BRE BANK SA

BRE Bank SA Group

IFRS Consolidated Financial Statements 2007

Contents

Selected Financial Data

The selected financial data are supplementary information to these consolidated financial statements of BRE Bank SA Group for 2007.

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN 000's (functional currency)		in EUR 000's	
		Year ended 2007-12-31	Year ended 2006-12-31	Year ended 2007-12-31	Year ended 2006-12-31
I.	Interest income	**2 358 686**	**1 704 182**	**624 520**	**437 071**
II.	Fee and commission income	**831 584**	**723 301**	**220 182**	**185 505**
III.	Net trading income	**486 464**	**400 280**	**128 803**	**102 660**
IV.	Operating profit	**865 087**	**576 472**	**229 053**	**147 847**
V.	Profit before income tax	**954 545**	**576 360**	**252 739**	**147 819**
VI.	Net profit attributable to minority interest	**37 523**	**25 136**	**9 935**	**6 447**
VII.	Net profit	**710 094**	**421 258**	**188 015**	**108 040**
VIII.	Net cash flows from operating activities	**(5 416 490)**	**(1 667 890)**	**(1 434 148)**	**(427 763)**
IX.	Net cash flows from investing activities	**(136 693)**	**(253 180)**	**(36 193)**	**(64 933)**
X.	Net cash flows from financing activities	**4 028 692**	**2 838 970**	**1 066 695**	**728 109**
XI.	Net increase / decrease in cash and cash equivalents	**(1 524 491)**	**917 900**	**(403 646)**	**235 413**
XII.	Total assets	**55 982 973**	**42 330 581**	**15 628 971**	**11 048 909**
XIII.	Amounts due to the Central Bank	**-**	**-**	**-**	**-**
XIV.	Amounts due to other banks	**12 286 940**	**7 972 386**	**3 430 190**	**2 080 911**
XV.	Amounts due to customers	**32 401 863**	**24 669 856**	**9 045 746**	**6 439 198**
XVI.	Capital and reserves attributable to the Company's equity holders	**3 324 511**	**2 530 766**	**928 116**	**660 567**
XVII.	Minority interest	**116 812**	**91 433**	**32 611**	**23 865**
XVIII.	Share capital	**118 643**	**118 064**	**33 122**	**30 816**
XIX.	Number of shares	**29 660 668**	**29 516 035**	**29 660 668**	**29 516 035**
XX.	Book value per share (in PLN/EUR per share)	**112.08**	**85.74**	**31.29**	**22.38**
XXI.	Diluted book value per share (in PLN/EUR per share)	**111.97**	**85.24**	**31.26**	**22.25**
XXII.	Capital adequacy ratio	**10.16**	**10.39**	**10.16**	**10.39**
XXIII.	Earnings per 1 ordinary share (in PLN/EUR per share) (for 12 months)	**21.08**	**13.12**	**5.58**	**3.37**
XXIV.	Diluted earnings per 1 ordinary share (in PLN/EUR per share) (for 12 months)	**21.06**	**13.05**	**5.58**	**3.35**
XXV.	Earnings per 1 ordinary share (in PLN/EUR per share)	**-**	**-**	**-**	**-**

In the above selected financial data continued and discontinued operations are presented together in positions from I to VII

The following exchange rates were used in translating selected financial data into euro:

- <u>for balance sheet items</u> – an exchange rate announced by the National Bank of Poland as at 31 December 2007 EUR 1 = PLN 3.582 and an exchange rate announced by the National Bank of Poland as at 31 December 2006 EUR 1 = PLN 3.8312.
- <u>for profit and loss account items</u> – an exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2007 and 2006: EUR 1 = PLN 3.7768 and EUR 1 = PLN 3.8991 respectively.

IFRS Consolidated Financial Statements 2007 PLN (000’s)

Consolidated Income Statement

	Note	Year ended 31 December 2007	2006
Continued operations			
Interest income	6	2 355 279	1 700 551
Interest expense	6	(1 327 496)	(976 373)
Net interest income		**1 027 783**	**724 178**
Fee and commission income	7	785 237	582 771
Fee and commission expense	7	(220 959)	(166 361)
Net fee and commission income		**564 278**	**416 410**
Dividend income	8	2 327	16 865
Net trading income, including:	9	486 468	399 585
Foreign exchange result		*434 956*	*354 140*
Other trading income		*51 512*	*45 445*
Gains less losses from investment securities	23	3 834	22 522
Other operating income	10	249 661	229 039
Impairment losses on loans and advances	14	(76 810)	(45 961)
Overhead costs	11,13	(1 103 319)	(879 492)
Amortization and depreciation	25,26	(176 325)	(164 885)
Other operating expenses	12	(132 342)	(183 668)
Operating profit		**845 555**	**534 593**
Share of profit of associates	24	-	(112)
Profit before income tax from continued operations		**845 555**	**534 481**
Income tax expense	15	(184 578)	(124 232)
Net profit from continued operations including minority interest		**660 977**	**410 249**
Discontinued operations	28		
Profit before income tax from discontinued operations		**108 990**	**41 879**
Income tax expense		(22 350)	(5 734)
Net profit from discontinued operations including minority interest		**86 640**	**36 145**
Net profit from continued and discontinued operations including minority interest, of which:		**747 617**	**446 394**
Net profit attributable to minority interest		37 523	25 136
Net profit		**710 094**	**421 258**
Net profit from continued operations attributable to the Bank's equity holders		**623 454**	**385 113**
Weighted average number of ordinary shares		**29 578 675**	**29 344 158**
Earnings per 1 ordinary share (in PLN)	16	**21.08**	**13.12**
Weighted average number of ordinary shares for diluted earnings		**29 608 139**	**29 518 255**
Diluted earnings per 1 ordinary share (in PLN)	16	**21.06**	**13.05**

Notes presented on pages 8 – 95 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2007 PLN (000's)

Consolidated Balance Sheet

	Note	31.12.2007	31.12.2006
ASSETS			
Cash and balances with the Central Bank	17	2 003 535	3 716 607
Debt securities eligible for rediscounting at the Central Bank	18	23 259	26 725
Loans and advances to banks	19	2 089 936	2 844 124
Trading assets	20	3 403 174	3 516 149
Derivative financial instruments	21	2 272 638	1 413 065
Loans and advances to customers	22	33 682 665	23 044 694
Investment securities	23	6 386 574	3 055 516
- Available for sale		6 386 574	3 055 516
Non-current assets held for sale	28	336 078	385 194
Pledged assets	20, 23,38	3 708 158	2 702 180
Investments in associates	24	4 823	5 356
Intangible assets	25	404 967	381 111
Tangible fixed assets	26	670 213	580 108
Deferred income tax assets	35	116 290	65 112
Other assets	27	880 663	594 640
Total assets		**55 982 973**	**42 330 581**
EQUITY AND LIABILITIES			
Amounts due to other banks	29	12 286 940	7 972 386
Derivative financial instruments and other trading liabilities	21	2 164 214	1 253 900
Amounts due to customers	30	32 401 863	24 669 856
Debt securities in issue	31	2 928 414	3 389 559
Subordinated liabilities	32	1 661 785	1 547 354
Other liabilities	33	879 975	759 799
Current income tax liabilities		134 234	20 047
Deferred income tax provision	35	455	312
Provisions	34	71 227	70 168
Liabilities held for sale	28	12 543	25 001
Total liabilities		**52 541 650**	**39 708 382**
Equity			
Capital and reserves attributable to the Bank's equity holders		**3 324 511**	**2 530 766**
Share capital:		**1 517 432**	**1 496 946**
- Registered share capital	39	118 643	118 064
- Share premium	40	1 398 789	1 378 882
Other reserves	41	**74 204**	**5 110**
Retained earnings:	42	**1 732 875**	**1 028 710**
- Profit from the previous years		1 022 781	607 452
- Profit for the current year		710 094	421 258
Minority interest		**116 812**	**91 433**
Total equity		**3 441 323**	**2 622 199**
Total equity and liabilities		**55 982 973**	**42 330 581**
Capital adequacy ratio	48	**10.16**	**10.39**
Book value		**3 324 511**	**2 530 766**
Number of shares		**29 660 668**	**29 516 035**
Book value per share (in PLN)		**112.08**	**85.74**
Diluted number of shares		**29 690 132**	**29 690 132**
Diluted book value per share (in PLN)		**111.97**	**85.24**

Notes presented on pages 8 – 95 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2007 PLN (000's)

Consolidated Statement of Changes in Equity

Changes in consolidated equity from 1 January 2007 to 31 December 2007

	Note	Share capital		Other reserves	Retained earnings					Minority interest	Total equity
		Registered share capital	Share premium		Other supplementary capital	Other reserve capital	General risk fund	Profit from the previous years	Profit for the current year		
Equity as at 1 January 2007		**118 064**	**1 378 882**	**5 110**	**9 451**	**20 899**	**558 000**	**440 360**	**-**	**91 433**	**2 622 199**
- reclassification to book value through profit and loss account		-	-	-	-	-	-	-	-	-	-
- changes to accounting policies		-	-	-	-	-	-	-	-	-	-
- adjustment of errors		-	-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2007		**118 064**	**1 378 882**	**5 110**	**9 451**	**20 899**	**558 000**	**440 360**	**-**	**91 433**	**2 622 199**
Net change in investments available for sale, net of tax	41	-	-	75 352	-	-	-	-	-	-	75 352
Currency translation differences	41	-	-	(6 258)	-	-	-	-	-	(3 366)	(9 624)
Net profit/(loss) not recognised in the income statement		**-**	**-**	**69 094**	**-**	**-**	**-**	**-**	**-**	**(3 366)**	**65 728**
Net profit	42	-	-	-	-	-	-	-	710 094	37 523	**747 617**
Total profit recognised in current year		**-**	**-**	**69 094**	**-**	**-**	**-**	**-**	**710 094**	**34 157**	**813 345**
Dividends paid		-	-	-	-	-	-	-	-	(6 360)	(6 360)
Transfer to General Banking Risk Fund		-	-	-	-	-	1 110	-	-	-	1 110
Transfer to reserve capital		-	-	-	-	7 318	-	(8 428)	-	-	(1 110)
Transfer to supplementary capital		-	-	-	312 811	-	-	(312 811)	-	-	-
Issue of shares	39,40	579	13 330	-	-	-	-	-	-	-	13 909
Additional shareholder payments		-	-	-	-	-	-	-	-	(2 418)	(2 418)
Stock option program for employees	42	-	6 577	-	-	(5 929)	-	-	-	-	648
- value of services provided by the employees		-	-	-	-	*648*	-	-	-	-	*648*
- settlement of exercised options		-	*6 577*	-	-	*(6 577)*	-	-	-	-	-
Equity as at 31 December 2007		**118 643**	**1 398 789**	**74 204**	**322 262**	**22 288**	**559 110**	**119 121**	**710 094**	**116 812**	**3 441 323**

Changes in consolidated equity from 1 January 2006 to 31 December 2006

	Note	Share capital		Other reserves	Retained earnings					Minority interest	Total equity
		Registered share capital	Share premium		Other supplementary capital	Other reserve capital	General risk fund	Profit from the previous years	Profit for the current year		
Equity as at 1 January 2006		**115 936**	**1 307 907**	**(2 975)**	**-**	**(4 304)**	**558 000**	**60 675**	**-**	**73 231**	**2 108 470**
- 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**	**(2 975)**	**-**	**(4 304)**	**558 000**	**60 675**	**-**	**73 231**	**2 108 470**
Net change in investments available for sale, net of tax	41	-	-	7 162	-	-	-	-	-	-	7 162
Net change in cash flow hedges, net of tax	41	-	-	321	-	-	-	-	-	320	641
a) increase		-	-	*321*	-	-	-	-	-	*320*	*641*
Currency translation differences	41	-	-	602	-	-	-	-	-	231	833
Net profit not recognised in the income statement		**-**	**-**	**8 085**	**-**	**-**	**-**	**-**	**-**	**551**	**8 636**
Net profit	42	-	-	-	-	-	-	-	421 258	25 136	**446 394**
Total profit recognised in current year		**-**	**-**	**8 085**	**-**	**-**	**-**	**-**	**421 258**	**25 687**	**455 030**
Dividends paid		-	-	-	-	-	-	-	-	(5 965)	(5 965)
Transfer to reserve capital		-	-	-	-	31 362	-	(31 362)	-	-	-
Transfer to supplementary capital		-	-	-	9 295	-	-	(9 295)	-	-	-
Issue of shares	39,40	2 128	63 231	-	-	-	-	-	-	-	65 359
Additional shareholder payments		-	-	-	-	-	-	-	-	(1 494)	(1 494)
Change in the scope of consolidation		-	-	-	-	-	-	(918)	-	-	(918)
Other changes		-	(160)	-	156	(467)	-	2	-	(26)	(495)
Stock option program for employees	42	-	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**	**5 110**	**9 451**	**20 899**	**558 000**	**19 102**	**421 258**	**91 433**	**2 622 199**

Notes presented on pages 8 – 95 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2007 PLN (000's)

