BRE Bank SA

Registered auditor's report on the financial statements as at and for the 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 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 financial statements of BRE Bank SA, Warsaw, ul. Senatorska 18 (hereinafter called the Bank). The audited financial statements comprise:

(a) the balance sheet as at 31 December 2006, showing total assets and total equity and liabilities of PLN 36,862,230 thousand;

(b) the income statement for the year ended 31 December 2006, showing a net profit of PLN 324,194 thousand;

(c) the statement of changes in equity for the year ended 31 December 2006, showing an increase in equity of PLN 398,202 thousand;

(d) the cash flow statement for the year ended 31 December 2006, showing a net increase in cash and cash equivalents of PLN 810,462 thousand;

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

The financial statements were signed by the Company'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 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 financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

This report contains 30 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 Bank

(a) The Bank was formed on the basis of Resolution No. 99 of the Council of Ministers of 20 June 1986. The Bank began operating on 2 January 1987. The Bank was formed on the basis of a Notarial Deed drawn up at the State Notarial Office in Warsaw on 11 December 1986 and registered with Rep. No. 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 Bank's operations comprised:

- operating bank accounts;
- accepting savings and term deposits;
- clearing transactions;
- 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;
- issuing and confirming sureties;
- issuing and confirming bank guarantees and opening letters of credit;
- trading in foreign exchange instruments and providing financial services in respect of foreign trade;
- servicing government loans;
- issuing securities, trading in securities and operating 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 custom 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 Bank (cont.)

(e) The following people were on the Bank's Management Board in the audited year:

- Sławomir Lachowski President 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 has the following significant related entities:

Commerzbank Auslandsbanken Holding AG	- parent company
BRE Bank Hipoteczny S.A.	- subsidiary
BRE Corporate Finance S.A.	- subsidiary
BRE Finance France S.A.	- subsidiary
BRE Leasing Sp. z o.o.	- subsidiary
BRE.locum Sp. z o.o.	- subsidiary
BRE Wealth Management S.A. (previously Skarbiec Investment Management S.A.	- subsidiary
Centrum Rozliczeń i Informacji CERI Sp. z o.o.	- subsidiary
Dom Inwestycyjny BRE Banku S.A.	- subsidiary
Garbary Sp. z o.o.	- subsidiary
Intermarket Bank AG	- subsidiary
Magyar Factor zRt.	- subsidiary
Polfactor S.A.	- subsidiary
PTE – Skarbiec Emerytura S.A.	- subsidiary
Skarbiec Asset Management Holding S.A.	- subsidiary
Tele-Tech Investments Sp. z o.o.	- subsidiary
Transfinance a.s.	- subsidiary

and group companies of the Bank's parent company.

(g) The Bank issues securities admitted to trading on the Warsaw Stock Exchange. As permitted by the Accounting Act, the Bank has elected, commencing 2005, to prepare its 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.

(h) The Bank as the parent company in the BRE Bank SA Group also prepared the consolidated financial statements in accordance with IFRS as adopted by the European Union dated 28 February 2007. To understand the financial standing and the results of the Bank as the parent company, the separate financial statements should be read in conjunction with the consolidated financial statements.

II. Information about the audit

(a) PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Bank by Resolution No. 24 of the General Shareholders' Meeting 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 audited entity within the meaning of art. 66.2 of the Polish Accounting Act.

(c) The audit was conducted on the basis of an agreement 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 Bank's results and financial position

The 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 financial statements. The financial statements have been prepared on the going concern basis.

- In 2006, the Bank focused considerably on the development of retail banking, while also continuing the development of corporate banking, including in the area of SME, and investment banking. At the same time, the Bank's Management Board continued its policy of optimizing the financial investments portfolio. In September 2006, the Bank signed a conditional agreement to sell Skarbiec Asset Management Holding S.A. (SAMH) to Polish Enterprise Fund V L.P. The agreement was executed on 8 January 2007 when BRE Bank sold 72,582 shares of SAMH for a total of PLN 155,000 thousand. In 2006 the Bank's Management Board has taken further steps to sell shares of PTE Skarbiec – Emerytura S.A. Despite the fact that Polish Financial Supervision Authority has not granted permission for the execution of "Merger Agreement between PTE PZU S.A and PTE Skarbiec – Emerytura S.A. with a commitment to sell shares from the merger issue" signed with PZU S.A. in 2005, the Bank is still abiding by its intention of selling pension business.

- In the financial year from 1 January to 31 December 2006, the Bank's total assets increased by PLN 6,726,085 thousand (i.e. by 22%) to the amount PLN 36,862,230 thousand at the end of the financial year. The increase in total assets was mainly financed with the increase in amounts due to customers of PLN 3,186,702 thousand and amounts due to other banks of PLN 2,920,433 thousand, and net profit for 2006 of PLN 324,194 thousand. The increase in amounts due to customers was a result of the considerable increase in deposits on current accounts, both individual and corporate clients, which increased by PLN 3,030,744 thousand in total (i.e. by 122%). The increase in amounts due to other banks was a result of obtaining loans and advances, which increased by PLN 2,802,881 thousand (i.e. by 201%).

- 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 as part of executing two Management Share Option Schemes.

- In the audited year, the lending activities increased by PLN 4,710,197 thousand, which was almost entirely due to an increase in amounts due from individuals (first of all, the increase in the value of mortgages granted to MultiBank and mBank customers). As a result, the share of loans and advances to customers in the total assets increased from 43% to 48%.

- The quality of the loan portfolio improved, as a result of which the share of impaired loans in the gross portfolio dropped from 7% at 31 December 2005 to 5% as at the balance sheet date. The ratio of impairment write-downs to impaired loans as at 31 December 2006 was 78% and was 9 percentage points higher than in the prior year. The balance of impairment write-downs of loans and advances dropped by PLN 25,529 thousand compared with the prior year.

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

- The surplus funds were also invested in investment securities and pledged assets, comprising mainly repo and sell-buy back transactions. These two items totalled PLN 5,658,712 thousand and were PLN 3,087,326 thousand (i.e. 120%) higher than at the end of the prior year. At the same time, the Bank reduced the portfolio of securities held for trading, which as at the balance sheet date amounted to PLN 3,519,954 thousand, compared with PLN 5,014,653 thousand at the end of the prior financial year. The above changes did not affect the percentage share of securities in the total assets, which amounted to 25%, as at the end of 2005.

