BRE Bank SA Group

Registered Auditor's Report
on the consolidated financial statements
for the financial year ended 31 December 2006

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the registered auditor's report of the above-mentioned Polish Company. In Poland statutory accounts must be prepared and presented in accordance with Polish legislation and in accordance with the accounting principles and practices generally used in Poland.

The accompanying translated report has not been reclassified or adjusted in any way to conform to accounting principles generally accepted in countries other than in Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancy in interpreting the terminology, the Polish version is binding.

Registered Auditor's Report on the consolidated financial statements To the General Shareholders' Meeting and the Supervisory Board of BRE Bank SA

This report has been prepared in connection with our audit of the consolidated financial statements of BRE Bank SA Group (hereinafter called "the Group") whose parent is BRE Bank SA (hereinafter called "the Bank"), with its registered office in Warsaw, ul. Senatorska 18. The consolidated audited financial statements comprise:

(a) the consolidated balance sheet as at 31 December 2006, showing total assets and total equity and liabilities of PLN 42,330,581 thousand;

(b) the consolidated income statement for the year ended 31 December 2006, showing a net profit on continued operations, including profits of minority shareholders of PLN 446,394 thousand;

(c) the statement of changes in consolidated equity for the year ended 31 December 2006, showing an increase in equity of PLN 513,729 thousand;

(d) the consolidated cash flow statement for the year ended 31 December 2006, showing a net increase in cash and cash equivalents of PLN 917,900 thousand;

(e) additional information on the adopted accounting policies and other explanatory notes.

The consolidated financial statements were signed by the Bank's Management Board on 28 February 2007. This report should be read in conjunction with the Independent Registered Auditor's Opinion to the General Shareholders' Meeting and the Supervisory Board of BRE Bank SA, signed on 28 February 2007, concerning the above-mentioned consolidated financial statements. The opinion is a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual consolidated financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements as a whole.

This report contains 31 consecutively numbered pages and consists of:

On behalf of PricewaterhouseCoopers Sp. z o.o. and the registered auditor conducting the audit:

Adam Celiński
Board Member
Registered Auditor
No. 90033/7039

Registered Audit Company
No. 144

Warsaw, 28 February 2007

I. General information about the Group

(a) BRE Bank SA commenced operations on 2 January 1987. The Memorandum of Association was prepared in the form of a Notarial Deed drawn up at the State Notary Public's Office in Warsaw, on 11 December 1986 and registered with Rep. A I 5919/86. On 11 July 2001, the Bank was entered in the Register of Businesses maintained by the District Court in Warsaw, 19th Business Department of the National Court Register, with the reference number KRS 0000025237.

(b) On 24 June 1993, the Bank was assigned a tax identification number (NIP) 526-021-50-88. For statistical purposes, the Bank was assigned a REGON number 001254524 on 2 June 1998.

(c) The Bank's registered share capital as at 31 December 2006 amounted to PLN 118,064,140 and consisted of 29,516,035 shares, each of PLN 4 par value.

(d) In the audited year, the Group's operations comprised:

- operating bank accounts;
- accepting savings and term deposits;
- making cash settlements;
- granting loans and advances and consumer loans and advances within the meaning assigned by a separate act;
- conducting transactions involving bills of exchange or cheques;
- granting and confirming sureties;
- granting and confirming bank guarantees and opening letters of credit;
- trading in foreign exchange instruments and providing financial services in respect of foreign trade;
- handling government loans;
- issuing securities, trading in securities and maintaining securities accounts;
- performing commissioned tasks related to issuing securities;
- conducting forward transactions;
- purchasing and selling debt;
- managing funds for governmental agencies and other entities;
- acquiring interests in banks and companies and acquiring units and certificates of investment in investment funds in Poland and abroad;
- soliciting customers for pensions funds;
- acting in the capacity of a depositary within the meaning assigned by the Polish Pension Funds Act;
- acting in the capacity of a depositary within the meaning assigned by the Polish Investment Funds Act, accepting instructions to purchase, repurchase and subscribe to units or certificates of investment in investment funds;
- keeping registers of pension fund participants and registers of investment fund participants;
- acquiring shares and rights in shares of other legal persons.

I. General information about the Group (cont.)

(e) During the year, the following people were on the Bank’s Management Board:

• Sławomir	Lachowski	Chairman of the Board
• Jerzy	Jóźkowiak	Board Member
• Bernd	Loewen	Board Member
• Rainer	Ottenstein	Board Member
• Wiesław	Thor	Board Member
• Janusz	Wojtas	Board Member

(f) The Bank issues securities admitted to trading on the Warsaw Stock Exchange and in accordance with the requirements of the Accounting Act it prepares the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The decision to prepare the Bank’s financial statements in accordance with those standards was taken by the General Shareholders’ Meeting by resolution no. 1 passed on 27 January 2005.

I. General information about the Group (cont.)

(f) As at 31 December 2006, the following entities comprised BRE Bank SA Group:

Company name	Nature of equity relationship (% interest)	Consolidation method	Auditor	Type of opinion	Balance sheet date
BRE Bank S.A.	Parent	Not applicable	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2006
BRE Bank Hipoteczny S.A.	Subsidiary (100.00%)	Purchase	PricewaterhouseCoopers Sp. z o.o	unqualified	31 December 2006
BRE Corporate Finance S.A.	Subsidiary (100.00%)	Purchase	Grant Thorton Sp. z o.o.	unqualified	31 December 2006
BRE Wealth Management S.A. (previously Skarbiec Investement Management S.A.)	Subsidiary (100.00%)	Purchase	PricewaterhouseCoopers Sp. z o.o	unqualified	31 December 2006
Centrum Rozliczeń i Informacji CERI Sp. z o.o.	Subsidiary (100.00%)	Purchase	PricewaterhouseCoopers Sp. z o.o	unqualified	31 December 2006
Dom Inwestycyjny BRE Banku S.A.	Subsidiary (100.00%)	Purchase	PricewaterhouseCoopers Sp. z o.o	unqualified	31 December 2006
Garbary Sp. z o.o..	Subsidiary (100.00%)	Purchase	PricewaterhouseCoopers Sp. z o.o	unqualified	31 December 2006
PTE Skarbiec – Emerytura S.A.	Subsidiary (100.00%)	Purchase	PricewaterhouseCoopers Sp. z o.o	unqualified	31 December 2006
Skarbiec Asset Management Holding S.A. Group, including Skarbiec Asset Management Holding S.A., Skarbiec TFI S.A., BRE Agent Transferowy Sp. z o.o.	Subsidiary (100.00%)	Purchase	PricewaterhouseCoopers Sp. z o.o	unqualified	31 December 2006
Tele-Tech Investment Sp. z o.o.	Subsidiary (100.00%)	Purchase	PricewaterhouseCoopers Sp. z o.o	unqualified	31 December 2006
BRE Finance France S.A.	Subsidiary (99.99%)	Purchase	PricewaterhouseCoopers Audit	unqualified	31 December 2006
BRE.locum Sp. z o.o.	Subsidiary (79.99%)	Purchase	PricewaterhouseCoopers Sp. z o.o	unqualified	31 December 2006
Magyar Factor Rt.	Subsidiary (78.12%)	Purchase	PricewaterhouseCoopers Kft.	qualified	31 December 2006
Polfactor S.A.	Subsidiary (78.12%)	Purchase	PricewaterhouseCoopers Sp. z o.o	unqualified	31 December 2006
Transfinance a.s.	Subsidiary (78.12%)	Purchase	Ernst & Young s.r.o.	qualified	31 December 2006
Intermarket Bank AG	Subsidiary (56.24%)	Purchase	Ernst & Young G.m.b.H	unqualified	31 December 2006
BRE Leasing Sp. z o.o.	Subsidiary (50.004%)	Purchase	PricewaterhouseCoopers Sp. z o.o	unqualified	31 December 2006

II. Information about the audit

(a) PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Group by Resolution No. 24 of the General Shareholders' Meeting of BRE Bank SA of 15 March 2006 in accordance with paragraph 11 of the Bank's Articles of Association.