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2007	2006
A. Cash flow from operating activities - indirect method		**(5 416 490)**	**(1 667 890)**
Profit before income tax		**954 545**	**576 360**
Adjustments:		***(6 371 035)***	***(2 244 250)***
Income taxes paid (negative amount)		(118 959)	(26 598)
Amortisation		176 772	166 603
Foreign exchange gains (losses)		(180 467)	(10 759)
Gains (losses) on investing activities		(89 663)	(225)
Impairment of financial assets		63	1 308
Dividends received		(2 329)	(15 823)
Interest paid		1 160 263	975 650
Change in loans and advances to banks		(272 260)	313 622
Change in trading securities		337 641	556 515
Change in derivative financial instruments		(859 573)	(151 808)
Change in loans and advances to customers		(10 637 971)	(5 730 716)
Change in investment securities		(3 343 616)	(1 900 236)
Change in other assets		(258 404)	(23 289)
Change in amounts due to other banks		(171 402)	(33 971)
Change in financial instruments and other trading liabilities		910 314	(17 190)
Change in amounts due to customers		6 992 020	3 383 950
Change in debt securities in issue		(119 713)	85 058
Change in provisions		2 943	(22 147)
Change in other liabilities		103 306	205 806
Net cash used in operating activities		**(5 416 490)**	**(1 667 890)**
B.Cash flows from investing activities		**(136 693)**	**(253 180)**
Investing activity inflows		**182 834**	**86 234**
Disposal of shares in associates		-	10 944
Disposal of shares in subsidiaries, net of cash disposed	46	154 705	36 078
Proceeds from sale of intangible assets and tangible fixed assets		5 562	18 374
Other investing inflows		22 567	20 838
Investing activity outflows		**319 527**	**339 414**
Acquisition of associates		-	3 831
Acquisition of subsidiaries, net of cash acquired		26 453	101 522
Purchase of intangible assets and tangible fixed assets		285 458	135 351
Other investing outflows		7 616	98 710
Net cash used in investing activities		**(136 693)**	**(253 180)**
C. Cash flows from financing activities		**4 028 692**	**2 838 970**
Financing activity inflows		**8 702 631**	**11 933 333**
Proceeds from loans and advances from other banks		6 153 223	5 168 706
Proceeds from other loans and advances		250	30 508
Issue of debt securities		1 305 066	6 478 600
Increase of subordinated liabilities		1 230 184	190 160
Issue of ordinary shares		13 908	65 359
Financing activity outflows		**4 673 939**	**9 094 363**
Repayments of loans and advances from other banks		1 652 481	1 742 666
Repayments of other loans and advances		18 849	71 585
Redemption of debt securities		1 646 498	7 005 337
Decrease of subordinated liabilities		969 100	6 728
Dividends and other payments to shareholders		10 088	-
Other financing outflows		376 923	268 047
Net cash from financing activities		**4 028 692**	**2 838 970**
Net increase / decrease in cash and cash equivalents (A+B+C)		**(1 524 491)**	**917 900**
(Decrease)/increase in cash and cash equivalents in respect of foreign exchange gains and losses		(920)	1 526
Cash and cash equivalents at the beginning of the reporting period		9 082 846	8 163 420
Cash and cash equivalents at the end of the reporting period	44	**7 557 435**	**9 082 846**

Notes presented on pages 8 – 95 constitute an integral part of these Consolidated Financial Statements.

Explanatory Notes to the Consolidated Financial Statements

1. Information Concerning the Group of BRE Bank SA

The Group of the BRE Bank SA ("Group") consists of entities under the control of the BRE Bank SA (the "Bank") of the following nature:

- Strategic and infrastructural: shares and equity interests in companies supporting the different particular business lines of the BRE Bank SA (investment banking business, corporate banking, retail banking, asset management), as well as shares and equity interests in companies providing financial infrastructure or handling spheres that are complementary to the statutory scope of business of BRE Bank SA. The formation or acquisition of these companies was intended to expand the range of services offered to the clients of the Bank;
- Long term: investments with an assumed high rate of return and an investment horizon of not less than 2 years; they also comprise equity investments placed in companies listed on the Warsaw Stock Exchange SA with anticipated duration of not less than 6 months, as well as investments in investment funds (National Investment Funds /NIF/ and foreign closed end funds);
- Other: company shares and equity interests acquired in exchange for receivables, in transactions resulting from composition and work out agreements with debtors, with the intention to recover a part or all claims to loan receivables and insolvent companies under liquidation or receivership.

The parent entity of the Group is BRE Bank SA, which is a joint stock company registered in Poland being a part of Commerzbank AG Group.

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

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

As at 31 December 2007, the BRE Bank's Group covered by the Consolidated Financial Statements comprised the following companies:

BRE Bank SA; the parent entity

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. 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, institutional and retail banking (including private banking) throughout the whole country and operates trade and investment activity.

In November of 2007, foreign branches of mBank in both Czech Republic and Slovakia came into business within the scope of retail banking of BRE Bank.

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 average employment within the period of four quarters of 2007 was: in BRE Bank SA 4 374 persons and in the Group 5 826 persons (2006: BRE Bank 3 803, Group 5 159).

The business activities of the Group are conducted in the following business segments, presented in detail in the Note 5.

<u>Corporates and Markets, including:</u>

Corporates and Institutions

- **BRE Bank Hipoteczny SA,** subsidiary

The core business of BRE Bank Hipoteczny SA is to grant mortgage credits to finance commercial real estate, development projects, for the local governments and issuing mortgage and public letters of pledge.

Moreover, the company takes term deposits, receives loans, is entrusted with securities for safekeeping and purchases shares of other entities which legal form ensures the limitation of the Bank's liability up to the level of money invested.

- **BRE Corporate Finance SA**, subsidiary

The company focuses on four key areas: mergers and acquisitions, privatization, strategic consulting, and fund resourcing, including public and private issues of stocks.

- **BRE Leasing Sp. z o.o.**, subsidiary

The company has belonged to the Group since June 1991. The company's business activity is to acquire, rent, lease, and hire real estate properties, and to acquire, build, rent and lease all types of plots of land, buildings, and facilities. The company may conduct transactions and take actions aimed at direct or indirect pursuit of its business objectives, including purchase of receivables and agency services in real estate trading. The Company has a network of offices in the largest cities of Poland. The Bank holds 50.004% of the company's shares.

- **Dom Inwestycyjny BRE Banku SA,** subsidiary

The company has belonged to the Group since July 1998. The company's core business activity is to provide services related to securities trading, rights in property other than securities, and other financial instruments on the capital market in accordance with the applicable law and the licences held by the company.

- **Intermarket Bank AG**, subsidiary

Four companies, centred around Austrian Intermarket Bank AG, which are market leaders at their home markets, provide factoring activity both on domestic and foreign markets. The Intermarket Group, apart from Intermarket Bank AG, consists of: Transfinance a.s. (Czech Republic), Magyar Factor zRt. (Hungary) and Polfactor SA (Poland),

The Intermarket Group primarily offers its services to the fast moving consumer goods sector, the metal sector, and building materials and food sector.

Intermarket Bank AG has been the company of the Group since July 2000. The main products of the company are: *finance factoring* - providing financing against bought receivables and *full finance* – which is the product combining financing together with receivables management services.

- **Magyar Factor zRt.**, subsidiary

The company has belonged to the Group since January 2003. Magyar Factor zRt. provides domestic, export and import factoring services as part of Factors Chain International, an international organisation of factoring companies. The Bank holds 50% of Magyar Factor zRt.'s shares and Intermarket Bank AG holds the remaining 50%.

- **Polfactor SA**, subsidiary

The company arose in 1995. The Bank had a direct 50% share in the share capital and votes in the General Meeting of Shareholders of the Company and Intermarket Bank AG holds the rest of shares. The Company provides factoring services for domestic, export and import transactions under Factors Chain International.

- **Transfinance a.s.**, subsidiary

The Bank has belonged to the Group since October 2000. The core business of the company includes purchase of receivables and intermediary services in collection of these receivables. The Bank holds 50% of Transfinance's shares and Intermarket Bank AG holds the remaining 50%.

Trading and Investment Activity

- **BRE Finance France SA**, subsidiary

This is a company for special purposes. The company obtains funds for the Bank, issuing debt securities at international financial markets.

- **Garbary Sp. z o.o.,** subsidiary

Managing a real estate located at 101/111 Garbary St. in Poznań is the only task of the Company. The real estate consists of several meat factories which are not used at present. The Company employs 2 persons.

- **Tele-Tech Investment Sp. z o.o**., subsidiary

The company has belonged to the Group since 1999. The company's core business involves investment in securities and receivables trading, executing securities transactions on its own account, management of controlled companies as well as business and management consulting services. The Company has no employees.

Retail Banking (including private banking)

- **BRE Wealth Management SA**, subsidiary

The core business of BRE Wealth Management is securities portfolio management according to disposition as well as providing wealth management services, comprising: finance planning, tax and investment advising.

- **emFinanse Sp. z o.o. ,** subsidiary

The public limited company was registered in August 2005. The scope of its business consists of advisory and broking services, and sale of bank products and bank - insurance products. At present emFinanse acts as financial advisor, offering cash credits, car credits, mortgage loans and insurance products. Soon the company is going to sell participation units of TFI. The head office of emFinanse Sp. z o.o. is located in Łódź and the business of it embraces whole Poland. The branches of emFinanse are located in the biggest towns of Poland. Irrespective of its own branches the public limited company acts through its net of agents and twinning posts.

Asset Management (discontinued operations Note 28)

- **Powszechne Towarzystwo Emerytalne Skarbiec-Emerytura SA**, subsidiary

The Company has been in the BRE Bank's Group since August 1998. The business of the Company includes managing an open pension fund and representing OFE Skarbiec Emerytura.

Remaining business

- **Centrum Rozliczeń i Informacji CERI Sp. z o.o.**, subsidiary

The business of the Company includes the provision of services such as database servicing, electronic data and document archiving and input of data to the system.

- **BRE.locum SA**, subsidiary

BRE.locum is a property developer. It invests in real estate (primarily residential buildings), manages property and provides consulting services. As its core business, the Company develops and assesses investment projects; arranges for, supervises and prepares building designs; supervises and performs construction work; acts as a 'substitute investor' for building projects; resources funds for investments; finds lessees; operates commercial real estates; trades in real estates; provides real estate trading services; offers advice for development and sale/acquisition projects; and mediates in real estate trading.

Other information concerning companies of the Group

BRE.locum SA

On 2 November, 2007 the registration court registered change of the legal form of BRE.locum from a limited liability to joint stock company.

On 12 November, 2007 BRE Bank and Tele-Tech Investment Sp. z o.o. ("TTI"), the Bank's 100% subsidiary, concluded an agreement under which the Bank acquired from TTI 8 306 500 stocks of BRE.locum SA of the nominal value PLN 1 each. The shares taken up by the Bank constitute 30.00% of the share capital of BRE.locum and authorise the Bank to exercise 8 306 500 votes which represent 30.00% of the total number of votes at the general meeting of BRE.locum.

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The shares were acquired by the Bank for the total amount of PLN 8 411 thousand. The value of the shares, as recorded in the Bank's accounting ledgers, amounts to PLN 8 411 thousand. As a result of the acquisition the Bank holds BRE.locum's shares representing 79.99% of BRE.locum's share capital as well as votes at the general meeting of shareholders. The above indicated reallocation of BRE.locum's shares was concluded within the framework of the Group, so it had no effect on Consolidated Financial Statements.

PTE Skarbiec-Emerytura SA

As at December 31, 2007 the Bank's investment in PTE Skarbiec-Emerytura SA met the criteria for classification to non-current assets held for sale, according to IFRS 5 "Non-current assets held for sale and discontinued operations".The carrying value of the Group's investments in PTE Skarbiec-Emerytura has been presented in the balance sheet as separate positions: "the non-current assets held for sale" and "liabilities held for sale".

From the Group point of view, the core business of PTE Skarbiec-Emerytura SA i.e. managing the open pension fund meets the criteria of discontinued operations. So, according to IFRS 5, the result from discontinued operations was separated in the consolidated income statement.

As at 31 December 2006 the profit from discontinued operations included the result of Skarbiec Asset Management Holding SA (SAMH), which was sold by the Bank on January 08, 2007. As at 31 December 2007 the profit from discontinued operations included the result of the Group on sale of SAMH shares of PLN 89 458 thousand.

The detailed data concerning discontinued operations were presented in the Note 28 of these consolidated financial statements.

The Consolidated Financial Statements of the Bank cover the following companies:

Company	**Share of voting rights (directly and indirectly)**	**Consolidation method**
BRE Bank Hipoteczny SA	100%	full
BRE Corporate Finance SA	100%	full
BRE Wealth Management SA	100%	full
Centrum Rozliczeń i Informacji CERI Sp. z o.o.	100%	full
Dom Inwestycyjny BRE Banku SA	100%	full
emFinanse Sp. z o.o.	100%	full
Garbary Sp. z o.o.	100%	full
PTE - Skarbiec Emerytura S.A.	100%	full
Tele-Tech Investment Sp. z o.o.	100%	full
BRE Finance France SA	99.98%	full
BRE.locum SA	79.99%	full
Transfinance a.s.	78.11%	full
Polfactor SA	78.12%	full
Magyar Factor zRt.	78.12%	full
Intermarket Bank AG	56.24%	full
BRE Leasing Sp. z o.o.	50.004%	full

In 2007, the Bank has covered emFinanse Sp. z o.o. within the framework of consolidation. In prior periods the company was not consolidated due to its immateriality.

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

2. Description of Relevant Accounting Policies

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

2.1 Accounting Basis

These Consolidated Financial Statements of BRE Bank Group have been prepared for the 12 - month period ended 31 December 2007.

These Consolidated Financial Statements of the BRE Bank Group 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.

Since 1 January 2007 the BRE Bank Group has applied the provisions of International Financial Reporting Standard 7, Financial Instruments: Disclosures, which has been binding as from that date and the amended provisions of International Accounting Standard 1. All disclosures in accordance with IFRS 7 was presented in these half year consolidated financial statements.

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 Group. 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 Consolidated Financial Statements are disclosed in Note 4.

