the basis of the findings of the analyses, the Bank introduced changes in the credit policy aimed at improving the quality of the loans portfolio. The main areas of changes in terms of credit policy include:

For the portfolio of retail customers:

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

For the portfolio of corporate and SME customers:

- introducing more restrictive principles of financing and monitoring agreements for customers from the building industry, i.e. engaged in the completion of building works under contracts and sub-contracts; and
- introducing more restrictive principles of financing non-impaired corporate and SME customers, but characterized, in the Bank's opinion, by a higher lending risk (relatively worse PD ratings);
- introducing for such customers, depending on the probability of default (PD rating): minimum requirements concerning the coverage of transactions with collateral, a ban on an increase in exposure to customers.

Currency derivatives

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

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

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

As at 31.12.2011, the Bank hedged concluded currency contracts by frozen cash in bank accounts in the total amount of PLN 5 million. The valuation of derivatives also entails credit risk. In 2011, write-downs for active derivatives of PLN 3 million (presented in net trading income) were created, and write-downs for mature derivatives of PLN 10 million (presented in impairment losses) were reversed, in the Bank's income statement.

3.2. Operating risk

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

To calculate the capital requirement for operational risk in pillar I, the Bank applied the Standardized Approach.

As a result, the Bank, inter alia,:

- had specified roles and responsibilities of employees within the operational risk management system;
- kept a record of operational events and losses resulting from the operational risk;
- had the operational risk management system which was regularly reviewed by independent auditors.

Pursuant to the requirements concerning the application of the Standardized Approach, the Bank strengthened the operational risk assessment system. Risk and control self-assessment (CRSA) was carried out systematically in particular business areas, action plans to reduce the risk were implemented and the level of risks was measured with the application of key risk indicators (KRI).
Once a year, for the purpose of operational risk, the Bank identified key operational risks (Risk Scan).

Business units played a significant role in the implementation of operational risk management tools and techniques, as the direct responsibility for the operational risk management was on the managers of particular business lines.
The infrastructure of the management and methodology were coherent within the Bank and its subsidiaries. Operational risk identification and rating tools were identical. The whole process was supervised by the Risk and Capital Committee and the Bank's Management Board.

3.3. Market risks and ALM

Market risk is defined as a degree of the hazard to the Bank's financial standing resulting from adverse changes in market parameters (interest rates, exchange rates and prices of shares) and their market volatility.
The Bank did not trade on the stock market (investments in shares are long-term investments or strategic investments in subsidiaries). Also, the Bank did not trade on commodity markets. In the Bank, among all types of market risks, we dealt with interest rate risk, including basis risk, and currency risk.
The Bank's activity was divided into two parts: Trading Book and Banking Book. Due to different nature of opened positions, the risk was monitored in each book separately.

Trading book

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

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

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

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

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

Limit	31.12.2011	Data for 2011		
		Average	Minimum	Maximum
VaR 3 000.0	1 580.54	1 497.31	298.82	2 894.13

Trading book – interest rate risk

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

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

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

The activities of the Trading Book Unit in the area of interest rate risk were limited by an internal limit on VaR for the interest rate position and stop-loss limits (the maximum acceptable value of the loss). Interest rate risk VaR was calculated using the same parameters as for Global VaR, i.e. the significance level of 99%, 10-day time horizon and 500-day observation horizon.

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

Value at Risk for interest rate positions

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

Value at Risk for interest rate positions

in EUR '000'	Limit	31.12.2011	Data for 2011		
			Average	Minimum	Maximum
Trading	2 600.0	1 590.03	1 487.39	295.19	2 883.27

The interest rate risk analysis was supplemented by stress-testing which is the amount of possible loss due to extremely adverse (critical) changes in interest rates.
The Bank offered interest rate options. The Bank did not maintain an options portfolio for its own account, i.e. it did not pursue speculative activities. Options on the inter-bank market were the

options hedging the position resulting from transactions with customers. Therefore, the market risk in the portfolio of interest rate option transactions did not exist.

Trading book – currency risk

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

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

Value at Risk for the Trading Book – currency risk

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

Value at Risk for the Trading Book – currency risk

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

In the event of the currency risk, the 'value at risk' method was supplemented daily by stress-testing which is the amount of possible loss due to extremely adverse (critical) changes in exchange rates.
The Bank offered currency options. The Bank did not maintain an options portfolio for its own account, i.e. it did not pursue speculative activities. Options on the inter-bank market were the options hedging the position resulting from transactions with customers. Therefore, the market risk in the portfolio of FX option transactions did not exist.

Trading book – capital market risk

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

Trading book – commodity price risk

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

Banking book

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

Banking book – interest rate risk

Bank aktywnie zarządzał ryzykiem stopy procentowej w głównych walutach bilansu, w tym m.in. w PLN, EUR, USD i CHF.
An interest rate gap prepared separately for each currency is the basic measurement and risk-limiting tool in the banking portfolio. The following risk metrics are calculated on that basis:

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

An analysis of the interest rate gap applied in the interest rate risk management of the Banking Book was based on information on particular items of the Bank's balance sheet as well as off-balance items sensitive to changes in interest rates. In the case of financial instruments without defined maturity dates (according to stability analyses for each type of a product), the Bank implemented the model of periodic deposits rollover, which replicates the behavior of particular products. This approach 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.