(b) PricewaterhouseCoopers Sp. z o.o. and the registered auditor conducting the audit are independent of the Group entities within the meaning of art. 66, clause 2 of the Accounting Act.

(c) The audit was conducted in accordance with the contract dated 17 July 2006, in the following periods:

- Interim audit from 7 November to 22 December 2006.
- Final audit from 2 January to 28 February 2007.

III. The Group’s results and financial position

The consolidated financial statements do not take account of the effects of inflation. The consumer price index (on a December to December basis) amounted to 1.4% in the audited year (0.7% in 2005).

The observations below are based on knowledge obtained during the audit of the consolidated financial statements.

BRE Bank SA is the Parent of the Group. In the audited year, the Group was composed of the Bank and 43 subordinated entities (including 18 consolidated subsidiaries, one associate disclosed in the consolidated financial statements under the equity method; the remaining being considered immaterial to the consolidated financial statements). In the prior year, the Group was composed of the Bank and 41 subordinated entities (including 20 consolidated subsidiaries, one associate disclosed in the consolidated financial statements under the equity method, the remaining being considered immaterial to the consolidated financial statements).

The factors described below had a significant impact on the Group’s results of operations and on its financial position as at the balance sheet date.

- In 2006, the Group continued its strategy of focusing on retail and corporate banking, inter alia, by purchasing 100% of shares in BRE Bank Hipoteczny S.A. and restructuring the remaining segments of the Group, mainly the “Asset management" sector. On 25 September 2006, as part of these activities, the Bank signed a contract for selling the shares of Skarbiec Asset Management Holding S. A. to Polish Enterprise Fund V L.P. (“PEF V”), for a total of PLN 155,000 thousand. The sale contract was finalized on 8 January 2007. At the same time, despite the failure to effect the sale of shares of PTE Skarbiec - Emerytura S. A., the Bank took further action to sell the pension fund business. In 2006, the Bank also purchased the minority package in Tele-Tech Investment Sp. z o.o.

- At the end of the financial year, the Group’s total assets amounted to PLN 42,330,581 thousand. During the year, total assets increased by PLN 9,591,498 thousand (i.e. by 29%). This increase was financed mainly with the net profit from continued and discontinued operations of PLN 446,394 thousand, an increase in amounts due to customers and banks of PLN 4,320,454 thousand and PLN 3,715.637 thousand, respectively, and an increase in liabilities in respect of debt securities in issue of PLN 658,402 thousand.

- The Group’s Share capital increased by PLN 73,103 thousand compared with the end of the prior year. The increase was due to issuing 532,063 ordinary shares of BRE Bank SA as part of executing two Management Share Option Schemes.

- In 2006, the structure of assets changed, resulting in a considerable increase in net loans and advances granted to customers of PLN 7,668,736 thousand, an increase in cash in hand and at the Central Bank of PLN 1,938,150 thousand, accompanied by a decrease in amounts due from banks of PLN 1,824,350 thousand. At the same time, in connection with changes in the Bank's investment strategy, there was an increase in investment securities of PLN 1,930,684 thousand, accompanied by a decrease in trading securities of PLN 1,495,811 thousand.

III. The Group's results and financial position (cont.)

- The net profit on continued operations for the current financial year amounted to PLN 410,249 thousand, and increased by PLN 127,847 thousand compared with net profit on continued operations for 2005. Compared with the prior year, the net profit on continued and discontinued operations increased by PLN 178,489 thousand to PLN 446,394 thousand. The net profit on continued operations comprised mainly: net interest income of PLN 724,178 thousand, net fee and commission income of PLN 416,410 thousand, net trading income of PLN 399,585 thousand, general administrative expenses of PLN 1,044,377 thousand, a surplus of provisions recognised over released of PLN 45,961 thousand and income tax expense of PLN 124,232 thousand.
- The operating profit was PLN 186,550 thousand higher than in 2005, mainly due to an increase in net trading income of PLN 166,524 thousand, and as a result of higher net interest income and fee and commission income of PLN 73,314 thousand and PLN 78,211 thousand respectively. The increase was partly offset by an increase in general administrative expenses and amortization and depreciation, which increased in total by PLN 138,221 thousand and a decrease in dividend income of PLN 30,168 thousand.
- At the same time, in the audited financial year, the corporate income tax expense was PLN 59,907 thousand higher (in total, in respect of continued and discontinued operations). The increase in income tax expense on continued operations was mainly due to an increase in deferred income tax of PLN 66.048 thousand, which was partly offset by a decrease in the corporate income tax expense of PLN 6.988 thousand to PLN 80,055 thousand.
- Return on capital employed calculated as net profit from continued operations including profit of minority shareholders for the year to average net assets including the net result for the period amounted to 17.34% and was 2.95 percentage points higher than in 2005. In 2006, gross profitability also increased and amounted to 18.11%, compared with 14.06% in 2005.

IV. Discussion of financial statement components

CONSOLIDATED BALANCE SHEET as at 31 December 2006

	Note	31.12.2006 PLN'000	31.12.2005 PLN'000	Change PLN'000	Change (%)	31.12.2006 Structure (%)	31.12.2005 Structure (%)
ASSETS							
Cash and balances with the Central Bank	1	3,716,607	1,778,457	1,938,150	109	9	6
Bills eligible for rediscounting at the Central Bank		26,725	37,464	(10,793)	(29)	-	-
Amounts due from banks	2	2,844,124	4,668,474	(1,824,350)	(39)	7	14
Trading securities	3	3,516,149	5,011,960	(1,495,811)	(30)	9	15
Derivative financial instruments	4	1,413,065	1,264,500	148,565	12	3	4
Loans and advances to customers	5	23,044,694	15,375,958	7,668,736	50	55	47
Investment securities	6	3,055,516	1,124,832	1,930,684	172	7	3
Non-current assets held for sale	7	385,194	317,349	67,845	21	1	1
Pledged assets	8	2,702,180	1,516,212	1,185,968	78	6	5
Investments in associates	9	5,356	6,477	(1,121)	(17)	-	-
Intangible assets	10	381,111	406,380	(25,269)	(6)	1	1
Property, plant and equipment	11	580,108	558,535	21,573	4	1	2
Deferred tax assets	31	65,112	117,048	(51,936)	(44)	-	-
Other assets	12	594,640	555,437	39,203	7	1	2
TOTAL ASSETS		**42,330,581**	**32,739,083**	**9,591,498**	**29**	**100**	**100**

IV. Discussion of financial statement components (cont.)

CONSOLIDATED BALANCE SHEET as at 31 December 2006 (cont.)