2.2 Consolidation

Subsidiaries

Subsidiaries comprise any entities (including special purpose vehicles) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of a majority of the voting rights. When assessing whether the Group actually controls the given entity, the existence and impact of potential voting rights that are currently exercisable or convertible are considered. Subsidiary entities are subject to full consolidation from the date of acquisition of control over them by the Group. Their consolidation is discontinued from the date when control is not exercised any longer. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement (see Note 2.15).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Business Combination involving entities under common control is reflected under the purchase method in accordance with IFRS 3 "Business Combination".

Such an accounting treatment does not cover those companies whose scale of business operations is immaterial in relation to the volume of business of the Group, as well as companies acquired for the purpose of their resale or liquidation.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.15).

The share of the Group in the profits (losses) of associates since the date of acquisition is recognised in the Profit and Loss Account, whereas its share in changes in other reserves since the date of acquisition – in other reserves. The carrying amount of the investment is adjusted by the total changes of different items of equity after the date of their acquisition. When the share of the Group in the losses of an associate becomes equal to or greater than the share of the Group in that associate, possibly covering receivables other than secured claims, the Group discontinues the recognition of any further losses, unless it has assumed obligations or has settled payments on behalf of the respective associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the respective associate. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset. The accounting policies applied by the associates have been adjusted, wherever necessary, to assure consistency with the accounting principles applied by the Group.

2.3 Interest Income and Expenses

All interest proceeds linked with financial instruments carried 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 Group estimates the cash flows taking into account all the contractual conditions attached to the given financial instrument, 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 in interest income with the application of interest rates used to discount the future cash flows for the purpose of measuring impairment losses.

The calculation of the effective interest rate takes account of the cash flows resulting from only those embedded derivatives which are strictly linked to the underlying contract.

2.4 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 Group 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, consulting and other services 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 Group 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.

2.5 Segment Reporting

A business segment consists of a group of assets and operations engaged in the delivery of products and services which are subject to risks and rewards from the capital expenditure incurred other than the remaining business segments. A geographic segment supplies products and services in a specific economic environment, which is exposed to risks and returns other than in the case of segments functioning in other economic environments.

2.6 Financial Assets

The Group 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; financial assets available for sale. The classification of investments is determined by the Management at the time of their initial recognition.

Financial assets valued at fair value

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 or if it was classified in this category by the Group. 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 Group classifies financial assets/financial liabilities as measured at fair value through profit and loss if they meet either of the following conditions:

a) financial assets/financial 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 the Profit and Loss Account.

If a contract contains one or more embedded derivatives, the Group designates the entire hybrid (combined) contract as a financial asset or financial liability at fair value through the Profit and Loss Account 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 Group also designates the financial assets/liabilities at fair value through the Profit and Loss Account 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.

Assets and liabilities classified to this category, are valued at fair value upon initial recognition.

Interest income/expense on financial assets designated at fair value, except for derivatives the recognition of which is discussed in Note 2.12, is recognized in net interest income. The valuation and result on disposal of financial assets designated at fair value are recognized in net trading income.

The Group did not designate any assets/liabilities at fair value through the Profit and Loss Account.

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 Group 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 Group intends and is capable of holding until their maturity.

In the case of sale by the Group 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.

In all reporting periods presented in these financial statements, the only assets held to maturity occur in PTE and they are recognised in the Balance Sheet, under the item “Non-current assets held for sale”.

Available for Sale Investments

Available for sale investments consist of investments which the Group 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. Gains and losses from sale of available for sale investments are presented in gains and losses from investments securities.

Standardized purchases and sales of financial assets at fair value through the Profit and Loss Account, held to maturity and available for sale are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs, except for financial assets at fair value through Profit and Loss Account. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and where the Group has transferred substantially all risks 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, the Group 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.

If the application of valuation techniques does not ensure obtaining a reliable fair value of investments in equity instruments not quoted on an active market (or derivatives related to such instruments), they are stated at cost.

Investments in associates are recognized in the Balance Sheet at the purchase price reduced by impairment.

2.7 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.

2.8 Impairment of Financial Assets

Assets Carried at Amortised Cost

At each Balance Sheet date, the Group 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 Group about the following loss events:

a) significant financial difficulties of an issuer or obligor;
b) a breach of contract, such as default or delinquency in interest or principal payments;
c) concessions granted by the Group 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 Group 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 Group 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.

If there is impairment indicator for 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 possible.

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 Group.

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 resulting from higher credit risk 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– is removed from equity and recognised in the Profit and Loss Account. The above indicated difference should be reduced by the impairment concerning given asset which was previously 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 the fair value of a debt instrument classified as available for sale increases in a subsequent period, 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.

Renegotiated agreements

The Group considers renegotiations on contractual terms of loans and advances as evidence of impairment unless the renegotiation was not due to the situation of debtor but had been carried out on normal business terms. In such case the Group makes an assessment whether the impairment should be recognised on either individual or group basis.

2.9 Financial Guarantee Contracts

In accordance with amendment to IAS 39, which came into force at 1st January 2006, the Group 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.*

2.10 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.

2.11 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.

Securities sold with a repurchase clause (repos) 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 to 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 Group 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 Group 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.

As a result of concluding "sell-buy-back" transactions, the Bank transfers financial assets in such a way that they do not qualify for derecognition. Thus, the Bank retains substantially all risks and rewards of ownership of the financial assets.

2.12 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 Group 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.

In accordance with IAS 39 AG 30 (g), there is no need to separate the prepayment option from the host debt instrument for the needs of consolidated financial statements, because the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument. If the value of prepayment option was not be closely linked to the underlying debt instrument, the option would be measured and recognised in the consolidated financial statements of the Group.

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 Group 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) hedges against 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 Group are recorded by means of hedge accounting, subject to the fulfilment of the criteria specified in IAS 39:

a) At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
b) The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
c) For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
d) The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
e) The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The Group 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 Group 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 (e.g., 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 Group 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 Overnight Index Swap (OIS)
c) Interest Rate Options

Foreign exchange risk instruments:

a) Currency forwards, fx swap, fx forward,
b) Currency Interest Rate Swap (CIRS),
c) Currency options

2.13 Gains and Losses on Initial Recognition

The best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The transaction for which the fair value is determined using valuation model (where inputs are both observable and non-observable data) and the transaction price differ, the initially recognition is at the transaction price. The Group assumes that the transaction price is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is not recognised immediately in Profit and Loss Account.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

2.14 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.

2.15 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.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill on acquisition of associates is recognised in "investment in associates". Goodwill is not amortised, but it is tested annually for impairment, and it is carried in the Balance Sheet at cost reduced by accumulated impairment losses.
Goodwill impairment losses should not be reversed.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Each of those cash generating units is represented by the investments of the Group classified by basic reporting business segments.

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 (2-11 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 Group, 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 Group 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 Group 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. Amortization rates are adjusted to the period of economic utilization. The Group 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.

2.16 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 Group 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 vehicles	5-15 years,
- Transport vehicles	5 years,
- Information technology hardware	3.33-5 years,
- Investments in the third party (leased) fixed assets	10-40 years or the period of the lease contract,
- Offiice equipment, furniture	5-10 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 it is not possible to estimate the recoverable amount of the individual asset, the Group 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.

2.17 Non Current Assets Held for Sale and Discontinued Operation

The Group 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 Group ceases to classify the assets as held for sale and reclassify them into appropriate category of assets. The Group measures a non-current asset 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 at a date 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 Group 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.
Disposal group which is to be backed out of the usage may also be classified as discontinued operation.

2.18 Deferred Income Tax

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

In the case of the Bank, the deferred tax assets and deferred tax provisions are netted against each other for each country separately where the Bank conducts its business and is obliged to settle up due to corporate income tax.

The Group discloses separately the amount of negative temporary differences (mainly on account of unused 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 Group 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.

2.19 Assets Repossessed for Debt

Assets repossessed for debt at their initial recognition are measured at their fair values. In the case when the fair value of acquired assets is higher than the debt amount, the difference constitutes a liability toward the debtor.

At subsequent measurement the initial amount is tested for impairment.

2.20 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 Group 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".

2.21 Leasing

BRE Bank SA Group as a Lessor

In the case of assets in use on the basis of a finance lease agreement, the current value of lease payments is recognised under receivables. The difference between the gross receivable amount and the present value of the receivables is recognised as unrealised financial income. Income on account of leasing is recorded over the period of the lease according to the net investment method (before tax), which reflects the fixed periodical rate of return on the lease.

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

The leases entered into by the Group 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.

2.22 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 Group 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.

2.23 Retirement Benefits and Other Employee Benefits

<u>Retirement Benefits</u>

The Group 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 Group 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 Group revises its estimates of the number of options that are expected to become exercisable. In accordance with IFRS 2 it is not necessary to recognize the change in fair value of the share-based payment over the term of the program.

2.24 Equity

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

<u>Registered share capital</u>

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 Extraordinary General 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 Company by the Company or by other entities consolidated as part of the Group, 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.

<u>Share premium</u>

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

<u>Revaluation reserve</u>

Revaluation reserve is formed as a result of:

- valuation of available for sale financial instruments,

- valuation of cash flow hedge financial assets,
- currency translation differences resulting from valuation of structural items.

Retained earnings

Retained earnings include:

- other supplementary capital,
- other reserved capital,
- general banking risk fund,
- undistributed 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.

2.25 Valuation of Items Denominated in Foreign Currencies

Functional Currency and Presentation Currency

The items contained in financial reports of particular entities of the Group, including foreign branches 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 Consolidated 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.

Changes in fair value of monetary items available for sale cover foreign exchange differences arising from valuation at amortised cost, which are recognised in the Income Statement, and foreign exchange differences relating to other changes in carrying amount, which are recognised under revaluation reserve.

Balance sheet items of foreign branches as well as foreign companies of the Group are converted from functional currency to presentation currency with application of medium exchange rate on the balance sheet date. Income statement items of these entities are converted to presentation currency with the application of arithmetical mean of medium exchange rates quoted by the National Bank of Poland on the last day of each of twelve months of the reporting period. Arisen in such way foreign exchange differences are recognized under revaluation reserve.

Companies Belonging to the Group

The performance and the financial position of all the entities belonging to the Group, none of which conduct their operations under hyperinflationary conditions, the functional currencies of which do not differ from the reporting currency, are converted to the reporting currency as follows:

a) assets and liabilities in each presented Balance Sheet are converted at the mid rate of exchange of the National Bank of Poland (NBP) in force at the Balance Sheet date;
b) revenues and expenses in each Profit and Loss Account are converted at the rate equal to the arithmetic mean of the mid rates quoted by NBP on the last day of each of twelve months of each presented periods; whereas
c) all resulting foreign exchange differences are recognised as a distinct item of equity.

Upon consolidation, foreign exchange differences arising from the conversion of net investments in companies operating abroad, as well as loans, advances and other FX instruments designated as hedges attached to such investments are recognised in equity. Upon the disposal of a company operating abroad, such foreign exchange differences are recognised in the Profit and Loss Account as part of the profit or loss arising upon disposal.

Goodwill and adjustment to the fair value adjustments which arise upon the acquisition of entities operating abroad, are treated as assets or liabilities of the foreign subsidiaries and converted at the closing exchange rate.

Leasing Business

Negative or positive foreign exchange differences (gains/losses) from the valuation of liabilities on account of credit financing of purchases of assets under operating leasing schemes are recognised in the Profit and Loss Account. In the operating leasing agreements recognised in the Balance Sheet of the Subsidiary Company (BRE Leasing Sp. z o.o.), the fixed assets subject to the respective contracts are recognised at the starting date of the appropriate contract as converted to PLN, whereas the foreign currency loans with which they were financed are subject to valuation according to the respective foreign exchange rates.

Additionally, in the case of operating lease agreements, all future receivables on account of leasing payments (including receivables in foreign currencies) are not presented on the face of the financial reports. In case of finance lease agreements the foreign exchange differences arising from the valuation of leasing payments due as well as of liabilities denominated in foreign currency are recognised through the Profit and Loss Account at the Balance Sheet date.

2.26 Trust and Fiduciary Activities

BRE Bank SA operates trust and fiduciary activities including domestic and foreign securities and services provided to investment and pension funds.

Dom Inwestycyjny BRE Banku SA operates trust and fiduciary activities in connection with the handling of securities accounts of the clients.

The assets concerned are not shown in these financial statements as they do not belong to the Group.

Other companies belonging to the Group do not conduct any trust or fiduciary activities.

2.27 Standards, Interpretations and Amendments to Published Standards

Changes in the published Standards and Interpretations that have come into force since 1 January 2007:

- IFRS 7, Financial Instruments: Disclosures, binding from 1 January 2007
- IAS 1, Presentation of Financial Statements - changes related to presentation of information on equity, binding from 1 January 2007
- IFRIC 7, Application of restatements in IAS 29 Financial Reporting in Hyperinflationary Economies, binding in the periods starting after 1 March 2006
- IFRIC 8, Scope of IFRS 2, binding for the annual periods starting after 1 May 2006
- IFRIC 9, Reassessment of Embedded Derivatives, binding for the annual periods starting after 1 June 2006
- IFRIC 10, Interim Financial Reporting and Impairment, binding for the annual periods starting after 1 November 2006

IFRS 7 introduced new requirements concerning disclosures on financial instruments and replaced the currently applied provisions of IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions and some requirements of IAS 32, Financial Instruments: Disclosure and Presentation.

The introduction of IFRS 7 resulted in changes mainly in the following areas: disclosures concerning risks from the point of view of risk managers, extended quantity disclosures concerning risks, introducing a sensitivity analysis, extended disclosures concerning the Group's financial position and results.