Stress-testing and VaR calculations were additional interest rate risk monitoring tools in the Banking Book.
The Bank actively mitigated the risk resulting from the mismatch between balance sheet assets and liabilities, closing the positions with derivatives and applying hedge accounting.

The Bank analyzed BPV of the Bank, with the simultaneous upward shift of interest rates by 10 b.p. in breakdown into particular currencies.
The total BPV for the Banking Book is presented below. It was calculated as the aggregate BPV for particular currencies and portfolios. According to the methodology of calculating BPV for limits, the liabilities side of the Free Capital portfolio, as insensitive to changes in interest rates, was not included in calculations.

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

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

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

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

Hedge accounting

Fair value hedging accounting
W 2012 i 2011 roku Bank nie stosował rachunkowości zabezpieczeń do zabezpieczenia wartości godziwej (ang. fair value hedge).

Hedge accounting of cash flows
In 2012, as in 2011, the Bank continued to apply hedge accounting for the part of the mortgage loans portfolio based on 3-month WIBOR rate, which involved the conclusion of IRS's in which the Bank received fixed and paid floating interest rates. Interest rate risk resulting from a change in the 3-month interest rate was the hedged risk in this case.
In 2012, the Bank started to apply hedge accounting prior to changes in cash flows for mortgage loans granted in CHF resulting from changes in market interest rates (CHF LIBOR) and exchange rates (CHF/PLN), and for deposits made in PLN along with their rollover resulting from changes in market interest rates (WIBOR). Cross Currency Interest Rate Swap (CCIRS) was the instrument hedging both relations.

Banking book – currency risk

As mentioned above, the position in currencies was managed in the Trading Book. The positions related to the Bank's customers' transactions arising during the day were transferred, via internal transactions, to the Trading Book.
It should be noted here that the currency risk at Kredyt Bank was perceived not only as the risk occurring for an open position in currencies, but also as the risk of a change in the value of certain products as a result of changes in exchange rates. In particular, this risk occurs in the case of loans extended in foreign currencies. In order to mitigate credit risk, increasing in the case of the growth in the exchange rate of the loan currency (this also refers to loans granted in PLN, with its value indexed to the foreign currency exchange rate), the loans agreements for institutional customers contained clauses on the establishment of additional collateral or permit to translate the loan when the customer did not generate income in the loan currency. Additionally, in order to hedge the exchange rate risk the customer is exposed to, derivatives (forwards, options) were offered to him.
In order to mitigate the currency risk on granting housing purposes mortgages in a foreign currency to individual customers, the Bank, analyzing the creditworthiness:

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

In May 2010, the Bank eliminated from its offer housing purposes mortgages denominated in CHF, focusing on the development of the offer in PLN and EUR. In January 2012, the housing purposes mortgages denominated in EUR were also withdrawn from the offer.

3.4. Liquidity risk

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

The Bank hedged the liquidity risk by:

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

An analysis of the Bank's liquidity was performed mainly on the basis of the assessment of the deposit base stability and the liquidity gap report through, among other things, monitoring the mismatch of the maturity dates of assets and liabilities, which makes it possible to forecast the demand for liquid assets and avoid excessive concentration of cash disbursements on a close date. In addition, the Bank regularly carried out stress-testing for the liquidity and monitored the level of liquidity buffers in stress conditions.

According to the methodology of the Financial Services Authority adopted by the Bank, the stable part of current accounts and savings accounts was recognized in the shortest term range. In the range up to 6 months, the Bank presented highly probable cash flows (the principal amount and interest). In ranges above 6 months, the Bank presented only cash flows related to principal amounts. The adoption of the said methodology resulted in a more restrictive picture of the Bank's liquidity than in the situation when the gap analysis shows all interest flows expected in the future.

The Bank's financial liquidity was also monitored on the basis of a system of ratios reflecting the structure of liabilities and receivables for time ranges from 7 days to 10 years.

- the ratio of the coverage of the 5- and 30-day liquidity gap with liquid assets – Short Term Liquidity Surplus (STLS) – short-term liquidity ratio (to 5 and 30 working days respectively);
- the liquidity buffer in the liquidity stress-test (within a 30-day horizon);
- Liquidity Mismatch Ratio (LMR) – medium-term liquidity ratio (up to 3, 6 months);
- Coverage Ratio (CR) – liquidity ratio which informs about a degree of financing long-term assets with long-term liabilities (1, 2, 3, 5 and 10 years);
- short-term and long-term liquidity ratios according to Basel III (LCR and NSFR).

The Bank's liquidity was also monitored through a set of regulatory liquidity ratios pursuant to the requirements of Resolution No. 386/2008 of the Polish Financial Supervision Authority.
More detailed information on the development of these ratios are include in the note 70.3.1 to the Financial Statements of Kredyt Bank S.A. ended 31.12.2012.

Signatures of Members of The Management Board

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