BRE BANK SA

BRE Bank SA

IFRS Financial Statements 2006

Contents

Selected financial data

SELECTED FINANCIAL DATA FOR THE BANK		in'000 PLN		in'000 EUR	
		Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2005
I.	Interest income	**1 334 383**	**1 313 622**	**342 228**	**326 504**
II.	Fee and commission income	**415 391**	**335 594**	**106 535**	**83 413**
III.	Net trading income	**379 957**	**225 476**	**97 447**	**56 043**
IV.	Operating profit	**406 371**	**250 147**	**104 222**	**62 175**
V.	Profit before income tax	**406 371**	**250 147**	**104 222**	**62 175**
VI.	Net profit (loss)	**324 194**	**207 310**	**83 146**	**51 527**
VII.	Cash flows from operating activities	**(1 939 081)**	**(2 251 305)**	**(497 314)**	**(559 566)**
VIII.	Cash flows from investing activities	**(268 237)**	**(37 260)**	**(68 795)**	**(9 261)**
IX.	Cash flows from financing activities	**3 017 780**	**440 770**	**773 968**	**109 554**
X.	Net increase / decrease in cash and cash equivalents	**810 462**	**(1 847 795)**	**207 859**	**(459 273)**
XI.	Total assets	**36 862 230**	**30 136 145**	**9 621 589**	**7 807 696**
XII.	Amounts due to the Central Bank	**-**	**-**	**-**	**-**
XIII.	Amounts due to other banks	**5 186 286**	**2 265 853**	**1 353 698**	**587 039**
XIV.	Amounts due to customers	**25 934 634**	**22 747 932**	**6 769 324**	**5 893 552**
XV.	Equity	**2 353 073**	**1 954 871**	**614 187**	**506 470**
XVI.	Share capital	**118 064**	**115 936**	**30 816**	**30 037**
XVII.	Number of shares	**29 516 035**	**28 983 972**	**29 516 035**	**28 983 972**
XVIII.	Book value per share (in PLN/EUR per share)	**79.72**	**67.45**	**20.81**	**17.47**
XIX.	Diluted book value per share (in PLN/EUR per share)	**79.25**	**67.22**	**20.69**	**17.42**
XX.	Capital adequacy ratio	**11.07**	**12.87**	**11.07**	**12.87**
XXI.	Earnings per 1 ordinary share (in PLN/EUR per share) (for 12 months)	**11.05**	**7.20**	**2.83**	**1.79**
XXII.	Diluted earnings per 1 ordinary share (in PLN/EUR per share) (for 12 months)	**10.98**	**7.18**	**2.82**	**1.78**
XXIII.	Declared or paid dividend per share (in PLN/EUR per share)	**-**	**-**	**-**	**-**

IFRS Financial Statements 2006 PLN (000's)

Profit and Loss Account

Profit and Loss Account for the 2006 and 2005

	Note	Year ended 31 December 2006	2005
Interest income	5	1 334 383	1 313 622
Interest expense	5	(795 011)	(774 976)
Net interest income		**539 372**	**538 646**
Fee and commission income	6	415 391	335 594
Fee and commission expense	6	(135 774)	(98 488)
Net fee and commission income		**279 617**	**237 106**
Dividend income	7	36 797	61 997
Net trading income	8	379 957	225 476
Foreign exchange result		*343 265*	*251 293*
Other trading income		*36 692*	*(25 817)*
Gains less losses from investment securities	22	40 115	374
Other operating income	9	63 244	38 849
Impairment losses on loans and advances	13	(26 149)	(53 392)
Overhead costs	10,12	(697 527)	(635 990)
Amortization and depreciation	25,26	(135 779)	(119 490)
Other operating expenses	11	(73 276)	(43 429)
Operating profit		**406 371**	**250 147**
Profit before income tax		**406 371**	**250 147**
Income tax expense	14	(82 177)	(42 837)
Net profit (loss)		**324 194**	**207 310**
Net profit (loss)		**324 194**	**207 310**
Weighted average number of ordinary shares		**29 344 158**	**28 780 011**
Earnings per 1 ordinary share (in PLN per share)	15	**11.05**	**7.20**
Weighted average number of ordinary shares for diluted earnings		**29 518 255**	**28 878 173**
Diluted earnings per 1 ordinary share (in PLN per share)	15	**10.98**	**7.18**

IFRS Financial Statements 2006 PLN (000's)

Balance Sheet

Balance Sheet as at 31 December 2006 and 31 December 2005

	Note	31.12.2006	31.12.2005
ASSETS			
Cash and balances with Central Bank	16	3 710 737	1 776 340
Debt securities eligible for rediscounting at the Central Bank	17	26 725	37 464
Loans and advances to banks	18	3 003 226	4 689 765
Trading securities	19	3 519 954	5 014 653
Derivative financial instruments	20	1 411 030	1 264 500
Loans and advances to customers	21	17 689 756	12 979 559
Investment securities	22	2 957 221	1 055 174
- Available for sale		2 957 221	1 055 174
Non-current assets held for sale	28	361 855	310 510
Pledged assets	36	2 701 491	1 516 212
Investments in subsidiaries	23	433 343	285 251
Investments in associates	24	-	5 649
Intangible assets	25	356 136	368 504
Tangible fixed assets	26	470 926	484 071
Deferred income tax assets	35	9 720	83 950
Other assets	27	210 110	264 543
Total assets		**36 862 230**	**30 136 145**
EQUITY AND LIABILITIES			
Amounts due to other banks	29	5 186 286	2 265 853
Derivative financial instruments and other trading liabilities	20	1 267 825	1 270 414
Amounts due to customers	30	25 934 634	22 747 932
Debt securities in issue	31	36 215	91 545
Subordinated liabilities	32	1 547 354	1 362 528
Other liabilities	33	457 926	364 893
Current income tax liabilities		11 543	-
Provisions	34	67 374	78 109
Total liabilities		**34 509 157**	**28 181 274**
Equity			
Share capital		**1 496 946**	**1 423 843**
- Registered share capital	37	118 064	115 936
- Share premium	38	1 378 882	1 307 907
Revaluation reserve	39	**3 959**	**(2 637)**
Retained earnings:	40	**852 168**	**533 665**
- Profit (loss) for the previous year		527 974	326 355
- Net profit (loss) for the current year		324 194	207 310
Total equity		**2 353 073**	**1 954 871**
Total equity and liabilities		**36 862 230**	**30 136 145**
Capital adequacy ratio	46	**11.07**	**12.87**
Book value		**2 353 073**	**1 954 871**
Number of shares		**29 516 035**	**28 983 972**
Book value per share (in PLN)		**79.72**	**67.45**
Diluted number of shares		**29 690 132**	**29 082 134**
Diluted book value per share (in PLN)		**79.25**	**67.22**

Statements of changes in equity

Changes in equity from 1 January 2006 to 31 December 2006 (in PLN 000's)

	Note	Share capital		Other capital and reserves	Retained earnings					Total
		Registered share capital	Share premium (aggio)		Supplementary capital	Other reserve capital	General risk fund	Profit (loss) from previous year	Profit (loss) for the current year	
Equity as at 1 January 2006		**115 936**	**1 307 907**	**(2 637)**	**12 388**	**12 967**	**558 000**	**(49 690)**		**1 954 871**
- reclassification to book value through profit and loss account		-	-	-	-	-	-	-	-	**-**
- changes to accounting policies		-	-	-	-	-	-	-	-	**-**
- adjustment of errors		-	-	-	-	-	-	-	-	**-**
Adjusted equity as at 1 January 2006		**115 936**	**1 307 907**	**(2 637)**	**12 388**	**12 967**	**558 000**	**(49 690)**		**1 954 871**
Net change in investments available for sale, net of tax	39	-	-	6 158	-	-	-	-	-	**6 158**
Net change in cash flow hedges, net of tax		-	-	-	-	-	-	-	-	**-**
Currency translation differences	39	-	-	438	-	-	-	-	-	**438**
Net profit not recognised in income statement				6 596						**6 596**
Net profit (loss)	40								324 194	**324 194**
Total profit recognised in current year				6 596					324 194	**330 790**
Dividends paid		-	-	-	-	-	-	-	-	**-**
Transfer to General Banking Risk Fund		-	-	-	-	-	-	-	-	**-**
Transfer to reserve capital		-	-	-	-	-	-	-	-	**-**
Transfer to supplementary capital		-	-	-	-	-	-	-	-	**-**
Loss coverage with reserve capital		-	-	-	-	-	-	-	-	**-**
Loss coverage with supplementary capital		-	-	-	-	-	-	-	-	**-**
Issue of shares	37	2 128	63 231	-	-	-	-	-	-	**65 359**
Redemption of shares		-	-	-	-	-	-	-	-	**-**
Purchase/sale of own shares		-	-	-	-	-	-	-	-	**-**
Issue expenses		-	-	-	-	-	-	-	-	**-**
Additional shareholder payments		-	-	-	-	-	-	-	-	**-**
Other changes		-	(160)	-	-	-	-	1	-	**(159)**
Stock option program for employees	40	-	7 904	-	-	(5 692)	-	-	-	**2 212**
- value of services provided by the employees		-	-	-	-	2 212	-	-	-	**2 212**
- settlement of exercised options		-	7 904	-	-	(7 904)	-	-	-	**-**
Equity as at 31 December 2006		**118 064**	**1 378 882**	**3 959**	**12 388**	**7 275**	**558 000**	**(49 689)**	**324 194**	**2 353 073**

Changes in equity from 1 January 2005 to 31 December 2005 (in PLN 000's)

	Note	Share capital		Other capital and reserves	Retained earnings					Total
		Registered share capital	Share premium (aggio)		Supplementary capital	Other reserve capital	General risk fund	Profit (loss) from previous year	Profit (loss) for the current year	
Equity as at 1 January 2005		**114 853**	**1 271 164**	**3 460**	**12 388**	**204 097**	**558 000**	**(361 661)**	-	**1 802 301**
- reclassification to book value through profit and loss account		-	-	-	-	-	-	-	-	-
- changes to accounting policies		-	-	-	-	-	-	**(84 070)**	-	**(84 070)**
- adjustment of errors		-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2005		**114 853**	**1 271 164**	**3 460**	**12 388**	**204 097**	**558 000**	**(445 731)**	-	**1 718 231**
Net change in investments available for sale, net of tax	39	-	-	(3 107)	-	-	-	-	-	**(3 107)**
Net change in cash flow hedges, net of tax		-	-		-	-	-	-	-	-
Currency translation differences	39	-	-	(2 990)	-	-	-	-	-	**(2 990)**
Net profit not recognised in income statement				(6 097)						**(6 097)**
Net profit (loss)	40								207 310	**207 310**
Total profit recognised in current year				(6 097)					207 310	**201 213**
Dividends paid		-	-	-	-	-	-	-	-	-
Transfer to General Banking Risk Fund		-	-	-	-	-	-	-	-	-
Transfer to reserve capital		-	-	-	-	-	-	-	-	-
Transfer to supplementary capital		-	-	-	-	-	-	-	-	-
Loss coverage with reserve capital		-	-	-	-	(188 757)	-	188 757	-	-
Loss coverage with supplementary capital		-	-	-	-	-	-	-	-	-
Issue of shares	37	1 083	29 834	-	-	-	-	-	-	**30 917**
Redemption of shares		-	-	-	-	-	-	-	-	-
Purchase/sale of own shares		-	-	-	-	-	-	-	-	-
Issue expenses		-	-	-	-	-	-	-	-	-
Additional shareholder payments		-	-	-	-	-	-	-	-	-
Other changes		-	-	-	-	-	-	(26)	-	**(26)**
Stock option program for employees	40	-	6 909	-	-	(2 373)	-	-	-	**4 536**
- value of services provided by the employees		-	-	-	-	4 536	-	-	-	**4 536**
- settlement of exercised options		-	6 909	-	-	(6 909)	-	-	-	-
Equity as at 31 December 2005		**115 936**	**1 307 907**	**(2 637)**	**12 388**	**12 967**	**558 000**	**(257 000)**	**207 310**	**1 954 871**

IFRS Financial Statements 2006 (PLN 000's)

Cash Flow Statement

Cash Flow Statement for the year 2006 and 2005

	Note	Year ended 31 December 2006	2005
A. Cash flow from operating activities - indirect method		**(1 939 081)**	**(2 251 305)**
Profit before income tax		**406 371**	**250 147**
Adjustments:		***(2 345 452)***	***(2 501 452)***
Income taxes paid (negative amount)		33 900	(35 812)
Amortisation		135 779	119 490
Foreign exchange gains (losses)		(16 306)	(138 984)
Gains (losses) on investing activities		(18 442)	(17 282)
Impairment of financial assets		1 308	36 436
Dividends received		(36 594)	(61 281)
Interest paid		931 569	724 771
Net (increase)/decrease in loans and advances to banks		197 113	(495 848)
Net (increase)/decrease in trading securities		687 176	(2 856 585)
Net (increase)/decrease in derivative financial instruments		(146 530)	532 324
Net (increase) in loans and advances to customers		(4 711 525)	(1 344 026)
Net (increase) in investment securities		(1 897 355)	(209 032)
Net decrease in other assets		48 934	111 029
Net (decrease) in amounts due to other banks		(29 015)	(1 158 618)
Net (decrease) in financial instruments and other trading liabilities		(2 589)	(343 048)
Net increase in amounts due to customers		2 447 945	2 753 899
Net (decrease) in debt securities in issue		(55 330)	(316 011)
Net (decrease) in provisions		(10 735)	(555)
Net increase in other liabilities		95 245	197 681
Net cash from operating activities		**(1 939 081)**	**(2 251 305)**
B.Cash flows from investing activities		**(268 237)**	**(37 260)**
Investing activity inflows		**121 343**	**154 214**
Disposal of shares in associates		10 944	-
Disposal of shares in subsidiaries, net of cash disposed		55 078	62 469
Proceeds from sale of intangible assets and tangible fixed assets		13 712	7 492
Other investing inflows		41 609	84 253
Investing activity outflows		**389 580**	**191 474**
Acquisition of associates		38	-
Acquisition of subsidiaries, net of cash acquired		230 540	11 173
Purchase of intangible assets and tangible fixed assets		75 221	100 611
Other investing outflows		83 781	79 690
Net cash used in investing activities		**(268 237)**	**(37 260)**
C. Cash flows from financing activities		**3 017 780**	**440 770**
Financing activity inflows		**4 367 583**	**607 646**
Proceeds from loans and advances from other banks		4 112 064	49 924
Proceeds from other loans and advances		-	120 975
Increase of subordinated liabilities		190 160	405 830
Issue of ordinary shares		65 359	30 917
Financing activity outflows		**1 349 803**	**166 876**
Repayments of loans and advances from other banks		1 174 565	4 876
Repayments of other loans and advances		71 535	50 548
Other financing outflows		103 703	111 452
Net cash from financing activities		**3 017 780**	**440 770**
Net increase / decrease in cash and cash equivalents (A+B+C)		**810 462**	**(1 847 795)**
(Decrease)/increase in cash and cash equivalents in respect of foreign exchange gains and losses		1 526	(3 325)
Cash and cash equivalents at the beginning of the reporting period		8 139 020	9 990 140
Cash and cash equivalents at the end of the reporting period	42	**8 951 008**	**8 139 020**

Notes presented on pages 9 – 66 constitute an integral part of these Financial Statements.

Explanatory Notes to the Financial Statements

1. Information concerning BRE Bank SA

Bank Rozwoju Eksportu S.A. (Export Development Bank) was established by Resolution of the Council of Ministers N° 99 of 20 June 1986. The Bank was registered pursuant to the legally valid decision of the District Court for the Capital City of Warsaw, 16th (Commercial) Division on 23 December 1986 in the Business Register under the number RHB 14036. The 9th Extraordinary Meeting of Shareholders held on 4 March 1999 adopted the resolution changing the Bank's name to BRE Bank SA ("Bank"). The new name of the Bank was entered in the Business Register on 23 March 1999. On 11 July 2001, the District Court in Warsaw issued the decision on the entry of the Bank in the National Court Registry (KRS) under number KRS 0000025237.

According to the Polish Classification of Business Activities, the business of the Bank was classified as "Other banking business" under number 6512A. According to the Stock Exchange Quotation, the Bank is classified as pertaining to the "Banks" sector of the "Finance" macro-sector.

According to the Bylaws of the Bank, the scope of its business consists of providing banking services and consulting-advisory services in financial matters, as well as the conduct of business activities within the scope described in its Bylaws. The Bank operates within the scope of corporate, investment and retail banking throughout the whole country.

The Bank provides services to Polish and international corporations and individuals, both in the local currency (Polish Zloty, PLN) and in foreign currencies. In particular, the Bank supports all kinds of activities leading to the development of exports.
The Bank may open and maintain accounts with Polish and foreign banks, as well as having the right to possess foreign exchange assets and to trade with them.

The head office of the Bank is located at 18 Senatorska St., Warsaw, Poland.

The shares of the Bank are listed by the Warsaw Stock Exchange.

The average employment in 2006 in Bank was 3 803 persons (2005: 3 410).

The Management Board approved these Financial Statements on February 28, 2007.

2. Description of Relevant Accounting Policies

The most important accounting policies applied to the drafting of these Financial Statements are presented below. These principles were applied consistently over all of the presented periods, unless indicated otherwise.

2.1. Accounting Basis

These Financial Statements of BRE Bank have been prepared for the year ended 31 December 2006.

These Financial Statements of the BRE Bank have been prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, according to the historical cost method, as modified by the revaluation of available for sale financial assets, financial assets and financial liabilities measured at fair value through the profit or loss, as well as all derivative contracts.

The drafting of financial statements in compliance with IFRS requires application of specific accounting estimates. It also requires the Management to apply its own judgment when applying the accounting policies adopted by the Bank. The issues in relation to which a greater degree of judgment is required, more complex issues, or such issues which involve a significant degree of application of estimates or judgments for the purpose of the Financial Statements are disclosed in Note 4.

2.2. Interest Income and Expenses

All interest proceeds linked with financial instruments valued at amortised cost using the effective interest rate method are recognised in the Profit and Loss Account.

The effective interest rate method is a method of calculation of the amortised initial value of financial assets or financial liabilities and allocation of interest income or interest expenses to the proper periods. The effective interest rate is the interest rate at which the discounted future payments or future cash inflows are equal to the net present carrying value of the respective financial asset or liability. When calculating the effective interest rate, the Bank estimates the cash flows taking into account all the contractual conditions attached to the given financial instrument (e.g., earlier redemption options), but without taking into account the possible future losses on account of non-recovered loans. This calculation takes into account all the fees paid or received between the contracting parties, which constitute an integral component of the effective interest rate, as well as transaction expenses and any other premiums or discounts.

Following the recognition of an impairment loss on a financial asset or a group of similar financial assets, the subsequent interest income is measured according to the interest rate at which the future cash flows were discounted for the purpose of valuation of impairment.

Interest income includes interest and commissions received or due on account of loans, inter-bank deposits or investment securities recognised in the calculation of the effective interest rate.

Interest income, including interest on loans, is recognised in the Profit and Loss Account, and on the other side in the Balance Sheet as receivables from banks or from other customers.

Interest income on impaired loans is recognised using the interest used to discount the future cash flows for the purpose of measuring impairment loss.

Relating the effective interest rate only the terms of closely related embedded derivatives are considered.

2.3. Fee and Commission Income

Income on account of fees and commissions is basically recognised on the accrual basis, at the time of performance of the respective services. Fees charged for the opening of credit concerning loans which will most probably actually be used are deferred (together with the respective direct costs) and recognised as adjustments of the effective interest rate charge on the loan. Fees on account of syndicated loans are recognised as income at the time of closing of the process of organisation of the respective syndicate, if the Bank has not retained any part of the credit risk on its own account or has retained a part with the same effective interest rate as other participants. Commissions and fees on account of negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the acquisition of shares or other securities, or the acquisition or disposal of an enterprise, are recognised at the time of realisation of the respective transaction. Fees on account of portfolio management and fees for management and consulting are recorded on the basis of the respective contracts for the provision of services, usually pro rata to time. Fees for the management of the assets of investment funds are recognised on a straight-line basis over the period of performance of the respective services. The same principle is applied in the case of management of client assets, financial planning and custody services, that are continuously provided over an extended period of time.

Commissions comprise payments collected by the Bank on account of cash management operations, keeping of customer accounts, managing bank transfers and providing letters of credit. Moreover, commissions comprise revenues from brokerage business activities, as well as commissions received through pension funds.

2.4. Financial Assets

The Bank classifies its financial assets to the following categories: financial assets valued at fair value through the Profit and Loss Account, loans and receivables, investments held to maturity; available for sale financial assets. The classification of investments is determined by the Management at the time of their initial recognition.

<u>Financial assets valued at fair value</u>

This category comprises two subcategories: financial assets held for trading and financial assets designated at fair value through Profit and Loss Account at inception. A financial asset is classified in this category if it was acquired principally for the purpose of short-term resale. Derivative instruments are also classified as "held for trading", unless they were designated for hedging.

Disposals of debt securities held for trading are accounted according to the weighted average method.

The Bank classifies financial assets/financial liabilities as measured at fair value through profit and loss if they meet either of the following conditions:

a) assets/liabilities are classified as held for trading i.e.: they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term, they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making or they are derivatives (except for derivatives that are designated and being effective hedging instruments),
b) upon initial recognition, assets/liabilities are designated by the entity at fair value through profit and loss.

If a contract contains one or more embedded derivatives, the Bank may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless:

a) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or
b) it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

The Bank may also designate the financial assets / liabilities at fair value through profit or loss when doing so results in more relevant information, because either

a) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Interest income and expense from financial assets measured at fair value are presented in net interest income. Valuation and gains and losses from sale of financial assets measured at fair value are presented in net trading income.

The Bank did not recognize any assets/liabilities at fair value through profit and loss.

Loans and Receivables

Loans and receivables consist of financial assets not classified as derivative instruments, with payments either determined or possible to determine, not listed on an active market. They arise when the Bank supplies monetary assets, goods or services directly to the debtor, without any intention of trading the receivable.

Held to Maturity Investments

Investments held to maturity comprise financial assets, not classified as derivative instruments, where the payments are determined or possible to determine and specified maturity dates, which the Management of the Bank intends and is capable of holding until their maturity.

In the case of sale by the Bank of a part of assets held to maturity, which cannot be deemed insignificant, the held to maturity portfolio is tainted, and therewith all the assets of this category are reclassified to the available for sale category.

Available for Sale Investments

Available for sale investments consist of investments which the Bank intends to hold for an undetermined period of time. They may be sold, e.g., in order to improve liquidity, in reaction to changes of interest rates, foreign exchange rates, or prices of equity instruments.

Interest income and expense from available for sale investments are presented in net interest income. Valuation and gains and losses from sale of available for sale investments are presented in gains and losses from investments securities.

Transactions consisting of buying and selling on a regular way of financial assets valued at fair value through the Profit and Loss Account, held to their maturity date, and available for sale are recognised at the date of transaction – the date on which the Bank commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. A financial asset or financial liability is recognised initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit and loss, transaction costs. Financial assets are derecognised when the rights to receive cash flows have expired or where the Bank has transferred substantially all rights and rewards of ownership.