Published Standards and Interpretations which have been issued but are not yet binding or have not been adopted earlier:

- IFRIC 11, IFRS 2: Group and Treasury Share Transactions, binding for the annual periods starting after 1 March 2007
- IFRIC 12, Service Concession Agreements, binding for the annual periods starting after 1 January 2008
- IFRIC 13, Customer Loyalty Programmes, binding for the annual periods starting after 1 July 2008
- IFRIC 14 – IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, binding for the annual periods starting after 1 January 2008
- IFRS 8, Operating Segments, binding for the annual periods starting after 1 January 2009
- IAS 23 (Revised): Borrowing Costs, binding for the annual periods starting on or after 1 January 2009
- IFRS 3 (Revised): Business Combinations, binding prospectively to business combinations for which the acquisition date is on or after 1 July 2009

IFRICs 12, 13 and 14 were not adopted by the EU.

The Group believes that the application of these standards and interpretations will not have a significant effect on the financial statements in the period of their first application.

2.28 Comparative Data

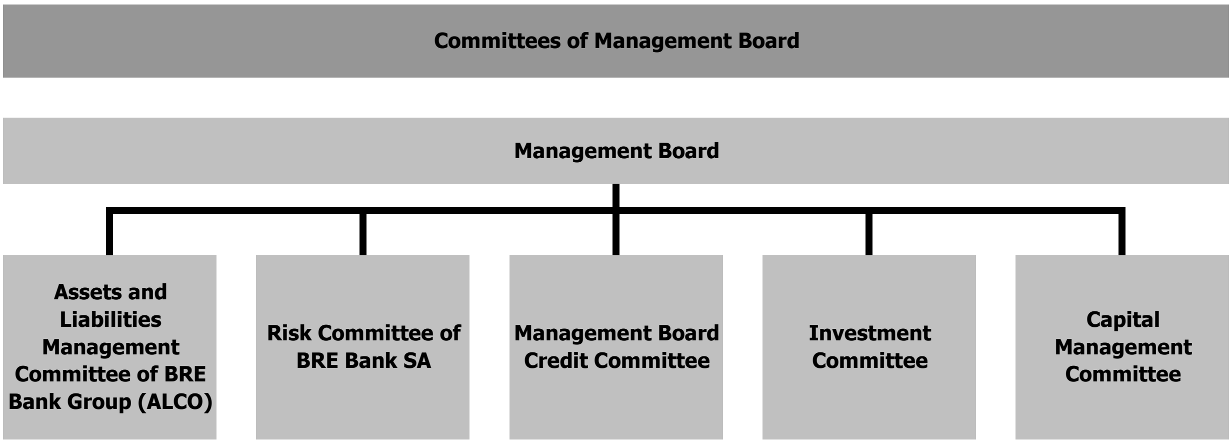
Data prepared as at 31 December, 2006 are totally comparable with data intoduced in the current financial period so they were not adjusted.

3. Financial Risk Management

The structure of Risk Management in BRE Bank

The Supervisory Board is the most important body in the Bank's overall risk management and risk control structure and framework. The Supervisory Board Risk Committee, a committee of the Supervisory Board, grants approval to the risk management and control strategies and supervises market, credit, operational, and liquidity management processes, as well as, controls the Bank's overall risk exposure. Furthermore, the Supervisory Board Risk Committee approves the limits for large exposures based on the Management Board recommendations.

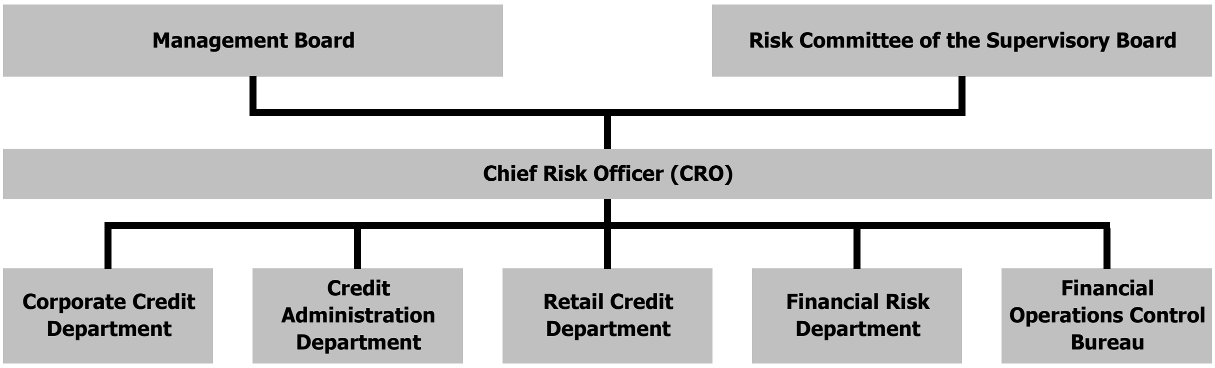
The daily risk management process is performed on several defined management levels, starting with the Management Board level at the top and ranging to the risk control and risk management units level at the bottom. The Management Board has established a few types of risk committees in order to effectively execute the risk management and supervision duties, as well as defined the organizational structure with assigned responsibilities according to the best market practice. The below chart presents the structure of the committees:



The Management Board members have assigned responsibility for the different risk types present in the Bank's activities. The Chief Executive Officer is responsible for the Bank's business strategy, reputation risk and compliance risk. The Chief Risk Officer bears responsibility for the supervision of all quantifiable types of risk (i.e. credit, market, liquidity, operational risks) and accordingly for the implementation of respective risk strategies. The Chief Operations Officer assumes responsibility for managing the Bank's day-to-day operations and IT. Within the Management Board, the Chief Investment Officer is supervising the investment banking risks. Moreover, the human resources risks are under supervision of the Head of the Human Resources Division.

The Risk Committee of BRE Bank SA carries out the Management Board responsibilities in the area of control and management of financial, credit and operational risks, including coordination of actions of Bank's units participating in these processes. The Risk Committee is comprised of four Management Board members, out of which the Chief Risk Officer chairs the Committee, and of the heads of the departments which control and monitor the risks, of the heads of departments which manage operationally the relevant risks, and of the heads of the Controlling Department, the Strategy Department, and the Internal Audit Department. The Committee is responsible for: setting the rules and the framework for the processes of control of financial and operational risks, setting and approving the risk limits, accepting methodologies for calculations of regulatory and economical capital, approving risk measurement methodologies and forms of risk reporting, setting the rules for inclusion of Bank's operations in the trading book or in banking book respectively, setting the structure and minimal volume of liquidity reserves of the Bank, taking actions to neutralize situations engendering the Bank's liquidity. Moreover, the Risk Committee reviews regularly the Bank's exposure to market risk, banking book interest rate risk, portfolio credit risk, monitors Bank's liquidity, Bank's capital adequacy and the level of capital requirements, reviews operational losses and the profile of operational risk of the Bank, reviews utilization of limits established by the Committee and limits imposed by external supervisory institutions, presettlement and settlement limits, P&L results of front-office departments, and conformity of concluded transactions with the market. The Committee holds its meetings on at least monthly basis.

The Management Board Credit Committee is responsible for credit decisions concerning biggest exposures, decisions on debt conversions into shares, decisions on establishing or releasing specific provisions, decisions on write-offs (interest, commissions, etc.) any other decisions exceeding competences of lower level decision-making bodies. This Committee meets on weekly basis.
The Chief Risk Officer (CRO) supervises the Risk Division, which consists of the Bank's units shown in the bottom on the diagram below.



Credit risk management is an integrated and continuous process operating at both the transaction and portfolio levels. This process is carried out within the credit departments responsible for clearly defined complementary areas. The mission of the Corporate Credit Department (CCD) is focused mainly but not exclusively on the implementation of the Bank's credit policy, as well as, credit risk controlling and management in the area of Corporate Banking on the Bank and Group level. The key functions of the CCD include: analyzing and managing credit risk of the Bank's customers and the BRE Bank Group subsidiaries (except for retail credits); monitoring the structure of exposure of the risk portfolio; analyzing and managing country credit risk and controlling country limits; controlling customer limits (for non-financial customers, banks, and international financial institutions); assignment customer and Expected Loss ratings. The mission of Credit Administration Department (CAD) is to administer credit risk in the Corporate Banking and Private Banking Area. In particular CAD administers credit risk provisions, carries out settlements and accounting for credits and guarantees in case of project finance and work out activities. Credit Administration Department is involved in the identification and monitoring of concentration risk in case of large exposures. The mission of the Retail Credit Department includes management of credit risk in the Retail Banking Area and credit risk related to Private Banking customers' debt. The main credit risk functions of the Department include administering and settlement of credits in the Retail Banking Area and for Private Banking customers, monitoring and enforcement of credit debt, setting up specific provisions in the Retail Banking Area, development and implementation of credit risk scoring systems and credit decision-making systems. All of the three Departments cooperate closely in common areas. Finally, the credit risk on the portfolio level is monitored and reported by the Financial Risk Department.

Market risk is controlled and monitored by Financial Risk Department (DRF) and Financial Operations Control Bureau (BKF). In relation to this task, DRF is responsible for development of risk measurement methodologies, for establishing valuation methods of financial instruments, and performs daily measurement of market risk exposition of front-office portfolios using Value at Risk (VaR) and stress tests methodology. DRF controls and monitors utilization of the limits set for these risk measures by the Risk Committee, provides daily and periodical reporting on the market risk exposition to the front-office departments, to relevant Committees of the Bank, and to the Chief Risk Officer. Moreover, DRF monitors the level of market risk in BRE Bank subsidiaries.

Financial Operations Control Bureau (BKF) calculates daily P&L on transactions carried out by the front-office departments and delivers daily reconciled P&L to the financial division. Moreover, Bureau is responsible for the administration of the front-office dealing systems, grants access rights to the systems, and delivers proper market data to the systems. BKF monitors whether transactions carried out by the front-office are within earlier established credit limits (pre-settlement, settlement, issuer and country risk). All breaches are immediately escalated along the established reporting lines. All transactions are monitored on the conformity with the market prices and all breaches are immediately escalated.

The purpose of liquidity risk management is to ensure and maintain the Bank's ability to fulfill both current and future liabilities taking into account the cost of funds. The Treasury Department is responsible for the liquidity management. The Financial Risk Department is in charge of controlling and monitoring financial liquidity risk of the Bank on the strategic level and reporting to the Head of Risk Management and to the Risk Committee of BRE

Bank. The Financial Risk Department monitors on a daily basis the financial liquidity using methods based on the cash flow analysis. The liquidity risk measurement is based on the internal model, which has been established taking into consideration the specific character of the Bank, volatility of deposit base, level of funding concentration and projected development of particular portfolios. The value of mismatch of cash flows over defined periods of time (the liquidity gap), the level of liquidity reserve of the Bank, the usage of internal liquidity limits are monitored daily. The Bank assesses the currently liquidity situation and the probability of its deterioration using scenario's methods including stress tests. The Bank established the Liquidity Contingency Plan which regulates the proceedings in case of illiquidity threat. The Contingency Plan defines the organization of appropriate warning system, the scope of responsibilities of particular people and Committees in relation to the whole process and on each of its stage.

The operational risk control and monitoring function is realized by the Financial Risk Department to keep close control over operational risk on the Bank and the Group (consolidated) level. As a part of the operational risk control activities BRE Bank collects data about operational risk events and losses (loss collection database), regularly carries out the quality self-assessment process within organizational units, collects and monitors key risk indicators and performs scenario analysis in order to identify exposure to potential high-severity events. At the same time the function maintains the communication channels for remedial action once the systems spots critical patterns of operational risk in any area of business or support. The results of operational risk control and monitoring are reported to the Supervisory Board, Financial Risk Committee and the Chief Risk Officer on a regular basis. Financial Risk Department – within the scope of its operational risk control function duties – closely cooperates with other units and projects within the Bank in particular with the Compliance Bureau, the Internal Audit Department and the Business Continuity Planning / Management project.

The enhanced credit risk control function on the Group wide level is carried out by a specially dedicate Bureau established in the Corporate Credit Department. The main tasks of the Bureau are: underwriting of credit risk connected with new exposures of the Subsidiaries and taking part in Credit Risk Committees, monitoring credit risk of biggest exposures, analysis of risk portfolio quality, participation in development and modification of strategies, policies and risk rules applied by Subsidiaries and the supervision of planning and realization of provisions, furthermore the audit the biggest exposures with reference to the whole BRE Group commitments (consolidation of commitments).

The important part in the risk management process plays well organized reporting system. From one side, Heads of Departments that operationally deal with risks, report directly and on ongoing basis to Board Members responsible for those units. On the other hand, units of the Risk Division that control and monitor the risks submit independent risk reports to the Heads of Departments that deal with risks and to Chief Risk Officer (CRO) and appropriate Risk Committees of the Bank. The CRO regularly presents reports concerning the risks under his scrutiny to the Risk Committee of the Supervisory Board and to the Board. Moreover the above mentioned bodies are provided with regular reports about the risk profile of the Bank as a whole. In particular, a quarterly risk report addressed to the Risk Committee of the Supervisory Board, prepared by the units of the Risk Division, presents a comprehensive and synthetic approach of the risk profile of the Bank. Furthermore, every event that has considerable impact on the risk profile of the Bank is on ad hoc basis and with no delay reported to the appropriate, to significance of the situation, levels of risk management system.

Under the direction of the Bank Director in charge of Finance the Capital Management Committee, which consists of the heads of departments of Finance, Risk, Investment Banking, Corporate Banking and Retail Banking Line, is an advisory body performing advisory functions in relation to capital management before the Management Board. In particular, the Committee recommends: capital management activities, including Capital Management Policy, to the Management Board; activities concerning maintenance safe level and optimal capital structure by the Bank and the Group; activities related to enhancement of capital utilization; projects of internal procedures, concerning planning and capital management processes.