- The balance of cash in hand and at the central bank increased compared with the end of 2005 by PLN 1,934,397 thousand, up to PLN 3,710,737 thousand. At the same time, mainly due to a decrease in the balance of deposits maintained in other banks, the balance of amounts due from banks dropped by PLN 1,686,539 thousand compared with the prior financial year and amounted to PLN 3,003,226 thousand.

- The portfolio of investments in subsidiaries increased by PLN 148,092 thousand and amounted to PLN 433,343 thousand. In January 2006, the Bank purchased 100% of shares of BRE Bank Hipoteczny SA for PLN 174,540 thousand; at the same time, the shares of Skarbiec Asset Management Holding S.A. with a carrying value of PLN 51,033 thousand were reclassified to non-current assets held for sale.

- The Bank's net profit for the current year amounted to PLN 324,194 thousand and was PLN 116,884 thousand higher than the net profit for 2005. The net profit comprised mainly: net interest income of PLN 539,372 thousand, net commission income of PLN 279,617 thousand and net trading income of PLN 379,957 thousand. At the same time, the net profit was affected by administrative expenses, including amortization and depreciation totalling PLN 833,306 thousand, and corporate income tax expense of PLN 82,177 thousand.

- The Bank's operating profit for 2006 was PLN 406,371 thousand and it was PLN 156,224 thousand (62%) higher than in 2005. The increase was mainly due to an increase in net trading income (an increase of PLN 154,481 thousand), an increase in the result on investment securities (an increase of PLN 39,741 thousand) and a decrease in net impairment write-downs of loan portfolio of PLN 27,243 thousand. This increase in results was mainly offset by an increase in general administrative expenses, including amortization and depreciation of PLN 77,826 thousand.

- In the audited year, corporate income tax expense increased by PLN 39,340 thousand to PLN 82,177 thousand. The increase was mainly due to an increase in deferred income tax of PLN 68,910 thousand, accompanied by a decrease in corporate income tax expense of PLN 29,570 thousand. As at 31 December 2006, the Bank recognized a deferred tax asset, which has been calculated using the binding 19% corporate income tax rate.

- Return on equity calculated as net profit for the year to average net assets (including net profit for the year) amounted to 15.05% and was 4 percentage points higher than in 2005. In 2006 the gross profitability also increased and amounted to 17.90%, compared with 12.50% in 2005.

IV. Discussion of financial statement components

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	3,710,737	1,776,340	1,934,397	109	10	6
Debt securities eligible for rediscounting at the Central Bank		26,725	37,464	(10,739)	(29)	-	-
Amounts due from banks	2	3,003,226	4,689,765	(1,686,539)	(36)	8	16
Trading securities	3	3,519,954	5,014,653	(1,494,699)	(30)	10	17
Derivative financial instruments	4	1,411,030	1,264,500	146,530	12	4	4
Loans and advances to customers	5	17,689,756	12,979,559	4,710,197	36	48	43
Investment securities	6	2,957,221	1,055,174	1,902,047	180	8	3
Non-current assets held for sale	7	361,855	310,510	51,345	17	1	1
Pledged assets	8	2,701,491	1,516,212	1,185,279	78	7	5
Investments in subsidiaries	9	433,343	285,251	148,092	52	1	1
Investments in associates	10	-	5,649	(5,649)	(100)	-	-
Intangible assets	11	356,136	368,504	(12,368)	(3)	1	1
Property, plant and equipment	12	470,926	484,071	(13,145)	(3)	1	2
Deferred tax assets	34	9,720	83,950	(74,230)	(88)	-	-
Other assets	13	210,110	264,543	(54,433)	(21)	1	1
TOTAL ASSETS		**36,862,230**	**30,136,145**	**6,726,085**	**22**	**100**	**100**

IV. Discussion of financial statement components (cont.)

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		**34,509,157**	**28,181,274**	**6,327,883**	**22**	**94**	**94**
Amounts due to other banks	14	5,186,286	2,265,853	2,920,433	129	14	8
Derivative financial instruments and other trading liabilities	15	1,267,825	1,270,414	(2,589)	-	4	4
Amounts due to customers	16	25,934,634	22,747,932	3,186,702	14	71	76
Debt securities in issue	17	36,215	91,545	(55,330)	(60)	-	-
Subordinated liabilities	18	1,547,354	1,362,528	184,826	14	4	5
Other liabilities	19	457,926	364 ,893	93,033	25	1	1
Current income tax liabilities		11,543	-	11,543	-	-	-
Provisions	20	67,374	78,109	(10,735)	(14)	-	-
EQUITY	**21**	**2,353,073**	**1,954,871**	**398,202**	**20**	**6**	**6**
Share capital	22	1,496,946	1,423,843	73,103	5	4	4
Revaluation reserve		3,959	(2,637)	6,596	(250)	-	-
Retained earnings		852,168	533,665	318,503	60	2	2
TOTAL EQUITY AND LIABILITIES		**36,862,230**	**30,136,145**	**6,726,085**	**22**	**100**	**100**

IV. Discussion of financial statement components (cont.)

INCOME STATEMENT
For the year ended 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 (%)
Interest income		1,334,383	1,313,622	20,761	2	59	66
Interest expense		(795,011)	(774,976)	(20,035)	3	(43)	(44)
Net interest income	**23**	**539,372**	**538,646**	**726**	**-**	**-**	**-**
Commission income		415,391	335,594	79,797	24	18	17
Commission expense		(135,774)	(98,488)	(37,286)	38	(7)	(6)
Net commission income	**24**	**279,617**	**237,106**	**42,511**	**18**	**-**	**-**
Dividend income	**25**	**36,797**	**61,997**	**(25,200)**	**(41)**	**2**	**3**
Foreign exchange position	26	343,265	251,293	91,972	37	15	12
Net other trading income	27	36,692	(25,817)	62,509	(242)	1	(1)
Net trading income		**379,957**	**225,476**	**154,481**	**69**	**-**	**-**
Net gains / (losses) on investment securities	**28**	**40,115**	**374**	**39,741**	**10.626**	**2**	**-**
Other operating income	29	63,244	38,849	24,395	63	3	2
Net impairment losses on loans and advances	30	(26,149)	(53,392)	27,243	(51)	(2)	(3)
General administrative expenses	31	(697,527)	(635,990)	(61,537)	10	(37)	(36)
Depreciation and amortization	32	(135,779)	(119,490)	(16,289)	14	(7)	(7)
Other operating expenses	33	(73,276)	(43,429)	(29,847)	69	(4)	(3)
Operating profit/(loss)		**406,371**	**250,147**	**156,224**	**62**	**-**	**-**
Profit/(loss) before tax		**406,371**	**250,147**	**156,224**	**62**		
Corporate income tax	34	(82,177)	(42,837)	(39,340)	92	-	-
Net profit/(loss)	**35**	**324,194**	**207,310**	**116,884**	**56**		
Total revenue		2,269,887	2,001,729	268,158	13	100	100
Total costs		1,863,516	1,751,582	112,934	6	(100)	(100)
Profit before tax		**406,371**	**250,147**	**156,224**	**62**		