Available for sale financial assets and financial assets measured at fair value through the Profit and Loss Account are valued at the Balance Sheet date according to their fair value. Loans and receivables, as well as investments held to maturity are measured at adjusted cost of acquisition (amortised cost), applying the effective interest rate method. Profits and losses resulting from changes in the fair value of "financial assets measured at fair value through the Profit and Loss Account" are recognised in the Profit and Loss Account in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in equity until the derecognition of the respective financial asset in the Balance Sheet or until its impairment: at such time the aggregate net gain or loss previously recognised in equity is now recognised in the Profit and Loss Account. However, interest calculated using the effective interest rate is recognised in the Profit and Loss Account. Dividends on available for sale equity instruments are recognised in the Profit and Loss Account when the entity’s right to receive payment is established.

The fair value of quoted investments in active markets is based on current bid prices. If the market for a given financial asset is not an active one (and also in the case of securities that are not listed), the Bank determines the fair value by applying valuation techniques. These comprise recently conducted transactions concluded according to normal market principles, reference to other instruments, discounted cash flow analysis, as well as valuation models for options and other valuation methods generally applied by market participants.

Investments in subsidiaries and associaties are presented at cost less any impairment loss.

2.5. Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.6. Impairment of Financial Assets

Assets Carried at Amortised Cost

At each Balance Sheet date, the Bank estimates whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

a) significant financial difficulties of an issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) concessions granted by the Bank to a borrower caused by the economic or legal aspects of such borrower's financial difficulties, which would not have been taken into account under different circumstances;
d) probability of bankruptcy or other financial reorganisation of the debtor;
e) disappearance of the active market for the respective financial asset caused by financial difficulties; or
f) noticeable data indicating a measurable decrease of estimated future cash flows attached to a group of financial assets since the time of their initial recognition, even if such reduction cannot yet be assigned to particular items of the respective group of financial assets, including:
   - adverse changes in the payment status of borrowers; or
   - economic situation of the country or on the local market causing the impairment of assets belonging to the respective group.

The Bank first assesses whether objective indications exist individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that for the given financial asset assessed individually there are no objective indications of its impairment (regardless of whether that particular item is material or not), the given asset is included in a group of financial assets featuring similar credit risk characteristics, which is subsequently collectively assessed in terms of its possible impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

In the event of existence of objective evidence indicating the impairment of loans and receivables or investments held to maturity and recognised at amortised cost, the impairment amount is calculated as the difference between the carrying value in the Balance Sheet of the respective asset and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account, and the resulting impairment loss is charged to the Profit and Loss Account. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of collective evaluation of impairment, the credit exposures are grouped in order to ensure the uniformity of credit risk attached to the given portfolio. Many different parameters may be applied to the grouping into homogeneous portfolios, e.g., the type of counterparty, the type of exposure, estimated probability of default, the type of security provided, overdue status outstanding, maturities and their combinations. Such features influence the estimation of the future cash flows attached to specific groups of assets as they indicate the capabilities of repayment on the part of debtors of their total liabilities in conformity with the terms and conditions of the contracts concerning the assessed assets.

Future cash flows concerning groups of financial assets assessed collectively in terms of their possible impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

For the purpose of calculation of the amount to be provisioned against balance sheet exposures analysed collectively, the probability of default (PD) method has been applied. By proper calibration of PD values, taking into account characteristics of specific products and emerging periods for losses on those products, such PD values allow already arisen losses to be identified and cover only the period in which the losses arising at the date of establishment of impairment should crystallise.

When a loan is uncollectible, it is written off against the related provision for impairment. Before any loan is written off, it is necessary to conduct all the required procedures and to determine the amount of the loss. Subsequent recoveries of amounts previously written off decrease (in accordance with IAS 39) the amount of the provision for loan impairment in the Profit and Loss Account.

If in a subsequent period the impairment loss amount is decreasing and the decrease can be related objectively to an event occurring after the impairment was recognised (e.g., improvement of the debtor's credit rating), then the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the Profit and Loss Account.

Assets Measured at Fair Value

At each Balance Sheet date the Bank estimates whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If such kind of evidence concerning available for sale financial assets exists, the cumulative loss – determined as the difference between the cost of acquisition and the current fair value, less any impairment loss on that financial asset previously recognised in the Profit and Loss Account – is removed from equity and recognised in the Profit and Loss Account. Impairment losses concerning equity instruments recorded in the Profit and Loss Account are not reversed through the Profit and Loss Account, but through equity. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and such increase can be objectively related to an event occurring after the recording of the impairment loss in the Profit and Loss Account, then the respective impairment loss is reversed in the Profit and Loss Account.

2.7. Financial Guarantee Contracts

In accordance with Amendment to IAS 39, which came into force at 1st January 2006, the Bank has an obligation to recognize financial guarantee contract in its financial statements.

The financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

When a financial guarantee contract is recognized initially, it is measured at the fair value. After initial recognition, an issuer of such a contract, measures it at the higher of:

1. the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and
2. the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 *Revenue.*

2.8. Cash and Cash Equivalents

Cash and cash equivalents comprise items with maturities of up to three months from the date of their acquisition, including: cash in hand and cash held at the Central Bank with unlimited availability for disposal, Treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks, and short-term government securities.

Bills of exchange eligible for rediscounting with the Central Bank comprise PLN bills of exchange with maturities of up to three months.

2.9. Sell-buy-back Contracts

Repo and reverse-repo transactions are defined as selling and purchasing securities for which a commitment has been made to repurchase or resell them at a contractual date and for a specified contractual price.

Repos (securities sold with a repurchase clause) are reclassified in the financial statements as pledged assets if the entity receiving them has the contractual or customary right to sell or pledge them as collateral security. The liability towards the counterparty is recognised as amounts due to other banks, deposits from other banks, other deposits or amounts due from customers, depending on its nature. Reverse repos (securities purchased together with a resale clause) are recognised as loans and advances to other banks or other customers, depending on their nature.

When concluding a repo or reverse repo transaction, the Bank sells or buys securities with a repurchase or resale clause specifying a contractual date and price. Such transactions are presented in the Balance Sheet as financial assets held for trading or as investment financial assets, and also as liabilities in the case of "sell-buy-back" transactions and as receivables in the case of "buy-sell-back" transactions.

Securities borrowed by the Bank are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale transactions are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as trading liability.

2.10. Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments are recognised at fair value from the date of transaction. Fair value is determined based on prices of instruments listed on active markets, including recent market transactions and on the basis of valuation techniques, including models based on discounted cash flows and options pricing models, depending on which method is appropriate in the particular case. All derivative instruments with a positive fair value are recognised in the Balance Sheet as assets, those with a negative value as liabilities.

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration), unless the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation. If such a price is known, the Bank recognises the respective gains or losses from the first day.

Embedded derivative instruments are treated as separate derivative instruments if the risks attached to them and their characteristics are not strictly linked to the risks and characteristics of the underlying contract and the underlying contract is not measured at fair value through the Profit and Loss Account. Embedded derivative instruments of this kind are measured at fair value and the changes in fair value are recognised in the Profit and Loss Account.

The method of recognising the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item. The Bank designates some derivative instruments either as (1) fair value hedges against a recognised asset or liability or against a binding contractual obligation (fair value hedge), or as (2) highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Derivative instruments designated as hedges against positions maintained by the Bank are recorded by means of hedge accounting, subject to the fulfilment of the criteria specified in IAS 39.

The Bank documents the objectives of risk management and the strategy of concluding hedging transactions, as well as at the time of concluding the respective transactions, the relationship between the hedging instrument and the hedged item. The Bank also documents its own assessment of efficiency of fair value hedging and cash flow hedging transactions, measured both prospectively and retrospectively from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

Income and expense from interest rate derivative financial instruments and their valuation are presented in net trading income.

Fair Value Hedges

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognised in the Profit and Loss Account together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

In case a hedge has ceased to fulfil the criteria of hedge accounting, the adjustment to the carrying value of the hedged item for which the effective interest method is used is amortised to Profit and Loss Account over the period to maturity. The adjustment to the carrying amount of the hedged equity security remains in the revaluation reserve until the disposal of the equity security.

Cash Flow Hedges

The effective part of the fair value changes of derivative instruments designated and qualifying as cash flow hedges is recognised in equity. The gain or loss concerning the ineffective part is recognised in the Profit and Loss Account of the current period.

The amounts recognised in equity are transferred to the Profit and Loss Account and recognised as income or cost of the same period in which the hedged item will affect the Profit and Loss Account (i.e., at the time when the forecast sale that is hedged takes place).

In the case when the hedging instrument has expired or has been sold, or when the hedge has ceased to fulfil the criteria of hedge accounting, any aggregate gains or losses recognised at such time in equity remain in equity until the time of recognition in the Profit and Loss Account of the forecast transaction. When a forecast transaction is no longer expected to occur, the aggregate gains or losses recorded in equity are immediately transferred to the Profit and Loss Account.

Derivative Instruments Not Fulfilling the Criteria of Hedge Accounting

Changes of the fair value of derivative instruments that do not meet the criteria of hedge accounting are recognised in the Profit and Loss Account of the current period.

The Bank holds the following derivative instruments in its portfolio:

Market risk instruments:

a) Futures contracts for bonds, index futures
b) Options for securities and for stock-market indices
c) Options for futures contracts
d) Forward transactions for securities
e) Commodity swaps

Interest rate risk instruments:

a) Forward Rate Agreement (FRA)
b) Interest Rate Swap (IRS), Cross Currency Interest Rate Swap (CIRS), Overnight Index Swap (OIS)
c) Interest Rate Options

Foreign exchange risk instruments:

a) Currency forwards, fx swap, fx forward
b) Currency options

2.11. Borrowings

Borrowings (including deposits) are initially recognised at fair value reduced by the incurred transaction costs. After the initial recognition, borrowings are recorded at adjusted cost of acquisition (amortised cost). Any differences between the amount received (reduced by transaction costs) and the redemption value are recognised in the Profit and Loss Account over the period of duration of the respective agreements according to the effective interest rate method.

2.12. Intangible Assets

Intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction, adaptation or modernisation) and accumulated amortisation. Accumulated amortisation is accrued by the straight line method taking into account the expected period of economic useful life of the respective intangible assets.

Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. These costs are amortised on the basis of the expected useful life of the software (2-10 years). Expenses attached to the development or maintenance of computer software are expensed when incurred. Costs directly linked to the development of identifiable and unique proprietary computer programmes controlled by the Bank, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets.
Direct costs comprise personnel expenses attached to the development of software and the corresponding part of the respective general overhead costs.

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life.
Computer software directly connected with the functioning of specific information technology hardware is recognised as "Tangible fixed assets".

Development costs

The Bank identifies development costs as intangible asset as the asset will generate probable future economic benefits and fulfill the following requirements described in IAS 38: the Bank has the intention and technical feasibility to complete and to use or sell the intangible asset, the availability of adequate technical, financial and other resources to complete and to use the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs' useful lives are finite and the amortization period does not exceed 3 years. The Bank shows separately additions from internal development and separately those acquired through business combinations.

Research and development expenditure comprises all expenditure that is directly attributable to research and development activities.

Intangible assets are tested in terms of possible impairment always after the occurrence of events or change of circumstances indicating that their carrying value in the Balance Sheet might not be possible to be recovered.

2.13. Tangible Fixed Assets

Tangible fixed assets are carried at historical cost reduced by depreciation. Historical cost takes into the account the expenses directly attached to the acquisition of the respective assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Any other expenses incurred on repairs and maintenance are expensed to the Profit and Loss Account in the reporting period in which they were incurred.

Fixed assets designated for liquidation or decommissioning are measured at net book value or at fair value less selling costs, depending on which value is lower: the difference arising on this account is recognised under "Other operating profit/loss".

Land is not depreciated. Depreciation of other fixed assets is accounted for according to the straight line method in order to spread their initial value or revaluated amount reduced by the residual value over the period of their useful life which is estimated as follows for the particular categories of fixed assets:

- Buildings and constructed structures 25-40 years,
- Technical plant and equipment 8-17 years,
- Transport vehicles 5 years,
- Information technology hardware 3 years,
- Investments in third party (leased) fixed assets 10-40 years or the period of the lease contract, if it is shorter than 25 years,
- Office equipment, furniture 5-7 years.

Land and buildings consist mainly of branch outlets and offices.

Residual values and estimated useful life periods are verified at each Balance Sheet date and adjusted accordingly as the need arises.

Depreciable fixed assets are tested in terms of possible impairment always after the occurrence of events or change of circumstances indicating that their carrying value in the Balance Sheet might not be possible to be recovered. The value of a fixed asset carried in the Balance Sheet is reduced to the level of its recoverable value if the carrying value in the Balance Sheet exceeds the estimate recoverable amount. The recoverable value is the higher of two amounts: the fair value of the fixed asset reduced by its selling costs and the value in use.

If there is any indication that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Bank shall determine the recoverable amount of the cash-generating unit to which the asset belongs.

Gains and losses on account of the disposal of fixed assets are determined by comparing the proceeds from their sale against their carrying value in the Balance Sheet and they are recognised in the Profit and Loss Account.

2.14. Non Current Assets Held for Sale and Discontinued Operation

The Bank classifies non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and it sale must be highly probable, i.e. the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated.

Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non current assets held for sale are priced at the lower of: its carrying value and fair value less costs to sell. Assets classified in this category are not depreciated.

When criteria for classification to non current assets held for sale are not met, the Bank ceases to classify the assets as held for sale and reclassify them into appropriate category of assets. The Bank measures a non-current assets that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

Discontinued operations are a component of the Bank that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

The classification to this category takes places at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously.

Operations held for sale, which are to be finished , can be also classified as discontinued operation.

2.15. Deferred Tax Assets and Liabilities

The Bank forms a provision for the temporary difference on account of deferred corporate income tax arising due to the discrepancy between the timing of recognition of income as earned and of costs as incurred according to accounting regulations and according to legal regulations concerning corporate income taxation. A positive net difference is recognised in liabilities as " Provisions for deferred income tax". A negative net difference is recognised under "Deferred income tax assets". Any change in the balance of the deferred tax liability in relation to the previous accounting period is recorded under the item "Income tax". The balance sheet method is applied for the calculation of the deferred corporate income tax.

Liabilities or assets for deferred corporate income tax are recognised in their full amount according to the balance sheet method in connection with the existence of temporary differences between the tax value of assets and liabilities and their carrying value on the face of the Balance Sheet. Such liabilities or assets are determined by application of the tax rates in force by virtue of law or of actual obligations at the Balance Sheet date. According to expectations such tax rates applied will be in force at the time of realisation of the assets or settlement of the liabilities for deferred corporate income tax.

The main temporary differences arise on account of impairment loss write-offs recognised in relation to the loss of value of credits and granted guarantees of repayment of loans, amortisation of intangible assets, revaluation of certain financial assets and liabilities, including contracts concerning derivative instruments and forward transactions, provisions for retirement benefits and other benefits following the period of employment, and also deductible tax losses.

Deferred income tax assets are recognised at their realisable value. If the forecast amount of income determined for tax purposes does not allow the realisation of the asset for deferred income tax in full or in part, such an asset is recognised to the respective amount, accordingly. The above described principle also applies to tax losses recorded as part of the deferred tax asset.

The Bank presents the deferred tax assets and liabilities netted in the Balance Sheet. Such assets and provisions may be netted against each other if the Bank possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

The Bank discloses separately the amount of negative temporary differences (mainly on account of unreconciled tax losses or unutilised tax allowances) in connection with which the deferred tax asset was not recognised in the Balance Sheet, and also the amount of temporary differences attached to investments in subsidiaries and associates for which no deferred tax provision has been formed.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is possible that the difference will not reverse in the foreseeable future.

Deferred income tax on account of revaluation of available for sale investments and of revaluation of cash flow hedging transactions is accounted for in the same way as any revaluation, directly in equity, and it is subsequently transferred to the Profit and Loss Account when the respective investment or hedged item affects the Profit and Loss Account.

2.16. Assets Taken Over for Debts

Assets taken over in return for debts are measured as follows:

- inventories - at the lower of cost and net realisable value
- properties - as at balance sheet the Bank measures properties taken over in return for debts as investment properties. The Bank measures the investment properties at historical cost reduced by depreciation.
- non current assets taken over for debts acording to IFRS 5 classified as assets held for sale the Bank measures at the lower of two: its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, or its recoverable amount at the date of the subsequent decision not to sell.

In the case when the fair value of acquired assets is higher than the debt amount, the difference constitutes a liability toward the debtor.

2.17. Prepayments, Accruals and Deferred Income

Prepayments are recorded if the respective expenses concern the months succeeding the month in which they were incurred. Prepayments are presented in the Balance Sheet under "Other assets".

Accruals include costs of supplies delivered to the Bank but not yet resulting in its payable liabilities. Deferred income includes received amounts of future benefits. Accruals and deferred income are presented in the Balance Sheet under "Other liabilities".

2.18. Leasing

<u>BRE Bank SA as a Lessee</u>

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.19. Provisions

The value of provisions for contingent liabilities such as unutilised guarantees and (own) letters of credit, as well as for unutilised irreversible unconditionally granted credit limits, is measured in compliance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

According to IAS 37 provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely that an outflow of resources will be required to settle the obligation and the amount has been reliable estimated.

2.20. Retirement Benefits and Other Employee Benefits

<u>Retirement Benefits</u>

The Bank forms provisions against future liabilities on account of retirement benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. All provisions formed are charged to the Profit and Loss Account.

<u>Benefits Based on Shares</u>

The Bank runs a program of employee remuneration based on and settled in shares. These benefits are accounted for in compliance with IFRS 2 *Share-based Payment*. The fair value of the work performed by employees in return for options granted increases the costs of the respective period, corresponding to equity. The total amount which needs to be expensed over the period when the outstanding rights of the employees for their options to become exercisable are vested is determined on the basis of the fair value of the granted options. There are no market conditions that shall be taken into account when estimating the fair value of share options at the measurement date. Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Bank revises its estimates of the number of options that are expected to become exercisable. In accordance with IFRS 2, in spite of the fact that the fair value of the options are changing it is not necessary to recognize the change in fair value of the share-based payment over the term of the program.

2.21. Equity

Equity consists of capital and funds created in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the Company Articles of Association, or a founding deed.

Registered share capital

Share capital is presented at its nominal value, in accordance with the Company Articles of Association and with the entry in the business register.

a) Share Issue Costs

Costs directly connected with the issue of new shares, the issue of options, or the acquisition of a business entity, reduce the proceeds from the issue recognised in equity.

b) Dividends

Dividends for the given year, which have been approved by the General Shareholders Meeting but not distributed at the Balance Sheet date, are shown under the liabilities on account of dividends payable under the item of "Other liabilities".

c) Own Shares

In the case of acquisition of stocks or shares in the Bank by the Bank, the amount paid reduces the value of equity as Treasury shares until the time when they are cancelled. In the case of sale or reallocation of such shares, the payment received in return is recognised in equity.

Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the attached direct costs incurred with that issue.

Revaluation reserve

Revaluation reserve is formed as a result of:

- valuation of available for sale ,
- currency translation differences.

Retained earnings

Retained earnings include:

- other supplementary capital,
- other reserved capital,
- general banking risk fund,
- inappropriated profit for the previous year,
- net profit (loss) for the current year.

Other supplementary capital, other reserved capital and general banking risk fund are formed from allocations of profit and are assigned to purposes specified in the Company Articles of Association or other regulations of the law.

2.22. Valuation of Items Denominated in Foreign Currencies

Functional Currency and Presentation Currency

The items contained in financial reports of particular entities of the Bank are valued in the currency of the basic economic environment in which the given entity conducts its business activities ("functional currency"). The Financial Statements are presented in Polish zloty, which is the functional currency of the Bank.

Transactions and Balances

Transactions denominated in foreign currencies are converted to the functional currency at the exchange rate in force at the transaction date. Foreign exchange gains and losses on such transactions as well as Balance Sheet revaluation of monetary assets and liabilities denominated in foreign currency are recognised in the Profit and Loss Account.

Foreign exchange differences arising on account of non-monetary items, such as financial assets measured at fair value through the Profit and Loss Account, are recognised under gains or losses arising in connection with changes of fair value. Foreign exchange differences on account of such non-monetary assets as equity instruments classified as available for sale financial assets are recognised under equity arising on revaluation at fair value.

2.23. Custody Services Business

BRE Bank SA operates a custody business including domestic and foreign securities and services provided to investment and pension funds.

2.24. Standards, Interpretations and Amendments to Published Standards

Amendments to published standards and interpretations effective 1 January 2006.

- IAS 19 (Amendment) – Actuarial Gains and Losses, Group Plans and Disclosures;
- IAS 21 (Amendment) – Net Investment in a Foreign Operation;
- IAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment) – The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment) – Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards, and IFRS 6
- (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental
- Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical
- and Electronic Equipment.

IAS 19 (Amendment) introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. As the Bank does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the financial statements.

Amendment to IAS 39, concerning recognition of financial guarantee contracts did not have influence on the Bank financial statements. The accounting policies concerning financial guarantee contracts are described in the Note 2.7.

IFRS 6 (Amendment) Exploration for and Evaluation of Mineral Resources; IFRIC 5 and IFRIC 6 – do not relate to the Bank activity.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC 7, "Applying the Restatement Approach under IAS 29", *"Financial Reporting in Hyperinflationary Economies*", effective for annual periods beginning on or after 1 March 2006.
- IFRIC 8, "Scope of IFRS 2", effective for annual periods beginning on or after 1 May 2006.
- IFRIC 9, "Reassessment of Embedded Derivatives Financial Instrument", effective for annual periods beginning on or after 1 June 2006.
- IFRIC 10, "*Interim Financial Reporting and Impairment"* effective for annual periods beginning on or after 1 November 2006.
- IFRIC 11, IFRS 2 *"Group Treasury Share Transactions"*, effective for annual periods beginning on or after 1 March 2007.
- IFRIC 12, *Service Concession Arrangements",* effective for annual periods beginning on or after 1 January 2009.
- IFRS 7, *"Financial Instruments: Disclosures Financial Instruments"*, effective for annual periods beginning on or after 1 January 2007.
- IFRS 8, "Operating segments", effective for annual periods beginning on or after 1 January 2008.

In the Bank's opinion the application of these new interpretations will not have a material impact on the entity's financial statements in the period of initial application.

IFRS 7 will introduce new requirements concerning the disclosures on financial instruments and will supersede IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and the disclosure requirements of IAS 32 "Financial instruments: presentation".

IFRS Financial Statements 2006 (PLN 000's)

The changes brought by IFRS 7 will mostly affect the following areas: disclosing risk "through the eyes of management", expanded quantitative disclosures of risk, the introduction of sensitivity analysis, enhanced disclosure of an Bank's financial position and performance.

2.25. Comparative Data

The comparative data have been adjusted so as to account for the changes in presentation introduced in the current financial period.
None of the presentation adjustments described below had influence on the net profit and equity presented in comparative data as at 31 December 2005.

The following presentation changes have been made:

1. IRS, CIRS and OIS interest is presented in the income statement in the position "Net trading income" and not as previously in the position "Net interest income". In the balance sheet it is presented in the positions: "Derivative financial instruments" in assets and "Derivative financial instruments and other trading liabilities" in liabilities. Previously, it was presented in the balance sheet on the net basis in the positions: "Loans and advances to banks"/"Amounts due to other banks" and "Loans and advances to customers"/"Amounts due to customers".

The influence of presentation changes on comparative data in the financial statements as at 31 December 2005 is presented in the table below.