Moreover, the Committee monitors and forms structure of the capital in order to provide optimal allocation of the capital, taking into account internal Bank's strategy, concerning adequacy ratio and elaborating optimal return on capital. Additionally, the Committee participates in identification and validation of risks importance processes. The Committee has powers in making-decisions on:

1) establishing the rules of regulation and internal capital management,
2) internal capital estimation and maintenace processes,
3) establishing the rules of capital estimation and allocation of capital to particular business areas of the Bank's activities, depending on actual level of the risk taken,
4) establishing the rules of minimal margins assessment in relation to exposure of the capital and risk taken,
5) introducing capital measures,
6) limits of capital utilization to both particular business areas of the Bank's activities and units of the Bank.

Moreover, the Committee has approval powers related to:

1) activities aiming at optimization of capital utilization,

2) capital strategy of the Bank, in particular long-term capital objects of the Bank in relation to capital adequacy as well as preferred structure of the capital.

At the Bank operates Assets and Liabilities Committee (ALCO).
ALCO operates at the following areas:

1) liquidity,
2) financing,
3) capital and capital ratios,
4) formation of risk weighted assets,
5) application of transfer pricing system and adequate internal settlement system.

Its functions are:

1) analysing and predicting development of elements already mentioned,
2) establishing values of ranges for individual objects,
3) making decisions on application of means for attaining these aims,
4) analyzing stress tests.

The Committee consists of:

1) Chairman of the Committee - Bank Director in charge of Investment Banking,
2) Vice-Chairman of the Committee - Bank Director in charge of Finance,
3) Members of the Committee:
   - Director General of the Bank,
   - Head of Department of the Treasury,
   - Head of Accounting Department,
   - Head of Strategic Controlling Department,
   - Representative of Controlling and Management Information Department.

The Chairman of the Committee can invite other employees of the Bank or employees of the companies of BRE Bank SA Group to meetings if he deems their presence to be justified by the topics to be discussed.
The members of the Committee meet once a month. In justified cases, the Chairman or Vice-Chairman of the Committee can convoke on his own initiative or on application of one of the members of the Committee an extraordinary session.

Authority to Approve Credit Decisions

The Bank actively manages credit risk, striving to optimise its level. For this purpose, uniform principles of credit risk management apply across the Bank's structure. The main principles include: separation of the functions of credit risk rating from business functions; setting exposure limits; monitoring the concentration risk of large exposures; monitoring concentration risk in other significant dimensions. The separation of the functions of credit risk rating from business functions applies at all levels in the Bank, up to and including the Management Board level. After a product is sold, exposures generating credit risk are also administered by the Risk Line, completely independently from the Sales Line. Limits of exposure are set per individual clients and groups of associated entities, sectors, countries, etc. The concentration risk of large exposures is monitored by means of imposing limits, making observations, and provisioning by the units which offer products generating the risk of planned future exposure in correspondence with regulatory limits under the Banking Law.

The Corporate Banking Line has a credit decision-making scheme. Decisions on products generating credit risk are made by decision-making bodies whose composition, tasks, and procedures are uniform across all levels, the only difference being the level of authority. The authority of the decision-making bodies is determined on the basis of the level of the Bank's total acceptable exposure to a client or group of associated clients and the rating of exposure to a client or group of associated clients set pursuant to the Bank's internal regulations. The specific rating is determined on the basis of the client's probability of default. Each credit decision is preceded by credit assessment carried out by an experienced analyst. The main purpose of the analysis is to determine the EL rating or the quality of the client as measured by expected loss caused by the Bank's exposure to the client's business. Decisions are made by the relevant Credit Committees depending on the level of the Bank's exposure to a client and the client's rating.

The decision-making process for Private Banking clients is identical to the process in Corporate Banking, i.e., the decision-making bodies (Credit Committees) make decisions within the limits of their authority, while appeals against credit decisions are elevated to a superior decision-making level. Products offered to Private Banking clients have a flexible structure and are individually tailored to specific needs.

Within the retail activity of BRE a different approach of risk assessment is adopted

In the case of retail customers, risk assessment and the criteria of credit decision-making are standardised. The underwriting process is largely automated, both in the collection of borrower information from internal and external sources and in risk rating based on scoring and segmentation methods. The narrow margin of discretion applies only to manual functions including mainly the verification of credit documentation. Such functions are performed by operating units of the Risk Line. In addition, any non-standard cases are escalated to a superior decision-making body.

Mortgage-backed real estate credits are the key area of the Bank's credit operations. The Bank strives to minimise the risk of default by means of a very conservative approach to creditworthiness rating and preference for customers with a positive credit track record.
In the case of other credit products of mBank and MultiBank, the Bank strictly follows the principle of refusing non-secured credits including overdraft facilities, credit cards, and cash loans to new customers without an existing relationship with the Bank or a positive credit track record in the banking system. The principle effectively eliminates both credit risk and the operational risk of faud.

The New Basel Capital Accord - Basel II

The Bank has accomplished the Basel II strategic project with the implementation of the new Basel II capital adequacy framework. As a result, the Bank is not only prepared to fulfill the supervisory reporting requirements (Pillar III, COREP) but also the business, risk control and capital management processes have been adjusted appropriately to comply with the new Banking Supervision resolutions and to create additional value added for the Bank.

In 2008, the Bank will proceed with the Basel II preparations in respect of AIRB (Advanced Internal Ratings based approach) for credit risk and AMA (Advanced Measurement Approach) for operational risk.

The Basel II project in BRE Bank is incorporated into the Commerzbank Group Basel II project. The Head of Basel II project in Commerzbank Group is a member of the Basel II project Steering Committee in BRE Bank.

The close co-operation with Commerzbank Basel II project is very beneficial not only due to the coordination of the project works but also due to the valuable know-how transfer allowing accomplishing the critical project milestones.

The results of the Basel II cooperation with the Bank's strategic investor are well visible in respect of implementation of the highly predictive rating and scoring systems, which are both state of the art in risk control and are business process friendly solutions. It is important to underline that those tools and concepts are adjusted in the way to reflect the polish market conditions appropriately.

In 2007, the Bank published the Disclosure policy on capital adequacy including principles of verification of the disclosed information and frequency of disclosures. This policy fulfills the requirements of Resolution no. 6/2007 of the Commission of the Banking Supervision of 13 March 2007 on detailed principles related to and the manner of publishing disclosures by banks with respect to qualitative and quantitative information regarding capital adequacy and the scope of information subject to disclosure.

3.1 Strategy in Using Financial Instruments

Due to its nature, the business of the Group focuses on using financial instruments, including derivatives. The Group 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 Group 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 Group 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 Group 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 Group did not use hedge accounting in the reporting periods.

3.2 Credit Risk

The Group is exposed to credit risk, i.e., risk that a contracting party may be unable to repay its liabilities to the Group on time. The Group 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 Group's 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 Group is significant.

The Group 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 setting 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 Group can access external database and information services that capture information in various cross-sections.

3.2.1 Collateral

Derivative instruments

The Group controls net open derivatives, i.e., the difference between purchase and sale contracts, both in terms of amount and maturity. The amount exposed to credit risk is limited at any time 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 nominal value used to express the volume of the existing instruments. The level of exposure to this credit risk, together with potential risk 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 Group or, in theory, growth of weights of the risk for calculation of potential loss), the customer is asked to provide (or increase) the collateral. Typically, the Group does not require collateral for credit risk related to such instruments. The exception is a situation when the Group requires deposits as collateral from its contracting parties.

Master netting agreements

Master netting agreements made with contracting parties with which the Group concludes large transactions are an additional measure used by the Group to limit the credit risk. 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 Group 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 Group 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 Group given to a customer, authorizing third parties to draw checks on the Group 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 Group. As regards credit risk related to credit commitments, the Group 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 Group monitors the terms of validity of credit commitments because, as a rule, longer terms involve larger risk.

Collateral on securities resulting from buy sell back transactions

The Bank accepts collateral in the form of securities in connection with the "buy-sell-back" transactions concluded. Depending on the agreement such collateral may be sold or repledged. The total market value of collateral that can be sold or repledged, icluding the case of lack of default of the customer, as at 31 December 2007 amounted PLN 1 183 586 thousand (PLN 164 694 thousand as at 31 December 2006).

Collateral accepted by BRE Bank

In making a decision about granting a credit risk bearing product, the Bank strives to obtain the highest possible quality collateral that would be adequate to the risk. The quality of the proposed tangible collateral is assessed according to its liquidity and market value, and the quality of collateral in form of guarantees is assessed according to the financial situation of the guarantor. Moreover, the impact of collateral on the impairment of the loan portfolio is a significant factor in the assessment of the collateral's quality. The quality of the accepted collateral is correlated to the amount of the product bearing credit risk and the level of risk related to granting such a product.

The most frequently applied collateral includes:

a) monetary deposit;
b) guarantee deposit or cash blocked in BRE Bank SA;
c) cession of receivables (cession of rights);
d) mortgage on real estate;
e) registered pledge;
f) transfer of ownership to collateral;
g) bills of exchange – including blank bills of exchange with declaration on the bill of exchange;
h) a letter of comfort issued by a Company whose reliability and fairness is known on the international financial markets.

In the case of personal collateral (e.g. pledge, guarantee), the situation and reliability of the entity issuing such security at the Bank's disposal is evaluated.

In the case of tangible collateral the following principles for assessing their value are applied:
The value of fixed assets set up as collateral is determined on the basis of a valuation survey prepared by an expert surveyor. The valuation survey submitted at the Bank is verified by a team of specialists situated in the Corporate Credit Department who verifies the correctness of the market value assumptions and assesses the liquidity of the collateral from the Bank's point of view. The following factors are taken into account in the verification process:

a) for collateral on real estate:
- Type of real estate (industrial, housing, commercial)
- Legal status
- Designation in the local land development plan
- Technical description of buildings and structures
- Description of land
- Situation on the local market
- Other price-making factors

b) for collateral on plant and machinery:
- General application and function in the technological process / possibilities of alternative use
- Technical description and parameters
- Exploitation and maintenance conditions
- Availability of similar devices and machinery
- Current market situation
- Forecasts of demand for specific machinery in connection with the situation in the industrial sectors applying such machinery

c) for collateral on inventories:
- Formal and legal requirements related to specific products (e.g. a security certificate "CE" for electrical equipment, permit of UDT (the Office of Technical Inspection) for appliances which operate under pressure, etc.)
- Saleability
- Warehousing conditions required (e.g. for paper materials, sensitive to humidity, precise materials sensitive to pollution, etc.)
- Security and insurance of both the warehouse and the goods stored therein.

Collateral accepted by the BRE Bank Group companies

The BRE Bank SA Group companies accept various forms of legal collateral of credit risk-bearing products. Their list depends on the specific nature of activities and the products offered. A blank bill of exchange plays the role of universal collateral, which makes potential recovery of debt more efficient.

BRE Bank Hipoteczny applies mortgage on the financed real estate as the basic collateral. Additional collateral may include bills of exchange or civil surety by the lending company's owners, or pledge on shares of the lender's company. Loan insurance in an insurance company approved by the Bank may be accepted for a period necessary to effectively set up collateral.

BRE Leasing applies types of collateral that are the most similar to those of BRE Bank. It accepts both standard personal security – bill of exchange and civil surety, letters of comfort, guarantees and tangible collateral – ordinary and capped mortgage, registered liens, transfer of ownership of collateral, transfer of receivables and cession of receivables and rights to an insurance policy and deposits. Moreover, conditional taking over of debt is a frequently accepted security – in the case of this security, it is possible to accept the evaluation of risk related to the conditional lender. BRE Leasing also accepts declarations of voluntary submission to execution.

Factoring companies only accept highly liquid collateral. Apart from own blank bills of exchange, these are mainly bill of exchange surety of the owners of the customer's company, cession of receivables from bank accounts (mainly those maintained by BRE Bank), insurance of receivables, cession of rights from insurance policies in respect of receivables, concluded by customers. In the case of providing services to several companies belonging to one group, a customary form of collateral is a power of attorney to perform cross-settlement of agreements concluded with the particular companies.

3.2.2 Rating System Description

Rating system of BRE Bank
Current rating methodology (RC-POL) consists of two elements:

- Customer rating (PD-rating) – which describes the probability of lack of loan repayment (PD – Probability of Default)
- Credit rating (EL-rating) – which describes expected loss (EL, ang. Expected Loss) and takes into consideration either customer risk (PD) and transaction risk (LGD, Loss Given Default – loss resulting from the lack of loan repayment). EL can be described as PD*LGD. EL indicator is used mainly on the making decision stage.

Rating provides absolute measure of credit risk both in percentage scale (PD % and EL %) and also in the scale from 1.0 to 6.5 (PD-rating, EL-rating).

PD rating calculation includes seven steps:

1. Financial analysis of annual report – based on discrimination function in logistic regression of nine financial indicators and corresponding to its default/non-default status of the client in one-year period;
2. Financial analysis of following interim figures:
   - assessment of evaluation of trends, essential for rating,
   - increase of PD as an effect of delay of data updating;
3. Assessment of timeliness of presenting financial statements;
4. Analysis of qualitative risks:
   - analysis of quality factors including among others macroeconomics, business risk, management quality, value added activities, accounting policies, etc;
5. Warning indicators:
   - 29 warning indicators:
     - 14 warning ndicators got out of financial analysis or qualitative analysis of risk (answers),
     - 15 direct warning indicators,
   - 3 criteria for assigning the lowest intermediate rating,
   - other 3 steps which have influence on rating;
6. Level of integration of debtor's group:
   - applying PD of parent entity,
   - diverse procedure according to PD of parent entity
7. Overruling:
   - manual change of PD by one category is possible.

Credit rating based on expected loss (EL) is created by combining customer risk and transactional risk, which results from the value of exposure (EAD, Exposure At Default) and the character and coverage of collateral for transactions carried out with the client (LGD).