IV. Discussion of financial statement components (cont.)

Presentation of the Company's financial position and results

The following ratios characterize the Company's activities, results of operations during the audited year and its financial position as at the balance sheet date compared with prior years:

	31.12.2006	31.12.2005
Profitability ratios		
Return on equity (net profit/loss for the year / average net assets) (1)	15.05%	11.29%
Return on equity (net profit / loss for the year / average net assets without profit for the year)	16.28%	11.96%
Return on assets (profit/loss before income tax for the year / average assets) (1)	1.21%	0.86%
Gross profitability (profit/loss before income tax for the year / total income)	17.90%	12.50%
Interest income to working assets (interest income / average working assets)	4.40%	5.15%
Gearing ratios		
Cost of borrowings (interest expense for the year / average interest-paying liabilities) (1)	2.69%	3.06%
Equity to liabilities and equity (average equity / average liabilities and equity) (1)	6.43%	6.06%
Loans to assets (average amounts due from banks and customers / average total assets) (1)	59.44%	65.12%
Default loans to loans	3.90%	5.29%
Working assets to total assets	91.17%	89.82%
Liquidity ratios		
Liquidity I (assets maturing within 1 month / liabilities maturing within 1 month) (2)	0.56	0.61
Liquidity II (assets maturing within 3 months / liabilities maturing within 3 months) (2)	0.61	0.72
Capital market ratios		
Earnings per share	PLN 11.05	PLN 7.20
Book value per share	PLN 79.72	PLN 67.45
Other ratios		
Equity in accordance with KNB Resolution 5/2004	PLN 2,591,524 thousand	PLN 2,249,629 thousand
Total regulatory capital requirement including the capital requirement to cover excess exposures (total regulatory capital requirement in accordance with KNB Resolution 5/2001)	PLN 1,873,263 thousand	PLN 1,398,440 thousand
Capital adequacy ratio in accordance with KNB Resolution 4/2004	11.07%	12.87%

(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) Interest was not eliminated from working assets
(3) Individual ratios may differ from the ratios presented in the financial statements due to a different calculation method being used
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IV. Discussion of financial statement components (cont.)

Balance sheet as at 31 December 2006

1. Cash and balances with the Central Bank

As at 31 December 2006, Cash and balances with the Central Bank amounted to PLN 3,710,737 thousand (PLN 1,776.340 thousand as at the end of 2005), representing a 109% increase.

The increase was mainly due to an increase in the balance of the placement in NBP of PLN 2,400,530 thousand compared with PLN 1,377,226 thousand as at 31 December 2005, and an increase in cash on the current account in NBP of PLN 895,237 thousand – up to PLN 1,207,574 thousand as at the end of 2006, which resulted from the management risk strategy.

As at the balance sheet date, the Bank calculated and maintained a mandatory reserve in accordance with Resolution No. 15/2004 of the Management Board of the National Bank of Poland dated 13 April 2006 on the terms and procedures for calculating and maintaining mandatory reserves by banks. The declared mandatory reserve with the NBP to be held in December 2006 went up compared with the previous year and amounted to PLN 728,546 thousand (PLN 585,227 thousand in December 2005).

2. Amounts due from banks

As at 31 December 2006, amounts due from banks amounted to PLN 3,003,226 thousand and dropped by PLN 1,686,539 thousand (i.e. by 36%) compared with the end of 2005. The decrease was reflected in a decrease in the proportion of amounts due from banks in total assets of 8 percentage points, to 8% as at 31 December 2006. Amounts due from banks comprised mainly amounts due from foreign banks (86% of the balance as at the end of 2006).

Amounts due from banks comprised mainly interbank deposits, which amounted to PLN 1,702,424 thousand as at the balance sheet date, and dropped by PLN 1,303,194 thousand compared with 31 December 2005. Loans and advances to banks were the second largest item, amounting to PLN 1,105,566 thousand as at the balance sheet date, which dropped by PLN 326,580 thousand compared with the end of the prior financial year. Reverse repo and buy-sell back transactions increased by PLN 90,909 thousand compared with 31 December 2005, up to PLN 124,339 thousand.

IV. Discussion of financial statement components (cont.)

3. Trading securities

As at 31 December 2006, trading securities amounted to PLN 3,519,954 thousand, representing a decrease of PLN 1,494,699 thousand compared with 31 December 2005. As at 31 December 2006, the balance comprised debt securities with a carrying value of PLN 3,508,569 thousand and equity securities with a carrying value of PLN 11,385 thousand.

The decrease in the carrying value of trading securities resulted mainly from the decrease in the government bonds portfolio of PLN 607,824 thousand to PLN 825,011 thousand, and a decrease in NBP bonds of PLN 347,943 thousand to PLN 1,976,942 thousand as at 31 December 2006. Also there was a decided decrease in the portfolio of Treasury bills of PLN 320,214 thousand to PLN 21,749 thousand, as well as the portfolio of debt securities issued by other banks, which dropped by 179,585 thousand to PLN 404,453 thousand.

4. Derivative financial instruments

The fair value of derivative financial instruments which were positive amounted to PLN 1,411,030 thousand as at the balance sheet date and were PLN 146,530 thousand (i.e. 12%) higher than at the end of the prior year. The balance comprised mainly the valuation of foreign exchange derivatives with the asset balance as at the balance sheet date amounting to PLN 626,737 thousand compared with PLN 725,523 thousand at the end of 2005, and the valuation of interest rate derivatives, which amounted to PLN 550,419 thousand on the assets side, compared with PLN 534,245 thousand as at the end of 2005.

The increase in derivative financial instruments resulted mainly from the increase in the value of market risk-related transactions of PLN 229,142 thousand, up to PLN 233,874 thousand at the end of December 2006. The increase resulted mainly from the valuation of options for listed shares embedded in deposit products, which were introduced in the Bank's offer in 2006 and the valuation of commodity swaps also introduced in 2006.