Presentation changes in the income statement for the period from 1 January till 31 December 2005:

	31-12-2005 (before adjustments)	Adjustments	31-12-2005 (after adjustments)
Net interest income	507 471	31 175	538 646
Net trading income	256 651	(31 175)	225 476

Presentation changes in the balance sheet as at 31 December 2005:

	31-12-2005 (before adjustments)	Adjustments	31-12-2005 (after adjustments)
Derivative financial instruments	1 255 232	9 268	1 264 500
Amounts due to other banks	2 346 159	(80 306)	2 265 853
Derivative financial instruments and other trading liabilities	1 174 278	96 136	1 270 414
Amounts due to customers	22 754 494	(6 562)	22 747 932

3. Financial Risk Management

3.1 Strategy in using Financial Instruments

Due to its nature, the business of the Bank focuses on using financial instruments, including derivatives. The Bank accepts customers' deposits with both fixed and variable interest for various terms and attempts to earn above-average percent margins by investing the funds in top quality assets. The Bank works to increase its percent margins by accumulating short-term funds and lending the funds for longer terms, for higher interest rates, while retaining liquidity at a level ensuring that all liabilities are met.

Further, the Bank works to improve its earnings by obtaining above-average margins, net of provisions, by lending funds to corporate and household customers with varying credit ratings. Such exposures include not only credits and loans recognized in the Balance Sheet but also guarantees and other off-balance sheet liabilities, such as letters of credit, good performance guarantees, etc.

Also, the Bank trades with listed and unlisted financial instruments, including derivatives, in order to take advantage of short-term changes on the equity instruments, bonds, currencies and interest rate markets. The Management Board sets exposure limits for overnight and intra-day market positions.

Hedge Accounting

The Bank does not use hedge accounting.

3.2 Credit Risk

The Bank is exposed to credit risk, i.e., risk that a contracting party may be unable to repay its liabilities to the Bank on time. The Bank creates provisions for its losses on the Balance Sheet date. Because of strong concentration of the risk portfolio, a change in the economy or an industry sector with a large share in the Bank portfolio may create additional risk, for which no provisions were made on the Balance Sheet date. For this reason, the Management monitors the customers and customer groups in connection with the service of which the exposure of the Bank is significant. In addition, if the exposure of the Bank is concentrated in an industry, the Bank monitors its share in the financing of the whole industry and the standing of each customer of the Bank vs. the rest of the industry.

For this purpose, the Bank uses a statistical database, in which each parameter of financing each of the Bank's customers is mapped onto a decile grid of the parameter for the whole industry. This enables the Bank to monitor its industry-related risk to its portfolio at times when the standing of the whole industry undergoes rapid changes under the influence of external factors.

The Bank manages the level of its credit exposure by setting limits for risks acceptable to each borrower or group of related borrowers and by using a structure of sub-limits.

Sub-limits make it possible to adjust a limit to the requirements of customers in functional terms and, on the other hand, they enable control of the use of funds provided to each customer. The risk management exercise involves also the setting of limits for geographic and industrial concentration. Credit risk is monitored daily on the basis of financial documents received from customers and observation of all trends, signals, and economic projections. In addition, the Bank can access external database and information services that capture information in various cross-sections.

The exposure related to each borrower (including banks and brokers) is additionally limited by application of detailed balance sheet and off-balance sheet exposure and daily risk limits for transactions such as forward currency contracts. The actual exposure is compared to the maximum limits on a daily basis.

The level of exposure to credit risk is managed by regular reviews of the existing and potential borrowers' ability to repay principal and interest, if necessary, the Bank may change a credit limit, or by asking customers to provide security and/or guarantees.

Derivative Instruments

The Bank exercises strict control over net open derivatives, i.e., the difference between purchase and sale contracts, both in terms of amount and validity. The amount exposed to credit risk is limited at all times to the present fair value of the instruments with positive values (assets), which, in relation to derivative instruments, represents only a small fraction of contract or face values used to express the volume of the existing instruments. The level of exposure to this credit risk, together with potential exposure related to market changes, is managed under the overall credit limits for customers. If the value of exposure related to transactions on derivatives or in case of exceeding a limit increases (growth of value favourable to the Bank or, in theory, growth of weights of the risk for calculation of potential loss), the customer is asked to provide (or increase) the security. Typically, the Bank does not ask for security for credit risk related to such instruments. The exception is a situation when the Bank requires security deposits from its contracting parties.

Master Netting Agreements

Master netting agreements made with contracting parties with which the Bank concludes large transactions are an additional measure used by the Bank to alleviate the risk of experiencing losses on credits. As a rule, such master netting agreements do not result in compensation of balance sheet assets and liabilities because transactions are usually settled in gross amounts. However, credit risk related to a favourable agreement is alleviated through execution of a master netting agreement because if the agreement is breached, all accounts with the contracting party are terminated and realized in net amounts. The total credit risk exposure of the Bank related to derivative instruments covered by master netting agreements can undergo significant changes over a short time because each transaction covered by the agreement affects the exposure.

Off-balance sheet Credit-related Commitments

These instruments are used mainly to ensure availability of required funds to customers. "Standby" guarantees and letters of credit, representing irrevocable assurance of payment of a customer's liabilities to third parties by the Bank if the customer is unable to do so, involve the same risk as credits. Documentary letters of credits and commercial letters of credit (CLC), representing written commitments of the Bank given to a customer, authorizing third parties to draw checks on the bank up to an agreement and on specified terms, are secured with deliveries of goods they relate to, by which they involve less risk than direct credits.

Credit-related off-balance sheet commitments concern the unused parts of credits, guarantees and letters of credit granted by the Bank. As regards credit risk related to credit commitments, the Bank can be exposed to loss equal to the whole amount of unused credit commitments. However, the probable amount of loss is smaller than the whole amount of unused credit commitments because most of such commitments are contingent on meeting specific credit standards by customers. The Bank monitors the terms of validity of credit commitments because, as a rule, longer terms involve larger risk.

New External Regulations on Credit Risk, 2007-2008

New future requirements under external regulations on credit risk will mainly derive from the application of the New Capital Accord drafted by the Basel Committee (Basel II) and the International Financial Reporting Standard 7 (IFRS 7).

The implementation of Basel II will require the application of new credit risk rating regulations. The new provisions set out the Bank methodology of credit risk rating, and will mainly affect the amount of specific provisions to be set up in order to cover possible default credit losses. The new regulations will also have a major impact on the value of granted loans, and will require a higher quality of the Bank lending business.

The Basel II regulations will be put in place as of 1 January 2007. Under an EU Directive, banks have the option of implementing the standard method as of 2008. Advanced methods require a case-by-case approval of the supervision.

The application of IFRS 7 by the Bank as of 1 January 2007 will require the disclosure of extended qualitative information about the Bank's exposure to credit risk arising from financial instruments. The disclosed qualitative information about credit risk will include information about the type of exposure to risk and its origination, the Bank's credit risk management goals, policies, and processes, as well as its risk measurement methods. IFRS 7 will also require the disclosure of quantitative information about the Bank's exposure to credit risk at the reporting date by category of financial instruments.

Concentration of the exposure of BRE Bank SA per client, sector, capital group including risk assessment related to this exposure

Loan portfolio as at 31.12.2006 and 31.12.2005 – analysis of 9 biggest sectors

No	Sector	Principal exposure (PLN 000's) 31.12.2006	%	Principal exposure (PLN 000's) 31.12.2005	%
1.	Household customers	8 709	45,7	4 323	29,3
2.	Leasing	671	3,5	772	3,9
3.	Banks	656	3,4	715	4,9
4.	Metal	633	3,3	944	4,8
5.	Wholesale trade	544	2,9	792	4,0
6.	Wood and furnitures	470	2,5	767	3,9
7.	Construction industry	406	2,1	835	4,2
8.	Equipment	398	2,1	677	3,4
9.	Other financial mediation	358	1,9	3 305	17,8

The total exposure of the Bank with these sectors (other than households) represents approximately 22% of the loan portfolio.

A recent study of the Market Economy Research Institute *(Instytut Badań nad Gospodarką Rynkową)* assessed the risks of investing in these segments (in a 5-point scale: small, medium, increased, large and very large) as follows:

Leasing	- non classified
Banks	- non classified
Metal	- medium
Wholesale trade	- small/medium
Wood and furnitures	- medium
Constriction trade	- increased
Equipment	- increased
Other financial mediation	- non classified

Concentration of the exposure of BRE Bank per entity and capital group (balance sheet and off-balance sheet exposure) as at 31.12.2006 and 31.12.2005

Entity	31.12.2006		31.12.2005	
	PLN 000's	Share of the total gross exposure (%)	PLN 000's	Share of the total gross exposure (%)
Customer 1	1 657 365	5,17	2 445 128	7,63
Customer 2	902 527	2,82	1 816 365	5,67
Customer 3	240 317	0,75	291 049	0,91
Customer 4	191 511	0,60	86 079	0,27
Customer 5	162 763	0,51	190 811	0,60
Customer 6	150 000	0,47	150 000	0,47
Customer 7	148 904	0,46	165 759	0,52
Customer 8	145 668	0,45	143 810	0,45
Customer 9	140 300	0,44	188 300	0,59
Customer 10	118 175	0,37	234 687	0,73
Razem:	**3 857 530**		**5 711 988**	

These items include credit exposure and off-balance sheet exposures (guarantees, letters of credit, unused parts of credits) with the customers.

The first item concerns mainly guarantees for redemption of Eurobonds issued by a subsidiary of the Bank. The second exposure consists of loans and an open credit line for a public/government organization. Exposure to customers 3 relate mainly to subsidiaries. Item 4 represents exposure including credit and credit granted but not drawn to an entity of a stable financial standing. Exposure 5 is a long-term exposure to a special-purpose vehicle associated with a group of a stable financial standing. Exposures 6 to 8 are exposures to companies operating under the Polish commercial law which are associated with international corporations of a good or very good financial standing. Exposure 10 is an exposure under credit and debt securities to a subsidiary of the Bank.

The Bank's total exposure to the entities mentioned above was down PLN 1 809 968 thousand in 2006, mainly due to a reduction of exposures to entities 1 and 2.

Capital groups	31.12.2006		31.12.2005	
	PLN 000's	Share of the total gross exposure (%)	PLN 000's	Share of the total gross exposure (%)
Group 1	394 906	1,23	395 173	1,23
Group 2	333 704	1,04	238 881	0,75
Group 3	275 036	0,86	95 104	0,30
Group 4	256 046	0,80	108 328	0,34
Group 5	246 704	0,77	265 764	0,83
Group 6	232 681	0,73	203 417	0,63
Group 7	223 027	0,70	7 011	0,02
Group 8	221 166	0,69	221 248	0,69
Group 9	202 869	0,63	68 117	0,21
Group 10	196 650	0,61	82 804	0,26
Razem:	**2 582 789**		**1 685 847**	

These items represent credit exposures and off-balance sheet exposures (guarantees, letters of credits, unused parts of credits) with the listed capital groups.
The first item includes exposure to the capital group which is the BRE Bank's subsidiary. The standing of each of these groups is considered good or very good. All assets are classified as „non default". The above items do not include exposures with the public sector.

3.3 Concentration of Assets, Liabilities and Off-balance Sheet Items by Geographic Area

The Bank does not classify assets, liabilities and off-balance sheet items according to geographic areas because of insignificance of geographic variation of risks.

IFRS Financial Statements 2006 (PLN 000's)

3.4 Market Risk

The Bank is exposed to market risk resulting from open items in interest rate, currency and equity instruments that are exposed to market-driven changes in the values of relevant risks. The Bank quantifies the level of the market risk of the Bank's position by measuring values at risk (VaR*) and by testing edge conditions. To alleviate the exposure of the Bank to market risk, the Management Board of the Bank sets limits for values at risk and limits for edge condition tests, acting through the Financial Risk Committee. Market risk limits of the Bank's trade book are monitored on a daily basis.

* Value at Risk (VaR) is a statistical measure of market risk level. It represents the potential loss a portfolio is exposed to over a certain time, for a given confidence interval, under normal market conditions on the account of changes in risk factors (such as interest rates, currency exchange rates, stock prices) and volatility of certain risk factors (currency exchange rates, interest rates and prices). The potentiality of loss means that a loss smaller than the determined VaR can be expected within the predefined period with predefined large probability for which the value at risk is determined.

Portfolios of instruments sensitive to interest rates (such as treasury bonds, commercial papers, IRS and CIRS transactions) and secondly, portfolios of instruments sensitive to currency exchange rates (such as currency options and currency exchange transactions) are the major determinants of VaR. Other risk factor groups have relatively smaller effect on VaR.

At 31 December 2006, the one-day total VaR in the trade book of the Bank amounted to PLN 1,048,000 at 95% relevance (31 December 2005:.PLN 743,000). The following table presents values of mean one-day VaR of the Bank's trade book between 1 January 2006 and 31 December 2006 and between 1 January 2005 and 31 December 2005.

	12 monts to 31.12.2006			**12 monts to 31.12.2005**		
	mean	**max.**	**min.**	**mean**	**max.**	**min.**
Interest rate risk	770	2 343	116	568	1 459	151
Roreign exchange risk	351	1 152	54	401	1 327	90
Equities risk	234	1 523	82	261	472	57
Total VaR	**964**	**2 357**	**292**	**838**	**1 694**	**409**

3.5 Currency Risk

The Bank is exposed to changes in currency exchange rates. The following table presents the exposure of the Bank to currency risk as at 31 December 2006 and 31 December 2005. The table presents assets and liabilities of the Bank at balance sheet carrying amount, for each currency:

31.12.2006	**PLN**	**EUR**	**USD**	**CHF**	**GBP**	**Other**	**Total**
ASSETS							
Cash and balances with Central Bank	3 689 570	12 095	5 492	717	1 727	1 136	3 710 737
Debt securities eligible for rediscounting at the Central Bank	26 725	-	-	-	-	-	26 725
Loans and advances to banks	1 534 013	567 551	840 695	633	27 605	32 729	3 003 226
Financial instruments at fair value through profit or loss (including trading)	3 266 417	154 489	99 048	-	-	-	3 519 954
Derivative financial instruments	1 398 581	5 539	6 061	598	3	248	1 411 030
Loans and advances to customers	8 695 212	2 049 546	533 207	6 373 411	10 944	27 436	17 689 756
Investment securities	2 602 151	101 532	253 538	-	-	-	2 957 221
- Available for sale	2 602 151	101 532	253 538	-	-	-	2 957 221
Pledged assets	2 657 106	44 385	-	-	-	-	2 701 491
Investments in subsidiaries	371 832	36 722	-	-	-	24 789	433 343
Intangible assets	356 136	-	-	-	-	-	356 136
Tangible fixed assets	470 729	197	-	-	-	-	470 926
Other assets, including deferred income tax assets	581 198	434	23	1	29	-	581 685
Total assets	**25 649 670**	**2 972 490**	**1 738 064**	**6 375 360**	**40 308**	**86 338**	**36 862 230**
LIABILITIES							
Amounts due to other banks	836 027	219 541	90 574	4 026 789	13 342	13	5 186 286
Derivative financial instruments and other trading liabilities	1 237 157	25 727	4 176	480	36	249	1 267 825
Amounts due to customers	19 895 469	4 420 720	1 501 285	18 381	74 376	24 403	25 934 634
Debt securities in issue	36 215	-	-	-	-	-	36 215
Subordinated liabilities	-	1 356 399	-	190 955	-	-	1 547 354
Other liabilities including tax liabilities	459 992	1 407	8 063	-	1	6	469 469
Provisions	66 422	952	-	-	-	-	67 374
Total liabilities	**22 531 282**	**6 024 746**	**1 604 098**	**4 236 605**	**87 755**	**24 671**	**34 509 157**
Net on-balance sheet position	**3 118 388**	**(3 052 256)**	**133 966**	**2 138 755**	**(47 447)**	**61 667**	**2 353 073**
Credit commitments	**7 654 498**	**850 144**	**319 128**	**680 467**	**5 739**	**18 081**	**9 528 057**

IFRS Financial Statements 2006 (PLN 000's)

31.12.2005	**PLN**	**EUR**	**USD**	**CHF**	**GBP**	**Other**	**Total**
ASSETS							
Cash and balances with Central Bank	1 741 370	22 320	9 744	624	1 306	976	1 776 340
Debt securities eligible for rediscounting at the Central Bank	37 464						37 464
Loans and advances to banks	2 468 499	586 043	1 430 295	1 731	3 216	199 981	4 689 765
Financial instruments at fair value through profit or loss (including trading)	4 309 821	447 640	257 192	-	-	-	5 014 653
Derivative financial instruments	1 229 389	16 399	17 391	891	205	225	1 264 500
Loans and advances to customers	7 882 217	1 524 220	673 837	2 849 065	7 031	43 189	12 979 559
Investment securities	553 864	127 692	373 618	-	-	-	1 055 174
- Available for sale	553 864	127 692	373 618	-	-	-	1 055 174
Pledged assets	1 488 188	28 024	-	-	-	-	1 516 212
Investments in subsidiaries	224 097	37 073	-	-	-	24 081	285 251
Investments in associated undertakings	5 649	-	-	-	-	-	5 649
Intangible assets	368 504	-	-	-	-	-	368 504
Tangible fixed assets	483 872	199	-	-	-	-	484 071
Other assets, including deferred income tax assets	651 400	2 324	5 268	3	8	-	659 003
Total assets	**21 444 334**	**2 791 934**	**2 767 345**	**2 852 314**	**11 766**	**268 452**	**30 136 145**

31.12.2005	**PLN**	**EUR**	**USD**	**CHF**	**GBP**	**Other**	**Total**
LIABILITIES							
Amounts due to other banks	792 416	1 201 501	34 522	235 816	1 598	-	2 265 853
Derivative financial instruments and other trading liabilities	1 228 061	29 487	11 868	488	237	273	1 270 414
Amounts due to customers	16 534 212	4 724 968	1 410 534	12 307	39 821	26 090	22 747 932
Debt securities in issue	91 545	-	-	-	-	-	91 545
Subordinated liabilities	-	1 362 528	-	-	-	-	1 362 528
Other liabilities including tax liabilities	352 658	3 642	8 593	-	-	-	364 893
Provisions	75 366	1 844	131	-	-	768	78 109
Total liabilities	**19 074 258**	**7 323 970**	**1 465 648**	**248 611**	**41 656**	**27 131**	**28 181 274**
Net on-balance sheet position	**2 370 076**	**(4 532 036)**	**1 301 697**	**2 603 703**	**(29 890)**	**241 321**	**1 954 871**
Credit commitments	**6 097 653**	**823 954**	**337 376**	**158 976**	**5 568**	**5 217**	**7 428 744**

3.6 Interest Rate Risk

Restatement date misfit gap and interest earnings at risk (EaR) based on the former are the key interest rate risk measures at BRE Bank SA. In addition, the Bank performs stress test analyses based on these methods.

A sudden, lasting and disadvantageous change of market interest rates by 100 base points for all maturities in 2006 would result in decrease in the annual interest income by the following amounts, on average:

- PLN 21.14 million for PLN
- PLN 1.66 million for USD
- PLN 0.28 million for EUR
- PLN 2.03 million for CHF

To calculate these values, the Bank assumed that the structure of financial assets and liabilities disclosed in the financial statements as of 31 December 2006 would be fixed during the year and the Bank would not take any measures to change related exposure to interest rate change risk.

A sudden, lasting and disadvantageous change of market interest rates by 100 base points for all maturities in 2005 would result in decrease in the annual interest income by the following amounts, on average:

- PLN 15.91 million for PLN
- PLN 4.81 million for USD
- PLN 1.70 million for EUR
- PLN 4.58 million for CHF

The following table presents the Bank exposure to interest rate risk. The table presents assets and liabilities of the Bank at balance sheet carrying amounts, for the earlier of the following dates: a change of the interest rate set in an agreement or maturity.

IFRS Financial Statements 2006 (PLN 000's)

31.12.2006	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with Central Bank	3 106 092	-	-	-	-	604 645	**3 710 737**
Debt securities eligible for rediscounting at the Central Bank	-	26 725	-	-	-	-	**26 725**
Loans and advances to banks	1 859 784	452 464	550 477	85 972	-	54 529	**3 003 226**
Trading securities, investment securities and pledged assests	4 799 383	824 515	851 045	2 117 646	379 892	206 185	**9 178 666**
Loans and advances to customers	16 571 750	749 661	162 180	163 769	37 763	4 633	**17 689 756**
Other assets and derivative financial instruments	137 290	76 752	186 618	76 778	1 496	1 142 206	**1 621 140**
Total assets	**26 474 299**	**2 130 117**	**1 750 320**	**2 444 165**	**419 151**	**2 012 198**	**35 230 250**
LIABILITIES							
Amounts due to other banks	2 121 773	2 756 530	304 631	-	-	3 352	**5 182 934**
Amounts due to customers	23 432 256	1 536 558	594 618	192 975	178 227	-	**25 934 634**
Debt securities in issue	-	14 272	13 943	8 000	-	-	**36 215**
Subordinated liabilities	398 818	1 148 536	-	-	-	-	**1 547 354**
Other liabilities and derivative financial instruments	142 383	77 690	186 597	77 652	1 589	1 239 840	**485 911**
Total liabilities	**26 095 230**	**5 533 586**	**1 099 789**	**278 627**	**179 816**	**1 243 192**	**34 430 240**
Total interest repricing gap	**379 069**	**(3 403 469)**	**650 531**	**2 165 538**	**239 335**		

	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	
Off-balance sheet long positions	49 882 201	72 823 047	169 905 284	77 893 097	1 605 666	
Off-balance sheet short positions	(47 464 614)	(72 434 083)	(171 257 449)	(79 059 227)	(1 771 165)	
Net neutral positions						(122 757)
Off-balance sheet gap	**2 417 587**	**388 964**	**(1 352 165)**	**(1 166 130)**	**(165 499)**	

31.12.2005	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	
Interest bearing assets	17 651 821	4 506 013	1 592 251	1 136 181	674 794	
Interest bearing liabilities	(18 608 254)	(5 051 382)	(964 151)	(134 910)	(14 306)	
Net neutral positions						(788 057)
Balance sheet gap	**(956 433)**	**(545 369)**	**628 100**	**1 001 271**	**660 488**	
Off-balance sheet long positions	28 848 841	42 304 716	95 160 770	33 104 827	906 539	
Off-balance sheet short positions	(29 227 565)	(40 100 322)	(96 971 486)	(34 110 638)	(1 318 682)	
Net neutral positions						1 403 000
Off-balance sheet gap	**(378 724)**	**2 204 394**	**(1 810 716)**	**(1 005 811)**	**(412 143)**	
Total gap	**(1 335 157)**	**1 659 025**	**(1 182 616)**	**(4 540)**	**248 345**	
						614 943

The table below summarises the effective interest rate by major currencies for financial instruments:

31.12.2006	**PLN**	**EUR**	**USD**	**CHF**	**GBP**
	%	**%**	**%**	**%**	**%**
ASSETS					
Cash and balances with Central Bank	4.17	0.06	-	-	-
Loans and advances to banks	4.25	3.81	5.49	2.15	5.41
Trading securities	4.35	3.89	5.53	-	-
Loans and advances granted to customers	6.00	5.45	7.08	3.95	7.54
Investment securities	4.68	4.01	5.32	-	-
LIABILITIES					
Amounts due to other banks	4.16	3.81	5.41	2.13	5.39
Amounts due to customers	4.23	3.67	5.38	2.07	5.27
Debt securities in issue	4.36	-	-	-	-
Other borrowed funds	-	3.80	-	2.15	-

31.12.2005	**PLN**	**EUR**	**USD**	**CHF**	**GBP**
	%	**%**	**%**	**%**	**%**
ASSETS					
Cash and balances with Central Bank	3.55	0.71	-	-	-
Loans and advances to banks	4.45	2.46	4.45	0.68	4.80
Trading securities	4.46	2.53	4.88	-	-
Loans and advances granted to customers	6.72	4.14	6.23	3.62	9.58
Investment securities	4.56	3.29	5.00	-	-
LIABILITIES					
Amounts due to other banks	4.21	2.53	4.32	1.20	4.78
Amounts due to customers	4.04	2.42	4.35	0.73	4.63
Debt securities in issue	4.66	-	-	-	-
Other borrowed funds	-	2.52	-	-	-

3.7 Liquidity Risk

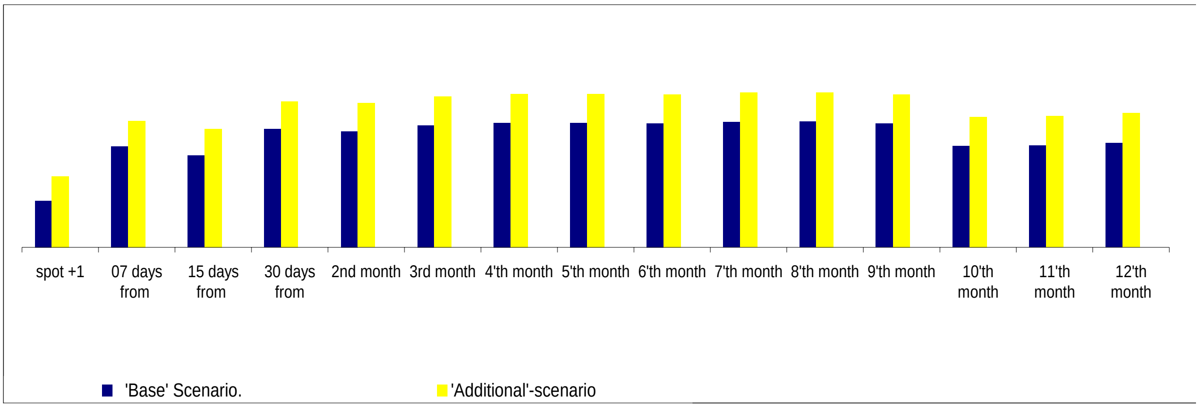
BRE Bank SA monitors its financial liquidity daily, using methods based on cash flows analysis. The measurement of liquidity risk is based on an internal model based on analyses of the Bank's specificity, deposit base variability, financing concentration and developments planned for each item. The following are monitored daily: value of mismatch in specific time intervals (gap), the level of liquidity provisions of the Bank, and the rate of usage of internal limits.
The Bank assesses potential liquidity risks and their impact based on scenario methodologies, including stress-testing. The Bank has put in place contingency procedures, both in case of a sharp and a gradual deterioration of the liquidity position of the Bank.