EAD represents actual balance sheet exposure increased by expected level of off-balance sheet items to be converted to balance sheet items at the date of default

LGD, described as % of EAD, is a function of possibly executed value of collateral and depends on the type and the value of the collateral, the type of transaction and recovery ratio from other than collateral sources (which depends on the client type).

Rating system generates the probability of lack of loan repayment directly in the form of PD ratio, expressed in percentage on the continous scale. Classes of rating are calculated on the basis of procedures of dividing PD into groups based on geometric stepladder.

Mapping the internal PD-rating scale to external ratings

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Sub-portfolio	1				2			3		4			5			6	7		8	
Rating PD	1.0 - 1.2	1.4	1.6	1.8	2	2.2	2.4 - 2.6	2.8	3	3.2 - 3.4	3.6	3.8	4	4.2 - 4.6	4.8	5	5.2 - 5.4	5.6 - 5.8	No rating	6.1 - 6.5
S&P	AAA	AA+	AA, AA-	A+, A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B+	B	B-	B-	CCC+	CCC bis CC-	n/a	C, D-I, D-II
	Investment Grade								**Non-Investment Grade**											**Default**

The rating system is based on Commerzbank solution for mid-cap clients (RC-GER). The main part of methodology was developed by Risk Control Department in Frankfurt as well as relevant IT solution. Mapping the internal rating scale to external ratings is based on the PD statistics.

The BRE Bank customization was mainly focused on:

- Conversion and reconciliation of financial standards
- Calibration to internal Polish default data set (PD)
- Minor adjustments in PD-rating methodology (impact of interim figures)
- Parametrisation of collateral value haircuts (LGD assessment)
- Development of own interfaces to ensure communication with other bank systems, etc.

Method of calculating of portfolio privision for loans and advances to corporates, based on rating system

Portfolio provision is formed on credit portfolio of the customers not classified to the default category. The portfolio is divided into 8 subportfolios for corporates based on a range of ratings as disclosed in the table above.

Subportfolios are homogeneous groups having similar credit risk outlines. Amount of provisions is a sum of incurred losses on calculated subportfolios resulting from arisen economic events which haven't been identified by Bank at the provisions calculation date.

Probability of disclosure of a loss is modeled by logistic regression based on financial indicators and qualitative data. The model is calibrated on the internal Bank's data, comprising several years' period of observation of corporate portfolio. 9-month-period was established as the average period between the loss event occurrence and its identification by the Bank (loss identification period "LIP"). Therefore, the Bank performed calculation on the basis of default observation of 9 months. The value of incurred loss is calculated based on current engagement multiplied by LGD (parameter describing the loss resulting from the lack of loan repayment), calculated by rating model RC-POL on the stage of estimating EL-rating.

All BRE Bank SA Group's Companies which operations are taken with credit risk, before concluding the agreement and upon its monitoring process estimate the risk using rating systems. The systems are different for different types of operations, with the exception of all factoring companies which use the same solution, moreover lease contracts and mortgage loans are concluded on the basis of individual systems. The common feature is two-stage methodology - on the first stage customer rating is assigned and on the second stage – rating of transaction/portfolio is established. Both above-mentioned ratings create credit risk rating. Both quantitative indicators and qualitative features with the most significant impact on credit risk are tested. The impact on particular risk categories is decomposed depending on the character of the operation (client/transaction).

Rating systems that are used by the Group's Companies were created either on the basis of BRE Bank's systems or by an application of experts' estimates.

3.2.3 Measurement of Impairment

The Bank measures impairment of loan exposures in accordance with the International Accounting Standards 37 and 39. The intranet application IMPAIRMENT is a tool used to calculate impairment losses for impaired exposures granted to corporate customers and banks. The classification of customers to default portfolio and calculation of impairment write-off is as follows:

a) case by case approach - identifying impairment indications, and if they exist, classifying a customer to a default category;
b) assessing estimated future cash flows (repayments) both from collateral and from repayments by a customer;
c) calculating impairment losses taking into account the future amount of estimated discounted cash flows using the effective interest rate;
d) booking of impairment losses (specific provisions).

If there are no impairment indicators for a specified customer, a provision for losses which occurred but they were not identified (IBNI, Incurred But Not Identified Losses) is calculated based on the probability of default (PD).

The companies of the Group have their own models for estimating impairment of financial assets. All the models meet the requirements specified above.

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The table below shows the percentage of the Group's on- and off-balance sheet items relating to loans and advances and the coverage of the exposure to impairment provision for each of the Group's internal rating categories (description of rating model is given above).

PD/Rating	31.12.2007		31.12.2006	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	31.89	0.01	30.69	0.01
2	12.15	0.12	9.42	0.48
3	20.15	0.28	13.77	0.21
4	17.38	0.67	23.47	0.49
5	5.32	1.54	7.28	1.14
6	0.34	2.72	0.70	0.46
7	0.25	1.79	0.29	5.07
8	6.24	0.44	7.18	0.65
other *)	4.67	1.68	4.31	0.00
Default category	1.61	67.18	2.89	67.93
Total	**100.00**	**1.48**	**100.00**	**2.41**

*) position "other" concerns these entities which do not use the same system as BRE Bank

3.2.4 Maximum Exposure to Credit Risk – before taking account of the adopted collateral

as at	31.12.2007	31.12.2006
Credit risk exposures relating to on-balance sheet assets:		
Debt securities eligible for rediscounting at the Central Bank	**23 259**	**26 725**
Loans and advances to banks	**2 089 936**	**2 844 124**
Loans nad advances to customers	**33 682 665**	**23 044 694**
Loans to individuals:	13 692 771	8 728 452
− current accounts	2 184 779	1 430 606
− term loans, including:	11 507 992	7 297 846
housing and mortgage loans	10 597 448	6 703 565
Loans to corporate clients:	18 978 524	13 558 643
− current accounts	2 688 130	1 853 685
− term loans:	13 864 715	9 953 406
corporate & institutional enterprises	2 934 338	2 224 323
medium & small enterprises	10 930 377	7 729 083
− Reverse repo / buy sell back transactions	669 018	40 436
− Other	1 756 661	1 711 116
Loans and advances to public sector	598 841	429 349
Other receivables	412 529	328 250
Trading assets		
− Debt securities	3 398 911	3 503 912
Derivative financial instruments	**2 272 638**	**1 413 065**
Investment securities		
− Debt securities	5 997 991	2 785 486
Pledged assets	**3 708 158**	**2 702 180**
Other assets	**880 663**	**594 640**
Total exposures relating to on-balance sheet assets	**52 054 221**	**36 914 826**
Credit risk exposures relating to off-balance sheet items:		
Loan commitments and other financial liabilities	14 407 045	11 309 850
Guarantees, banker's acceptences, documentary and commercial letters of credit	2 520 287	2 697 823
Total exposures relating to off-balance sheet items	**16 927 332**	**14 007 673**
Total on-balance sheet assets and off-balance sheet items	**68 981 553**	**50 922 499**

The above table shows the maximum exposure to credit risk as at 31 December 2007, 31 December 2006, without taking account of any collateral held or credit enhancements attached. Balance Sheet exposures set out above are based on net carrying amounts.

As shown above, 68.58% of the total maximum balance sheet exposure is derived from loans and advances to banks and customers (31 December 2006: 70.13%); 11.67% represents investments in debt securities (31 December 2006: 7.55%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk of the Group resulting from both its loan and advances portfolio and debt securities based on the following:

- 44.04% of loans and advances portfolio is categorized in the top two grades of the internal rating system (31 December 2006: 40.11%);
- 93.31% of the loans and advances portfolio are considered to be neither past due nor impaired (31 December 2006: 92.40%);
- an improvement in the credit quality of loans and advances has resulted in lower provisions, showing more than 18% decrease in 2007 compared to 2006;
- 81.94% of the investments in debt securities got at least A- credit rating (31 December 2006: 56.74%).

3.2.5 Loans and Advances to Customers and Banks

Loans and advances to customers	31.12.2007		31.12.2006	
	exposure in '000s	share / coverage (%)	exposure in '000s	share / coverage (%)
Neither past due nor impaired	32 067 523	93.31	22 066 320	92.40
Past due but not impaired	1 497 468	4.36	846 202	3.54
Impaired	800 377	2.33	969 254	4.06
Total, gross	**34 365 368**	**100.00**	**23 881 776**	**100.00**
Provision (for impaired items and IBNI provision)	(682 703)	1.99	(837 082)	3.51
Total, net	**33 682 665**	**98.01**	**23 044 694**	**96.49**

The table below shows amounts due from banks:

Loans and advances to banks	31.12.2007		31.12.2006	
	exposure in '000s	share / coverage (%)	exposure in '000s	share / coverage (%)
Neither past due nor impaired	2 095 145	100.00	2 848 702	100.00
Past due but not impaired	-	0.00	-	0.00
Impaired	-	0.00	-	0.00
Total, gross	**2 095 145**	**100.00**	**2 848 702**	**100.00**
Provision (for impaired items and IBNI provision)	(5 209)	0.25	(4 578)	0.16
Total, net	**2 089 936**	**99.75**	**2 844 124**	**99.84**

The total impairment provision for loans and advances is PLN 687 912 thousand (as at 31 December 2006: PLN 841 660 thousand) of which PLN 570 243 thousand (as at 31 December 2006: PLN 730 096 thousand) represents the individually impaired loans and the remaining amount of PLN 115 333 thousand represents the portfolio provision (as at 31 December 2006: PLN 111 564 thousand). Further information of the impairment allowance for loans and advances to banks and to customers is provided in Notes 19 and 22.

In 2007, the amount of loans and advances granted to the Group's customers increased by 44% as a result of the expansion at the market of retail and corporate loans and advances. For the purpose of minimizing potential increase of exposure to credit risk, the Group focused on large corporate enterprises and retail customers who provide sufficient collateral.

Loans and advances neither past due nor impaired

31 December 2007	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans nad advances to customers	Loans and advances to banks
PD/Rating	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy sell back transactions	Other				
1	830 083	10 667 540	10 247 208	20 583	350	100 339	-	-	15	-	11 618 910	2 026 989
2	560 089	182 790	-	471 053	420 428	1 236 998	-	-	-	-	2 871 358	1 753
3	437 680	85 514	66 760	653 210	1 200 462	3 834 188	-	-	577 571	-	6 788 625	-
4	-	-	-	876 519	732 039	3 334 698	-	298 942	4 365	-	5 246 563	484
5	-	-	-	408 769	167 611	1 039 668	-	-	6 229	-	1 622 277	-
6	-	-	-	10 635	34 477	77 794	-	-	-	-	122 906	-
7	-	-	-	10 573	2 763	61 265	-	-	-	-	74 601	-
8	193 127	260 245	33 389	128 140	178 642	455 501	669 018	-	3 883	412 529	2 301 085	-
other *)	-	-	-	3 623	34	33 241	-	1 373 108	-	-	1 410 006	65 919
Default category	111	1 232	135	224	-	9 625	-	-	-	-	11 192	-
Total	**2 021 090**	**11 197 321**	**10 347 492**	**2 583 329**	**2 736 806**	**10 183 317**	**669 018**	**1 672 050**	**592 063**	**412 529**	**32 067 523**	**2 095 145**

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31 December 2006	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans nad advances to customers	Loans and advances to banks
PD/Rating	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy sell back transactions	Other				
1	676 012	6 700 445	6 416 257	36 649	74	261 683	-	-	397 984	-	8 072 847	2 794 414
2	307 574	35 936	-	273 221	436 135	880 062	-	-	444	-	1 933 372	-
3	201 606	94 430	94 430	407 884	375 668	1 455 020	-	-	15 048	-	2 549 656	-
4	-	-	-	653 776	880 554	3 324 947	-	286 969	13 316	-	5 159 562	-
5	-	-	-	249 911	249 159	1 109 690	-	-	-	-	1 608 760	-
6	-	-	-	68 301	68 072	78 389	-	-	-	-	214 762	-
7	85	2 535	2 455	23 237	4 011	42 616	-	-	-	-	72 484	-
8	143 100	247 594	18 937	100 204	43 461	104 208	40 436	-	2 651	328 250	1 009 904	-
other *)	-	-	-	55	-	6 675	-	1 402 560	-	-	1 409 290	54 288
Default category	4	6 764	558	2 005	1 750	25 160	-	-	-	-	35 683	-
Total	**1 328 381**	**7 087 704**	**6 532 637**	**1 815 243**	**2 058 884**	**7 288 450**	**40 436**	**1 689 529**	**429 443**	**328 250**	**22 066 320**	**2 848 702**

*) position "other" concerns these entities which do not use the same rating systems as BRE Bank

Loans and advances past due but not impaired

Overdue exposures comprise the total of loans and advances of which at least one product is past due for one or more days. No impairment is recognized in respect of loans and advances past due for less than 90 days, unless other available information indicates their impairment.