IV. Discussion of financial statement components (cont.)

5. Loans and advances to customers

The balance of "Loans and advances to customers" amounted to PLN 17,689,756 thousand as at 31 December 2006 and increased by PLN 4,710,197 thousand (i.e. 36%) compared with 31 December 2005. At the same time, the percentage share of this balance in the total assets increased by 5 percentage points to 48%. As at 31 December 2006, the impairment losses on loan portfolio amounted to PLN 714,331 thousand compared with PLN 739,860 at the end of 2005.

(a) Structure of the loan portfolio in terms of types of loans

As at 31 December 2006, loans to corporate customers of PLN 9,154,620 thousand and loans to individuals of PLN 8,684,895 thousand were the largest components of the gross loan portfolio. The increase in gross loans compared with the prior year resulted inter alia from the increase in the corporate loans portfolio of PLN 1,194,577 thousand (i.e. 15%) compared with the end of the prior year. Despite this increase, the percentage share of these loans in the gross loan portfolio dropped by 8 percentage points to 50% as at 31 December 2006, due to an increase in loans to individuals.

The gross portfolio of loans to individuals increased by PLN 4,357,977 thousand (i.e. 101%) compared with the end of the prior year, and as a result, its percentage share in the total gross loans portfolio also increased by 16 percentage points to 47% as at the end of the audited year. The increase was mainly due to the increase in the portfolio of mortgage loans to individuals in mBank and MultiBank.

The increase was partly offset by the decrease in the portfolio of gross amounts due from the public sector of PLN 1,092,487 thousand to PLN 31,459 thousand. The decrease resulted mainly from reducing the Bank's exposure to one large public sector organization by PLN 900,000 thousand.

(b) Structure of the loan portfolio in terms of quality

In the audited year, the quality of the loan portfolio improved. The gross impaired portfolio decreased by PLN 138,721 thousand and amounted to PLN 835,963 thousand. The decrease in the gross impaired portfolio was accompanied by a decrease in impairment write-downs of PLN 13,797 thousand and amounted to PLN 654,343 thousand, which brought about an increase in the coverage of the non-performing portfolio with impairment write-downs by 9 percentage points, to 78%. The carrying value of the gross portfolio covered by a portfolio analysis was PLN 17,568,124 thousand and increased by PLN 4,823,389 thousand compared with the prior year. The increase was accompanied by a decrease in impairment write-downs of the exposures analysed on a portfolio basis of PLN 11,732 thousand to PLN 59,988 thousand. In consequence, the coverage of the unimpaired portfolio dropped by 0.3 percentage points to 0.3% as at 31 December 2006.

IV. Discussion of financial statement components (cont.)

6. Investment securities

As at 31 December 2006, "Investment securities" amounted to PLN 2,957,221 thousand (PLN 1,055,174 thousand as at the end of the prior year), representing an increase of PLN 1,902,047 thousand (i.e. 180%).

The balance comprised debt securities of PLN 2,746,698 thousand (PLN 873,326 thousand at the end of 2005) and equity instruments of PLN 210,523 thousand, net (PLN 181,848 thousand at the end of 2005).

The balance of debt securities amounting to PLN 1,873,372 thousand comprised, inter alia, an increase in debt securities issued by the State Treasury of PLN 1,980,943 thousand to PLN 2,427,705 thousand as at the end of the audited year (mainly due to an increase in bonds), which was partly offset by a decrease in debt securities issued by banks of PLN 147,274 thousand to PLN 264,302 thousand as at the balance sheet date.

The increase in equity instruments of PLN 28,675 thousand was mainly due to making an additional payment to the price of the shares of Vectra S.A. of PLN 25,000 thousand.

7. Non-current assets held for sale

Non-current assets held for sale amounted to PLN 361,855 thousand as at the balance sheet date and comprised the shares of PTE Skarbiec – Emerytura S.A. and the shares of Skarbiec Asset Management Holding S.A. The balance increased by PLN 51,345 thousand compared with 31 December 2005, which was mainly due to reclassifying the shares of Skarbiec Asset Management Holding S.A. from investments in subsidiaries to non-current assets held for sale.

The plan to sell PTE Skarbiec – Emerytura S.A. was announced before the end of 2005, when the Bank signed a conditional "Merger Contract between PTE PZU S.A and PTE Skarbiec – Emerytura S.A. with a commitment to sell shares from the merger issue" with PZU S.A. Despite the fact that the Polish Financial Supervision Authority has not granted its approval, the Bank took further action in the audited year aimed at selling the Company. In consequence, as at the balance sheet date – similarly to 2005 – the investment in PTE Skarbiec – Emerytura S.A. was measured in accordance with IFRS 5 at fair value less costs to sell (i.e. PLN 310,822 thousand).

On 25 September 2006, the Bank signed a contract with Polish Enterprise Fund V L.P. to sell Skarbiec Asset Management Holding S.A. (SAMH). 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. In consequence, as at the end of 2006, the shares were measured in accordance with IFRS 5 in the carrying value of PLN 51,033 thousand, which is lower than fair value less costs to sell. 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.

More detailed information on assets held for sale is provided in Note 28 to the Bank's financial statements.

IV. Discussion of financial statement components (cont.)

7. Pledged assets

As at 31 December 2006, the balance of pledged assets was PLN 2,701,491 thousand, representing an increase of PLN 1,185,279 thousand (i.e. 78%) compared with 2005. The increase was mainly due to an increase in securities provided as collateral in repo and sell-buy back transactions of PLN 1,151,039 thousand (i.e. 77%).

The Bank also showed debt securities pledged for the Bank Guarantee Fund as pledged assets. As at 31 December 2006, they amounted to PLN 56,727 thousand (PLN 22,487 thousand as at the end of the prior year).

8. Investments in subsidiaries

As at 31 December 2006, the balance of "Investments in subsidiaries" amounted to PLN 433,343 thousand and increased during the audited year by PLN 148,092 thousand (i.e. 52%). The increase was mainly the result of buying shares of BRE Bank Hipoteczny S.A. for PLN 174,540 thousand and further increase of its share capital by PLN 40,000 thousand. Additionally the increase was due to purchase of the company Skarbiec Investment Management S.A. (currently BRE Wealth Management S.A.) from SAMH for PLN 12,000 thousand. The increase in investments in subsidiaries was also a result of reversing an impairment write-down of the shares of BRELIM Sp. z o.o. of PLN 6,239 thousand, which was due to signing a preliminary contract for selling the Company for a price that resulted in annulling the indications of impairment.