	Note	31.12.2006 PLN'000	31.12.2005 PLN'000	Change PLN'000	Change (%)	31.12.2006 Structure (%)	31.12.2005 Structure (%)
LIABILITIES		**39,708,382**	**30,630,613**	**9,077,769**	**30**	**94**	**94**
Amounts due to other banks	13	7,972,386	4,256,749	3,715,637	87	19	13
Derivative financial instruments and other trading liabilities	14	1,253,900	1,271,206	(17,306)	(1)	3	4
Amounts due to customers	15	24,669,856	20,349,402	4,320,454	21	58	62
Debt securities in issue	16	3,389,559	2,731,157	658,402	24	8	9
Subordinated liabilities	17	1,547,354	1,362,528	184,826	14	4	4
Other liabilities	18	759,799	562,907	196,892	35	2	2
Current income tax liabilities		20,047	3,529	16,518	468	-	-
Deferred tax provision	31	312	161	151	94	-	-
Provisions	19	70,168	86,135	(15,967)	(19)	-	-
Liabilities held for sale	7	25,001	6,839	18,162	266	-	-
EQUITY	**20**	**2,622,199**	**2,108,470**	**513,729**	**24**	**6**	**6**
Share capital		1,496,946	1,423,843	73,103	5	4	4
Revaluation reserve		5,110	(2,975)	8,085	(272)	-	-
Retained earnings		1,028,710	614,371	414,339	67	2	2
Minority interests		91,433	73,231	18,202	25	-	-
TOTAL EQUITY AND LIABILITIES		**42,330,581**	**32,739,083**	**9,591,498**	**29**	**100**	**100**

IV. Discussion of financial statement components (cont.)

CONSOLIDATED INCOME STATEMENT for the financial year ended 31 December 2006

	Note	2006 PLN'000	2005 PLN'000	Change PLN'000	Change (%)	2006 Structure (%)	2005 Structure (%)
Net interest income	**21**	**724,178**	**650,864**	**73,314**	**11**	**40**	**46**
Net fee and commission income	**22**	**416,410**	**338,199**	**78,211**	**23**	**23**	**23**
Dividend income	**23**	**16,865**	**47,033**	**(30,168)**	**(64)**	**1**	**3**
Net trading income	**24**	**399,585**	**233,061**	**166,524**	**71**	**22**	**16**
Net profit / (losses) on investment securities	25	22,522	42,053	(19,531)	(46)	1	3
Other operating income	26	229,039	134,997	94,042	70	13	9
Net impairment losses on loans and advances	27	(45,961)	(78,841)	32,880	(42)	(4)	(7)
General administrative expenses	28	(879,492)	(768,450)	(111,042)	14	(69)	(70)
Depreciation and amortization	29	(164,885)	(137,706)	(27,179)	20	(13)	(13)
Other operating expenses	30	(183,668)	(113,167)	(70,501)	62	(14)	(10)
Operating profit/(loss)		**534,593**	**348,043**	**186,550**	**54**	**-**	**-**
Share in profits/(losses) of associates		**(112)**	**(469)**	**357**	**(76)**	**-**	**-**
Profit from continued operations before tax		**534,481**	**347,574**	**186,907**	**54**	**-**	**-**
Corporate income tax	31	(124,232)	(65,172)	(59,060)	91	-	-
Net profit from continued operations, including profit of minority shareholders		**410,249**	**282,402**	**127,847**	**45**	**-**	**-**
Profit/(Loss) on discontinued operations before tax	**32**	**41,879**	**(9,610)**	**51,489**	**(536)**		
Corporate income tax	32	(5,734)	(4,887)	(847)	17	**-**	**--**
Net profit/(loss) on discontinued operations		**36,145**	**(14,497)**	**50,642**	**(349)**	**-**	**-**
Net profit (loss) from continued and discontinued operations, including profit (loss) of minority shareholders		**446,394**	**267,905**	**178,489**	**67**	**-**	**-**
Gain (loss) of minority interests		25,136	20,362	4,774	23	-	-
Net profit/(loss)		421,258	247,543	173,715	70	-	-
Total revenue from continued operations		1,808,599	1,446,207	362,392	25	100	100
Total costs of continued operations		1,274,118	1,098,633	175,485	16	(100)	(100)
Profit from continued operations before tax		**534,481**	**347,574**	**186,907**	**54**	**-**	**-**

IV. Discussion of financial statement components (cont.)

Selected ratios characterizing the Group’s financial position and results (*)

	31.12.2006	31.12.2005
Profitability ratios		
Return on equity (net profit for the period / average net assets) (1)	17.34%	14.39%
Return on equity (net profit for the period / average net assets without net result for the period)	19.04%	15.35%
Return on assets (profit before tax/average assets) (1)	1.42%	1.10%
Gross margin (profit before tax/total income)	18.11%	14.05%
Interest income on working assets (interest income / average working assets) (1)	4.97%	5.44%
Gearing ratios		
Cost of borrowings (interest expense for the year / average interest-paying liabilities) (1)	2.94%	3.18%
Equity to equity & liabilities (average equity / total average equity and liabilities) (1)	6.30%	6.35%
Asset ratios		
Loans to assets (average amounts due from banks and customers/ average assets) (1)	63.58%	68.31%
Default loans to gross loans to banks and customers	3.78%	5.71%
Working assets to total assets	91.91%	90.15%
Liquidity ratios		
Liquidity I (assets maturing within 1 month / liabilities maturing within 1 month)	0.55	0.63
Liquidity II (assets maturing within 3 months / liabilities maturing within 3 months)	0.63	0.74
Capital market ratios		
(Loss) / Earnings per share (in accordance with IAS 33)	PLN 13.12	PLN 9.10
Book value per share	PLN 85.74	PLN 70.22
Other ratios		
Equity in accordance with Resolution KNB 5/2004	PLN 2,975,333 thousand	PLN 2,283,009 thousand
Total regulatory capital requirement including the capital requirement to cover excess exposures (total regulatory capital requirement in accordance with Resoultion KNB 4/2004)	PLN 2,290,618 thousand	PLN 1,645,897 thousand
Capital adequacy ratio in accordance with Resolution KNB 4/2004	10.39%	11.10%

(*) The ratios were calculated based on data from continued operations including minority interest

(1) The average balance sheet item balances were calculated by reference to the balances as at the beginning and end of the current and prior year.
(2) Individual ratios may differ from the ratios presented in the financial statements due to a different calculation method being used.

IV. Discussion of financial statement components (cont.)

Consolidated balance sheet as at 31 December 2006

1. Cash and balances with the Central Bank

As at 31 December 2006 the Group's "Cash and balances with the Central Bank" amounted to PLN 3,716,607 thousand and were PLN 1,938,150 thousand higher than in the prior year.

The Bank had the largest share in the balance which amounted to PLN 3,710,737 thousand and was 109% higher than the balance of PLN 1,776,340 thousand at the end of the prior year. The increase at the Bank was mainly due to making a placement in NBP of PLN 2,400,530 thousand, which was higher than the placement of PLN 1,337,226 thousand as at 31 December 2005, and an increase in cash on the current account in the NBP of PLN 895,237 thousand – up to PLN 1,207,574 thousand as at the end of 2006.