Gap limits, an important part of strategic management, are set under two scenarios which differ in restrictiveness. Each scenario is assigned limits set as a range of incremental gaps of real cash flows. The scenarios are named "Base" and "Additional". They cover balance-sheet and off-balance-sheet cash flows in the relevant time periods and provide for possible disposal of debt instruments classified under liquidity reserves before maturity.

The gap limits apply as of H2 2006 and were not exceeded in that period.

The section below presents the incremental gaps under both scenarios (in PLN million) for all time periods as at 31 December 2006.

	spot +1	07 days from	15 days from	30 days from	2nd month	3rd month	4'th month	5'th month	6'th month	7'th month	8'th month	9'th month	10'th month	11'th month	12'th month
BASE sc.	1735	3756	3412	4399	4310	4537	4631	4629	4604	4660	4678	4598	3763	3788	3887
Additional sc.	2641	4707	4404	5430	5368	5610	5709	5711	5692	5749	5768	5689	4855	4884	4985



The following table presents the structure of maturities of assets and liabilities of the Bank based on the time to maturity remaining as at the Balance Sheet date.

IFRS Financial Statements 2006 (PLN 000's)

31.12.2006	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total
ASSETS						
Cash and balances with Central Bank	3 710 737	-	-	-	-	**3 710 737**
Debt securities eligible for rediscounting at the Central Bank	-	26 725	-	-	-	**26 725**
Loans and advances to banks	1 884 810	286 669	511 002	190 759	129 986	**3 003 226**
Trading securities, pledged assests and other financial instruments at fair value through profit or loss	2 729 182	136 307	127 640	2 658 795	512 794	**6 164 718**
Loans and advances to customers	4 289 812	1 244 995	2 721 297	3 403 664	6 029 988	**17 689 756**
Investment securities and pledged asstes	33 527	2 168	885 263	1 817 814	1 070 374	**3 809 146**
- Available for sale	33 527	2 168	885 263	1 817 814	1 070 374	**3 809 146**
Other assets	346 292	146 803	470 672	997 615	496 540	**2 457 922**
T o t a l a s s e t s	**12 994 360**	**1 843 667**	**4 715 874**	**9 068 647**	**8 239 682**	**36 862 230**
LIABILITIES						
Amounts due to other banks	657 096	111 481	332 936	4 044 441	40 332	**5 186 286**
Amounts due to customers	22 104 210	704 992	1 515 077	1 378 624	231 731	**25 934 634**
Debt securities in issue	-	-	-	36 215	-	**36 215**
Subordinated liabilities	-	-	-	-	1 547 354	**1 547 354**
Other liabilities	590 546	77 367	428 405	596 354	44 622	**1 737 294**
Provisions	14 004	-	53 370	-	-	**67 374**
Total liabilities	**23 365 856**	**893 840**	**2 329 788**	**6 055 634**	**1 864 039**	**34 509 157**
Net liquidity gap	**(10 371 496)**	**949 827**	**2 386 086**	**3 013 013**	**6 375 643**	**2 353 073**

31.12.2005	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total
ASSETS						
Cash and balances with Central Bank	1 776 340	-	-	-	-	**1 776 340**
Debt securities eligible for rediscounting at the Central Bank	-	37 464	-	-		**37 464**
Loans and advances to banks	2 182 401	1 187 432	1 071 798	213 430	34 704	**4 689 765**
Trading securities and other financial instruments at fair value through profit or loss	3 300 006	990 409	258 634	944 954	1 014 375	**6 508 378**
Loans and advances to customers	2 982 931	1 112 572	2 961 691	2 731 135	3 191 230	**12 979 559**
Investment securities	15 000	988	272 093	697 256	688 085	**1 673 422**
- Available for sale	15 000	988	272 093	697 256	688 085	**1 673 422**
Other assets	1 547 916	12 824	-	481 951	428 526	**2 471 217**
T o t a l a s s e t s	**11 804 594**	**3 341 689**	**4 564 216**	**5 068 726**	**5 356 920**	**30 136 145**
LIABILITIES						
Amounts due to other banks	712 765	22 023	1 221 439	278 821	30 805	**2 265 853**
Amounts due to customers	17 149 883	1 689 301	1 479 474	2 050 433	378 841	**22 747 932**
Debt securities in issue	-	-	45 183	46 362	-	**91 545**
Subordinated liabilities	-	-	-	-	1 362 528	**1 362 528**
Other liabilities	1 478 226	103 285	287	45 331	8 178	**1 635 307**
Provisions	14 189	-	-	63 920	-	**78 109**
Total liabilities	**19 355 063**	**1 814 609**	**2 746 383**	**2 484 867**	**1 780 352**	**28 181 274**
Net liquidity gap	**(7 550 469)**	**1 527 080**	**1 817 833**	**2 583 859**	**3 576 568**	**1 954 871**

3.8 Fair Value of Financial Assets and Liabilities

Fair value is a price, for which an asset could be exchanged, or an obligation fulfilled, between well informed and interested parties in a direct transaction other than a forced sale or liquidation. The market price, if available, is the best reflection of fair value.

The Bank estimated that the fair value of variable rate and short-term (less than 1 year) fixed rate financial instruments was equal to the balance sheet value of such items.

In addition, the Bank assumed that the estimated fair value of fixed interest instruments with maturities longer than 1 year was based on discounted cash flows. The discounting factor used to discount cash for such financial instruments was based on the zero coupon curve.

The following table presents a summary of balance sheet and fair values for each group of financial assets and liabilities not recognized in the Balance Sheet of the Bank at their fair values.

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The following sections present the key assumptions and methods used by the Bank for estimation of the fair values of financial instruments:

	Carrying value 31.12.2006	Fair value 31.12.2006
Financial assets		
Loans and advances to banks	3 003 226	3 055 052
Loans and advances to customers	17 689 756	17 692 131
Assets available for sale	2 957 221	2 957 221
Financial liabilities		
Amounts due to other banks	5 186 286	5 185 501
Amounts due to customers	25 934 634	25 945 314
Debt securities in issue	36 215	37 871

	Carrying value 31.12.2005	Fair value 31.12.2005
Financial assets		
Loans and advances to banks	4 689 765	4 718 175
Loans and advances to customers	12 979 559	12 990 234
Assets available for sale	1 055 174	1 055 174
Financial liabilities		
Amounts due to other banks	2 265 853	2 266 690
Amounts due to customers	22 747 932	22 762 269
Debt securities in issue	91 545	88 533

The following sections present the key assumptions and methods used by the Bank for estimation of the fair values of financial instruments:

Amounts due from banks. The fair values of variable interest deposits and fixed interest deposits with less than 1 year to maturity are the balance sheet carrying amounts.

Loans and advances to customers are disclosed at net values adjusted for impairment write-offs. The fair value of fixed interest rate loans and advances granted to customers with more than 1 year to maturity was calculated as discounted value of expected future receivables on the account of principal and interest. It was assumed that credits and loans would be repaid on dates set in agreements. The fair values of substandard credits are equal to their net balance sheet values that take account of all premises indicative of impairment of the value of such credits. So estimated fair value of credits and loans reflects changes in credit risk until the grant of each credit/loan and changes in interest rates for fixed rate credits.

Securities held to maturity. The Bank has no interest bearing assets held to maturity with more than 1 year to maturity.

Available for sale financial assets. Listed available for sale financial instruments held by the Bank are priced at their fair values. The Bank was unable to prepare reliable fair value estimates for unlisted equity instruments and it used the purchase price adjusted for the balance sheet valuation purposes.

The Bank also applied this rule concerning equity instruments to the shares of PZU SA and Vectra SA.
The Bank holds 653 660 shares of PZU SA, representing 0.76% of the share capital; their book value is PLN 73 988 480.48. PZU SA is Poland's largest property insurer and the owner of the life insurer PZU Życie SA.

Shares of PZU SA are not listed in a regulated market. Shareholders frequently trade in its shares but this usually involves small packages of employee-held shares. The market is liquid to an extent, but in view of a conflict between the major shareholders and due to the fact that the potential IPO date of PZU SA remains unknown, the transaction prices are believed to include a large discount. It is estimated that the actual value is between PLN 180 and PLN 400 per share.

The Bank holds 9 045 404 shares of Vectra, representing 19.95% of the share capital; their book value is PLN 124 962 835.57. Vectra is the second largest operator of cable tv and has over 600 thousand customers in Poland.

Shares of the company are not listed in a regulated market. The investment in Vectra SA shares is subject to an investment agreement which sets the conditions applicable to the disposal of shares by the shareholders.

According to estimates of the shares value, the package held by BRE Bank may be worth between PLN 230 and 380 million.

Financial Liabilities. Financial instruments on the liabilities side include the following:

1. Contracted loans;
2. Liabilities resulting from the issue of deposit certificates by BRE;
3. Deposits.

The fair value for these fixed interest rate financial liabilities with more than 1 year to maturity is based on cash flows from principal and interest repayments discounted by a discounting factor based on zero coupon curve.

The Bank assumed that the fair values of such variable interest rate instruments or fixed interest rate instruments with less than 1 year to maturity was equal to the balance sheet values of the instruments.

3.9 Other Business

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties.

In connection with these, the Bank makes decisions concerning allocation, purchase and sale of numerous financial instruments of many types. Assets held in a fiduciary capacity are not disclosed in these financial statements.

4. Major Estimates and Judgments Made in Connection with the Application of Accounting Policy Principles

The Bank applies estimates and adopts assumptions, which impact the values of assets and liabilities presented in the subsequent period. Estimates and assumptions, which are continuously subject to assessment, rely on historical experience and other factors, including expectations concerning future events, which seem justified under the given circumstances.

Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the Profit and Loss Account, the Bank assesses, whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio, before such a decrease will be able to be attributed to a specific loan. The estimates may take into account any observable indications pointing at the occurrence of an unfavourable change in the solvency position of debtors belonging to any particular group or in the economic situation of a given country or part of a country, which is associated with the problems appearing in that group of assets. The Management plans future cash flows based on estimates drawing on historical experience of losses incurred on assets featuring the traits of credit risk exposure and objective impairment symptoms similar to those, which characterise the portfolio. The methodology and the assumptions on the basis of which the estimated cash flow amounts and their anticipated timing will be regularly reviewed in order to reduce the discrepancies between the estimated and the actual magnitude of the impairment losses concerned.

Fair value of derivative instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, the models applied resort exclusively to observable data, originating from an active market.

Impairment of equity securities available for sale

Impairment is regarded to occur if over a period of at least three months the listed price of the given security continues to be lower than the cost of its acquisition or the issuer incurs loss not covered by its equity within the period of one year, as well as the occurrence of other facts and circumstances providing indications of the impairment of value.

In addition, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

Impairment of debt instruments available for sale

Impairment and increase in value of debt securities available for sale is determined at the date of valuation, i.e. the Balance Sheet date, separately for each category of debt security. Impairment is recognised, if over a period of at least three months the listed price of the given security persists at a level lower than its cost of acquisition, if the issuer incurs a loss not covered by his equity capital over a period of one year or in the event of other circumstances indicating impairment. Value is deemed to have increased if over a period of at least three successive months the listed price of a security has been higher than its previous valuation or, if other circumstances indicating such an increase persist over such a period. An increase in value is determined according to the value recognised on the last day of the three month period, but it cannot be higher than the cost of acquisition.

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5. Interest Income

	31.12.2006	31.12.2005
Interest income		
Cash and short-term investments	214 034	194 400
Investment securities	84 757	30 330
Loans and advances including the unwind of the impairment provision discount	887 878	878 598
Debt securities	134 722	191 793
Other	12 992	18 501
	1 334 383	**1 313 622**
Interest expense		
Arising from amounts due to banks and customers	(718 856)	(692 153)
Arising from issue of debt securities	(3 758)	(9 972)
Other borrowed funds	(67 116)	(52 267)
Debt trading securities	(2 605)	(9 386)
Other	(2 676)	(11 198)
	(795 011)	**(774 976)**

Net interest income per segment is as follows:

	31.12.2006	31.12.2005
Interest income		
From banking sector	332 039	338 694
From clients, including:	1 002 344	974 928
- corporate clients	483 119	536 810
- individual clients	325 403	215 687
- public sector	193 822	222 431
	1 334 383	**1 313 622**
Interest expense		
From banking sector	(115 135)	(115 415)
From clients, including:	(676 118)	(649 589)
- corporate clients	(446 375)	(394 373)
- individual clients	(222 462)	(243 877)
- public sector	(7 281)	(11 339)
Debt securities in issue	(3 758)	(9 972)
	(795 011)	**(774 976)**

6. Net Fee and Commission Income

	31.12.2006	31.12.2005
Fee and commission income		
Credit related fees and commissions	86 431	62 709
Fees from portfolio-management services and other management-related fees	5 318	10 703
Guarantees granted and trade finance commissions	26 143	29 458
Commissions from credit cards	104 316	76 330
Commissions from money transfers	67 500	61 995
Commissions from bank accounts	47 686	44 067
Other	77 997	50 332
	415 391	**335 594**
Fee and commission expense		
Brokerage fees	(8 067)	(9 481)
Credit cards related fees	(76 234)	(64 149)
Other fees	(51 473)	(24 858)
	(135 774)	**(98 488)**

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7. Dividend Income

	31.12.2006	31.12.2005
Trading securities	139	717
Securities available for sale, investment in subsidiaries and associates	36 658	61 280
Dividend income, total	**36 797**	**61 997**

8. Net Trading Income

	31.12.2006	31.12.2005
Foreign exchange result	**343 265**	**251 293**
- foreign exchange differences from the translation (net)	215 356	350 924
- transaction gains less losses	127 909	(99 631)
Other trading income	**36 692**	**(25 817)**
- interest-bearing instruments	21 512	(12 388)
- equities	6 306	(3 961)
- market risk instruments	8 874	(9 468)
Total net trading income	**379 957**	**225 476**

"Foreign exchange result" includes profits and losses on spot transactions and forward contracts, options, futures and translated assets and liabilities denominated in foreign currencies. The "Interest-bearing instruments" include the profit/(loss) on money market instrument trading, swap contracts for interest rates and currencies, options and other derivative instruments. The profit/(loss) on equity instrument transactions includes the profit/(loss) on the global trade with equity securities and derivative equity instruments, such as swap contracts, options, futures and forward contracts.

9. Other Operating Income

	31.12.2006	31.12.2005
Sale of tangible and intangible fixed assets and assets held for resale	14 303	9 128
Income from recovering previously designated as uncollectible receivables	396	47
Income from compensation, penalties and fines received	141	1 251
Income due to release of provisions	20 562	8 538
Proceeds from services provided	11 973	8 460
Other	15 869	11 425
Total other operating income	**63 244**	**38 849**

10. Overhead Costs

	31.12.2006	31.12.2005
Staff-related expenses (Note 12)	(350 089)	(312 192)
Material costs	(334 535)	(312 614)
Taxes and fees	(6 555)	(7 231)
Contributions and transfers to the Banking Guarantee Fund	(3 924)	(3 895)
Contribution to the Social Benefits Fund	(2 424)	(58)
Total overhead costs	**(697 527)**	**(635 990)**

The position "Material costs" consist of tangible assets operating lease payment costs (mainly real estate) of PLN 30 434 thousand (2005: PLN 35 732 thousand).

11. Other Operating Expenses

	31.12.2006	31.12.2005
Costs of selling or scrapping fixed assets, intangible assets and assets held for resale	(13 238)	(7 297)
Impairment provisions created for other receivables (excluding loans and advances)	(1 013)	(1 138)
Receivables and liabilities recognised as uncollectible and written off	(260)	-
Compensation, penalties and fines paid	(25 139)	(11 613)
Donations made	(2 336)	(3 158)

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Impairment losses on other non-financial assets	-	(6 944)
Provisions for future commitments	(16 377)	(5 278)
Other operating costs	(14 913)	(8 001)
Total other operating expenses	**(73 276)**	**(43 429)**

12. Staff Costs

	31.12.2006	31.12.2005
Wages and salaries	(279 649)	(245 803)
Social security expenses	(42 074)	(40 514)
Salaries in form of share option program for employees	(2 212)	(4 536)
Other staff expenses	(26 154)	(21 339)
Staff-related expenses, total	**(350 089)**	**(312 192)**

The average level of employment in the Bank in 2006 was 3 803 persons (vs. 3 410 in 2005).
The additional information related to share-based payment has been presented in the Note 40 "Retained earnings".

13. Impairment Losses on Loans and Advances

	31.12.2006	31.12.2005
Amounts due from other banks (Note 18, 34)	(4 975)	-
Loans and advances to customers (Note 21, 34)	(21 174)	(53 392)
Total impairment losses on loans and advances	**(26 149)**	**(53 392)**

The above data includes provisions for off-balance sheet contingent liabilities including:

	31.12.2006	31.12.2005
Off-balance sheet contingent liabilities due to other banks	(397)	-
Off-balance sheet contingent liabilities due to customers	12 143	(10 224)
	11 746	**(10 224)**

14. Income Tax Expense

	31.12.2006	31.12.2005
Current tax	(18 799)	(48 369)
Deferred income tax (Note 35)	(63 378)	5 532
Total income tax	**(82 177)**	**(42 837)**
Profit before tax	**406 371**	**250 147**
Income tax	(77 210)	(47 528)
Expenses not decductible for tax purposes	8 890	15 188
Accrued expenses	(11 582)	(14 940)
Other positions	(2 275)	4 443
Income tax recognised in the profit and loss account	**(82 177)**	**(42 837)**
Effective tax rate calculation		
Profit before income tax	406 371	250 147
Income tax	(82 177)	(42 837)
Effective tax rate	**20.22%**	**17.12%**

Further information about deferred income tax is presented in Note 35. The tax on the Bank profit before tax differs from the theoretical amount that would arise using the basic tax rate as presented above.

15. Earnings per Share

Earnings per share for 12 months

	31.12.2006	31.12.2005
Basic:		
Net profit	324 194	207 310
Weighted average number of ordinary shares	29 344 158	28 780 011
Net basic profit per share (in PLN per share)	**11.05**	**7.20**
Diluted:		
Net profit	324 194	207 310
Net profit applied for calculation of diluted earnings per share	324 194	207 310
Weighted average number of ordinary shares	29 344 158	28 780 011
Adjustments for:		
- stock options for employees (in thousand PLN)	174 097	98 162
Weighted average number of ordinary shares for calculation of diluted earnings per share	29 518 255	28 878 173
Diluted earnings per share (in PLN per share)	**10.98**	**7.18**

The basic earnings per share is computed as the quotient of the Bank stockholders' share of the profit and the weighted average number of ordinary shares during the year.

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares as if all possible ordinary shares causing the dilution were replaced with shares. The Bank has one category of potential ordinary shares causing the dilution: share options. The number of diluting shares is computed as the number of shares that could be purchased at fair value (determined as the average annual price of the Bank's shares), based on the monetary value of the drawing rights related to the existing shares options.

According to IAS 33, the Bank prepares a statement of the so-called "diluted earnings per share", taking account of share purchase options granted to employees. In 2006 BRE Bank had two share-based payment programs.

Under the first share-based payment program (started in May 2000 and amended in May 2003) the members of Bank’s Management received 479 500 options that could have been exercised until 30 June 2006. Options gave the right to receive 479 500 additional shares issued. The program expired on 30 June 2006.

The second program (initiated in May 2003) assumes that members of the Bank's Management will receive 500 000 options to be exercised in phases between 1 June 2005 and 30 June 2008. Under these options, the employees may assume 500 000 of newly issued shares of the Bank.

The detailed data concerning both programs is described in the Note 40.

16. Cash and Balances with Central Bank

	31.12.2006	31.12.2005
Cash in hand	102 633	86 777
Current account	1 207 574	312 337
Other	2 400 530	1 377 226
Total cash and balances with central bank (Note 42)	**3 710 737**	**1 776 340**
Including: mandatory reserve deposit	705 562	585 227

The mandatory reserve is held in an account with the central bank and in the Bank's hand. As at 31 December 2006, the former part of the reserve bore 3.83% interest (31 December 2005: 4.28%).

17. Debt Securities Eligible for Rediscounting at the Central Bank

Debt securities eligible for rediscounting are bills of exchange issued by non-financial organizations with maturities up to 3 months.

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18. Loans and Advances to Banks

	31.12.2006	31.12.2005
Current accounts	19 598	205 830
Placements with other banks	1 702 424	3 005 618
Included in cash equivalents (Note 42)	**1 722 022**	**3 211 448**
Loans and advances	1 105 566	1 432 146
Revers repo / buy sell back transactions	124 339	33 430
Other receivables	55 877	12 741
Total (gross) loans and advances to banks	**3 007 804**	**4 689 765**
Provisions created for loans and advances to banks (negative amount) (Note 13)	(4 578)	-
Total (net) loans and advances to banks	**3 003 226**	**4 689 765**

The following table presents receivables from Polish and foreign banks:

	31.12.2006	31.12.2005
Loans and advances to Polish banks (gross)	406 527	777 229
Provisions created for loans and advances to Polish banks	(323)	-
Loans and advances to foreign banks (gross)	2 601 277	3 912 536
Provisions created for loans and advances to foreign banks	(4 255)	-
Total (net) loans and advances to banks	**3 003 226**	**4 689 765**

The variable rate loans and advances to banks amount to PLN 744 692 thousand (31 December 2005: PLN 733 304 thousand).