The increase in 2006 was partly offset by reselling the shares of Skarbiec Asset Management Holding S.A. (SAMH) in order to redeem them in net value of PLN 43,593 thousand (gross value of redeemed shares amounted to PLN 62,000 thousand), and therefore reclassifying the rest of shares of SAMH, shown in the Bank's book in the amount of PLN 51,033 thousand, to non-current assets held for sale as a result of signing conditional agreement of shares sale. Moreover, in 2006, MKF Sp. z o.o. and TV-Tech Investment 2 Sp. z o.o. were sold and BRE International Finance BV was wound up.

More detailed information on the portfolio of investments in subsidiaries is provided in Note 23 to the Bank's financial statements.

9. Investments in associates

The balance of investments in associates as at 31 December 2006 comprised solely the shares of Xtrade S.A. with a gross value of PLN 11,745 thousand, which were covered in full by an impairment write-down. In the audited year, the balance of investments in associates dropped by PLN 5,649 thousand as a result of reclassification of the shares of Novitus S.A. to investment securities at the moment of selling a part of the share package due to the loss of significant influence and reclassification of the shares in Tele – Tech Investment Sp. z o.o. to shares in subsidiaries due to buying additional shares.

IV. Discussion of financial statement components (cont.)

10. Intangible assets

As at the balance sheet date, the balance of "Intangible assets" was PLN 356,136 thousand, representing a decrease compared with the end of the prior year of PLN 12,368 thousand.

In the audited year, the gross book value of intangible assets increased by PLN 9,298 thousand. The increase was due to, inter alia, an increase in the gross value of intangible assets of PLN 58,501 thousand, mainly due to the continued development work on new intangible assets (including expenditure on the GLOBUS system) and was partly offset by scrapping purchased concessions, patents and licences with a gross value of PLN 47,278 thousand. At the same time, the amortization charge for the audited year was PLN 21,666 thousand.

The wear and tear of intangible assets, measured as the ratio of accumulated amortization to the gross book value was 36% as at the balance sheet date (33% as at 31 December 2005).

11. Property, plant and equipment

As at the balance sheet date, the balance of "Property, plant and equipment" amounted to PLN 470,926 thousand, and dropped by PLN 13,145 thousand compared with the balance as at 31 December 2005. The balance comprised mainly: buildings and offices with a net book value of PLN 223,938 thousand, plant and machinery with a carrying value of PLN 106,153 thousand and other fixed assets with a carrying value of PLN 105,318 thousand.

The gross book value of property, plant and equipment increased by PLN 26,752 thousand compared with the end of the prior year. The increase was mainly due to purchasing plant and machinery and other fixed assets of PLN 16,720 thousand and commissioning of assets under construction of PLN 47,363 thousand. Completed assets under construction related to the renovation and modernization of offices occupied by the Bank. The increase was offset by selling property, plant and equipment of PLN 25,832 thousand, mainly buildings, scrapping PPE items of PLN 10,535 thousand and the depreciation charge for the year which amounted to PLN 68,779 thousand. At the same time, impairment write-downs were reduced by PLN 12,824 thousand in the audited year resulting from the sale of properties with impairment write-downs.

The wear and tear of property, plant and equipment, measured as the ratio of accumulated depreciation to the gross book value was 47% as at the balance sheet date (42% as at 31 December 2005).

IV. Discussion of financial statement components (cont.)

12. Other assets

“Other assets” as at the end of the audited year amounted to PLN 210,110 thousand, compared with PLN 264,543 thousand as at the end of the prior financial year, representing a decrease of PLN 54,433 thousand.

“Debtors” of 154,157 thousand was the main component of “Other assets”, representing 73% of the total balance.

The change in the balance of “Other assets” was mainly brought about by a decrease in “Debtors” of PLN 41,107 thousand and a decrease in “Corporate income tax receivable" of PLN 21,921 thousand, which were partly offset by an increase in income to be received of PLN 8,025 thousand.

The decrease in “Debtors” was mainly due to settling the amounts due in connection with the sale of shares of TVN S.A. of PLN 32,710 thousand and PLN 33,100 thousand in respect of the settlement of the purchase of shares of BRE Bank Hipoteczny S.A., and amounts due from PAI Media S.A. of PLN 32,241 thousand for the shares of Elektrim S.A. The decrease was offset by amounts due arising in connection with selling the shares of Skarbiec Asset Management Holding S.A. of PLN 7,000 thousand, recording a contribution to the unregistered capital of BRE Ubezpieczenia Towarzystwo Ubezpieczeń S.A. of PLN 26,353 thousand, and an increase in amounts due in connection with the settlements with the network of ATMs of PLN 26,362 thousand, which was related to the increased volume of withdrawals from ATMs by the Bank’s retail customers.

The decrease in corporate income tax receivable of PLN 21,921 thousand resulted mainly from receiving a reimbursement of excess of advances for corporate income tax for 2005 from the Tax Office.

The increase in income to be received results mainly from the increase in commission receivable in respect of sales of insurance products and investment fund units.

13. Amounts due to other banks

As at 31 December 2006, the balance of “Amounts due from other banks” was PLN 5,186,286 thousand, representing an increase of PLN 2,920,433 thousand (i.e. 129%).

”Loans and advances received” of PLN 4,193,964 thousand are the main item of “Amounts due from other banks” (i.e. 81% of the total balance).

The increase in amounts due to other banks resulted mainly from the increase of PLN 2,802,881 thousand (201%) in loans and advances received and the increase of PLN 109,145 thousand (724%) in amounts due in respect of repo and sell-buy back transactions – up to PLN 124,225 thousand as at 31 December 2006.

IV. Discussion of financial statement components (cont.)

14. Derivative financial instruments and other trading liabilities

As at 31 December 2006, the balance comprised solely the total valuation of derivative financial instruments which were negative, which amounted to PLN 1,267,825 thousand on the liabilities side and dropped by PLN 2,589 thousand compared with the end of December 2005. The balance was mainly comprised of: the valuation of interest rate derivatives of PLN 623,849 thousand, the valuation of foreign exchange derivatives of PLN 400,631 thousand and the valuation of market risk-related derivatives of PLN 243,345 thousand.

Despite a insignificant change in the balance, there was a change in the structure of derivatives. The change resulted mainly from the decrease in the value of foreign exchange derivatives of PLN 253,909 thousand, which resulted from a decrease in the value of FX Forward transactions of PLN 206,599 thousand, a decrease in the value of foreign exchange options of PLN 72,947 thousand and a decrease in the value of CIRS contracts of PLN 62,242 thousand, which were partly offset by an increase in the value of FX Swap transactions of PLN 87,879 thousand.