2. Amounts due from banks

As at 31 December 2006, "Amounts due from banks" amounted to PLN 2,844,124 thousand, of which 89% represented amounts due from foreign banks.

Compared with the balance at the end of 2005, there was a decrease of PLN 1,824,350 thousand (39%), mainly due to a decrease in interbank placements of PLN 1,303,191 thousand, a decrease in loans and advances of PLN 466,105 thousand and a decrease in cash on current accounts of PLN 173,372 thousand, accompanied by an increase in sell and buy-back transactions of PLN 90,909 thousand.

The Bank showed the largest balance of amounts due from banks as at 31 December 2006, which amounted to PLN 2,778,182 thousand. Other companies showing significant balances on the balance sheet date were: Intermarket Bank AG (PLN 24,834 thousand) and Dom Inwestycyjny BRE Banku S.A. (PLN 22,826 thousand).

3. Trading securities

As at 31 December 2006, "Trading securities" amounted to PLN 3,516,149 thousand. Compared with the balance at the end of the prior year, they decreased by PLN 1,495,811 thousand (i.e. 30%) which resulted in a decreased share of this item in the balance sheet structure from 15% at the end of 2005 to 9% at the end of the audited year.

The Bank had the largest share in the balance, showing trading securities as at the balance sheet date of PLN 3,430,686 thousand (net of intercompany transactions), which represented 98% of the total balance of the Group. The Bank's balance of trading securities dropped by PLN 1,572,661 thousand in the audited year. The decrease related to all the categories of trading securities and resulted mainly from a decrease in the portfolio of government bonds of PLN 607,823 thousand, to PLN 825,012 thousand and a decrease in NBP bills of PLN 347,943 thousand, to PLN 1,976,942 thousand as at 31 December 2006. Also there was a decisive drop in the portfolio of the Bank's Treasury bills, and their carrying value dropped from PLN 341,963 thousand to PLN 21,749 thousand as at the balance sheet date.

IV. Discussion of financial statement components (cont.)

4. Derivative financial instruments

The total fair value of derivative financial instruments which were positive amounted to PLN 1,413,065 thousand as at the balance sheet date and were PLN 148,565 thousand (12%) higher than at the end of the prior year.

The increase resulted mainly from the PLN 229,142 thousand increase in the valuation of market risk-related instruments – up to PLN 233,874 thousand, which resulted mainly from the valuation of commodity swaps introduced in 2006 in the Bank's offer and options for listed shares embedded in deposit products. The increase was partly offset by a decrease in the valuation of foreign exchange derivative financial instruments of PLN 98,621 thousand, to the level of PLN 630,753 thousand at 31 December 2006. At the end of 2006, 99% of the balance constituted the derivative financial instruments of the Bank.

5. Loans and advances to customers

As at 31 December 2006, "Loans and advances to customers" amounted to PLN 23,044,694 thousand, representing an increase of PLN 7,668,736 thousand, i.e. 50% compared with the prior financial year.

The increase was mainly due to the increase in loans and advances to individuals and corporate customers of PLN 4,475,605 thousand and PLN 3,542,037 thousand, respectively. The change was partly offset by a decrease in loans and advances to a public sector customers of PLN 692,739 thousand, to PLN 529,710 thousand at the end of 2006.

The results of the Bank and BRE Bank Hipoteczny S.A. had the most significant effect on the above-mentioned increase. Loans and advances to individuals increased at the Bank by PLN 4,357,977 thousand, to PLN 8,684,895 thousand as at 31 December 2006, mainly due to the increase in the number of mortgage loans granted by mBank and Multibank. Additionally, the balance of loans and advances to corporate customers increased by PLN 1,247,157 thousand, which was mainly due to the increase in current amounts due and loans granted both directly by the Bank and syndicated loans.

Covering BRE Bank Hipoteczny S.A. by consolidation in 2006 resulted in an increase in the balance of loans and advances to corporate customers of PLN 1,760,156 thousand, mainly in respect of loans granted directly by the bank.

IV. Discussion of financial statement components (cont.)

6. Investment securities

As at 31 December 2006, the balance of "Investment securities" amounted to PLN 3,055,516 thousand, representing an increase of PLN 1,930,684 thousand (172%) compared with the balance of PLN 1,124,832 thousand at the end of 2005. Both at the end of the audited year and at the end of the prior year, the balance comprised solely financial assets classified as available-for-sale. All the financial assets held to maturity of the Group (PLN 68,456 thousand as at 31 December 2006 and PLN 35,250 thousand as at 31 December 2005) were in the portfolio of PTE Skarbiec - Emerytura S.A. and due to the plan to sell the shares of this company, were shown as "Non-current assets held for sale".

The increase in available-for-sale securities resulted mainly from changes at the Bank, where in connection with changes in the investment strategy, assets were reallocated from held for trading to investment securities. The increase in investment securities was mainly due to an increase in debt securities issued by the State Budget of PLN 1,980,943 thousand, which was partly offset by a decrease in the portfolio of debt securities issued by banks.

7. Non-current assets and liabilities held for sale

As at the end of the audited year, the balance comprised assets and liabilities of the Group related to the investment in PTE Skarbiec – Emerytura S.A. and Skarbiec Asset Management Holding S.A. (consolidated balance sheets of the two companies and goodwill arising on their acquisition).

PTE Skarbiec – Emerytura S.A. was classified as a non-current asset held for sale in 2005 after the Bank and PZU S.A. signed a "Merger Agreement between PTE PZU S.A. and PTE Skarbiec – Emerytura S.A. with a commitment to sell shares from the merger issue" in November 2005. In spite of the fact that the sale has not been effected because the Polish Financial Supervision Authority has not granted its permission, the Bank took further steps in 2006 to sell the pension fund business and again recorded the investment assets and liabilities as held-for-sale.

Skarbiec Asset Management Holding S.A. (SAMH) met the criteria of a non-current asset held-for-sale when, on 25 September 2006, the Bank signed an agreement to sell the company to Polish Enterprise Fund V, L.P. The sale contract was finalized in January 2007. Signing a contract did not result in a transfer of substantially all risks and rewards connected with the investment in SAMH, therefore the control over SAMH at the balance sheet date was carried out by the Bank. The control over SAMH was transferred on 8 January 2007 when the Bank sold 72,582 shares of SAMH to Polish Enterprise Fund V L.P, pursuant to an agreement dated 25 September 2006. The sales price was PLN 155,000 thousand.

The details of the components of the Group's non-current assets and liabilities held-for-sale are presented in Note 28 to the consolidated financial statements of the Group.

IV. Discussion of financial statement components (cont.)

8. Pledged assets

As at the balance sheet date, the balance of "Pledged assets" amounted to PLN 2,702,180 thousand, which compared with the balance as at 31 December 2005 represented an increase of PLN 1,185,968 thousand (i.e. 78%). The pledged assets comprised almost solely the pledged assets of the Bank (the percentage share of the Bank's assets in the total balance of the Group as at 31 December 2006 was nearly 100%).