The following table presents the changes in allowance for losses on amounts due from banks:

	31.12.2006	31.12.2005
Provisions for loans and advances to banks as at the beginning of the period	**-**	**(2 287)**
Increase (due to)	(9 563)	-
- provisions created	(9 563)	-
Release (due to)	4 985	2 287
- release of provisions	4 985	-
- reclassification	-	2 287
Provisions for loans and advances to banks as at the end of the period	**(4 578)**	**-**

Provisions for loans and advances to banks of PLN 4 578 thousand, as well as changes in allowance for losses on amounts due from banks, relate in total to exposures analysed according to a portfolio based approach.

19. Trading Securities and Pledged Assets

	31.12.2006	31.12.2005
Trading debt securities and pledged assets	**6 153 333**	**6 472 185**
Government bonds included in cash equivalents and pledged government bonds (sell buy back transactions) (Note 42), including:	2 746 486	1 473 639
- pledged government bonds (sell buy back transactions)	1 921 475	40 804
Treasury bills included in cash equivalents and pledged treasury bills (sell buy back transactions) (Note 42), including:	745 038	1 640 129
- pledged treasury bills (sell buy back transactions)	723 289	1 298 166
Other debt securities	2 661 809	3 358 417
- pledged deposit certificates (sell buy back transactions)	-	64 767
- pledged corporate bonds (sell buy back transactions)	-	89 988

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Equity securities:	**11 385**	**36 193**
- listed	11 385	36 193
Total trading debt and equity securities, including:	**6 164 718**	**6 508 378**
- Trading securities	*3 519 954*	*5 014 653*
- Pledged assets (Note 36)	*2 644 764*	*1 493 725*

Government bonds include securities used to secure sell-buy-back transactions with customers, the market value of which as at 31 December 2006 amounted to PLN 1 921 475 thousand (31 December 2005: PLN 40 804 thousand). The bonds are disclosed separately within the "Pledged assets" in the Balance Sheet.

"Debt securities" include treasury bills eligible for rediscounting issued by the Polish Treasury for a period of up to one year. All treasury notes bear fixed interest rates.

The note above does not include treasure and money bills under the Bank Guarantee Fund of PLN 56 727 thousand (31 December 2005: PLN 22 487 thousand), which have been classified as investment securities (Note 22).

20. Derivative Financial Instruments and Other Trading Liabilities

The Bank uses the following derivative instruments for hedging and for other purposes:

Forward currency transactions represent commitments to purchase foreign and local currencies, including outstanding spot transactions. **Futures for currencies and interest rates** are contractual commitments to receive or pay a specific net value, depending on currency rate of exchange or interest rate variations, or to buy or sell a foreign currency or a financial instrument on a specified future date for a fixed price established on the organized financial market. Because futures contracts are collateralized with fair-valued cash or securities and the changes of the face value of such contracts are accounted for daily in reference to stock exchange quotations, the credit risk is marginal. **FRA contracts** are similar to futures except that each of them is negotiated individually and each requires payment on a specific future date of the difference between the interest rate set in the agreement and the current market rate on the basis of theoretical amount of capital.

Currency and interest rate swap contracts are commitments to exchange one cash flow for another cash flow. Such a transaction results in swap of currencies or interest rates (e.g., fixed to variable interest rate) or combination of all these factors (e.g., inter-currency interest rate swap contracts). With the exception of specific currency swap contracts, such transactions do not result in swaps of capital. The credit risk of the Bank consists of the potential cost of replacing swap contracts if the parties fail to discharge their liabilities. This risk is monitored daily by reference to the current fair value, proportion of the face value of the contracts and market liquidity. The Bank evaluates the parties to such contracts using the same methods as for its credit business, to control the level of its credit exposure.

Currency and interest rate options are agreements, pursuant to which the selling party grants the buying party the right, but not an obligation, to purchase (call option) or sell (put option) a specific quantity of a foreign currency or a financial instrument at a predefined price on or by a specific date or within an agreed period. In return for accepting currency or interest rate risk, the buyer offers the seller a premium. An option can be either a public instrument traded at a stock exchange or a private instrument negotiated between the Bank and a customer (private transaction). The Bank is exposed to credit risk related to purchased options only up to the balance sheet value of such options, i.e. the fair value of the options.
Face values of certain types of financial instruments provide a basis for comparing them to instruments disclosed in the Balance Sheet but they may not be indicative of the value of the future cash flows or of the present fair value of such instruments. For this reason, the face values do not indicate the level of the Bank's exposure to credit risk or price change risk. Derivative instruments can have positive value (assets) or negative value (liabilities), depending on market interest or currency exchange rate fluctuations. The aggregate fair value of derivative financial instruments may be subject to strong variations.

The following table presents the fair values of the derivatives held by the Bank:

As at 31 December 2006	Contract amount	Fair value of asset	Fair value of liability
Derivatives held for trading			
Foreign exchange derivatives			
- Currency forwards	21 167 613	196 494	128 902
- Currency swaps	42 307 959	392 523	221 430
- Cross-currency interest rate swaps	87 306	-	-

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- OTC currency options bought and sold	2 612 114	37 111	50 066
Total OTC derivatives	**66 174 992**	**626 128**	**400 398**
- Currency futures	36 954	-	-
- Stock exchange traded currency options - bought and sold	14 585	609	233
Total foreign exchange derivatives	**66 226 531**	**626 737**	**400 631**
Interest rate derivatives			
- Interest rate swaps	285 443 918	468 610	540 021
- Forward rate agreements	167 856 340	81 705	83 666
- OTC interest rate options	-	104	162
Total OTC interest rate derivatives	**453 300 258**	**550 419**	**623 849**
Total interest rate derivatives	**453 300 258**	**550 419**	**623 849**
Stock exchange traded market risk transactions	**540 010**	**233 874**	**243 345**
Total recognised derivative assets/(liabilities) and other trading liabilities	**520 066 799**	**1 411 030**	**1 267 825**

	Contract amount	**Fair value of asset**	**Fair value of liability**
As at 31 December 2005			
Derivatives held for trading			
Foreign exchange derivatives			
- Currency forwards	-	403 464	335 501
- Currency swaps	169 329 631	162 359	133 551
- Cross-currency interest rate swaps	195 639	54 892	62 242
- OTC currency options bought and sold	6 132 571	104 808	123 246
Total OTC derivatives	**175 657 841**	**725 523**	**654 540**
Total foreign exchange derivatives	**175 657 841**	**725 523**	**654 540**
Interest rate derivatives			
- Interest rate swaps	200 000	462 510	548 528
- Forward rate agreements	111 492 406	70 877	61 605
- OTC interest rate options	5 333	19	19
- Other OTC derivatives	39 016	839	779
Total OTC interest rate derivatives	**111 736 755**	**534 245**	**610 931**
- Interest rate futures	538 546	-	-
Total interest rate derivatives	**112 275 301**	**534 245**	**610 931**
Stock exchange traded market risk transactions	**259 293**	**4 732**	**4 943**
Total recognised derivative assets/(liabilities) and other trading liabilities	**288 192 435**	**1 264 500**	**1 270 414**

As at 31 December 2006 and as at 31 December 2005 the Bank does not have any other financial assets and liabilities in the category of financial liabilities priced at fair value through the profit and loss account.

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21. Loans and Advances to Customers

	31.12.2006	31.12.2005
Loans and advances to individuals:	**8 684 895**	**4 326 918**
- overdrafts	1 179 317	823 395
- credit cards	20 210	16 191
- term loans	7 485 368	3 487 332
Loans and advances to corporate entities:	**9 154 620**	**7 960 043**
- overdrafts	2 129 226	1 585 400
- credit cards	3 488	2 422
- direct commercial loans	6 408 628	6 064 353
- consortium loans	570 703	305 580
- revers repo / buy sell back transactions	40 436	-
- other	2 139	2 288
Loans and advances to public sector	**31 459**	**1 123 946**
Receivables purchased	**198 538**	**170 704**
Realised guarantees and warranties	**6 325**	**18 894**
Other receivables	**328 250**	**118 914**
Total (gross) loans and advances to customers	**18 404 087**	**13 719 419**
Provisions for loans and advances to customers (negative amount)	(714 331)	(739 860)
Total (net) loans and advances to customers	**17 689 756**	**12 979 559**

As at 31 December 2006, variable and fixed rate credits amounted to PLN 17 700 074 thousand and PLN 170 900 thousand, respectively. The values mentioned above relate to loans granted to individual clients, corporate clients and budget sector.

The Bank accepted exchange-listed securities at the fair value of PLN 1 151 932 thousand (31 December 2005: PLN 331 640 thousand) as collateral for commercial loans.

Allowance for Losses on Loans and Advances

	31.12.2006	31.12.2005
Receivables classified as "non-default"		
Gross balance sheet exposure	17 568 124	12 744 735
Provisions for exposures analysed according to portfolio approach	(59 988)	(71 720)
Net balance sheet exposure	**17 508 136**	**12 673 015**
Receivables classified as "default"		
Gross balance sheet exposure	835 963	974 684
Provisions for exposures analysed individually	(654 343)	(668 140)
Net balance sheet exposure	**181 620**	**306 544**

Changes in Allowance for Losses on Loans and Advances

	31.12.2006	31.12.2005
Provisions as at the beginning of the period for loans and advances	**(739 860)**	**(760 028)**
Increase (due to)	(345 852)	(346 502)
- provisions created	(345 852)	(346 028)
- foreign exchange differences	-	(474)
Decrease (due to)	371 381	366 670
- provisions release	312 535	302 860
- reclassification	16 254	36 649
- foreign exchange differences	11 033	-
- charge-offs	31 559	19 284
- other	-	7 877
Provisions as at the end of the period	**(714 331)**	**(739 860)**

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22. Investment Securities and Pledged Assets

	31.12.2006	31.12.2005
Debt securities	2 803 425	895 813
- listed	2 803 425	895 813
Equity securities	210 523	181 848
- listed	10 411	5 618
- unlisted	200 112	176 230
Total investment securities and pledged assets, including:	**3 013 948**	**1 077 661**
- Available for sale securities	*2 957 221*	*1 055 174*
- Pledged assets (Note 36)	*56 727*	*22 487*

Unlisted equity securities at fair value include impairment in amount of PLN 64 thousand (2005: PLN 22 904 thousand).

As at 31 December 2006, the carrying values of debt securities based on fixed interest rate amounted to PLN 2 677 822 thousand and variable interest rate PLN 125 603 thousand (2005 respectively: PLN 721 357 thousand, PLN 86 940 thousand).

Listed debt securities include the Polish Brady bonds. The Polish Brady bonds were issued in the execution of agreements made on 14 September 1994 between the Republic of Poland and commercial banks associated in the London Club pursuant to the Regulation N° 78 of the Minister of Finance of 26 October 1994 concerning the issue of bonds for the performance of agreements for reduction and restructuring of Poland's debts, made with commercial banks associated in the London Club. These are denominated in US Dollars. The carrying value of Brady bonds was PLN 29 083 thousand as at 31 December 2006 (31 December 2005: PLN 54 943 thousand).

The above note includes treasury bills pledged in accordance of the Bank Guarantee Fund, which are presented in the balance sheet in a separate position "Pledged assets" (see Note 36).

In accordance with the Bank Guarantee Fund Law of 14 December 1994, BRE Bank SA had PLN 56 727 thousand, at face value PLN 57 500 thousand worth of treasury notes and money bills disclosed in its Balance Sheet as at 31 December 2006 (2005: PLN 22 487 thousand at face value PLN 23 000 thousand). The notes were used as security under the Bank Guarantee Fund and they were deposited in a separate account with the National Bank of Poland.

Gains and Losses from Investment Securities

	31.12.2006	31.12.2005
Redemption / sale by the issuer of the financial assets available for sale	41 696	32 321
Impairment of available for sale equity securities	(1 581)	(31 947)
Total gains and losses from investment securities	**40 115**	**374**

Gains and losses from investment securities include income from sale of sahres of Novitus SA amounting to PLN 11 699 thousand.

Movement in Investment Securities and Pledged Assets

	31.12.2006	31.12.2005
As at the beginning of the period	**1 077 661**	**504 863**
Exchange differences	(42 847)	10 363
Additions	7 315 881	7 017 667
Disposals (sale and redemption)	(5 345 382)	(6 452 605)
Losses from impairment	(482)	(3 964)
Gains / losses from changes in fair value (Note 39)	9 117	1 337
As at the end of the period	**3 013 948**	**1 077 661**

23. Investments in Subsidiaries

The Bank had the following shares in its major unlisted subsidiaries:

31 December 2006 (in PLN '000)

No	Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held	Carrying value
1	**PTE Skarbiec - Emerytura SA***	Poland	146 972	9 754	45 977	15 071	100.00	310 822
2	**ServicePoint Sp. z o.o.**	Poland	3 034	1 183	11 901	913	100.00	50
3	**Fund Advisory and Management Company (FAMCO) SA w likwidacji**	Poland	3 920	20	-	3 900	100.00	5 340
4	**BRE Corporate Finance SA**	Poland	4 047	631	8 959	146	100.00	6 256
5	**Dom Inwestycyjny BRE Banku SA**	Poland	445 840	392 157	101 511	20 850	100.00	26 719
6	**Skarbiec Asset Management Holding S.A.***	Poland	103 440	23 044	109 273	17 748	53.93	51 033
7	**Centrum Rozliczeń i Informacji CERI Sp. z o.o.**	Poland	19 494	8 971	23 544	436	100.00	10 566
8	**AMBRESA Sp. z o.o.**	Poland	1 200	281	48	(311)	100.00	866
9	**Garbary Sp. z o.o.**	Poland	49 010	90	257	(1 796)	100.00	53 384
10	**TV-Tech Investment 1 Sp. z o.o. w likwidacji****	Poland	780	19	1	(32)	100.00	50
11	**Tele -Tech Investment Sp. z o.o.**	Poland	49 013	48 767	4 005	(748)	100.00	50
12	**BRELIM Sp. z o.o.*****	Poland	4 505	2	-	(24)	100.00	10 205
13	**BREL-MAR Sp. z o.o.**	Poland	30	75	-	(74)	100.00	50
14	**BRE Finance France SA**	Francja	1 657 226	1 655 849	77 032	493	99.99	862
15	**BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa**	Poland	61 753	57 601	-	(640)	99.84	3 629
16	**Intermarket Bank AG**	Austria	826 704	714 024	74 820	17 303	56.24	35 860
17	**BRE Leasing Sp. z o.o.**	Poland	2 228 556	2 168 010	205 140	21 343	50.004	3 737
18	**Magyar Factor Rt.**	Hungary	201 780	178 547	24 869	5 256	78.12	8 352
19	**TRANSFINANCE a.s.**	Czech Republic	465 303	426 051	39 871	7 766	78.12	16 437
20	**Polfactor SA**	Poland	290 039	259 748	32 381	9 339	78.12	4 803
21	**BRE.locum Sp. z o.o.**	Poland	190 104	154 712	141 164	14 582	79.99	12 587
22	**emFinanse Sp. z o.o.**	Poland	4 666	7 877	3 651	(5 422)	100.00	3 000
23	**BRE Wealth Management SA**	Poland	10 119	2 669	12 930	3 273	100.00	12 000
24	**BRE Bank Hipoteczny SA**	Poland	2 400 972	2 166 585	160 659	30 389	100.00	214 540
25	**BRE Ubezpieczenia SA**	Poland	3 577	705	427	(1 128)	100.00	4 000
								795 198

*) balance sheet value of PTE and SAMH are presented in the balance sheet item "Non-current assets held for sale"
**) data as at the end of liquidation - October 31, 2006
***) shares in the entity were sold on 31 January 2007

31 December 2005 (in PLN '000)

No	Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held	Carrying value
1	**BRE International Finance BV**	Holland	295	83	9 972	140	100.00	77
2	**PTE Skarbiec - Emerytura SA***	Poland	112 943	6 839	41 278	7 861	100.00	310 510
3	**ServicePoint Sp. z o.o.**	Poland	2 385	657	7 939	783	100.00	50
4	**Fund Advisory and Management Company (FAMCO) SA w likwidacji**	Poland	4 243	1 521	204	165	100.00	5 340
5	**BRE Corporate Finance SA**	Poland	4 751	1 271	16 122	210	100.00	6 256
6	**Dom Inwestycyjny BRE Banku SA**	Poland	385 018	341 106	64 119	11 608	100.00	26 719
7	**Skarbiec Asset Management Holding SA**	Poland	134 681	10 742	64 596	8 293	100.00	94 626
8	**Centrum Rozliczeń i Informacji CERI Sp. z o.o.**	Poland	12 886	6 299	20 638	283	100.00	7 066
9	**AMBRESA Sp. z o.o.**	Poland	1 346	116	76	(51)	100.00	866
10	**Garbary Sp. z o.o.**	Poland	52 093	2 577	1 222	(1 919)	100.00	52 184
11	**MKF Sp. z o.o.**	Poland	90	99	17	(19)	100.00	33
12	**TV-Tech Investment 1 Sp. z o.o.**	Poland	787	1	1 196	760	100.00	50
13	**TV-Tech Investment 2 Sp. z o.o.**	Poland	31	1	-	(8)	100.00	50
14	**BRELIM Sp. z o.o.**	Poland	4 528	2	5	(31)	100.00	3 966
15	**BREL-MAR Sp. z o.o.**	Poland	36	7	742	(759)	100.00	335
16	**BRE Finance France SA**	France	2 418 657	2 417 377	55 430	420	99.97	868
17	**BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa**	Poland	67 971	61 390	-	(383)	99.84	3 629
18	**Intermarket Bank AG**	Austria	673 412	575 445	67 495	14 802	56.24	36 128
19	**BRE Leasing Sp. z o.o.**	Poland	1 751 080	1 704 959	194 129	15 117	50.004	3 737
20	**Magyar Factor Rt.**	Hungary	229 243	209 407	27 607	6 056	50.00	8 399
21	**TRANSFINANCE a.s.**	Czech Republic	385 173	352 958	34 143	6 085	50.00	15 682
22	**Polfactor SA**	Poland	269 678	245 726	28 934	7 642	50.00	4 803
23	**BRE.locum Sp. z o.o.**	Poland	130 184	101 910	66 291	5 494	49.99	12 587
24	**emFinanse Sp. z o.o.**	Poland	1 236	248	6	(812)	100.00	1 800
								595 761

*) balance sheet value of PTE is presented in the balance sheet item "Non-current assets held for sale"

Change in Investments in Subsidiaries:

	31.12.2006	31.12.2005
As at the beginning of the period	**285 251**	**671 743**
Increase due to:	243 253	6 128
- purchase	236 530	2 013
- other	6 723	4 115
Decrease due to:	(95 161)	(392 620)
- sale	(43 843)	(47 511)
- impairment	(285)	(26 803)
- foreign exchange differences	-	(2 973)
- reclassification to available for sale	-	(4 823)
- reclassification to non-current asstes held for sale	(51 033)	(310 510)
As at the end of the period	**433 343**	**285 251**

24. Investments in Associates

The Bank had the following shares in its major unlisted associates:

31 December 2006 (in PLN '000)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held
Xtrade S.A.	Poland	700	983	1560	(734)	24.9

31 December 2005 (in PLN '000)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held
Xtrade S.A.	Poland	1 521	1 063	1 793	(1 863)	24.90
NOVITUS S.A.	Poland	36 077	10 202	58 751	6 929	24.88
Tele-Tech Investment Sp. z o.o.	Poland	50 409	49 415	6 189	(511)	24.00

Change in Investments in Associates:

	31.12.2006	31.12.2005
As at the beginning of the period	**5 649**	**826**
Increase due to:	38	4 823
- purchase	38	-
- reclassification	-	4 823
Decrease due to:	(5 687)	-
- sale	(2 885)	-
- reclassification	(1 988)	-
- other	(814)	-
As at the end of the period	**-**	**5 649**

25. Intangible Assets

	31.12.2006	31.12.2005
Development costs	4 315	5 574
Concessions, patents, licences and similar assets, including	303 130	323 267
- computer software	272 836	285 517
Other intangible assets	2 688	2 227
Intangible assets under development	46 003	37 436
Total intangible assets	**356 136**	**368 504**

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Movements in Intangible Assets

Movements in intangible assets from 1 January 2006 to 31 December 2006	Development costs	Acquired concessions, patents, licences and other similar assets, including:		Other intangible assets	Intangible assets under development, including:		Total intangible assets
			acquired computer software			investment expenditure	
Gross value of intangible assets as at the beginning of the period: 01.01.2006	**33 108**	**475 944**	**397 547**	**4 586**	**37 436**	**1 335**	**551 074**
Increase (due to)	**-**	**47 949**	**35 431**	**1 543**	**54 896**	**-**	**104 388**
- purchase	-	4 075	623	1 526	52 900	-	**58 501**
- transfer from assets under construction	-	151	39	-	123	-	**274**
- transfer from intangible assets under development	-	43 723	34 769	17	-	-	**43 740**
- other increases	-	-	-	-	1 873	-	**1 873**
Decrease (due to)	**-**	**(48 761)**	**(29 932)**	**-**	**(46 329)**	**(1 335)**	**(95 090)**
- sale	-	(902)	(630)	-	-	-	**(902)**
- liquidation	-	(47 278)	(28 724)	-	(197)	-	**(47 475)**
- transfer from investment expenditure	-	(538)	(538)	-	(43 740)	-	**(44 278)**
- other decreases	-	(43)	(40)	-	(2 392)	(1 335)	**(2 435)**
Gross value of intangible assets as at the end of the period: 31.12.2006	**33 108**	**475 132**	**403 046**	**6 129**	**46 003**	**-**	**560 372**
Accumulated amortization as at the beginning of the period: 01.01.2006	**(27 534)**	**(152 677)**	**(112 030)**	**(2 359)**	**-**	**-**	**(182 570)**
Amortization for the period (due to)	**(1 259)**	**(19 325)**	**(18 180)**	**(1 082)**	**-**	**-**	**(21 666)**
- depreciation charges	(1 259)	(64 659)	(45 383)	(1 082)	-	-	**(67 000)**
- sale	-	902	630	-	-	-	**902**
- liquidation	-	44 430	26 571	-	-	-	**44 430**
- other decreases	-	2	2	-	-	-	**2**
Accumulated amortization as at the end of the period: 31.12.2006	**(28 793)**	**(172 002)**	**(130 210)**	**(3 441)**	**-**	**-**	**(204 236)**
Net value of intangible assets as at the end of the period: 31.12.2006	**4 315**	**303 130**	**272 836**	**2 688**	**46 003**	**-**	**356 136**