The decrease in the valuation of foreign exchange derivative financial instruments was offset by the increase in the value of market risk-related transactions of PLN 238,402 thousand, up to PLN 243,345 thousand at the end of 2006. The increase resulted mainly from the valuation of options for listed shares embedded in deposit products and the valuation of commodity swaps, which were introduced in the Bank's offer in 2006.

15. Amounts due to customers

As at 31 December 2006, amounts due to customers amounted to PLN 25,934,634, representing an increase compared with the end of the prior financial year of PLN 3,186,702 thousand (i.e. 14%).

Amounts due to corporate customers of PLN 16,598,983 thousand and amounts due to individual customers with a carrying value of PLN 9,220,711 thousand were the main components of the balance.

The increase in the balance was mainly due to the increase in cash at current accounts maintained by individuals of PLN 1,792,901 thousand, up to PLN 6,240,191 thousand as at 31 December 2006 and corporate customers of PLN 1,237,843 thousand, up to PLN 8,174,037 thousand. The amounts due to customers increased also due to higher balance of sell buy-buck transactions concluded with corporate customers which increased by PLN 1,042,004 thousand in the audited year. The increase was partly offset by a decrease in liabilities in respect of monetary security to corporate customers, which were PLN 797,195 thousand lower than at the end of the prior year, and amounted to PLN 1,900,216 thousand.

IV. Discussion of financial statement components (cont.)

16. Debt securities in issue

As at 31 December 2006, liabilities in respect of debt securities in issue amounted to PLN 36,215 thousand and were PLN 55,330 thousand (i.e.60%) lower than as at 31 December 2005.

The decrease resulted mainly from redeeming, in 2006, six batches of certificates of deposit for a total of PLN 51,000 thousand, and one batch of bonds for PLN 5,000 thousand. The redemption of the remaining debt securities issued by the Bank falls in 2008 and 2009.

17. Subordinated liabilities

As at 31 December 2006, subordinated liabilities amounted to PLN 1,547,354 thousand and were PLN 184,826 thousand (14%) higher than at the end of the prior financial year.

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

18. Other liabilities

Other liabilities as at 31 December 2006 amounted to PLN 457,926 thousand, representing an increase of PLN 93,033 thousand (25%) compared with the end of the prior year.

The increase of this position compared with 31 December 2005 was due to the increase in interbank settlements of PLN 46,265 thousand, up to PLN 112,429 thousand. The balance of accruals also increased by PLN 30,967 thousand. The increase was partly due to one-off events, such as recording an accrual for a penalty imposed by UOKiK (Office of Competition and Consumer Protection) of PLN 7,720 thousand, accruals for renovation costs accrual for the costs of preparing the Bank for commencing the provision of international services. At the same time, the balance of accruals increased due to the dynamic development of retail banking and the resulting increase in accruals for operating expenses. The increase in other liabilities was also due to a PLN 20,237 thousand increase in amounts due to employees, mainly in connection with creation of the bonus fund.

The increase was partly offset by a decrease in "Creditors" of PLN 17,673 thousand, mainly due to settling a liability related to the purchase of shares of TVN of PLN 32,820 thousand, which was partly offset by an increase of liabilities due to the settlement of payment cards of PLN 10,607 thousand in comparison to the previous year.

IV. Discussion of financial statement components (cont.)

19. Provisions

As at the balance sheet date, the balance of "Provisions" was PLN 67,374 thousand, representing a decrease of PLN 10,735 thousand (14%) compared with the end of the prior year.

The balance of provisions as at 31 December 2006 comprised provisions for off-balance sheet liabilities of PLN 53,370 thousand, provisions for disputes of PLN 5,352 thousand and other provisions for future liabilities of PLN 8,652 thousand.

Compared with the balance at 31 December 2005, the decrease in provisions resulted mainly from the decrease in provisions 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.)

21. Equity

	31.12.2005	Revenue (costs) recognized in equity	Capital increase due to exercising 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	(2,637)	6,596	-	-	-	**3,959**
Retained earnings	533,665	2,212	(7,904)	324,194	1	**852,168**
Total equity	**1,954,871**	**8,808**	**65,359**	**324,194**	**(159)**	**2,353,073**

As at the balance sheet date, "Equity" amounted to PLN 2,353,073 thousand (PLN 1,954,871 thousand as at 31 December 2005).

In the audited year, 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 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.)

21. Equity (cont.)

In the audited year, "Revaluation reserve" increased by PLN 6,596 thousand. The increase resulted from the valuation of the portfolio of available-for-sale financial assets in the net amount of PLN 6,158 thousand and recording foreign exchange gains related to shares held by the Bank in subordinated companies of PLN 438 thousand.

The change in the valuation of share options of PLN 2,212 thousand was transferred to retained earnings in the audited year. At the same time, this equity item decreased by PLN 7,904 thousand in connection with the transfer of the option valuation recorded in prior periods to share capital due to the options being exercised in the audited year.

Retained earnings increased by the amount of the Bank's net profit for 2006, which amounted to PLN 324,194 thousand.

22. Share capital – ownership structure

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

Shareholder	**Number of shares held**	**Par value of shares held**	**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 in the registered share capital 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% as at the end of the audited year.

IV. Discussion of financial statement components (cont.)

Income statement for the year ended 31 December 2006

23. Net interest income

Net interest income for the current year amounted to PLN 539,372 thousand (PLN 538,646 thousand in the prior financial year), representing an increase of PLN 726 thousand.

Net interest income remained on the same level as in the prior financial year, because in the audited year, interest expense increased with the same dynamics as interest income (an increase of 2 - 3%) and amounted to PLN 795,011 thousand and PLN 1,334,383 thousand respectively.

The largest increase as part of interest income took place in interest income from investment securities (an increase of PLN 54,427 thousand, i.e. 179%) and from cash and short-term deposits (an increase of PLN 19,634 thousand, i.e. 10%), which was partly offset by a decrease in interest income from held for trading debt securities (a decrease of PLN 57,071 thousand, i.e. 30%). The increase in interest income from investment securities and a parallel decrease in interest income from debt securities classified as held for trading was due to a change in the Bank's investing structure, as a result of which the percentage share of investment securities in total assets increased to 8%, accompanied by a decreased share of trading debt securities amounting to 10%.

Interest expense mainly comprised interest expense related to banks and customers amounting to PLN 718,856 thousand and was PLN 26,703 thousand (4%) higher than in the prior financial year, which was due to gaining a considerable amount of deposits both from other banks and from customers. The increase was partly offset by a decrease in interest expense on the issue of debt securities of PLN 6,214 thousand (62%) brought about by the redemption of certain debt securities in issue.