The increase in the balance of pledged assets at the end of 2006 was mainly due to an increase of PLN 1,151,039 thousand (i.e. 77%) in securities provided as collateral in repo and sell-buy back transactions concluded by the Bank.

9. Investments in associates

As at 31 December 2006, "Investments in associates" amounted to PLN 5,356 thousand and dropped by PLN 1,121 thousand compared with the balance at 31 December 2005.

The decrease resulted mainly from the decrease in investments in associates in the Bank's portfolio of PLN 4,949 thousand, which resulted mainly from reclassifying the shares of Novitus S.A. to investment securities in connection with selling the package of this Company's shares.

The decrease was partly offset by an increase of PLN 3,701 thousand resulting from buying additional shares by Intermarket Bank AG in entities classified by the Group as associates.

10. Intangible assets

As at the balance sheet date, "Intangible assets" of the Group amounted to PLN 381,111 thousand, representing a decrease of PLN 25,269 thousand (6%) compared with the end of the prior year. The balance comprised mainly intangible assets of the Bank of PLN 356,136 thousand and of BRE Bank Hipoteczny S.A. and BRE Leasing Sp. z o.o., of PLN 9,717 thousand and PLN 5,296 thousand, respectively.

The decrease of the balance was mainly due to reclassifying the goodwill acquired in a business combination in the amount of PLN 24,475 thousand in connection with the reclassification of Skarbiec Asset Management Holding S. A. to "Non-current assets held-for-sale".

IV. Discussion of financial statement components (cont.)

11. Property, plant and equipment

As at 31 December 2006, "Property, plant and equipment" amounted to PLN 580,108 thousand, representing an increase of PLN 21,573 thousand (4%) compared with 31 December 2005.

The largest increase was noted by BRE Leasing Sp. z o.o., where the carrying value of property, plant and equipment increased by PLN 26,064 thousand compared with the prior year as a result of purchase of means of transport. Additionally, the increase was due to taking up in 2006 the balance of BRE Bank Hipoteczny S.A. (the carrying value of PPE at the end of the audited year was PLN 5,957 thousand) and the increase of the carrying value of property, plant and equipment in Centrum Rozliczeń i Informacji CERI Sp. z o.o. (increase in 2006 of PLN 5,625 thousand), mainly due to capitalizing fixed assets under construction.

At the same time, the decrease in the balance of PPE was due to the movements at the Bank (a decrease of PLN 13,145 thousand). Moreover, the balance was reduced by PLN 3,898 thousand in connection with reclassification of Skarbiec Asset Management Holding S.A. to "Non-current assets held-for-sale".

As in previous years, the Bank (81% of the balance) and BRE Leasing Sp. z o.o. (13% of the balance) had the largest share in the total balance of PPE.

12. Other assets

The balance of "Other assets" went up by PLN 39,203 thousand (i.e. 7%) in the audited year, to PLN 594,640 thousand.

The major items of "Other assets" of the Group were as follows: "Debtors" (PLN 203,135 thousand, i.e. 34% of the balance) and "Inventory" (PLN 196,800 thousand, i.e. 33% of the balance).

The increase comprised mainly the increase in inventories of PLN 53,120 thousand, resulting mainly from the increase in inventories of BRE Leasing Sp. z o.o. of PLN 29,438 thousand (lease assets purchased by the Company, which will be transferred to the lessors in 2007) and BRE.locum Sp. z o.o. of PLN 23,872 thousand (real estate for sale) and the increase in other components of "Other assets" totalling PLN 14,163 thousand.

The increase was partly offset by a decrease in income tax receivables of PLN 21,654 thousand and amounts due from debtors of PLN 17,745 thousand.

IV. Discussion of financial statement components (cont.)

13. Amounts due to other banks

"Amounts due to other banks" increased by PLN 3,715,637 thousand compared with the balance as at 31 December 2005 to PLN 7,972,386 thousand as at 31 December 2006.

As at the balance sheet date, the major components of the balance were: loans and advances received of PLN 6,275,827 thousand, term deposits of PLN 1,108,579 thousand and cash on current accounts of PLN 429,113 thousand.

The increase in the balance resulted mainly from the increase in this balance at the Bank of PLN 2,918,491 thousand. The change resulted mainly from the increase in loans and advances received of PLN 2,802,881 thousand. The remaining increases comprised mainly the increase in loans and advances received of PLN 451,963 thousand at BRE Leasing Sp. z o.o. and consolidated amounts due to other banks of BRE Bank Hipoteczny S.A., which amounted to PLN 193,745 thousand as at 31 December 2006.

14. Derivative financial instruments and other trading liabilities

"Derivative financial instruments and other trading liabilities" amounted to PLN 1,253,900 thousand as at the balance sheet date and were PLN 17,306 thousand lower (i.e. 1%).

The decrease resulted mainly from the drop in the valuation of foreign exchange derivatives of PLN 343,675 thousand that was partially offset by increase in stock exchange traded market risk transactions by PLN 238,402 thousand and increase in interest rate derivatives by PLN 88,759 thousand. The decrease of the balance was mainly due to the decrease at the Bank.

15. Amounts due to customers

The balance of "Amounts due to customers" amounted to PLN 24,669,856 thousand as at the balance sheet date, which represented an increase of PLN 4,320,454 thousand, i.e. 21%, compared with 31 December 2005.

The increase resulted mainly from an increase in amounts due to corporate customers of PLN 2,477,987 thousand (20%) and to individual customers of PLN 1,848,428 thousand (24%). The largest increase took place in cash on current accounts of individuals and corporate customers, amounting to PLN 1,883,327 thousand and PLN 1,254,440 thousand respectively, and in amounts due in respect of repo and sell-buy back transactions concluded with corporate customers, which went up by PLN 1,042,004 thousand.

The increase in amounts due to customers was mainly due to the increase in amounts due to customers of the Bank. As at the balance sheet date, the balance at the Bank was PLN 23,867,226 thousand (97% of the total balance),

IV. Discussion of financial statement components (cont.)

15. Amounts due to customers (cont.)

which represented an increase of PLN 3,907,481 thousand compared with PLN 19,959,745 thousand as at 31 December 2005. Moreover, the change in the audited year can be attributed to including in the consolidation the amounts due to customers of BRE Bank Hipoteczny S.A. of PLN 279,260 thousand and an increase in amounts due to customers in Dom Inwestycyjny BRE Banku S.A. (PLN 92,296 thousand), Transfinance a.s. (PLN 55,974 thousand) and Intermarket Bank AG (PLN 24,372 thousand), offset by decreases in Magyar Factor Rt. (PLN 22,908 thousand), and Polfactor S.A. (PLN 22,583 thousand).

16. Debt securities in issue

As at 31 December 2006, the balance amounted to PLN 3,389,559 thousand and increased during the audited year by PLN 658,402 thousand (24%).

The balance comprised bonds issued by BRE Finance France S.A. of PLN 1,655,646 thousand, bonds issued by BRE Bank Hipoteczny S.A. of PLN 1,417,858 thousand and bonds and commercial bills of PLN 279,840 thousand issued by BRE Leasing Sp. z o.o.

The changes in the balance as at the end of 2006 were mainly due to including the balance of BRE Bank Hipoteczny SA. The increase was partly offset by BRE Finance France S.A. redeeming, in 2006, bonds for a total of PLN 740,030 thousand (after eliminating mutual transactions).