Gross amounts of loans and advances which are past due but not impaired are presented below by classes of assets:

31 December 2007	Individuals: Current accounts	Individuals: Term loans	including: housing and mortgage loans	Corporate entities: Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy sell back transactions	Other	Public sector	Other receivables	Total - Loans nad advances to customers	Loans and advances to banks
Past due up to 30 days	136 395	238 146	190 570	17 261	78 936	619 726	-	43 415	4 416	-	1 138 295	-
Past due 31 - 60 days	17 224	24 617	21 709	3 298	-	72 548	-	6 648	-	-	124 335	-
Past due 61 - 90 days	15 903	16 350	13 086	34 838	133 439	31 408	-	224	2 676	-	234 838	-
Total	**169 522**	**279 113**	**225 365**	**55 397**	**212 375**	**723 682**	**-**	**50 287**	**7 092**	**-**	**1 497 468**	**-**

31 December 2006	Individuals: Current accounts	Individuals: Term loans	including: housing and mortgage loans	Corporate entities: Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy sell back transactions	Other	Public sector	Other receivables	Total - Loans nad advances to customers	Loans and advances to banks
Past due up to 30 days	81 488	146 627	117 903	4 868	148 333	358 029	-	22 053	-	-	761 399	-
Past due 31 - 60 days	7 487	17 967	15 829	2 145	-	4 310	-	7 497	-	-	39 406	-
Past due 61 - 90 days	9 613	14 413	10 828	846	33	17 788	-	2 704	-	-	45 397	-
Total	**98 588**	**179 007**	**144 560**	**7 859**	**148 366**	**380 127**	**-**	**32 254**	**-**	**-**	**846 202**	**-**

As at 31 December 2007 the fair value of received collaterals for mortgage loans to retail customers, amounted to PLN 250 296 thousand (31 December 2006 PLN 288 382 thousand).

In relation to corporate loans and advances portolio, upon initial recognition of loans and advances, fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, fair value is updated by reference to market prices of similar assets or on the basis of a valuation performed, if required. At present, procedures of credit risk management in relation to past due but not impaired portfolio (including monitoring in accordance with the Note 3.2.1) do not require to update fair value of collateral at each balance sheet date.

Loans and advances individually impaired

Loans and advances individually impaired amounted to PLN 230 134 thousand (PLN 239 158 thousand as at 31 December 2006). Gross amounts of loans and advances individually impaired (i.e. before taking into consideration the cash flows from collateral held and expected repayments) are presented below by classes of assets, together with the corresponding collateral:

	Individuals: Current accounts	Individuals: Term loans	including: housing and mortgage loans	Corporate entities: Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy sell back transactions	Other	Public sector	Other receivables	Total - Loans nad advances to customers
(31 December 2007)											
Loans and advances with impairment	111 074	98 305	49 477	129 367	13 637	364 900	-	83 094	-	-	**800 377**
Fair value of collateral	13 708	53 167	47 277	45 391	4 334	90 610	-	-	-	-	**207 210**
(31 December 2006)											
Loans and advances with impairment	84 100	104 961	47 014	139 828	104 500	500 338	-	35 527	-	-	**969 254**
Fair value of collateral	14 740	104 018	50 883	41 604	13 950	222 473	-	-	-	-	**396 785**

Fair value of collateral was established as value of expected cash flows arising from collateral (recoverable value) discounted with the application of effective interest rate at the balance sheet date.

Decrease of gross amount of impaired loans and advances mainly resulted from sale of separated part of the portfolio.

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In the year ended 31 December 2007, the Group did not recognize impairment of any exposures to banks (PLN 0 as at 31 December 2006).

Renegotiated loans and advances

The renegotiations of contractual terms of loans and advances is an evidence of impairment unless caused by the situation of a debtor and it was carried out in normal business conditions. The restructuring processes consists in changing the agreements due to extension the timing circuit of payments, recognized reparation plans, modification and delay of repayment of customer's debt, which as a result of the process is classified into default portfolio. The restructuring procedures and practice are based on ratios and criteria which, in the opinion of Board of Management, show that payments shall most probably be made on time. The restructuring procedures are conditioned by regular reviews. Most frequently, restructuring is carried out in respect of term loans. In connection with established accounting principles, renegotiated loans are impaired if the change of contractual terms was caused by higher credit risk.

3.2.6 Debt Instruments: treasury bonds and other eligible debt securities

31.12.2007	Trading securities and pledged assets			Investment securities and pledged assets	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	19 649	19 649
AA- to AA+	-	-	74 934	30 675	105 609
A- to A+	4 774 608	25 623	1 342 722	4 470 175	10 613 128
BBB+ to BBB-	-	-	-	-	-
BB+ to BB-	-	-	-	-	-
B+ to B-	-	-	1 015	-	1 015
Lower than B-	-	-	-	-	-
Unrated	-	-	807 725	1 557 934	2 365 659
Total	**4 774 608**	**25 623**	**2 226 396**	**6 078 433**	**13 105 060**

31.12.2006	Trading securities and pledged assets			Investment securities and pledged assets	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	18 529	298 459	316 988
AA- to AA+	-	-	158 303	27 223	185 526
A- to A+	2 690 635	-	30 860	1 877 929	4 599 424
BBB+ to BBB-	55 851	829 649	2 188 977	689	3 075 166
BB+ to BB-	-	-	-	-	-
B+ to B-	-	-	-	-	-
Lower than B-	-	-	-	-	-
Unrated	-	-	175 872	638 602	814 474
Total	**2 746 486**	**829 649**	**2 572 541**	**2 842 902**	**8 991 578**

Information about impairment allowance for investment debt securities occurs under the Note 23.

As at 31 December 2007 all presented above debt instruments were neither past due nor impaired.

3.2.7 Repossessed Collateral

In 2007, the Group obtained net assets worth PLN 122 thousand (plus minus sales) by taking possession of established collateral (in 2006: PLN 11 811 thousands):

The Group classifies repossessed collaterals as assets repossessed for debt and measures them in accordance with the adopted accounting policies described in Note 2.19. Repossessed collaterals classified as assets held for sale shall be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified by the Restructuring and Recovery Bureau for individual types of repossessed collaterals.The policy of the Companies of the Group is to sell repossessed assets or - in the case of leases - lease them out again to another customer. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Company's urgent need, and must each time be approved by the Management Board. In 2007, the Group did not have any repossessed collaterals that are difficult to sell. Repossessed collaterals are presented in "Other assets" in the Note 27.

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

Geographic concentration risk

In order to actively manage the risk of concentration by country, the Bank:

a) Complies with the formal procedures aimed at identifying, measurement and monitoring this risk.

b) Complies with the formal limits mitigating the risk by country and the procedures to be followed when the limits are exceeded.

c) Uses a management reporting system which enables monitoring the risk level by country and supports the decision-making process related to management.

d) Maintains contacts with a selected group of the largest banks with good ratings, which are active in handling foreign transactions. On some markets, where the risk is difficult to estimate, BRE Bank avails itself of the services of its foreign correspondents, e.g. Commerzbank and insurance in KUKE which covers the economic and political risk.

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

Sector concentration risk

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.
Sector limits are set for sectors defined by BRE Bank SA in accordance with the internal regulations of the Bank, in quarterly reporting periods. Monitoring and analysis covers all the sectors in which the Bank's exposure exceeds PLN 700 million, and additionally those indicated by the Bank's Risk Management Director. Unless the Bank's Credit Committee decides otherwise, an exposure limit is set for the Group in any sector on a level not higher than:

a) 10% of the gross loan portfolio in the prior reporting period for low risk sectors;

b) 8% of the gross loan portfolio in the prior reporting period for medium risk sectors;

c) 6% of the gross loan portfolio in the prior reporting period for high risk sectors.

In case of exceeding any sector limit or an expectation that such a limit may be exceeded in the next reporting period, activities preventing the exceeding of limits are implemented.

The tables below present the structures of concentration of exposures to particular business lines of BRE Bank SA. and BRE Bank Hipoteczny.

The structure of concentration of exposure of BRE Bank SA

No	Sector	Principal exposure (in PLN millions) 31.12.2007	%
1.	Household customers	13 674	50.8
2.	Metals	908	3.4
3.	Banks	788	2.9
4.	Leasing and renting	696	2.6
5.	Real estate	640	2.4
6.	Wholesale trade	610	2.3
7.	Wood and furniture	604	2.2
8.	Motorization	528	2.0
9.	Management, consulting, advertising	519	1.9

Total exposure of the Bank in the above sectors (excluding household customers) amounts to about 19.6% of credit portfolio. According to the newest study of The Institute for Market Economics (for 2007) the risk of investing in these sectors (in a 5-point scale – i.e.: small, medium, increased, large and very large) was assessed as follows:

Metals	- small/medium
Banks	- non classified
Leasing and renting	- non classified
Real estate	- medium
Wholesale trade	- small
Equipment	- increased
Wood and furniture industry	- medium
Motorization	- medium
Management, consulting, advertising	- medium

No	Sector	Principal exposure (in PLN millions) 31.12.2006	%
1.	Household customers	8 709	47.3
2.	Leasing and renting	671	3.6
3.	Banks	656	3.6
4.	Metals	633	3.4
5.	Wholesale trade	544	3.0
6.	Wood and furniture	470	2.6
7.	Construction industry	406	2.2
8.	Equipment	398	2.2
9.	Finacial agency	358	1.9

Total exposure of the Bank in the above sectors (excluding household customers) amounted to about 22% of credit portfolio as at 31 December 2006. According to the study of The Institute for Market Economics the risk of investing in these sectors (in a 5-point scale – i.e.: small, medium, increased, large and very large) was assessed as follows:

Leasing and renting	- non classified
Banks	- non classified
Metals	- medium
Wholesale trade	- small/medium
Wood and furnitures	- medium
Construction industry	- increased
Equipment	- increased
Financial agency	- medium

The structure of concentration of exposure of BRE Bank Hipoteczny

No	Sector	Principal exposure (in PLN millions) 31.12..2007	%	Principal exposure (in PLN millions) 31.12.2006	%
1.	Real estate management	1 898	58.97	1 295	57.18
2.	Construction industry	512	15.9	313	13.81
3.	Health care and social security	417	12.97	226	9.97
4.	Hotels and restaurants	121	3.76	165	7.30
5.	Public administration and national defence	140	4.34	152	6.71
6.	Household customers	81	2.51	114	5.03
7.	Others	50	1.55	-	-

Risk of concentration of large exposures

The purpose of management of the risk of concentration of large exposures is to regularly monitor and control exposures for compliance with the legal limits. In order to ensure safety against the risk of exceeding the legal limits at the Bank:

a) internal limits are set, which are lower than those specified in the Banking Law,
b) for customers, whose exposures exceeding 5% of equity a process of bookings (permits) is introduced in respect of exposure limits,
c) a weekly large exposure report is maintained for participants of the lending and investment processes.

These activities have a direct impact on the decisions of the Bank's bodies concerning the approval, increase and undertaking of exposures with customers.

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.

3.4 Market Risk

The Bank is exposed to market risk, which is defined as a risk of changes in the current valuation of financial instruments constituting the Bank's portfolios, resulting from changes in prices and market parameters. The Bank's exposure to market risk results from open positions in interest rate, foreign currency and equity instruments, which are exposed to market changes in the values of the appropriate risk factors, and in particular, to changes in interest rates, foreign exchange rates, share prices and indices, and the volatility of these risk factors.

Market risk results both from trading book and banking book items. Operating management in market risk takes place in the front office – in the Treasury Department responsible mainly for banking book items and in the Financial Markets Department, which mainly manages trading book items. Market risk resulting from transactions concluded by other units of the Bank is transferred, in principle, to the Treasury Department or the Financial Markets Department in line with the type of risk. The strategic management of market risk, including independent monitoring and control, is performed in the Bank's units which are functionally independent of the units managing the items – including the Financial Risk Department, and the decisions relating to the strategic market risk management are made by the Financial Risk Committee.

The Bank's trading portfolios are composed of items arising as a result of trading transactions concluded with the Bank's customers or transactions in which the Bank acts as a market animator.

The banking book comprises items resulting from the Bank's interest rate risk management, mainly in the areas of corporate, investment and retail banking, and from management of the Bank's liquidity.

In order to mitigate the market risk to which the Bank is exposed, the Bank's Management Board, based on decisions of the Financial Risk Committee, sets limits of value at risk and limits of stress tests. Market risk limits in respect of the Bank's trading book are monitored on a daily basis.

The level of exposure to market risk

The level of market risk of the Bank's position is quantified by measuring value at risk (VaR) and performing stress tests.

<u>Value at Risk</u>

Value at Risk (VaR) is the basic measure of market risk applied to trading book and banking book portfolios. VaR is a statistical measure which expresses potential loss to which a portfolio is exposed in a specified period, for a specified level of confidence, in normal market conditions, in connection with changes in risk factors, such as interest rates, foreign exchange rates, share prices and volatility of specified risk factors (exchange rates, interest rates, prices). The potential nature of losses means that with a predetermined high probability (level of confidence) at which value at risk is established, in a specified period a loss can be expected which is lower than VaR. Value at risk is determined using historical simulation method, based on time sequences of 254 (1 year) observed values of all the risk factors on which the Bank's portfolios are dependent. Until the end of 2006, the Bank monitored value at risk at a level of confidence of 95% for a one day period of maintaining a position but from 2007, value at risk is monitored at the level of confidence of 97.5%.

Thanks to the fact that in the process of determining value at risk accurate methods of measuring financial instruments are applied, the level of VaR monitored by the Bank accurately reflects market risk of non-straight line financial instruments, such as options. The model for determining value at risk is subjected to historical verification tests on an ongoing basis. The results of these tests show that the model is correct.

Since the beginning of 2006, the level of market risk exposure of BRE Bank's Companies is monitored by the Bank. The table below shows the level of market risk exposure of BRE Bank's Companies in relation to the Bank's exposure according to states as at 31 December 2007 and, in order to compare with 2006 that is measured using value at risk (with a confidence level of 97.5% for a one-day period of maintaining a position).