The Bank's interest margin (being the ratio of the net interest income to interest income) decreased by 1 percentage point compared with the prior year (i.e. from the level of 41% to 40%).

24. Net fee and commission income

In the current year, net fee and commission income amounted to PLN 279,617 thousand, representing an increase of PLN 42,511 thousand (i.e. 18% compared with the prior year).

The increase in net fee and commission income was due to an increase in fee and commission income of PLN 79,797 thousand, which was partly offset by a PLN 37,286 thousand increase in fee and commission expense.

The increase in this category of income was mainly due to the increase in income from payment card servicing (of PLN 27,986 thousand), other transactions (of PLN 27,665 thousand) and income from lending activities (of PLN 23,722 thousand), including

IV. Discussion of financial statement components (cont.)

24. Net fee and commission income (cont.)

income from agency services in mortgage loan insurance. The increase in income from servicing payment cards resulted from a dynamic increase in their number and the number of transactions performed using the cards, whereas the increase in other fee and commission resulted from the increased trading volumes in investment fund units.

Fee and commission expense in the current financial year was mainly attributable to costs of handling and insurance of payment cards, which increased by PLN 12,085 thousand (i.e. 19%) and other fees which increased by PLN 26,615 thousand (i.e. 107%) and which comprised, inter alia, fees to financial agents.

25. Dividend income

Dividend income for 2006 amounted to PLN 36,797 thousand and dropped by PLN 25,200 thousand (i.e. 41%) compared with 2005. The balance comprised dividends from Dom Inwestycyjny BRE Banku S.A. (PLN 11,079 thousand), PZU S.A. (PLN 10,166 thousand), BRE Leasing Sp. z o.o. (PLN 3.780 thousand). Dividends from other companies whose shares are held by the Bank amounted to PLN 11,772 thousand.

The decrease in dividend income resulted mainly from obtaining, in 2005, income from distribution of assets of liquidated companies: AMBRESA Sp. z o.o. - BRELLA Sp. k., BRELINVEST Sp. z o.o. - Fly 1 Sp. k. amounting to PLN 22,267 thousand, while the income resulting from wind-up of companies in the audited year amounted to PLN 711 thousand (income from distribution of assets of TV-Tech Investment 1 Sp. z o.o.).

26. Foreign exchange position

The foreign exchange position amounted to PLN 343,265 thousand, representing an increase of PLN 91,972 thousand (i.e. 37%) compared with 2005. The foreign exchange position comprised mainly gain on valuation of FX swaps of PLN 142,285 thousand, result on realized FX margins of PLN 129,332 thousand and realized foreign exchange gains of PLN 85,061 thousand. These gains were partly offset by a loss on valuation of CIRS transactions and FX options amounting to PLN 14,027 thousand.

The increase in the foreign exchange position was due to the increased result on FX valuation of some derivatives from minus PLN 99,631 thousand to PLN 127,909 thousand (an increase of PLN 227,540 thousand), accompanied by a PLN 135,568 thousand decrease to the level of PLN 215,356 thousand in the FX result, mainly on spot transactions.

IV. Discussion of financial statement components (cont.)

27. Net other trading income

Net other trading income amounted to PLN 36,692 thousand in 2006, representing an increase of PLN 62,509 thousand compared with the prior financial year.

The largest increase related to the result on interest rate instruments, which amounted to PLN 21,512 thousand and increased by PLN 33,900 thousand compared with 2005. The result on interest rate instruments comprised gain on derivatives of PLN 21,569 thousand, which was offset by a loss incurred on money market instruments of PLN 57 thousand.

The result on market risk-related instruments, which amounted to PLN 8,874 thousand in 2006 was the second largest component of net other trading income, and it increased by PLN 18,342 thousand compared with 2005. Net gains from equity securities amounted to PLN 6,306 thousand and were PLN 10,267 thousand higher than in 2005.

28. Net profit / (losses) on investment securities

In 2006, the Bank earned a profit on investment securities of PLN 40,115 thousand, representing a PLN 39,741 thousand increase compared with the prior financial year. The profit comprised mainly net gain on sale of shares of PLN 41,696 thousand, less impairment losses of PLN 1,581 thousand.

Gain on disposal of shares comprised mainly gain on redemption by Skarbiec Asset Management Holding S. A. of its treasury shares for cancellation, which amounted to PLN 18,407 thousand. Additionally in 2006, the Bank realized a gain on sale of shares in Novitus S.A. in the amount of PLN 11,699 thousand. The increase in net profit on investment securities was also due to the reversal of an impairment write-down of PLN 6,239 thousand in respect of shares in a subsidiary BRELIM Sp. z o.o. due to the cessation of the indications of impairment.

29. Other operating income

Other operating income amounted to PLN 63,244 thousand and went up by PLN 24,395 thousand (i.e. by 63%) compared with 2005. The largest increase of PLN 12,024 thousand took place in the balance of income from release of provisions for future liabilities, mainly due to reaching a settlement with PTU Ergo Hestia. At the same time, the increase was the result of achieving PLN 5,175 thousand higher income from the sale and scrapping of PPE items, intangible assets and disposal assets than in the prior year, obtained mainly from the transaction of selling real estate owned by the Bank. The increase in other operating income was additionally due to a transaction of selling the right of perpetual usufruct of land for PLN 10,684 thousand.

IV. Discussion of financial statement components (cont.)

30. Net impairment losses on loans and advances

Net impairment losses comprised impairment losses on loans and advances to customers and banks and additional provisions for off-balance sheet liabilities recognised during the year. The net surplus of impairment losses on loans and advances over provisions released during the year amounted to PLN 26,149 thousand, compared with the net surplus of impairment losses on loans and advances of PLN 53,392 thousand in the prior year.

In the audited year, the balance comprised the cost of recording impairment-write downs of loans to other banks of PLN 4,975 thousand and net impairment write-downs of loans and advances to customers recorded and released of PLN 21,174 thousand. The decrease in the balance resulted mainly from releasing the write-downs recorded against exposures analyzed on a portfolio basis of PLN 20,337 thousand as a result of an improved quality of the loan portfolio, as discussed in Note 5.

31. General administrative expenses

In the audited year, general and administrative expenses amounted to PLN 697,527 thousand and were PLN 61,537 thousand (i.e. 10%) higher than in the prior year.

The increase was mainly attributable to an increase in personnel costs of PLN 37,897 thousand (12%) to PLN 350,089 thousand, as a result of increase of wages and salaries of PLN 21,534 thousand, which resulted from the increased number of full-time positions by 9%. Simultaneously, the bonus fund Increased by PLN 11,081 thousand in the audited year.