17. Subordinated liabilities

As at 31 December 2006, subordinated liabilities of the Group amounted to PLN 1,547,354 thousand, representing a 14% increase compared with PLN 1,362,528 thousand as at 31 December 2005. The whole balance pertained to the Bank.

The increase in 2006 resulted mainly from issuing subordinated bonds of CHF 80,000 thousand, which after translation as at 31 December 2006 using the mid NBP rate gave PLN 190,736 thousand. The remaining portion of the balance comprised bonds with a total nominal value of EUR 350,000 thousand issued in the previous years.

18. Other liabilities

As at 31 December 2006, "Other liabilities" amounted to PLN 759,799 thousand, compared with PLN 562,907 thousand as at 31 December 2005, representing an increase of PLN 196,892 thousand (35%) during the audited year.

The increase compared with 31 December 2005 was mainly due to the increase in liabilities to creditors of PLN 52,075 thousand, interbank settlements of PLN 46,014 thousand and deferred income of PLN 32,151 thousand.

IV. Discussion of financial statement components (cont.)

19. Provisions

As at the balance sheet date, "Provisions" amounted to PLN 70,168 thousand, representing a decrease of PLN 15,967 thousand (19%) compared with the prior year. The balance of provisions as at 31 December 2006 comprised impairment provisions for off-balance sheet liabilities of PLN 53,370 thousand, provisions for disputes of PLN 7,460 thousand and other provisions for liabilities of PLN 9,338 thousand.

The decrease in the balance of provisions resulted mainly from releasing impairment write-downs recorded by the Bank for off-balance sheet liabilities of PLN 10,550 thousand, due to the improved quality of the Bank's loan portfolio.

IV. Discussion of financial statement components (cont.)

20. Equity

	31.12.2005	Revenue (costs) recognized in equity	Capital increase on exercise of Management Share Options	Net profit for the year	Other changes	31.12.2006
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Share capital	1,423,843	-	73,263	-	(160)	1,496,946
Revaluation reserve	(2,975)	8,085	-	-	-	5,110
Retained earnings	614,371	2,212	(7,904)	421,258	(1,227)	1,028,710
Minority interests	73,231	551	-	25,136	(7,485)	91,433
Total	**2,108,470**	**10,848**	**65,359**	**446,394**	**(8,872)**	**2,622,199**

As at the balance sheet date, "Equity" amounted to PLN 2,662,199 thousand (PLN 2,108,470 thousand as at 31 December 2005).

In the audited year, the Group's share capital was increased by PLN 73,103 thousand. The increase resulted from the growth of registered share capital by PLN 2,128 thousand due to the issue of 532,063 shares of BRE Bank SA with a nominal value of PLN 4 each. Simultaneously share capital was increased by PLN 63,231 thousand due to the share premium and by the transfer from "Retained earnings" of PLN 7,904 thousand, which represented the value of options exercised in the audited year. All changes resulted from the exercise of share options under two Management Share Option Schemes.

As part of the First Management Share Option Scheme, implemented under Resolution No. 7 of the General Shareholders' Meeting of BRE Bank SA adopted on 24 May 2000, as amended by Resolution No. 27 of the General Shareholders' Meeting of BRE Bank SA adopted on 21 May 2003, the Bank issued 358,123 shares at the issue price of PLN 135.80 per share. The First Management Share Option Scheme expired in July 2006. As part of the Second Management Share Option Scheme, implemented under Resolution No. 29 of the General Shareholders' Meeting of BRE Bank SA adopted on 21 May 2003, the Bank issued 173,940 shares at the issue price of PLN 96.16.

IV. Discussion of financial statement components (cont.)

20. Equity (cont.)

As at 31 December 2006, the Bank's shareholders were:

Shareholder	Number of shares held	Par value of shares held (in PLN)	Type of shares held (ordinary / preference)	% of voting rights
Commerzbank Auslandsbanken Holding AG	20,719,692	82,878,768	ordinary	70.20%
Other shareholders	8,796,343	35,185,372	ordinary	29.80%
	29,516,035			**100.00%**

In 2006, Commerzbank Auslandsbanken Holding AG, a subsidiary of Commerzbank AG remained the main shareholder of BRE Bank SA.

Due to the issue of shares in 2006, in connection with the implementation of the Management Share Option Schemes, the interest of the major shareholder of the Bank fell from 71.49% as at the end of the prior year to 70.20%. Thus, the interest held by the remaining shareholders grew from 28.51% to 29.80%.

In the audited year, "Revaluation reserve" increased by PLN 8,085 thousand. The increase resulted from the valuation of the portfolio of available-for-sale financial assets of PLN 7,162 thousand net and recording foreign exchange gains of PLN 602 thousand. Additionally, the increase in the above equity item of the Group resulted from the net movement in the valuation of cash flow hedges in accordance with hedge accounting principles (an increase of PLN 321 thousand).

The increase in "Retained earnings" of PLN 414,339 thousand can be attributed mainly to net profit generated by the Group of PLN 421,258 thousand, which was partly offset by the settlement of the employee share option scheme of PLN 7,904 thousand.

Minority interests increased by PLN 18,202 thousand to PLN 91,433 thousand compared with the prior financial year. The increase was related to recognizing profits of subsidiaries attributable to minority shareholders, plus foreign exchange gains, partly offset by a decrease in the share of minority shareholders in net assets of BRE.locum Sp. z o.o. and Tele-Tech Investment Sp. z o.o.

IV. Discussion of financial statement components (cont.)

20. Equity (cont.)

Minority interests comprised interests in the share capital of the following companies:

	31.12.2006 PLN'000	31.12.2005 PLN'000
BRE Leasing Sp. z o.o.	30,271	23.059
Intermarket Bank AG	33,781	27.227
Polfactor S.A.	6,628	5.241
BRE.locum Sp. z o.o.	7,082	5.560
Magyar Factor Rt.	5,083	4.340
Transfinance a.s.	8,588	7.049
TV-Tech Investment 1 Sp. z o.o.	-	755
TOTAL	**91.433**	**73,231**

IV. Discussion of financial statement components (cont.)

Reconciliation of the net profits/losses of the companies covered by consolidation with the net profit of the Group

		31.12.2006 PLN'000
(a)	Net profit of BRE Bank S.A.	324,194
	Net result of entities covered by consolidation as part of continued operations	128,632
	Total net profit per the financial statements (consolidated packages)	**452,826**
(b)	Impairment write-down of goodwill	-
(c)	Share in losses of associates	(112)
(d)	Difference between the profit on sale of shares in subsidiaries realized by the Parent and the Group	(18,407)
(e)	Dividends	(23,594)
(f)	Other consolidation adjustments	(464)
	Net profit of the Group on continued operations	**410,249**

		31.12.2006 PLN'000
(a)	**Net profit of entities covered by consolidation (as part of discontinued operations)**	**32,819**
(b)	Impairment write-down of goodwill	(15,513)
(c)	Share in losses of associates	-
(d)	Difference between the profit on sale of shares in subsidiaries realized by the Parent and the Group	9,009
(e)	Dividends	-
(f)	Other consolidation adjustments	9,830
	Net profit of the Group on discontinued operations	**36,145**