Movements in intangible assets from 1 January 2005 to 31 December 2005	Development costs	Acquired concessions, patents, licences and other similar assets, including:		Other intangible assets	Intangible assets under development, including:		Total intangible assets
			acquired computer software			investment expenditure	
Gross value of intangible assets as at the beginning of the period: 01.01.2005	**33 108**	**304 586**	**250 725**	**2 749**	**142 644**	**-**	**483 087**
Increase (due to)	**-**	**176 986**	**149 177**	**1 837**	**55 708**	**1 335**	**234 531**
- purchase	-	20 464	1 105	49	54 650	1 314	**75 163**
- transfer from assets under construction	-	1 212	7	17	747	-	**1 976**
- transfer from intangible assets under development	-	154 807	147 562	1 771	-	-	**156 578**
- other increases	-	503	503	-	311	21	**814**
Decrease (due to)	**-**	**(5 628)**	**(2 355)**	**-**	**(160 916)**	**-**	**(166 544)**
- liquidation	-	(5 618)	(2 355)	-	-	-	**(5 618)**
- transfer from investment expenditure	-	-	-	-	(156 578)	-	**(156 578)**
- other decreases	-	(10)	-	-	(4 338)	-	**(4 348)**
Gross value of intangible assets as at the end of the period: 31.12.2005	**33 108**	**475 944**	**397 547**	**4 586**	**37 436**	**1 335**	**551 074**
Accumulated amortization as at the beginning of the period: 01.01.2005	**(25 389)**	**(105 710)**	**(81 367)**	**(1 840)**	**-**	**-**	**(132 939)**
Amortization for the period (due to)	**(2 145)**	**(46 967)**	**(30 663)**	**(519)**	**-**	**-**	**(49 631)**
- depreciation charges	(2 145)	(50 810)	(32 544)	(519)	-	-	**(53 474)**
- liquidation	-	3 832	1 881	-	-	-	**3 832**
- other decreases	-	11	-	-	-	-	**11**
Accumulated amortization as at the end of the period: 31.12.2005	**(27 534)**	**(152 677)**	**(112 030)**	**(2 359)**	**-**	**-**	**(182 570)**
Net value of intangible assets as at the end of the period: 31.12.2005	**5 574**	**323 267**	**285 517**	**2 227**	**37 436**	**1 335**	**368 504**

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26. Tangible Fixed Assets

	31.12.2006	31.12.2005
Tangible fixed assets, including:	437 605	451 961
- land	1 733	1 733
- buildings and constructions	223 938	240 151
- equipment	106 153	108 194
- vehicles	463	2 076
- other tangible fixed assets	105 318	99 807
Assets under construction	33 321	32 110
Total tangible fixed assets	**470 926**	**484 071**

Movements in Fixed Assets

Movements in tangible fixed assets from 1 January 2006 to 31 December 2006	Land	Buildings	Equipment	Vehicles	Other tangible fixed assets	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2006	**1 733**	**356 043**	**328 091**	**9 538**	**209 352**	**904 757**
Increase (due to)	**-**	**215**	**38 917**	**-**	**25 019**	**64 151**
- purchase	-	206	12 474	-	4 040	**16 720**
- transfer from assets under construction	-	9	26 443	-	20 911	**47 363**
- other increases	-	-	-	-	68	**68**
Decrease (due to)	**-**	**(22 664)**	**(7 952)**	**(1 960)**	**(4 823)**	**(37 399)**
- sale	-	(22 664)	(532)	(1 923)	(713)	**(25 832)**
- liquidation	-	-	(7 295)	(37)	(3 203)	**(10 535)**
- other decreases	-	-	(125)	-	(907)	**(1 032)**
Gross value of tangible fixed assets as at the end of the period: 31.12.2006	**1 733**	**333 594**	**359 056**	**7 578**	**229 548**	**931 509**
Accumulated depreciation as at the beginning of the period: 01.01.2006 r.	**-**	**(45 943)**	**(219 717)**	**(7 461)**	**(108 349)**	**(381 470)**
Depreciation for the period (due to)	**-**	**(5 554)**	**(33 006)**	**346**	**(15 718)**	**(53 932)**
- depreciation charge	-	(7 368)	(40 579)	(1 458)	(19 374)	**(68 779)**
- other increases	-	-	-	(7)	(3)	**(10)**
- sale	-	1 814	590	1 778	697	**4 879**
- liquidation	-	-	6 978	33	2 148	**9 159**
- other decreases	-	-	5	-	814	**819**
Accumulated depreciation as at the end of the period: 31.12.2006	**-**	**(51 497)**	**(252 723)**	**(7 115)**	**(124 067)**	**(435 402)**
Impairment losses as at the beginning of the period: 01.01.2006	**-**	**(69 949)**	**(180)**	**(1)**	**(1 196)**	**(71 326)**
- increase	-	-	-	-	-	**-**
- decrease	-	11 790	-	1	1 033	**12 824**
Impairment losses as at the end of the period: 31.12.2006	**-**	**(58 159)**	**(180)**	**-**	**(163)**	**(58 502)**
Net value of tangible fixed assets as at the end of the period: 31.12.2006	**1 733**	**223 938**	**106 153**	**463**	**105 318**	**437 605**

Movements in tangible fixed assets from 1 January 2005 to 31 December 2005	Land	Buildings	Equipment	Vehicles	Other tangible fixed assets	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2005	**653**	**341 978**	**306 434**	**16 784**	**190 965**	**856 814**
Increase (due to)	**1 080**	**14 128**	**42 877**	**-**	**40 837**	**98 922**
- purchase	1 080	10 890	20 008	-	4 947	**36 925**
- transfer from assets under construction	-	2 476	20 644	-	35 890	**59 010**
- other increases	-	762	2 225	-	-	**2 987**
Decrease (due to)	**-**	**(63)**	**(21 220)**	**(7 246)**	**(22 450)**	**(50 979)**
- sale	-	-	(14 058)	(7 069)	(576)	**(21 703)**
- liquidation	-	-	(6 351)	(177)	(16 148)	**(22 676)**
- other decreases	-	(63)	(811)	-	(5 726)	**(6 600)**
Gross value of tangible fixed assets as at the end of the period: 31.12.2005	**1 733**	**356 043**	**328 091**	**9 538**	**209 352**	**904 757**
Accumulated depreciation as at the beginning of the period: 01.01.2005 r.	**-**	**(39 083)**	**(196 033)**	**(10 224)**	**(101 842)**	**(347 182)**
Depreciation for the period (due to)	**-**	**(6 860)**	**(23 684)**	**2 763**	**(6 507)**	**(34 288)**
- depreciation charge	-	(6 829)	(32 788)	(2 641)	(23 758)	**(66 016)**
- other increases	-	(31)	-	-	(5)	**(36)**
- sale	-	-	2 467	5 296	537	**8 300**
- liquidation	-	-	5 979	108	11 954	**18 041**
- other decreases	-	-	658	-	4 765	**5 423**
Accumulated depreciation as at the end of the period: 31.12.2005	**-**	**(45 943)**	**(219 717)**	**(7 461)**	**(108 349)**	**(381 470)**
Impairment losses as at the beginning of the period: 01.01.2005	**-**	**(65 505)**	**(11 716)**	**(1)**	**(1 196)**	**(78 418)**
- increase	-	(4 444)	-	-	-	**(4 444)**
- decrease	-	-	11 536	-	-	**11 536**
Impairment losses as at the end of the period: 31.12.2005	**-**	**(69 949)**	**(180)**	**(1)**	**(1 196)**	**(71 326)**
Net value of tangible fixed assets as at the end of the period: 31.12.2005	**1 733**	**240 151**	**108 194**	**2 076**	**99 807**	**451 961**

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The 2005 write-offs for impairment relate mainly to the Bank's real estate property.

The recoverable value of impaired fixed assets is the net selling price determined on the basis of market prices of similar assets.

27. Other Assets

	31.12.2006	31.12.2005
Assets taken over and held for resale	1 328	14
- other	1 328	14
Other, including:	208 782	264 529
- debtors	154 157	195 264
- receivables from income tax	463	22 384
- interbank balances	932	945
- other accruals	34 660	33 862
- accrued income	15 776	7 751
- inventories	2 717	2 913
- other	77	1 410
Total other assets	**210 110**	**264 543**

28. Non-current Assets Held for Sale

According to the IFRS 5 "Non-current assets Held for Sale and Discontinued Operations" and the rules described under the point 2.14 of Explanatory notes to the financial statements, as at December 31, 2006 the book value of PTE Skarbiec – Emerytura SA (PTE) and Skarbiec Asset Management Holding SA (SAMH) was presented in the separate balance-sheet position as non-current assets held for sale.

On 8th January 2007 in relation to the agreement of 25th September 2006 on sale of shares of Skarbiec Asset Management Holding SA for the Polish Enterprise Fund V, L.P. (PEF V) BRE Bank sold 72 582 shares of SAMH of face value PLN 1 000 each.

The Bank sold aforementioned shares for a total amount of PLN 155 000 000. Price for shares was paid on 8th January 2007. Ownership of those shares was transferred to PEF V on 8th January 2007. At 31 December 2006 signing conditional sale agreement of SAMH shares did not result in a transfer a control of the company to the investor. As a result, risks and rewards of shares of the company retained in the Bank.

Aforementioned shares account for 53.93% of share capital of SAMH, authorising to exercise 72 582 votes on the general assembly of SAMH, what constitutes 53.93% of total number of votes at general assembly of SAMH. Remaining 46.07% of shares are owned by SAMH.

The value of sold shares of SAMH in Bank's accounts is PLN 51 033 223.50. After the transaction the Bank does not possess any shares of SAMH.

Bank supports its strategy and plans concerning the operations of pension business of PTE Skarbiec-Emerytura SA, that from the point of view of BRE Bank, is not considered as core business. BRE Bank will consider the possibility of taking other actions in this regard, other than consolidation. In the period between December 2006 and the date of annual financial statements publication, the Bank received draft purchase offers of PTE from potential investors, which are the subject of analysis.

Relating to the mentioned above, the requirements of IFRS 5, which specifies the criteria to be classified as held for sale assets, have been met for PTE and SAMH.

29. Amounts due to Other Banks

	31.12.2006	31.12.2005
Payables to be settled	3 352	4 639
Current accounts	273 713	301 987
Term deposits	559 742	521 689
Loans and advances received	4 193 964	1 391 083
Repo / sell buy back transactions	124 225	15 080
Other liabilities (due to):	31 290	31 375
- liabilities in respect of cash collaterals	31 290	31 375
Amounts due to other banks	**5 186 286**	**2 265 853**

Term deposits accepted from other banks are fixed interest rate deposits. One term deposit with variable rate maturing on 6 July 2007 is one exception.

30. Amounts due to Customers

	31.12.2006	31.12.2005
Corporate customers:	**16 598 983**	**15 186 320**
Current accounts	8 174 037	6 936 194
Term deposits	3 704 972	3 730 239
Loans and advances received	237 026	325 615
Repo transactions	2 520 539	1 478 535
Other liabilities:	1 962 409	2 715 737
- liabilities in respect of cash collaterals	1 900 216	2 697 411
- other	62 193	18 326
Individual customers:	**9 220 711**	**7 463 570**
Current accounts	6 240 191	4 447 290
Term deposits	2 893 202	2 942 765
Other liabilities:	87 318	73 515
- liabilities in respect of cash collaterals	86 702	73 188
- other	616	327
Public sector customers:	**114 940**	**98 042**
Current accounts	26 945	36 171
Term deposits	86 310	60 186
Loans and advances received	1 685	1 685
Total amounts due to customers	**25 934 634**	**22 747 932**

31. Debt Securities in Issue

As at 31 December 2006

Debt securities in issue by cathegory	Nominal value	Interest rate	Guarantees/collaterals	Redemption date
Long-term issues				
- Deposit Certificate (in PLN)	3 000	4.67%	no collateral	27/08/2008
- Deposit Certificate (in PLN)	5 000	4.86%	no collateral	01/10/2008
- Deposit Certificate (in PLN)	10 000	4.72%	no collateral	13/10/2008
- Deposit Certificate (in PLN)	8 000	7.75%	no collateral	06/05/2009
- Bonds (in PLN)	11 200	4.71%	no collateral	22/09/2008
Libilities due to the issue of debt securities (balance sheet value in thousand PLN)				**36 215**

As at 31 December 2005

Debt securities in issue by cathegory	Nominal value	Interest rate	Guarantees/collaterals	Redemption date
Long-term issues				
- Deposit Certificate (in PLN)	3 000	6.91%	no collateral	29/01/2010
- Deposit Certificate (in PLN)	3 000	5.90%	no collateral	14/08/2006
- Deposit Certificate (in PLN)	8 000	5.87%	no collateral	21/08/2006
- Deposit Certificate (in PLN)	3 000	5.91%	no collateral	27/08/2008
- Deposit Certificate (in PLN)	5 000	6.32%	no collateral	01/10/2008
- Deposit Certificate (in PLN)	10 000	5.94%	no collateral	13/10/2006
- Deposit Certificate (in PLN)	10 000	6.34%	no collateral	13/10/2008
- Deposit Certificate (in PLN)	20 000	6.73%	no collateral	12/04/2006
- Deposit Certificate (in PLN)	15 000	9.05%	no collateral	06/05/2009
- Bonds (in PLN)	11 200	6.50%	no collateral	22/09/2008
- Bonds (in PLN)	5 000	6.05%	no collateral	22/09/2006
Libilities due to the issue of debt securities (balance sheet value in thousand PLN)				**91 545**

Movement in Debt Securities in Issue

	31.12.2006	31.12.2005
As at the beginning of the period	**91 545**	**407 792**
Increase (due to):	670	4 453
- valuation at amortised cost	670	4 453
Decrease (due to):	(56 000)	320 700
- redemption	(56 000)	320 700
Debt securities in issue at the end of the period	**36 215**	**91 545**

32. Subordinated liabilities

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2006					
- COMMERZBANK AG	200 000	EUR	3M EURIBOR+1,3%	27.03.2012	775 751
- COMMERZBANK AG	50 000	EUR	3M EURIBOR+1,3%	26.09.2012	193 656
- COMMERZBANK AG	100 000	EUR	3M EURIBOR+2,5%	not defined	386 992
- COMMERZBANK AG	80 000	CHF	3M LIBOR+1,4%	not defined	190 955
					1 547 354

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2005					
- AT BRE COM LTD	200 000	EUR	3M EURIBOR+1.3%	27.03.2012	779 027
- AT BRE COM LTD	50 000	EUR	3M EURIBOR+1.3%	26.09.2012	194 507
- AT BRE COM LTD	100 000	EUR	3M EURIBOR+2.5%	not defined	388 994
					1 362 528

Subordinated liabilities include the amount of issued subordinate debt securities with an indefinite maturity term The funds raised through the issue used to change the structure of BRE Bank's equity by increasing the share of supplementary capital. The Bank obtained the approvals of the Financial Supervision Commission (in 2005 - Banking Supervision Commission) for the inclusion of the funds obtained from the said issue of bonds into the Bank's supplementary capital. The whole 2005 issue was acquired by AT BRE COM LTD a subsidiary of Commerzbank AG. In 2006 Commerzbank AG took over the issue from AT BRE COM LTD and acquired the 2006 issue.

In the year 2006 likewise in 2005, the Bank did not note any delays in repayments of principal or interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

Movement in Subordinated Liabilities

	31.12.2006	31.12.2005
As at the beginning of the period	**1 362 528**	**1 020 144**
Increase (due to:)	255 350	464 262
- subordinated loan raised	190 160	405 830
- interest on subordinated loan	65 190	58 432
Decrease (due to):	(70 524)	(121 878)
- interest repayment	(61 014)	(47 207)
- foreign exchange differences	(9 510)	(74 671)
Subordinated liabilities as at the end of the period	**1 547 354**	**1 362 528**

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33. Other Liabilities

	31.12.2006	31.12.2005
Special Fund	**24 076**	**21 537**
- Social Benefits Funds	24 076	21 537
Other liabilities	**433 850**	**343 356**
- tax liabilities	5 625	4 532
- interbank settlements	112 429	66 164
- creditors	76 018	93 691
- accrued expenses	87 304	56 337
- deferred income	54 793	45 365
- provisions for pension dismissals	2 673	2 295
- provisions for holiday equivalents	2 021	1 731
- provisions for other employee benefits	92 987	72 750
- other	-	491
Total special funds and other liabilities	**457 926**	**364 893**

34. Provisions

	31.12.2006	31.12.2005
For off-balance sheet contingent liabilities	53 370	63 920
For legal proceedings	5 352	4 512
Other	8 652	9 677
Total other provisions	**67 374**	**78 109**

The estimated cash flow due to created provisions for legal proceedings will realize within the period 1 year-2 years.

Movement in the provisions

	31.12.2006	31.12.2005
As at the beginning of the period (by type)	**78 109**	**77 632**
For off-balance sheet contingent liabilities	63 920	55 696
For legal proceedings	4 512	6 657
Other	9 677	15 279
Increase (due to)	**32 443**	**34 775**
- increase of provisions	31 247	34 732
- other	1 196	43
Decrease (due to)	**(43 178)**	**(34 298)**
- charge-offs	(6 883)	(1 656)
- release of provisions	(36 295)	(30 371)
- reclassification to other balance sheet positions	-	(2 271)
As at the end of the period (by type)	**67 374**	**78 109**
For off-balance sheet contingent liabilities	53 370	63 920
For legal proceedings	5 352	4 512
Other	8 652	9 677

The above movements in provisions include changes for off-balance sheet contingent liabilities in 2006: created - PLN 17 585 thousand , released - PLN 29 331 thousand (2005 respectively: PLN 23 161 thousand, PLN 12 937 thousand).

Allowance for Losses on off-balance sheet contingent liabilities

	31.12.2006	31.12.2005
Off-balance sheet contingent liabilities classified as "non-default"		
Off-balance sheet contingent liabilities	13 811 819	11 827 972
Provisions for exposures analysed according to portfolio approach	(47 387)	(53 525)

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Net off-balance sheet contingent liabilities	**13 764 432**	**11 774 447**
Off-balance sheet contingent liabilities classified as "default"		
Off-balance sheet contingent liabilities	66 473	71 729
Provisions for exposures analysed individually	(5 983)	(10 395)
Net off-balance sheet contingent liabilities	**60 490**	**61 334**

35. Deferred Income Tax Assets

Deferred income tax assets and liabilities are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate, which will be in the year of arising of the tax liability (19% in 2005 and 2006).

Below are presented movements in the deferred income tax assets:

	31.12.2006	**31.12.2005**
As at the beginning of the period	**83 950**	**61 841**
Deferred income tax included in the financial result of the period	(63 378)	5 532
Deferred income tax included in equity	(19)	16 577
including:		
- valuation of securities available for sale	(19)	729
- changes in valuation due to first-time adoption of IFRS	-	15 848
Other changes	(10 833)	-
As at the end of the period	**9 720**	**83 950**
Interest payable on bank deposits	3 661	994
Interest payable on customer deposits	6 977	7 598
Valuation of derivatives and futures	23 484	10 955
Valuation of financial instruments at fair value through profit or loss and held for trading	459	742
Valuation of financial instruments available for sale	1 468	5 467
Provisions for impairment of loans and off-balance sheet exposure	55 240	69 991
Provisions for pensions, holiday equivalents, jubilee and other bonuses	18 559	14 588
Other provisions	47	93
Accruals and prepayments	17 382	11 010
Impairment of shares	5 844	1 686
Tax loss to be settled in future periods	-	12 755
Other negative temporary differences	25 795	34 382
Interest receivable on loans and advances granted to banks	(4 071)	(6 265)
Interest receivable on loans granted to customers	(15 132)	(10 431)
Valuation of derivatives and futures	(46 041)	-
Valuation of financial instruments at fair value through profit or loss and held for trading	(3 358)	(12 288)
Valuation of financial instruments available for sale	(11 949)	(2 058)
Investment tax relief	(31 146)	(30 775)
Difference between the amortization and depreciation for tax and accounting purposes	(32 488)	(21 361)
Other positive temporary differences	(5 011)	(3 133)
Total deferred income tax assets	**9 720**	**83 950**

	31.12.2006	**31.12.2005**
Deferred income tax included in the income statement		
Interest	(461)	(7 389)

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Provisions for impairment of loans and guarantees determined individually	(14 751)	(1 421)
Valuation of derivatives and futures	(33 511)	1 228
Valuation of financial instruments at fair value through profit or loss and held for trading	8 647	(8 297)
Valuation of financial instruments available for sale	(13 889)	3 753
Investment tax relief	(371)	5 599
Tax losses carried forward	(12 755)	(34 400)
Provisions for pensions, holiday equivalents, jubilee and other bonuses	3 971	10 603
Other provisions	(46)	(611)
Accruals and prepayments	6 372	9 342
Impairment of shares	4 158	1 686
Difference between the amortization and depreciation for tax and accounting purposes	(11 127)	(5 067)
Other temporary differences	385	30 506
Total deferred income tax included in the profit and loss account (Note 15)	**(63 378)**	**5 532**

Deferred income tax assets are recognized if it is probable that there will be sufficient taxable income in the future.

As at December 31, 2006 there were no tax losses from previous years which would be included in the deferred tax assets calculation (in December 31, 2005 tax losses from previous years were included in amount PLN 67 132 thousand).

36. Contingent Liabilities and Commitments

Proceedings Before a Court, Arbitration Body, or Public Administration Authority

As at 31 December 2006, BRE Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries which value would be equal to or greater than 10% of the Bank's equity. The total value of claims concerning liabilities of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2006 was PLN 325 575 thousand, equal to 13.84% of the issuer's equity. Below is a report on major proceedings concerning liabilities of the Bank or its subsidiaries.

1. Lawsuit initiated by ART-B Sp. z o.o. Eksport – Import in Katowice ("ART-B") under liquidation, against BRE Bank

   Claim was filed on 30 August 1994. On 26 July 2004 the Court of the first instance adopted a decision in favour of the Bank. Pursuant to the decision, the original claims for PLN 99.1 million plus statutory interest accrued since 1991 were dismissed by the Court as in the course of the proceedings the claimant withdrew the claims and presented a new calculation of losses and a new factual basis of the claims. The claims for PLN 17.4 million raised in the course of the proceedings were dismissed due to limitation and lack of sufficient evidence. On 4 July 2005, the Appeal Court in Warsaw dismissed the entire appeal of the claimant. The amount of claim in the proceedings of the second instance was PLN 17.4 mln. The claimant filed the last resort appeal for the ruling of the Court of Appeal. The Highest Court on the May 17, 2006 issued the verdict, according to which the claims of ART-B in the amount of PLN 3 697 thousand was sent back for further recognition to the Court of Appeal and the claims above that amount were dismissed. The verdict dated November 8, 2006 the Court of Appeal in Warsaw dismessed the ART.-B's appeal in all respect, in a part, in which the appeal was reversed for further recogniction by the Supreme Court. This verdict has the force of law. The claimant is entitled to file the last resort appeal to the Supreme Court.

   Proceedings for the claims were also opened against BRE Bank SA in the Court of Jerusalem, Israel, and the value of the dispute is USD 43.4 million (PLN 126.3 million according to the average exchange rate of the National Bank of Poland on 31 December 2006). In these proceedings, BRE Bank SA assists the main defendant, Bank Leumi Le Israel. BRE Bank SA's liability is under recourse, and depends on whether the court grants ART-B's claims against Bank Leumi. Only then will the court consider Bank Leumi's claims against BRE Bank SA. The Israeli proceedings are still at the pre-trial stage (prior to the first hearing). Bank Leumi and ART-B have come to an agreement concerning arbitration. For reasons of procedure, BRE Bank SA has joined the process, which does not imply its acceptance of the claims or readiness to make a settlement. The probability of dismissal of the claims against BRE Bank SA by the court in Israel has increased considerably in connection with the decision of the Polish court in favour of BRE Bank SA.