32. Amortization and depreciation

Amortization and depreciation expense amounted to PLN 135,779 thousand and went up by PLN 16,289 thousand compared with the prior year (i.e. by 14%).

Amortization and depreciation charges comprised amortization of intangible assets of PLN 67,000 thousand and depreciation of property, plant and equipment of PLN 68,779 thousand.

33. Other operating expenses

Other operating expenses increased from PLN 43,429 thousand in 2005 to PLN 73,276 thousand in 2006.

The increase was mainly the result of incurring PLN 13,526 thousand higher expenses in respect of paid compensation and penalties, including the penalty imposed by UOKiK. Moreover, the increase of operating expenses was due to increased provisions for future liabilities of PLN 11,099 thousand including provisions against legal risk and PLN 5,941 thousand higher expenses in respect of sale and scrapping of PPE items, intangible assets and disposal assets resulting mainly from selling real estate owned by the Bank.

IV. Discussion of financial statement components (cont.)

33. Other operating expenses (cont.)

Additionally, other operating expenses comprised expenses related to a transaction for selling the right of perpetual usufruct of land for PLN 8,023 thousand.

Detailed information on other operating expenses is provided in Note 11 to the Bank's financial statements.

34. 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	18,799	48,369	(29,570)
Deferred tax	63,378	(5,532)	68,910
Corporate income tax expense	**82,177**	**42,837**	**39,340**

In the financial year, corporate income tax was calculated using the 19% rate on the basis of the profit before tax determined pursuant to the International Financial Reporting Standards as adopted by the European Union, and adjusted for non-taxable income and non-deductible costs. During the year 2006, the Bank withheld corporate income tax, which reduced the balance of corporate income tax due, amounting to PLN 11,543 thousand as at the balance sheet date.

The decrease of corporate income tax by PLN 29,570 thousand in comparison to the previous year resulted mainly from considering as taxable income in year 2005 the income from the winding up of the entities: AMRESA Sp. z o.o. – BRELLA Sp. k. and BRELINVEST Sp. z o.o. - Fly1 Sp. k. (no such taxable income was recognized in 2006).

The balance of deferred tax mainly comprised deductible temporary differences, which amounted to PLN 158,916 thousand in comparison to PLN 170,261 thousand as at 31 December 2005. Temporary differences related to impairment losses of loans and off-balance sheet liabilities, which have not been recognized as tax-deductible costs so far (PLN 55,240 thousand), valuation of derivatives and forward contracts (PLN 23,484 thousand) and provisions recorded for bonuses, retirement bonuses and unused holidays (PLN 18,559 thousand).

The taxable temporary differences amounted to PLN 149,196 thousand as at the end of year 2006, which meant the increase of PLN 62,885 thousand in comparison to the end of the previous year. They comprised mainly valuation of derivatives and forward contracts (PLN 46,041 thousand), differences between depreciation charges for tax and accounting purposes (PLN 32,488 thousand) and the balance of unsettled investment relief (PLN 31,146 thousand). The increase of taxable temporary differences resulted from the increase of valuation of derivatives and forward contracts by PLN 46,041 thousand.

IV. Discussion of financial statement components (cont.)

34. Corporate income tax (cont.)

In connection with net deductible temporary differences as at the end of 2006, the Bank recognized a deferred tax asset of PLN 9,720 thousand (PLN 83,950 thousand at the end of 2005).

The effective corporate income tax rate was 20.22%. The difference between the effective tax rate and the standard tax rate of 19% was mainly attributable to the fact that the current tax computation excludes non-taxable income of PLN 46,790 thousand and non-deductible costs of PLN 60,956 thousand in accordance with the Corporate Income Tax Act.

More detailed breakdown of the deferred tax charged to the income statement for 2006 and 2005 is presented in Notes 14 and 35 to the Bank's financial statements.

35. Net profit for the year

The net profit for the audited year amounted to PLN 324,194 thousand.

According to Resolution No. 2 of the General Shareholders' Meeting of 16 March 2006, net accumulated losses of PLN 257,000 thousand were partly offset with net profit for 2005 amounting to PLN 207,310 thousand.

36. Off-balance sheet items

As at the balance sheet date, "Off-balance sheet items" amounted to PLN 557,498,383 thousand, which represented an increase in relation to the balance as at the prior year-end of PLN 150,808,714 thousand (i.e. 37%). Detailed information on the balance is presented in Note 36 to the Bank's financial statements.

As at 31 December 2006, "Commitments related to purchase/sale transactions", involving derivatives and amounting to PLN 542,547,690 thousand (97% of the total balance) were the major component of "Off-balance sheet items".

V. The independent registered auditor's statement

(a) The Management Board of the Bank 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 accounting records 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 Bank has up-to-date documentation of its accounting policies, approved by the Management Board. The Bank's accounting policies were tailored to its needs and ensured the specification of all the events material to the assessment of its financial position and results, taking into consideration the prudence principle. There were no changes to the accounting policies compared with the prior year.

(d) The closing balances as at the end of the prior year were correctly brought forward as the opening balances of the current financial year in all material respects.

(e) We have assessed the operation of the accounting system. Our assessment covered in particular:
- the accuracy of the documentation relating to business transactions;
- the fairness, accuracy and verifiability of the accounting records, including computerized accounting records;
- the methods used for controlling access to data and computerized data processing systems;
- the safeguarding of accounting documentation, accounting records and the financial statements.

This assessment together with our verification of individual items of the financial statements is a basis for expressing a general, comprehensive and unqualified opinion on the truth and fairness of these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said system.

(f) The notes to the financial statements present all significant information required by IFRS, as adopted by the European Union.

(g) The Directors' Report of the Bank 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. The financial information presented therein is consistent with that presented in the financial statements.

(h) Counts of assets and equity and liabilities were carried out and reconciled in accordance with the Accounting Act, and their results were included in the accounting records for the audited year.

(i) The minimum regulatory requirement, together with the requirement concerning the risk of excessive capital exposure, amounted to PLN 1,873,263 thousand as at the balance sheet date. The capital adequacy ratio was 11.07% as at 31 December 2006. As at the balance sheet date, the Bank complied with the applicable prudence standards in all material respects.

V. The independent registered auditor's statement (cont.)

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

(k) The financial statements of the Bank as at and for the year ended 31 December 2005 were approved by Resolution No. 1 passed by the General Shareholders' Meeting on 15 March 2006. The financial statements were filed with the National Court Register in Warsaw on 22 March 2006 and published in *Monitor Polski B* no. 775 on 23 August 2006.