(a)	Net profit of the Group on continued operations	**410,249**
(b)	Net profit of the Group on discontinued operations	**36,145**
(c)	**Total net profit of the Group**	**446,394**

Reconciliation of the net assets of the consolidated companies and the consolidated net assets of the Group

		31.12.2006 PLN'000
(a)	Net assets of BRE Bank S.A.	2,353,073
	Net assets of entities covered by consolidation	879,010
	Total net assets	**3,232,083**
(b)	Adjustments (b-f; as above) for continued and discontinued operations in aggregate	(39,251)
(c)	Elimination of share capitals of the subsidiaries	(491,907)
(d)	Elimination of other capitals and reserves	(117,977)
	Consolidated net assets	**2,622,199**

IV. Discussion of financial statement components (cont.)

Consolidated income statement for the year ended 31 December 2006

21. Net interest income

Interest income and expense are shown in the table below:

	2006 PLN'000	2005 PLN'000	Change PLN'000	Change (%)
Interest income	1,700,551	1,533,139	167,412	11
Interest expense	(976,373)	(882,275)	(94,098)	11
Net interest income	**724,178**	**650,864**	**73,314**	**11**

In the current financial year, there was an increase in net interest income of PLN 73,314 thousand to PLN 724,178 thousand. Both interest income and interest expense increased by 11% and amounted to PLN 1,700,551 thousand and PLN 976,373 thousand, respectively.

The increase in interest income included the increase in interest income on loans and advances, including the reversal of discount on impairment write-downs, of PLN 171,426 thousand to PLN 1,222,860 thousand, and the increase in income from debt securities classified as investment securities of PLN 56,293 thousand to PLN 80,573 thousand. The increase was offset by a decrease in income from debt securities classified as held-for-trading of PLN 61,646 thousand to PLN 135,004 thousand. The reallocation of interest income from debt securities resulted from the change in the Bank's investing structure in debt securities which took place in 2006.

Interest expense comprised mainly settlements with banks and customers of PLN 742,603 thousand and expenses on the issue of debt securities of PLN 159,414 thousand. The increase in interest expense of PLN 94,098 thousand resulted mainly from the increase in interest expense on issuing of debt securities of PLN 70,346 thousand.

Net interest income was mainly generated by the Bank where it amounted to PLN 594,723 thousand, representing 82% of the balance in the Group. The Bank's net interest income increased compared with the prior financial year by PLN 11,844 thousand, mainly due to the increase in interest income from investment securities by PLN 54,595 thousand to PLN 84,757 thousand and the decrease in interest expense from settlements with banks and customers of PLN 15,636 thousand to PLN 631,049 thousand for the current financial year, which was offset by a decrease in interest income from debt securities held for trading of PLN 57,071 thousand to PLN 134,722 thousand for 2006.

The increase in net interest income can also be attributed to net interest income of BRE Leasing Sp. z o.o. of PLN 11,220 thousand and consolidating net interest income of BRE Bank Hipoteczny S.A. of PLN 61,011 thousand, which was offset by a decrease in net interest income of BRE Finance France of PLN 21,491 thousand.

IV. Discussion of financial statement components (cont.)

22. Net fee and commission income

Fee and commission income and expense are shown in the table below:

	2006 PLN'000	2005 PLN'000	Change PLN'000	Change (%)
Fee and commission income	582,771	458,709	124,062	**27**
Fee and commission expense	(166,361)	(120,510)	(45,851)	38
Net fee and commission income	**416,410**	**338,199**	**78,211**	**23**

In the current financial year, net fee and commission income increased by PLN 78,211 thousand (23%) to PLN 416,410 thousand, which was a product of the 27% increase in fee and commission income to PLN 582,771 thousand and the 38% increase in fee and commission expense to PLN 166,361 thousand.

The level of net fee and commission income can mainly be attributed to the net fee and commission income of the Bank, which amounted to PLN 264,229 thousand and was higher by PLN 31,298 thousand than in the prior year, mainly due to increased commission received for handling payment cards.

Other consolidated companies having a significant effect on the increase in the balance were: Dom Inwestycyjny BRE Banku S.A., where the balance increased by PLN 32,294 thousand to PLN 60,658 thousand, mainly due to the increase in fees for brokerage activities.

23. Dividend income

In 2006, dividend income amounted to PLN 16,865 thousand, representing a decrease of PLN 30,168 thousand compared with the prior year. The balance comprised dividends from PZU S.A. (PLN 10,166 thousand), Vectra S.A. (PLN 1,995 thousand), Krajowa Izba Rozliczeniowa S.A. (PLN 1,563 thousand). Dividends from other companies whose shares were held by the Group amounted to PLN 3,141 thousand.

The decrease in dividend income resulted from recording in 2005 income from the distribution of assets of liquidated limited companies: AMBRESA Sp. z o.o. - BRELLA Sp. k. and BRELINVEST Sp. z o.o. Fly 1 Sp. k., whereas income from the winding up of companies in 2006 amounted to PLN 711 thousand (income from winding up TV-Tech Investment 1 Sp. z o.o.).

IV. Discussion of financial statement components (cont.)

24. Net trading income

Income and expense components of net trading income are shown in the table below:

	2006 PLN'000	2005 PLN'000	Change PLN'000	Change (%)
Foreign exchange position	354,140	257,897	96,243	37
Net other trading income	45,445	(24,836)	70,281	(283)
Net trading income	**399,585**	**233,061**	**166,524**	**71**

In the current financial year, there was an increase in "Net trading income" of PLN 166,524 thousand to PLN 399,585 thousand. The change resulted from the increase in the foreign exchange position of PLN 96,243 thousand to PLN 354,140 thousand and the increase in other net trading income of PLN 70,281 thousand to PLN 45,445 thousand.

The increase in the balance was mainly realized by the Bank where it went up by PLN 182,291 thousand to PLN 395,060 thousand. The change was mainly due to the increase in the foreign exchange position of PLN 117,843 thousand and the increase in other net trading income of PLN 64,448 thousand.

25. Net profit/loss on investment securities

In 2006, the Group earned a profit on investment securities of PLN 22,522 thousand, representing a PLN 19,531 thousand decrease compared with the prior financial year.

The gain on sale of shares resulted mainly from gain generated by the Bank in 2006 from the sale of shares of Novitus S.A.

IV. Discussion of financial statement components (cont.)

26. Other operating income

Other operating income amounted to PLN 229,039 thousand and went up by PLN 94,042 thousand (i.e. by 70%) compared with 2005.

The largest increase in other operating income of PLN 60,240 thousand occurred in BRE.locum Sp. z o.o., which obtained income from development activities. The increase in other operating income of the Group was also due to other operating income generated by the Bank, which increased by PLN 26,840 thousand, mainly as a result of releasing a provision after reaching a settlement with PTE Ergo Hestia, proceeds from the sale of real estate and the sale of rights to perpetual usufruct of land.

27. Net impairment losses on loans and advances

In the current financial year, impairment write-downs on loans and advances net of income from releasing these write-downs amounted to PLN 45,961 thousand and decreased by PLN 32,880 thousand compared with the prior financial year.