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2. Lawsuit brought by the Official Receiver of bankrupt Zakłady Mięsne POZMEAT SA with registered office in Poznań ("Pozmeat") against BRE Bank and Tele-Tech Investment Sp. z o.o. ("TTI")

   The receiver of bankrupt Zakłady Mięsne POZMEAT with registered office in Poznań ("POZMEAT") brought the case against BRE Bank SA ("Bank") and Tele-Tech Investment Sp. z o.o. ("TTI") to court on 29 July 2005. The value of the dispute amounted to PLN 100 million. The purpose was to cancel Pozmeat's agreements to sell Garbary shares to TTI and then to the Bank. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings, representing the only assets of Garbary Sp. z o.o. on the date of sale of Pozmeat's interest in Garbary Sp. z o.o. (19 July 2001). In the opinion of the Bank's legal counsellors in charge, there is a basis to assume that the accusation is illegitimate.

3. Lawsuit brought by Bank BPH SA ("BPH") against Garbary.

   Bank BPH SA brought the case to court on 17 February 2005. The value of the dispute was estimated at PLN 42 853 892.10. The purpose was to recognize actions related to the creation of Garbary Sp. z o.o. and the contribution in kind as ineffective. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings that Zakłady Mięsne POZMEAT with registered office in Poznań contributed in kind to Garbary Sp. z o.o. as payment for Pozmeat's share in the PLN 100 million share capital of Garbary. On June 6, 2006 the District Court in Poznań issued the verdict according to which the claims were dismissed in the their entirety. The claimant filed an appeal against that verdict. On 6 February 2007 the Court of Appeal in Poznań dismissed the claimant's appeal in all respects. This verdict has the force of law. The claimant is entitled to file the last resort appeal to the Supreme Court.

4. Lawsuit against Dom Inwestycyjny BRE Banku SA („DI BRE") by the Katarzyna and Leonard Praśniewski

   On 31 January 2001, Katarzyna and Leonard Praśniewski filed claims for compensation against Dom Inwestycyjny BRE Banku SA (DI BRE) before the District Court of Warsaw. The value of the dispute is PLN 13.9 million. In 2003, the court of the first instance granted the plaintiffs' claims of PLN 13.9 million from DI BRE. Following an appeal filed by DI BRE, the court of the second instance in its decision of 29 April 2004 changed the original decision and dismissed the claims. The plaintiffs filed cassation against the decision of the court of the second instance. On 15 April 2005, the Supreme Court revoked the decision of the Appeal Court in Warsaw and referred the case back to the Appeal Court. On 29 December 2005 Appeal Court in Warsaw set aside point 1 of the sentence of District Court in Warsaw dated 17 June 2003 and it adjudged to L. Praśniewski the amount of PLN 1 245 091 with statutory interest beginning from 6 November 2000 and the amount of PLN 202 689.92 with statutory interest beginning from 6 November 2000 to Katarzyna Praśniewska-Steggles. The other matters included in the judgement will be examined once again by the District Court in Warsaw. The District Court will also decide about the costs of the trial. The value of claim to recognize was transmit to the District Court in Warsaw is in amount of PLN 12 494 361.08.

According to the Bank and its legal counsel, the sentence of the Appeal Court does not have any influence on the current risk estimation. Taking into account the amount adjudged to plaintiffs by the Appeal Court, the legal risk posed by the case is estimated at not more than PLN 1 million, therefore no provisions is created.

As at 31 December 2006, the BRE Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the issuer or its subsidiaries whose value would be equal to or greater than 10% of the issuer's equity. The total value of claims concerning receivables of the issuer or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2006 was PLN 261 919 thousand equal to 11.13% of the issuer's equity.

Below there is data concerning the biggest receivables of the issuer:

	CLIENT'S NAME	**Disputed matter**	**Value of the dispute in PLN at 31.12.2006**	**Type of proceedings**	**Proceedings opened on**
1.	Stocznia Szczecińska PORTA Holding SA w upadłości	Loan	53 709 871.39	Bankruptcy	2002-07-29
2.	Kama Foods SA	Loan	32 919 115.34	Bankruptcy	2003-06-05
3.	HELLENA SA	Loan	13 839 947.10	Bankruptcy	2005-07-06

The tax authorities have not carried out any full-scope tax audits at the Bank in 2006 or 2005.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

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Contingent Liabilities and Commitments

The following table presents the value of the BRE Bank SA contingent liabilities as at 31 December 2006 and 31 December 2005:

	31.12.2006	31.12.2005
Contingent laibilities granted and received	**14 694 804**	**12 295 996**
Liabilities granted	**13 878 292**	**11 899 701**
- financing	9 974 986	7 719 004
- guarantees	3 903 306	4 180 697
Liabilities received	**816 512**	**396 295**
- financing	651	51 712
- guarantees	815 861	344 583
Liabilities arising from purchase/sale operations	**542 547 690**	**394 115 010**
Other liabilities	**255 889**	**278 663**
Total off-balance-sheet items	**557 498 383**	**406 689 669**

Contingent Liabilities Granted

The following table presents the value of contingent liabilities granted:

	31.12.2006	31.12.2005
Contingent liabilities granted:	**13 878 292**	**11 899 701**
a) guarantees and standby letters of credit	3 862 171	4 156 692
b) documentary and commercial letters of credit	304 262	275 667
c) commitments to extend credit:	9 528 059	7 428 744
- original term to maturity of one year or less	4 899 719	5 125 721
- original term to maturity of more than one year	4 628 340	2 303 023
d) other	183 800	38 598

As at 31 December 2006, the list of issues covered by the guarantee of assumption by BRE Bank SA was as follows:

	Issuer	Type of guaranteed securities	Amount of guaratee in PLN	Financial, organizational and personal relationships	Marketability
1.	BRE.locum Sp. z o.o.	Bonds	80 000 000	1) BRE Bank holds 49.99% of the voting power; 2) 2 Supervisory Board members	Marketable
2.	BORYSZEW S.A.	Bonds	35 000 000	1 Supervisory Board member	Marketable
3.	Prokom Software S.A.	Bonds	100 000 000	none	Marketable
4.	Skarbiec Asset Management Holding S.A.	Bonds	60 000 000	1) BRE Bank holds 53.93% of the voting power; 2) 2 Supervisory Board members	Marketable
5.	Polski Koncern Energetyczny S.A.	Bonds	217 000 000	none	Marketable
6.	ECHO Investment S.A.	Bonds	35 000 000	none	Marketable
7.	Polimex Mostostal Siedlce S.A.	Bonds	32 500 000	none	Marketable
8.	SPIN S.A.	Bonds	15 000 000	none	Marketable
9.	J.W. Construction	Bonds	25 000 000	none	Marketable
10.	PKN Orlen S.A.	Bonds	50 000 000	none	Marketable

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The foregoing list does not include agreements for one-time underwriting of securities, which are still valid in terms of administrative activities, keeping a register of subscribers and performing other responsibilities with respect to the securities.

Contingent Liabilities Received

BRE Bank SA received PLN 816 512 thousand worth of commitments, including PLN 815 861 thousand worth of guarantees securing credits and guarantees issued and PLN 651 thousand worth of unused credits granted by foreign banks.

Pledged Assets

Assets are pledged as security in connection with sell-buy-back agreements made with other banks and securing deposits are created in connection with conclusion of futures or options contracts and with membership in stock exchanges. Further, deposits are held in central bank, representing statutory provisions required by the law.

	31.12.2006	**31.12.2005**
Pledged assets, including:	**2 701 491**	**1 516 212**
- Trading securities	2 644 764	1 493 725
- Investment securities	56 727	22 487
Liabilities arising from pledged assets, including:	**2 682 645**	**1 515 640**
- Sell-buy back transactions	2 644 764	1 493 725
- Funds guaranteed under BGF	37 881	21 915

Operating Lease Liabilities

If a Bank is a lessee, the minimum future payments on the account of leasing under non-cancellable operating lease agreements are as follows:

	31.12.2006	**31.12.2005**
Operating lease commitments	**255 889**	**278 663**
- up to 1 year	24 872	23 066
- up to 5 years	86 535	90 629
- 5 years and over 5 years	144 482	164 968

The above operating lease liabilities concern the lease of cars and buildings.

37. Registered share capital

The total number of ordinary shares as at 31 December 2006 was 29 516 035 shares (vs. 28 983 972 as at 31 December 2005) with PLN 4 nominal value each (PLN 4 in 2005). All issued shares were fully paid.

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REGISTERED SHARE CAPITAL								
Series / issue	**Share type**	**Type of privilege**	**Type of limitation**	**Numebr of shares**	**Series / issue value**	**Paid up**	**Registered on**	**Dividend right since**
11/12/1986	ordinary bearer	-	-	9 970 000	39 880 000	fully paid up in cash	23-12-86	01-01-89
11/12/1986	ordinary registered	-	-	30 000	120 000	fully paid up in cash	23-12-86	01-01-89
20/10/1993	ordinary bearer	-	-	2 500 000	10 000 000	fully paid up in cash	04-03-94	01-01-94
18/10/1994	ordinary bearer	-	-	2 000 000	8 000 000	fully paid up in cash	17-02-95	01-01-95
28/05/1997	ordinary bearer	-	-	4 500 000	18 000 000	fully paid up in cash	10-10-97	10-10-97
27/05/1998	ordinary bearer	-	-	3 800 000	15 200 000	fully paid up in cash	20-08-98	01-01-99
24/05/2000	ordinary bearer	-	-	170 500	682 000	fully paid up in cash	15-09-00	01-01-01
21/04/2004	ordinary bearer	-	-	5 742 625	22 970 500	fully paid up in cash	30-06-04	01-01-04
21/05/2003	ordinary bearer	-	-	2 355	9 420	fully paid up in cash	05-07-05*	01-01-05
21/05/2003	ordinary bearer	-	-	11 400	45 600	fully paid up in cash	05-07-05*	01-01-05
21/05/2003	ordinary bearer	-	-	37 164	148 656	fully paid up in cash	11-08-05*	01-01-05
21/05/2003	ordinary bearer	-	-	44 194	176 776	fully paid up in cash	09-09-05*	01-01-05
21/05/2003	ordinary bearer	-	-	60 670	242 680	fully paid up in cash	18-10-05*	01-01-05
21/05/2003	ordinary bearer	-	-	13 520	54 080	fully paid up in cash	12-10-05*	01-01-05
21/05/2003	ordinary bearer	-	-	4 815	19 260	fully paid up in cash	14-11-05*	01-01-05
21/05/2003	ordinary bearer	-	-	28 580	114 320	fully paid up in cash	14-11-05*	01-01-05
21/05/2003	ordinary bearer	-	-	53 399	213 596	fully paid up in cash	08-12-05*	01-01-05
21/05/2003	ordinary bearer	-	-	14 750	59 000	fully paid up in cash	08-12-05*	01-01-05
21/05/2003	ordinary bearer	-	-	53 320	213 280	fully paid up in cash	10-01-06*	10-01-06*
21/05/2003	ordinary bearer	-	-	3 040	12 160	fully paid up in cash	10-01-06*	10-01-06*
21/05/2003	ordinary bearer	-	-	46 230	184 920	fully paid up in cash	08-02-06*	08-02-06*
21/05/2003	ordinary bearer	-	-	19 700	78 800	fully paid up in cash	08-02-06*	08-02-06*
21/05/2003	ordinary bearer	-	-	92 015	368 060	fully paid up in cash	09-03-06*	09-03-06*
21/05/2003	ordinary bearer	-	-	19 159	76 636	fully paid up in cash	09-03-06*	09-03-06*
21/05/2003	ordinary bearer	-	-	8 357	33 428	fully paid up in cash	11-04-06*	11-04-06*
21/05/2003	ordinary bearer	-	-	800	3 200	fully paid up in cash	11-04-06*	11-04-06*
21/05/2003	ordinary bearer	-	-	108 194	432 776	fully paid up in cash	16-05-06*	16-05-06*
21/05/2003	ordinary bearer	-	-	20 541	82 164	fully paid up in cash	16-05-06*	16-05-06*
21/05/2003	ordinary bearer	-	-	17 000	68 000	fully paid up in cash	09-06-06*	09-06-06*
21/05/2003	ordinary bearer	-	-	2 619	10 476	fully paid up in cash	09-06-06*	09-06-06*
21/05/2003	ordinary bearer	-	-	33 007	132 028	fully paid up in cash	10-07-06*	10-07-06*
21/05/2003	ordinary bearer	-	-	2 730	10 920	fully paid up in cash	10-07-06*	10-07-06*
21/05/2003	ordinary bearer	-	-	48 122	192 488	fully paid up in cash	09-08-06*	09-08-06*
21/05/2003	ordinary bearer	-	-	700	2 800	fully paid up in cash	12-09-06*	12-09-06*
21/05/2003	ordinary bearer	-	-	3 430	13 720	fully paid up in cash	11-10-06*	11-10-06*
21/05/2003	ordinary bearer	-	-	38 094	152 376	fully paid up in cash	10-11-06*	10-11-06*
21/05/2003	ordinary bearer	-	-	15 005	60 020	fully paid up in cash	08-12-06*	08-12-06*
Total number of shares				**29 516 035**				
Total registered share capital					**118 064 140**			
Nominal value per share			4					

* date of registration of shares in National Securities Deposit (KDPW S.A.)

Commerzbank Auslandsbanken Holding AG is a shareholder holding over 5% of the share capital and votes at the General Meeting. As at 31 December 2006 Commerzbank Auslandsbanken Holding AG held 70.20% of the share capital and votes at the General Meeting of BRE Bank SA (as at 31 December 2005 - 71.49%).

The increase of registered share capital in 2006 results from the issue of shares connected with exercise of share options program. The detailed information concerning the share options program has been described in the Note 40.

38. Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the attached direct costs incurred with that issue. This capital is intended to cover all balance sheet losses that may result from the business activity of the Bank.

The increase of share premium in 2006 results from the issue of shares connected with exercise of share options program. The detailed information concerning the share options program has been described in the Note 40.

<u>Hyperinflationary restatements of the equity</u>

According to IAS 29 *Financial Reporting in Hyperinflationary Economies* paragraph 25, the components of equity (except retained earnings and any revaluation surplus) are restated by applying a general price index from the dates the components were contributed or otherwise arose for a period when the economy of the carrying business entity was recognised as according to IAS 29, a hyperinflationary economy.

The effect of restating the components of share capital by applying a general price index is recognised with a corresponding impact on retained earnings. The adoption of IAS 29 paragraph 25 results in an increase of the share capital and at the same time it reduces retained earnings by the same amount.

The Management Board has carried out an analysis to estimate the value of such adjustment, which would result in a growth of the share capital and growth of the share premium as well as in a corresponding decrease in the retained earnings by PLN 107 219 thousand.

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Because the effect of the restatement:

- Represents 4.56% of the owners' equity of the Bank and 7.16% of share capital;
- Consists of re-allocation of funds between various items of the owners' equity, which has no effect on the equity as a whole;
- Has no material effect on the presented financial data, both as a whole and on line items basis;

the Management Board of the Bank believes that such restatement will have no material effect on the accuracy and fairness of the presentation of the Bank's financial position as at, and for the period ended 31 December 2006.

Hyperinflationary adjustments will also have no material effect for the period ended 31 December 2005 (the effect of the restatement will represent 5.48% of the owners' equity of the Bank and 7.5% of share capital as at 31 December 2005).

39. Revaluation reserve

The following table presents movements in revaluation reserve:

	31.12.2006	31.12.2005
Translation reserve		
As at the beginning of the period	(96)	2 894
Exchange differences	438	(2 990)
As at the end of the period	**342**	**(96)**
Revaluation reserve - available for sale securities		
As at the beginning of the period	(2 541)	566
Net gains / (losses) from changes in fair value (Note 22)	9 117	1 337
Net losses transferred to net profit on disposal and impairment	(2 940)	(5 173)
Deferred income tax (Note 35)	(19)	729
As at the end of the period	**3 617**	**(2 541)**
Other capital and reserves	**3 959**	**(2 637)**

The net loss in total amount of PLN 2 940 thousand representing the balance of increases/decreases of securities (bonds, treasury notes and stocks) sold in 2006 was charged off the revaluation reserve and recognized in the Profit and Loss Account (2005: PLN net loss 5 173 thousand).

40. Retained earnings

Retained earnings include: supplementary capital, other reserved capital, general risk fund, profit (loss) from the previous year and profit (loss) for the current year.

Other supplementary capital, other reserve capital and general risk fund are created from profit for the current year and their aim is described in the Statute or in different law paragraphs.

	31.12.2006	31.12.2005
Other supplementary capital	12 388	12 388
Other reserve capital	7 275	12 967
General risk fund	558 000	558 000
Profit (loss) from the previous year	(49 689)	(257 000)
Profit (loss) for the current year	324 194	207 310
Total retained earnings	**852 168**	**533 665**

According to the Polish legislation, each bank is required to allocate 8% of its net profit to a statutory undistributable reserve capital until the capital reaches 1/3rd of the share capital.
In addition, the Bank transfers some of its net profit to the general risk fund to cover unexpected risks and future losses. The general risk fund can be distributed only on consent of stockholders at a general meeting.

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Share options

Share options are granted as motivation to members of the Management of BRE Bank SA. BRE Bank SA will issue new shares to enable the use of such options.

In 2006 the Bank operated two motivational programs related to share options.

Under the first program (started in May 2000, changed in May 2003) members of the Bank's Management were granted 479 500 options that could have been exercised until 30 June 2006. Options gave the right to receive 479 500 additional shares issued. The program expired on 30 June 2006. 358 123 shares were acquired under the Programme in January-June 2006 (including 33 007 shares registered after H1 2006, on July 10th.) 477 007 shares were acquired in 2005 and 2006 under the Programme.

The following table presents the number of stock options for each option group:

	31.12.2006	31.12.2005
As at the beginning of the period	**360 616**	**479 500**
Granted	-	-
Realized	358 123	118 884
Expired	2 493	-
As at the end of the period	**-**	**360 616**
Exercisable at the end of period	-	360 616

The other employee options program was valued in accordance with IFRS 2.

471 300 share options of PLN 96.16 issue price each, were granted on 15 October 2003 and they expire on 1 July 2008. A further 21 700 options were granted on 31 July 2004. The options were fair-valued as at both these dates. The program stipulates that employees will assume 500 000 options (175 000 options for the Management Board and 325 000 options for other employees). As at 1 July 2005, a further 7 000 options were granted.

Employees pay 0.1% of the issue price for each share. The options are distributed in proportion: 20% each year in advance, starting from 15 October 2003 until 30 June 2007. October 15 is the first option distribution date. Each subsequent date is June 30 of the following year until (and including) 30 June 2007. Options that have already been assumed could not be exercised earlier than 1 June 2005 and not later than 30 June 2008. The options are non-transferable.

The following table presents the employee stock options program:

	31.12.2006	31.12.2005
As at the beginning of the period	**12 967**	**15 340**
- value of services provided (Note 12)	2 212	4 536
- proceeds from shares issued	(7 904)	(6 909)
As at the end of the period	**7 275**	**12 967**

The following table presents changes in the number of issued share options:

	31.12.2006	31.12.2005
As at the beginning of the period	**348 037**	**493 000**
Granted	-	7 000
Realized	173 940	151 963
Expired	-	-
As at the end of the period	**174 097**	**348 037**
Exercisable at the end of period	71 489	142 821

802 910 shares related to employee options programs were issued until 31 December 2006.

Share options outstanding at the end of year 2006 were 174 097 under the second share options program and share options exercisable were 71 489 at 31 December 2006. The outstanding share options shall be exercisable at 1 July 2007 under the condition of the employment.

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Options exercised in 2006 resulted in 532 063 shares (2005: 270 847 shares) being issued at a weighted average price of PLN 184.82 each (2005: PLN 151.33 each) under the first share options program and PLN 234.47 each (2005: PLN 143.48 each) under the second share options program at the exercise date.

The fair value of options granted on 15 October 2003, determined using the Black-Scholes valuation model, amounted to PLN 45.57 per option. The fair value of options granted on 31 July 2004, established using the same model, amounted to PLN 40.15 per option. Conditions of the program had an important effect on the choice of the valuation model. The variability of BRE Bank SA's shares is calculated by applying a standard deviation estimator to a sample of 252 quotations (one year retrospectively) and an interest rate based on zero coupon rates capitalized on continuous basis, as required by the Black-Scholes model, determined on the basis of the structure of interest rates in effect on the valuation date.

41. Dividend per Share

The Management Board of BRE Bank SA decided to present the XX Ordinary General Meeting with a motion concerning non-payment of dividend for 2006 to the shareholders. The Management Board's motion concerning non-payment of dividend for 2006 to the shareholders and the respective motion concerning distribution of profit for 2006 will be presented to the Supervisory Board.

The General Meeting of Shareholders of BRE Bank SA on 15 March 2006 adopted the resolution not to pay any dividend for the year 2005.

42. Cash and Cash Equivalents

For the purposes of the Cash Flow Statements, the balance of cash and cash equivalents comprises the following balances with maturities shorter than 3 months:

	31.12.2006	**31.12.2005**
Cash and balances with central bank (Note 16)	3 710 737	1 776 340
Debt securities eligible for rediscounting at the central bank	26 725	37 464
Loans and advances to banks (Note 18)	1 722 022	3 211 448
Trading securities (Note 19)	3 491 524	3 113 768
Total cash and cash equivalents	**8 951 008**	**8 139 020**

43. Transactions with Related Entities

BRE Bank SA is a parent entity and Commerzbank AG is the ultimate parent of the Bank. The direct parent entity of BRE Bank SA is Commerzbank Auslandsbanken Holding AG which is in 100% controlled by Commerzbank AG.

All transactions with related entities exceeding the equivalent of EUR 500 000 were typical and routine transactions concluded on market terms, and their nature, terms and conditions resulted from the current operating activities conducted by the Bank. Transactions concluded with related entities as a part of regular operating activities include loans, deposits and foreign currency transactions.

- On 13 April 2006 BRE Leasing made four transactions of finance lease with PLL LOT related to four airplanes Embraer ERJ 175 using as intermediary the subsidiary BREL-COM Sp. z o.o. The total amount of transaction was above USD 103 million. 35% of the value of transaction is financed by Commerzbank AG. The agreement is for 12 years.

- On 27 April 2006, pursuant to the agreement signed on 21 April 2006 between the Bank and Commerzbank AG the Bank obtained a loan in the amount of CHF 250 000 000 (PLN 616 750 000 in accordance with the average exchange rate of the National Bank of Poland of 21 April 2006) earmarked for satisfying the Bank’s general financial needs. The loan is granted for two years and one day, and the interest is 0.15% p.a. above LIBOR.

- On 6 June 2006, pursuant to the agreement signed on 29 May 2006 between the Bank and Commerzbank AG the Bank obtained a loan in the amount of CHF 250 000 000 (PLN 628 125 000 in accordance with the average exchange rate of the National Bank of Poland of 29 May 2006) allocated for satisfaction of the Bank’s general financial needs. The loan is granted for two years and one day, the interest rate is 0.15% p.a. above LIBOR.

- On 2 November 2006, pursuant to the agreement signed on 25 October 2006 between the BRE Bank and Commerzbank AG the Bank obtained a loan in the amount of CHF 500 000 000 (PLN 1 222 100 000 at the NBP average rate of 25 October 2006) for general financing requirements of the Bank.

  The loan is granted for the term of two years and one day, the interest rate is LIBOR plus 0.15% p.a.

- On December 20, 2006 the BRE Bank issued a bond amounting to CHF 80 000 000 without maturity, the interest rate is 3M LIBOR plus 1.4%. The issue has been placed in full to Commerzbank AG.