The decrease resulted mainly from PLN 27,243 thousand decrease in net impairment write-downs on loans and advances in the Bank, due to the improved quality of the loan portfolio, which represented 83% of the total balance in the Group.

28. General administrative expenses

General administrative expenses of the Group in 2006 amounted to PLN 879,492 thousand, representing an increase of PLN 111,042 thousand (i.e. 14%) compared with the expenses incurred in the prior year of PLN 768,450 thousand.

The increase was mainly due to the increase in personnel costs of PLN 72,761 thousand to PLN 475,925 thousand and an increase in running costs of PLN 44,822 thousand to PLN 379,077 thousand. The increase in personnel costs was mainly due to the increased costs of basic salaries resulting from the employment increase and the higher bonus fund for 2006.

The largest general administrative expenses in the audited year were incurred by the Bank (PLN 678,105 thousand), BRE Leasing Sp. z o.o. (PLN 42,684 thousand), Dom Inwestycyjny BRE Banku S.A. (PLN 37,455 thousand), BRE Bank Hipoteczny S.A. (PLN 29,822 thousand) and Intermarket Bank AG (PLN 28,760 thousand).

29. Depreciation and amortization

In 2006, the depreciation and amortization charge for the year amounted to PLN 164,885 thousand and was PLN 27,179 thousand (20%) higher than in the prior year. Amortization and depreciation comprised amortization of intangible assets of PLN 72,323 thousand and depreciation of property, plant and equipment of PLN 92,562 thousand.

IV. Discussion of financial statement components (cont.)

30. Other operating expenses

In 2006 other operating expenses increased by PLN 70,501 thousand to PLN 183,668 thousand.

The increase in other operating expenses of the Group comprised mainly the increase in BRE.locum Sp. z o.o. where compared with the prior year other operating expenses increased by PLN 54,732 thousand in connection with the intensive activities of the Company on the real estate market. Other operating expenses also increased in the Bank in connection with selling real estate and rights to perpetual usufruct of land in 2006.

31. Corporate income tax

	12 months ended 31.12.2006 PLN'000	12 months ended 31.12.2005 PLN'000	Change PLN'000
Corporate income tax for the year	(80,055)	(87,043)	6,988
Deferred income tax	(44,177)	21,871	(66,048)
Corporate income tax expense	**(124,232)**	**(65,172)**	**59,060**

The Bank's current and deferred income tax of PLN 82,177 thousand had the largest impact on the Group's income tax expense.

Other Group companies also contributed to the Group's income tax expense, where the largest income tax charges related to the following companies:

Consolidated company	**Income tax due PLN'000**	**Company's share in income tax due (%)**	**Deferred income tax PLN'000**	**Company's share in deferred income tax (%)**
BRE Leasing Sp. z o.o.	(30,033)	38	21,808	(49)
BRE Bank Hipoteczny Sp. z o.o.	(6,824)	9	(3,030)	7
Dom Inwestycyjny BRE Banku S.A.	(6,788)	8	749	(2)
Transfinance a.s.	(4,668)	6	(3)	-
Intermarket Bank AG	(4,379)	5	117	-
Polfactor S.A.	(2,411)	3	219	-
Other	(6,153)	8	(659)	1
Total companies	**(61,256)**	**77**	**19,201**	**(43)**
The Bank	(18,799)	23	(63,378)	143
Total	**(80,055)**	**100**	**(44,177)**	**100**

IV. Discussion of financial statement components (cont.)

32. Discontinued operations

In connection with signing an agreement to sell Skarbiec Asset Management Holding S.A. and continuing the steps aimed at selling PTE Skarbiec – Emerytura S.A. the balance sheets of these two companies, including goodwill, have been presented as at the balance sheet date as non-current assets held for sale. The results of operations of the two companies constituted the majority of the result of the asset management segment in the Group. In consequence, in accordance with IFRS 5 in the income statement, income and expenses of the sold subsidiaries have been presented separately, including restated comparatives, and have been disclosed in the financial statements as discontinued operations.

Profit before tax on discontinued operations at the end of 2006 amounted to PLN 41,879 thousand and it increased by PLN 51,489 thousand compared with the prior financial year. The profit was practically generated due to the increased fee and commission income of Skarbiec Asset Management Holding S.A., as a result of its dynamic development on the market. In 2005 the result of discontinued operation was affected by the impairment loss on goodwill of PTE Skarbiec – Emerytura in the Mount of PLN 36,109 thousand, compared to PLN 15,513 thousand in 2006.

Income tax on discontinued operations amounted to PLN 5,734 thousand, representing an increase of PLN 847 thousand (17%) compared with the prior year. Net profit on discontinued operations as at 31 December 2006 amounted to PLN 36,145 thousand, and increased by PLN 50,642 thousand compared with net profit on discontinued operations generated in the prior year.

33. Off-balance sheet items

As at the balance sheet date, "Off-balance sheet items" increased by PLN 151,707,987 thousand compared with the prior year to PLN 556,819,913 thousand.

The largest increase of PLN 147,377,850 thousand pertained to "Commitments related to purchase/sale transactions", which amounted to PLN 541,501,749 thousand. The increase was the result of a higher volume and thus, a higher value of transactions concluded. Off-balance sheet liabilities of the Bank constituted 99% of the total balance.

V. Registered auditor's statement

(a) The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the consolidation documentation and the disclosure of all contingent liabilities and post-balance-sheet events which occurred up to the date on which that letter was signed.

(b) The scope of the audit was not limited.

(c) The consolidation documentation was complete and accurate and it is stored in a manner ensuring proper safeguarding.

(d) In all material respects, the accounting policies and disclosures specified by the Parent's Management complied with the International Financial Reporting Standards as adopted by the European Union. Changes in accounting policies and their effect were correctly disclosed in the notes to the financial statements.

(e) The calculation of goodwill arising in the audited year and its recognition in the consolidated financial statements complied in all material respects with IFRSs as adopted by the European Union.

(f) The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.

(g) The elimination of mutual balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out in accordance with the IFRSs as adopted by the European Union in all material respects.

(h) Eliminations of gains/losses unrealized by the consolidated entities included in the value of assets and in respect of dividends were conducted in accordance with the IFRSs as adopted by the European Union in all material respects.

(i) The impact of the disposal or partial disposal of shares in subordinated entities was accounted for properly in all material respects.

(j) The Notes to the consolidated financial statements present all the material information required by the International Financial Reporting Standards as adopted by the European Union.

(k) The Directors' Report of the Group takes account of the requirements of the Decree of the Minister of Finance of 19 October 2005 on current and periodic information to be prepared by issuers of securities.

(l) The minimum regulatory requirement, together with the requirement concerning the risk of excessive capital exposure, amounted to PLN 2,290,618 thousand as at the balance sheet date. The capital adequacy ratio was 10.39% as at 31 December 2006. As at the balance sheet date, the Group complied with the applicable prudence standards in all material respects.

V. Registered auditor's statement (cont.)

(m) The consolidated financial statements for the prior year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.

(l) The consolidated financial statements of the Group as at and for the year ended 31 December 2005 were approved by Resolution no. 20 passed by the General Shareholders' Meeting on 15 March 2006, filed with the National Court Register in Warsaw on 22 March 2006 and published in *Monitor Polski B* no. 775, item 4442 on 23 August 2006.