Moreover in Q4 2006 has taken place transactions between BRE Bank and Skarbiec Asset Management Holding SA ("SAMH"), concerning sale by the Bank to SAMH their own shares and purchase by the Bank from SAMH shares of BRE Wealth Management SA (to December 28, 2006 - Skarbiec Investment Management SA). Both transactions have been described below.

- On 4 October 2006, the Bank concluded with Skarbiec Asset Management Holding S.A. ("SAMH"), whose basic capital wholly belongs to the Bank, the sale contract by the Bank to SAMH of 62 000 SAMH shares of nominal value PLN 1 000 each.

  The aforementioned shares constitute 46.07% of SAMH basic capital and authorise to the execution of 62 000 votes on the SAMH general meeting. SAMH acquired the shares in order to redeem them.

  The Bank sold the aforementioned shares at their nominal value for the aggregate sum of PLN 62 000 000. The payment for the SAMH shares of PLN 55 000 000 was effected on 29 December 2006. The remaining part of the shares price amounting to PLN 7 000 000 will be paid by March 30, 2007.

  The rights to these shares were transfered to SAMH on October 4, 2006.

  The value of the SAMH shares sold, in Bank ledgers amounted to PLN 43 592 900 and their value in SAMH ledgers amounts to PLN 62 000 000. The transaction did not have an influence on consolidated net profit, whereas in BRE Bank SA stand-alone financial statements was recognized the gross result in amount of PLN 18.4 million.

  As at 31 December 2006 The Bank owned 72 582 SAMH shares, which constituted 53.93% of SAMH initial capital and authorised to the execution of 72 582 votes on SAMH general meeting, which constituted 53.93% of the overall number of votes on the SAMH general meeting.

  The sale of SAMH shares by the Bank in order to redeem them is an element of the implementation of the SAMH Shares Sale Agreement, concluded on 25 September 2006 between the Bank and the Polish Enterprise Fund V, L.P.

- On 27 December 2006, BRE Bank SA acquired under a shares sale agreement 22 415 shares of Skarbiec Investment Management SA ("SIM") with the nominal value of PLN 100 per share from its subsidiary Skarbiec Asset Management Holding SA ("SAMH"). The said shares represent 100% of the share capital of SIM and give 22 415 votes at SIM's General Meeting, equivalent to 100% of all votes at SIM's General Meeting.

  SAMH sold the said shares for PLN 12 000 000. The sold SIM shares were stated in SAMH's books at PLN 18 857 502.20 and are stated in the Bank's books at 12 000 000. The Bank financed the acquisition of the said shares with its own funds.

  SAMH held no more SIM shares following the transaction. The Bank held directly no SIM shares prior to the transaction.

  The Bank considers the investment in SIM shares to be a long-term investment. SAMH considered the investment in SIM shares to be a long-term investment.

  On December 29, 2006 SIM changed it's name to BRE Wealth Management SA.

The values of transactions with related entities, i.e. balance sheet balances and related expenses and income as at 31 December 2006 were as follows:

ical data concerning transactions with affilaited entities (in thousand PLN) - 31 December 2006

Company's name	Balance sheet		Profit and loss account				Off balance sheet		
	Receivables	Liabilities	Interest income	Interest expense	Commission income	Commission expense	Commitments granted	Commitments received	Purchase/Sale commitments
Subsidiaries									
BRE Bank SA	940 030	2 101 385	35 123	(88 135)	18 079	(2 586)	1 989 283	0	1 884 928
BRE Corporate Finance SA	0	0	0	0	0	0	0	2 000	0
Dom Inwestycyjny BRE Bank SA	353 052	3 016	10 809	0	2 586	(9 264)	0	70 000	0
BRE Bank Hipoteczny SA	23 113	201 874	0	(4 947)	0	0	0	17 775	1 884 928
PTE Skarbiec Emerytura SA	10 250	0	0	0	0	0	0	0	0
Skarbiec Asset Management Holding SA	16 353	7 797	0	0	0	(8 710)	0	60 417	0
BRE Wealth Management SA (before Skarbiec Investment Management SA)	4 056	0	0	0	0	0	0	0	0
BRE Leasing Sp. z o.o.	18 832	249 460	0	(8 838)	0	0	0	1 532	0
Polfactor S.A.	0	242 538	0	(9 358)	0	0	0	151 993	0
Intermarket Bank AG	0	107 274	0	(3 014)	0	0	0	0	0
Centrum Rozliczeń i Informacji CERI Sp. z o.o.	9 244	0	0	0	0	0	0	0	0
BRE Finance France SA	1 655 717	0	76 998	0	0	0	0	1 657 350	0
Garbary Sp. z o.o.	0	0	0	0	0	0	0	0	0
BRE.locum Sp. z o.o.	2 375	56 730	0	(2 302)	0	0	0	23 000	0
ServicePoint Sp. z o.o.	822	0	4	0	0	(3)	0	0	0
FAMCO SA	3 850	0	144	0	0	(4)	0	0	0
BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	19	0	6	0	0	(1)	0	0	0
BRELIM Sp. z o.o.	13	0	0	(49)	0	(1)	0	0	0
BREL-MAR Sp. z o.o.	3	0	0	0	0	(1)	0	0	0
BREL-RES Sp. z o.o.	205	16 253	121	(2 528)	0	(27)	0	0	0
AMBRESA Sp. z o.o.	866	0	2	0	0	(2)	0	0	0
EMFINANSE Sp. z o.o.	11	6 385	2	(88)	0	(57)	0	5 216	0
BRE Ubezpieczenia Sp. z o.o.	2 516	0	47	0	0	(2)	0	0	0
Tele-Tech Investment Sp. z o.o.	0	48 703	0	(3 997)	0	0	0	0	0
Associated									
Xtrade SA	88	0	2	(2)	0	(7)	0	0	0
Commerzbank AG Group	536 360	6 274 002	13 036	(128 374)	0	0	197 869	204 986	0

Numerical data concerning transactions with affilaited entities (in thousand PLN) - 31 December 2005

No.	Company's name	Balance sheet		Profit and loss account				Off balance sheet		
		Receivables	Liabilities	Interest income	Interest cost	Commission income	Commission cost	Commitments granted	Commitments received	Purchase/Sale commitments
	Subsidiaries									
1	BRE Bank SA	792 022	2 802 940	34 654	(76 860)	7 067	(2 869)	2 777 719	0	911
2	BRE Corporate Finance SA	2 143	0	47	(1)	0	(46)	0	2 896	0
3	Dom Inwestycyjny BRE Bank SA	276 395	48 516	9 005	(676)	2 771	(1 070)	0	535	0
4	BRE International Finance B.V.	0	0	9 969	0	0	0	0	0	0
5	PTE Skarbiec Emerytura SA	4 341	0	156	0	0	0	0	0	0
6	Skarbiec Asset Management Holding SA	32 036	527	508	(168)	80	(5 262)	0	60 667	0
7	BRE Leasing Sp. z o.o.	47 755	301 424	878	(6 727)	0	(20)	0	0	911
8	Polfactor S.A.	1 476	162 512	0	(8 794)	0	(343)	0	232 376	0
9	Intermarket Bank AG	0	69 476	0	(1 935)	0	0	0	0	0
10	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	8 442	210	375	0	0	0	0	0	0
11	BRE Finance France SA	2 417 227	0	55 430	0	0	0	0	2 444 988	0
12	TV-Tech Investment 1 Sp. z .o.o.	796	0	78	(8 426)	0	0	0	0	0
13	Garbary Sp. z o.o.	2 317	1 201	91	0	0	0	0	0	0
14	BRE.locum Sp. z o.o.	1 971	38 807	199	(2 662)	0	(285)	0	36 000	0
15	ServicePoint Sp. z o.o.	433	0	1	0	0	(2)	0	0	0
16	FAMCO SA	2 411	0	33	0	0	(2)	0	0	0
17	BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	16	0	13	0	0	0	0	0	0
18	BRELIM Sp. z o.o.	37	0	0	0	0	0	0	0	0
19	BREL-MAR Sp. z o.o.	25	0	0	0	0	0	0	0	0
20	AMBRESA Sp. z o.o.	1 342	0	2	0	0	(1)	0	0	0
21	TV-Tech Investment 2 Sp. z .o.o.	31	0	0	0	0	(1)	0	0	0
22	EMFINANSE Sp. z o.o.	950	0	8	0	0	(2)	0	0	0
23	MKF Sp z o.o.	87	0	0	0	0	(1)	0	0	0
24	BREL-RES Sp. z o.o.	886	95 870	14	(1 596)	0	(1)	0	0	0
25	BREL-AG Sp. z.o.o.	87	10 310	0	(178)	0	0	0	0	0
26	BREL-AL Sp. z o.o	92	15 951	0	(372)	0	(7)	0	0	0
27	BREL-FIN Sp. z o.o	42	0	0	0	0	0	0	0	0
28	BRELINVEST Sp. z o.o.	51	0	49	0	0	(1)	0	0	0
29	RAVENNA Katowice Sp. z o.o.	17	0	0	0	0	0	0	0	0
30	BMF Capital Sp. z o.o.	24	0	0	0	0	0	0	0	0
	Associated									
1	Xtrade SA	0	78	0	(1)	18	(3)	0	0	0
2	Tele-Tech Investment Sp. z o.o.	1 271	47 140	4	(3 118)	0	0	0	5	0
3	NOVITUS SA (dawniej Optimus IC SA)	239	0	0	0	0	(20)	0	252	0
	Commerzbank AG Group	793 318	2 209 083	25 575	(84 838)	0	0	37 564	0	0

Below are presented transactions between the Bank and the Management :

(in PLN '000)	Directors and key management personel	
As at the end of the period	**31.12.2006**	**31.12.2005**
Loans outstanding	2 977	1 279
Deposits received	13 771	2 709
Interest expense on deposits	(150)	(56)
Fee and commission income	115	12
Key management compensation	19 113	10 843

No provisions were created in connection with credits granted to related entities (none in 2005).

Management Board Compensation

Management Board of BRE Bank consists of six following persons:

1. Sławomir Lachowski – President of the Management Board, Director General of the Bank
2. Jerzy Jóźkowiak – Member of the Management Board, Bank Director in charge of Finance
3. Bernd Loewen - Member of the Management Board, Bank Director in charge of Investment Banking
4. Rainer Ottenstein – Member of the Management Board, Bank Director in charge of Operation and IT
5. Wiesław Thor – Member of the Management Board, Bank Director in charge of Risk Management
6. Janusz Wojtas – Member of the Management Board, Bank Director in charge of Corporate Banking

Information on Board members remuneration paid and due as at 31 December 2006 is presented below. There are Board members that were the members at the end of 2006:

	Remuneration paid in 2006 (in PLN)		
	Basic salary	**Other benefits**	**Bonus for 2005**
1. Sławomir Lachowski	1 200 000	73 073	2 346 000
2. Jerzy Jóźkowiak	738 000	52 339	1 266 285
3. Bernd Loewen	700 265	279 019	1 304 230
4. Rainer Ottenstein*	700 265	837 242	1 356 157
5. Wiesław Thor	736 084	53 751	1 381 290
6. Janusz Wojtas	738 000	27 921	979 695
Total	**4 812 614**	**1 323 345**	**8 633 657**

* In case of Mr. Rainer Ottenstein, the remuneration paid out in 2006 includes the amount of PLN 547 760, resulting from the obligation of BRE Bank towards Mr. Ottenstein arising upon his appointment to the Management Board of BRE Bank to pay him additional single pecuniary benefit corresponding to potential future benefit that could be acquired by Mr. Ottenstein in relation to his participation in the Long Term Performance Plan for selected members of Commerzbank Group staff.

	Remuneration paid in 2005 (in PLN)	
	Basic salary	**Other benefits**
1. Sławomir Lachowski	1 200 000	69 559
2. Jerzy Jóźkowiak	685 535	46 966
3. Bernd Loewen	759 597	235 756
4. Rainer Ottenstein	779 523	292 555
5. Wiesław Thor	735 357	53 111
6. Janusz Wojtas	550 571	1 451
Total	**4 710 583**	**699 398**

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Information on Board members remuneration paid and due as at 31 December 2005 is presented below. There are Board members that ceased to be the members in 2005:

	Remuneration paid in 2005 (in PLN)	
	Basic salary	**Other benefits**
1. Anton Burghardt*	277 500	1 865 413
2. Krzysztof Kokot	121 800	10 780
Total	**399 300**	**1 876 193**

* Other benefits include severance pay

The total compensation of members of the Management Board consist of: salary, bonuses, termination of agreement payment, prohibition of competitiveness payment, insurance costs and accommodation costs.

In accordance with BRE Bank's remunaration system in force, the members of Management Board are bonus eligible. The bonus for the year 2006 will be paid out in 2007. The decision concerning the level of this bonus will be taken by the Executive Committee of the Supervisory Board on March 16, 2007.

Additionally, in 2006 the members of the Bank's Management Board received in aggregate PLN 271 904 thousand as a compensation for their role as members of the management boards and supervisory boards of the Bank's related companies (in 2005: PLN 162 697 thousand).

The total amount of remuneration received in 2006 by Bank's Management Board members was PLN 15 041 520 (2005: PLN 7 848 172).

Supervisory Board Compensation

The present composition of the Supervisory Board is as follows:

1. Maciej Leśny – Chairman of the Supervisory Board, Chairman of the Executive Committee
2. Martin Blessing – Deputy Chairman of the Supervisory Board, Deputy Chairman of the Executive Committee
3. Jan Szomburg – Member of the Supervisory Board, Member of the Executive Commitee
4. Nicholas Teller – Member of the Supervisory Board, Member of the Executive Commitee
5. Gromosław Czempiński - Member of the Supervisory Board
6. Achim Kassow – Member of the Supervisory Board
7. Teresa Mokrzysz – Member of the Supervisory Board
8. Michael Schmid – Member of the Supervisory Board
9. Krzysztof Szwarc – Member of the Supervisory Board

Information on Supervisory members remuneration paid as at 31 December 2006 and 2005 is presented below:

	Remuneration paid in 2006 (in PLN)	**Remuneration paid in 2005 (in PLN)**
1. Maciej Leśny	315 000	315 000
2. Martin Blessing	234 000	214 500
3. Michael Schmid	198 000	198 000
4. Jan Szomburg	231 000	222 750
5. Krzysztof Szwarc	198 000	198 000
6. Nicholas Teller	231 000	229 000
7. Achim Kassow *	41 250	-
8. Gromosław Czempiński	132 000	132 000
9. Teresa Mokrysz	132 000	132 000
10. Renate Kreummer**	182 000	222 750
Total	**1 894 250**	**1 864 000**

* Mr. Achim Kassow is a Supervisory Board Member from October 17, 2006
** On 13 October 2006 Ms. Renate Kreummer proffered a resignation as member in the Supervisory Board of BRE Bank SA.

In accordance with the wording of paragraph 11 letter j) of the By-laws of BRE Bank SA the General Meeting determines remuneration for members of the Supervisory Board. In relation to remuneration of the Management Board members - competences with this respect holds the Supervisory Board (paragraph 22 section 1 letter e) of the By-laws of BRE Bank SA).

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44. Acquisitions and Disposals

Acquisitions

On 2 January 2006 BRE Bank SA bought from Atlas Vermögensverwaltungs GmbH – a subsidiary of Commerzbank AG – 1 350 000 shares in BRE Bank Hipoteczny SA ("BBH"). Nominal value of each share amounts to PLN 100. Shares of BBH were purchased for PLN 174 540 000 and constitute 100% of share capital and give the right to execute 100% of votes during the shareholder meetings of BBH. The investment has a long-term character.

In April 2006 BBH increased its registered share capital by issue of 400 000 shares. The issue was in whole covered by BRE Bank. After this transaction the Bank holds 1 750 000 shares of BBH.

Detailed information concerning fair value of purchased assets and liabilities :

Cash and balances with Central Bank	477
Loans and advances to banks	97 979
Trading securities	15 342
Derivative financial instruments	6 651
Loans and advances to customers	2 026 904
Investment securities	1 772
Intangible assets, including recognized according to IFRS 3	11 913
Tangible fixed assets	5 133
Deferred income tax assets	5 705
Other assets	12 538
Amounts due to other banks	449 969
Derivative financial instruments and other trading liabilities	9 778
Amounts due to customers	134 468
Debt securities in issue	1 331 118
Subordinated liabilities	61 811
Other liabilities	16 511
Provisions	6 219
Total purchase consideration paid (discharged by cash)	174 540
Cost of aquisition	174 540
Less: Cash and cash equivalents in subsidiary acquired	(102 281)
Cash outflow acquisition	72 259

Below is presented the profit and loss account of BRE Bank Hipoteczny SA for the period from the date of acquisition to 31 December 2006

Profit and loss account of BRE Bank Hipoteczny	**For the period from 2 January to 31 December 2006**
Net interest income	56 064
Net fee and commission income	6 107
Net trading income	11 546
Other operating income	1 338
Impairment losses on loans and advances	1 166
Overhead costs	(29 822)
Amortization and depreciation	(1 993)
Other operating expenses	(4 163)
	-
Operating profit	**40 243**
Profit before income tax	**40 243**
Income tax expense	(9 854)
Net profit (loss)	**30 389**

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45. Information about the registered audit company

The registered audit company with whom BRE Bank SA signed the agreement is PricewaterhouseCoopers Sp. z o.o. (PwC). The agreement to conduct an audit of stand alone financial statements of BRE Bank SA and consolidated financial statements of BRE Bank SA Group was signed as at July 17, 2006

The total amount of PwC remuneration related to the audit and review of stand alone financial statements and consolidated financial statements of BRE Bank SA was PLN 2 334 thousand in 2006 (2005: PLN 3 129 thousand).

The total amount of PwC remuneration related to consulting services for BRE Bank SA was PLN 892 thousand in 2006 (2005: PLN 1 762 thousand).

46. Capital Adequacy Ratio

The calculation of the Bank capital adequacy ratio is made on the following basis:

- Banking Act dated at 29 September 1997 (Dz.U. from the year 2002 No 72, pos. 665, with amendments),
- Resolution no 4/2004 of Banking Supervision Commission (KNB) dated at 8 September 2004 (Dz. Urz. NBP from the year 2004 No 15 pos. 25),
- Resolution no 5/2004 of Banking Supervision Commission (KNB) dated at 8 September 2004 (Dz. Urz. NBP from the year 2004 No 15 pos. 26),
- Resolution no 6/2004 of Banking Supervision Commission (KNB) dated at 8 September 2004 (Dz. Urz. NBP from the year 2004 No 15 pos. 27).

Capital adequacy ratio of the Bank amounted to 11.07% as at 31 December 2006. Due to significant trading activity full calculation of the capital charges is being made. Total capital charge of the Bank amounted to PLN 1 873 263 thousand as at 31 December 2006 including PLN 1 780 546 thousand of credit capital charge (December 31, 2005 respectively: PLN 1 398 440 and PLN 1 319 174).

Capital adequacy	**31.12.2006**	**31.12.2005**
Own funds:		
- Share capital	118 064	115 936
- Capital surplus fund	1 391 270	1 320 295
- Reserve fund	565 276	570 967
- Revaluation reserve	3 959	(2 638)
- Prior period unabsorbed loss	(49 689)	(257 000)
- Investments and participations in financial institutions	489 469	206 253
- Intangible assets	356 136	368 505
- Subordinated loans and bonds	1 408 249	2 249 629
I. Total own funds	**2 591 524**	**2 249 629**
Risk weighted balance-sheet assets:		
- 20% risk assets	589 241	987 047
- 50% risk assets	578 071	123 668
- 100% risk assets	17 965 576	13 339 854
II. Total risk weighted balance-sheet liabilities:	**19 132 888**	**14 450 569**
- 20% risk off-balance sheet liabilities	38 821	24 310
- 50% risk off-balance sheet liabilities	2 347 489	1 636 681
- 100% risk off-balance sheet liabilities	632 205	315 366
- 1,5% - 10% risk off-balance sheet liabilities	105 425	62 754
III. Total risk weighted off-balance sheet liabilities:	**3 123 940**	**2 039 111**
IV. Total risk weighted assets: (II + III)	**22 256 828**	**16 489 680**
V. Credit risk (IV * 8%)	**1 780 546**	**1 319 174**
VI. Foreign exchange risk	**5 030**	**4 368**
VII. Specific risk for equity instruments	**747**	**2 751**
VIII. Specific risk for debt instruments	**6 042**	**12 789**
IX. General interest rate risk	**63 841**	**40 464**
X. Counterparty risk	**14 316**	**18 894**
XI. Commodities risk	**2 741**	**-**
XII. Total capital charge	**1 873 263**	**1 398 440**
XIII. Capital adequacy ratio (%)	**11.07%**	**12.87%**

47. Events after the Balance Sheet Date

- On 8th January 2007 in relation to the agreement of 25th September 2006 on sale of shares of Skarbiec Asset Management Holding SA ("SAMH") for the Polish Enterprise Fund V, L.P. ("PEF V") BRE Bank sold 72 582 shares of SAMH of face value PLN 1 000 each.

  The Bank sold aforementioned shares for a total amount of PLN 155 000 000. Price for shares was paid on 8th January 2007. Ownership of those shares was transferred to PEF V on 8th January 2007.

  Aforementioned shares account for 53.93% of share capital of SAMH, authorising to exercise 72 582 votes on the general assembly of SAMH, which constitutes 53.93% of total number of the votes at the general assembly of SAMH. The remaining 46.07% of shares are owned by SAMH.

  SAMH purchased own shares in order to redeem the same. The procedure to reduce share capital of SAMH is currently in progress.

  The value of sold shares of SAMH in Bank's accounts is PLN 51 033 223.50. After the transaction the Bank does not possess any shares of SAMH.

  There are no connections, apart from the agreement on sale of shares of SAMH of 25th September 2006, between the Bank or persons managing or supervising the Bank, and PEF V.

  Total impact of the transaction on gross result (including costs of this transaction) of BRE Bank in 2007, was PLN 95.9 million.

- On 8 January 2007 the District Court in Warsaw made the registration of the newly established BRE Ubezpieczenia Towarzystwo Ubezpieczeń SA company ("the Company"). The Bank is the founder of the Company.

  In this connection on 8 January 2007 the Bank took up 12 941 177 shares of the Company with the nominal value of PLN 1 (one) each and issue price of PLN 1.65 each, and set up the organizational fund of the Company in the amount of PLN 5 000 000.

  The acquired shares constitute 100% of the Company share capital and give the right to exercise the voting rights from 12 941 177 votes at the Company's General Shareholders Meeting, which constitutes 100% of the total number of votes at the Company's General Shareholders Meeting.

  The shares were taken up at their issue price for the total amount of PLN 21 352 942.05. The value of the acquired shares of the Company together with the payment to the organizational fund of the Company amounts to PLN 26 352 942.05 in the Bank's books. The acquisition of shares was financed from the Bank's own funds.

- On 31st January 2007 the Bank sold to Mr Ireneusz Słowik 20 380 shares in BRELIM Sp. z o.o., of face value PLN 500 each.

  The foregoing shares constitute 100% of the share capital of BRELIM Sp. z o.o., authorising to exercise 20 380 votes in shareholders' assembly of BRELIM Sp. z o.o., that account for 100% of total votes in shareholders' assembly of BRELIM Sp. z o.o.

  The value of foregoing shares in Bank's accounts amounted to PLN 10 190 000.00. The foregoing shares were sold for total amount of PLN 10 600 000.00. After the above transaction, Bank does not hold any shares in BRELIM Sp. z o.o.

  There are no connections between Bank and purchaser of foregoing shares.