Value at risk - VaR (PLN 000's)	31.12.2007	31.12.2006
BRE Bank	5 041	4 404
BRE Bank Group (including the effect of diversification)	5 045	4 409
BRE Bank Group (excluding the effect of diversification)	5 341	4 694

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The main sources of market risk BRE Bank SA Group are the Bank's items. Below table presents accurate analysis of the structure of market risk determined using value at risk (with a confidence level of 97.5% for both presented periods) of the Bank's items:

	2007				2006			
	31.12.2007	**mean**	**max.**	**min.**	**31.12.2006**	**mean**	**max.**	**min.**
Interest rate risk	4 722	5 189	9 587	3 449	4 643	4 418	10 955	1 816
Foreign exchange risk	455	976	2 454	182	349	334	1 086	20
Equities risk	155	260	944	6	452	313	2 223	109
Total VaR	**5 041**	**5 754**	**10 275**	**3 530**	**4 404**	**4 327**	**10 417**	**1 872**

The utilization of VaR limits for the trading book was in 2007 on a safe level and amounted to 20% on average for trading portfolios of the Financial Markets Department, whereas for portfolios of the Department of the Treasury it amounted to 33% relatively.

The level of VaR is affected mainly by portfolios of instruments sensitive to interest rate, such as T-bonds, commercial papers, IRS and CIRS transaction and secondly, portfolios of instruments sensitive to changes in foreign exchange rates, such as currency options and currency exchange transactions. The remaining groups of risk factors have a relatively smaller effect on VaR.

Stress testing

Stress testing is an additional measure of market risk, supplementing the measurement of value at risk. The test shows the hypothetical change in the current valuation of the Bank's portfolios, which would take place as a result of the risk factors reaching specified extreme values. The Bank applies two methods for carrying out stress tests: the first one, in which the scenarios of changes in risk factors have been constructed on the basis of large changes in market parameters observed during crisis situations on the market in the past, and the second one, in which the scenarios are composed of larger changes in risk factors correlated on the extremes and the same in each group. The value of the stress test is subject to a limit in the form of a control number. The average value of a stress test (based on observed crisis situations in the past) in 2007 was PLN 11.9 million for trading portfolios of the Financial Markets Department and PLN 39.5 million for portfolios of the Department of the Treasury relatively.

3.5 Currency Risk

The Group is exposed to changes in currency exchange rates. The following table presents the exposure of the Group to currency risk as at 31 December 2007 and 31 December 2006. The table presents assets and liabilities of the Group at balance sheet carrying amount, for each currency:

31.12.2007	**PLN**	**EUR**	**USD**	**CHF**	**GBP**	**Other**	**Total**
ASSETS							
Cash and balances with the Central Bank	1 989 778	8 817	3 636	170	358	776	**2 003 535**
Debt securities eligible for rediscounting at the Central Bank	23 259	-	-	-	-	-	**23 259**
Loans and advances to banks	967 951	386 307	708 767	3 255	6 701	16 955	**2 089 936**
Financial instruments at fair value through profit or loss (including trading)	3 278 712	88 755	35 707	-	-	-	**3 403 174**
Derivative financial instruments	2 240 771	16 441	13 332	1 849	-	245	**2 272 638**
Loans and advances to customers	18 451 745	4 430 302	941 124	9 252 549	10 359	596 586	**33 682 665**
Investment securities	6 262 372	92 960	31 228	-	-	14	**6 386 574**
- Available for sale	6 262 372	92 960	31 228	-	-	14	**6 386 574**
Pledged assets	3 708 158	-	-	-	-	-	**3 708 158**
Investments in associated undertakings	238	4 585	-	-	-	-	**4 823**
Intangible assets	403 477	777	-	-	-	713	**404 967**
Tangible fixed assets	660 305	4 954	-	-	-	4 954	**670 213**
Other assets, including deferred income tax assets	983 774	8 035	20	1 021	11	4 092	**996 953**
Total assets	**38 970 540**	**5 041 933**	**1 733 814**	**9 258 844**	**17 429**	**624 335**	**55 646 895**
	PLN	**EUR**	**USD**	**CHF**	**GBP**	**Other**	**Total**
LIABILITIES							
Amounts due to other banks	3 445 894	1 601 082	48 391	6 790 730	1 454	399 389	**12 286 940**
Derivative financial instruments and other trading liabilities	2 059 643	85 338	18 616	268	116	233	**2 164 214**
Amounts due to customers	27 589 001	3 358 181	1 264 051	21 368	72 175	97 087	**32 401 863**
Debt securities in issue	1 899 713	914 907	113 794	-	-	-	**2 928 414**
Other borrowed funds	-	362 440	-	1 299 345	-	-	**1 661 785**
Other liabilities including tax liabilities	961 237	32 749	3 520	1 360	1	15 797	**1 014 664**
Provisions	69 133	1 717	377	-	-	-	**71 227**
Total liabilities	**36 024 621**	**6 356 414**	**1 448 749**	**8 113 071**	**73 746**	**512 506**	**52 529 107**
Net on-balance sheet position	**2 945 919**	**(1 314 481)**	**285 065**	**1 145 773**	**(56 317)**	**111 829**	**3 117 788**
Lending commitments	**11 983 843**	**1 063 412**	**338 543**	**490 637**	**27 560**	**503 050**	**14 407 045**

31.12.2006	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	3 692 795	14 698	5 492	717	1 727	1 178	**3 716 607**
Debt securities eligible for rediscounting at the Central Bank	26 725	-	-	-	-	-	**26 725**
Loans and advances to banks	1 444 811	476 589	846 829	13 351	27 657	34 887	**2 844 124**
Financial instruments at fair value through profit or loss (including trading)	3 292 557	138 444	85 148	-	-	-	**3 516 149**
Derivative financial instruments	1 404 545	4 405	3 114	598	3	400	**1 413 065**
Loans and advances to customers	11 065 959	4 254 579	763 748	6 525 741	24 717	409 950	**23 044 694**
Investment securities	2 660 801	141 177	253 538	-	-	-	**3 055 516**
- Available for sale	2 660 801	141 177	253 538	-	-	-	**3 055 516**
Pledged assets	2 657 795	44 385	-	-	-	-	**2 702 180**
Investments in associated undertakings	238	5 118	-	-	-	-	**5 356**
Intangible assets	380 549	96	-	-	-	466	**381 111**
Tangible fixed assets	572 647	5 860	-	-	-	1 601	**580 108**
Other assets, including deferred income tax assets	648 992	9 402	241	25	29	1 063	**659 752**
Total assets	**27 848 414**	**5 094 753**	**1 958 110**	**6 540 432**	**54 133**	**449 545**	**41 945 387**
	PLN	**EUR**	**USD**	**CHF**	**GBP**	**Other**	**Total**
LIABILITIES							
Amounts due to other banks	1 970 790	1 342 725	113 901	4 192 044	15 202	337 724	**7 972 386**
Derivative financial instruments and other trading liabilities	1 224 180	25 999	2 804	480	36	401	**1 253 900**
Amounts due to customers	20 093 713	2 940 585	1 504 729	18 380	77 523	34 926	**24 669 856**
Debt securities in issue	1 420 126	1 829 857	139 576	-	-	-	**3 389 559**
Other borrowed funds	-	1 356 399	-	190 955	-	-	**1 547 354**
Other liabilities including tax liabilities	702 725	61 793	8 930	323	1	6 386	**780 158**
Provisions	68 530	1 638	-	-	-	-	**70 168**
Total liabilities	**25 480 064**	**7 558 996**	**1 769 940**	**4 402 182**	**92 762**	**379 437**	**39 683 381**
Net on-balance sheet position	**2 368 350**	**(2 464 243)**	**188 170**	**2 138 250**	**(38 629)**	**70 108**	**2 262 006**
Lending commitments	**8 353 078**	**1 114 359**	**330 381**	**684 725**	**5 264**	**16 267**	**10 504 074**

3.6 Interest Rate Risk

BRE Bank SA

Interest rate risk at BRE Bank SA is managed on the basis of the following key interest rate risk measures: restatement date misfit gap and interest earnings at risk (EaR) based on the former. The Bank also 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 2007 and 2006 would result in decrease in the annual interest income within 12 months after the Balance Sheet date by the following amounts, on average:

31.12.2007		31.12.2006	
in PLN millions	**currency**	**in PLN millions**	**currency**
28.58	PLN	21.14	PLN
4.19	EUR	0.28	EUR
3.32	USD	1.66	USD
2.68	CHF	2.03	CHF

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

BRE Bank Hipoteczny SA

Restatement date misfit gap and interest earnings at risk (EaR) based on the former are the key interest rate risk measures at BRE Bank Hipoteczny SA.

A sudden, lasting and disadvantageous change of market interest rates by 100 base points for all maturities in 2007 and 2006 would result in decrease in the annual interest income by the following amounts, on average:

31.12.2007		31.12.2006	
in PLN millions	**currency**	**in PLN millions**	**currency**
2.91	PLN	2.71	PLN
0.08	EUR	0.10	EUR
0.04	USD	0.03	USD

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

BRE Leasing Sp. z o.o.

BRE Leasing Sp. z o.o. performs risk analysis based on the following risk factors:
- interest rates;
- fx rates.

The sensitivity of individual transactions to the risk factors is calculated by adding the shock rate and analysing its impact on the present value of the portfolio (MTM).

A sudden, lasting and disadvantageous change of market interest rates by 100 base points for all maturities in 2007 and 2006 would result in decrease in the annual interest income by the following amounts, on average:

	31.12.2007		31.12.2006
in PLN millions	currency	in PLN millions	currency
1.6	PLN	7.8	PLN
1.1	EUR	6.6	EUR
0.01	USD	0.05	USD
0.1	CHF	2.6	CHF

The following tables present the Group's exposure to interest rate risk. The tables present Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31.12.2007	up to 1 months	1-3 months	3-12 months	1-5 years	over 5 years	non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	968 441	-	-	-	-	1 035 094	**2 003 535**
Debt securities eligible for rediscounting at the Central Bank	-	23 259	-	-	-	-	**-**
Loans and advances to banks	1 535 899	290 090	243 996	-	-	19 951	**2 089 936**
Trading securities, investment securities and pledged assests	6 292 389	1 835 861	1 673 094	2 300 509	1 001 566	394 487	**13 497 906**
Loans and advances to customers	29 136 875	2 955 009	875 132	235 647	32 270	447 732	**33 682 665**
Other assets and derivative financial instruments	566 318	418 252	908 197	340 824	10 868	908 842	**3 153 301**
T o t a l a s s e t s	**38 499 922**	**5 522 471**	**3 700 419**	**2 876 980**	**1 044 704**	**2 806 106**	**54 450 602**
LIABILITIES							
Amounts due to other banks	7 522 110	3 991 179	255 227	38 732	-	479 692	**12 286 940**
Amounts due to customers	30 277 001	1 317 245	622 708	122 927	2 742	59 240	**32 401 863**
Debt securities in issue	697 457	1 112 371	1 111 270	7 316	-	-	**2 928 414**
Subordinated liabilities	6 745	1 655 040	-	-	-	-	**1 661 785**
Other liabilities and derivative financial instruments	401 039	369 012	1 006 931	330 879	10 494	925 834	**3 044 189**
Total liabilities	**38 904 352**	**8 444 847**	**2 996 136**	**499 854**	**13 236**	**1 464 766**	**52 323 191**
Total interest repricing gap	**(404 430)**	**(2 922 376)**	**704 283**	**2 377 126**	**1 031 468**		

31.12.2006	up to 1 months	1-3 months	3-12 months	1-5 years	over 5 years	non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	3 108 745	-	-	-	-	607 862	**3 716 607**
Debt securities eligible for rediscounting at the Central Bank	-	26 725	-	-	-	-	**26 725**
Loans and advances to banks	1 908 220	260 515	535 152	85 972	-	54 265	**2 844 124**
Trading securities, investment securities and pledged assests	4 864 474	798 423	845 011	2 117 646	379 892	268 399	**9 273 845**
Loans and advances to customers	19 552 266	2 248 001	678 935	444 933	43 488	77 071	**23 044 694**
Other assets and derivative financial instruments	200 033	77 057	188 574	78 094	1 496	1 462 451	**2 007 705**
T o t a l a s s e t s	**29 633 738**	**3 410 721**	**2 247 672**	**2 726 645**	**424 876**	**2 470 048**	**40 913 700**
LIABILITIES							
Amounts due to other banks	4 222 280	3 371 350	375 404	-	-	3 352	**7 972 386**
Amounts due to customers	22 746 900	931 944	565 469	192 544	178 227	54 772	**24 669 856**
Debt securities in issue	1 528 544	887 902	965 113	8 000	-	-	**3 389 559**
Subordinated liabilities	398 818	1 148 536	-	-	-	-	**1 547 354**
Other liabilities and derivative financial instruments	194 460	88 723	186 699	77 855	1 589	1 464 373	**2 013 699**
Total liabilities	**29 091 002**	**6 428 455**	**2 092 685**	**278 399**	**179 816**	**1 522 497**	**39 592 854**
Total interest repricing gap	**542 736**	**(3 017 734)**	**154 987**	**2 448 246**	**245 060**		

3.7 Liquidity Risk

BRE Bank SA

The objective of liquidity risk management is to ensure and maintain the Bank's ability to fulfill both current and future commitments, with taking account of costs of liquidity obtaining.

Process of ensuring financial liquidity in the Bank comprises of the following sub-processes:

1) liquidity risk management, i.e. taking up preventive actions for the purposes of not allowing to occurrence the threat of losing liquidity.
2) monitoring liquidity situation of the Bank,

Liquidity risk management process contains two stages:

1) strategic stage that enables to ensure financial liquidity in long term and it includes prognostic point of view,
2) operational which allows to observe exposure to liquidity risk for the purposes of protecting immediate and current liquidity.

Financial liquidity risk management within the strategic level in the Bank takes place inter alia in relation to:

a) establishing the structure and levels of strategic limits of the risk,
b) setting up the structure and minimal amount of liquidity reserve of the Bank,
c) adapting methods of calculating financial liquidity risk and forms of banking reports,
d) neutralizing emergency situation due to the threat of losing liquidity,
e) establishing the Bank's strategy in relation to the structure of assets, debt, equity, liabilities and off-balance items,
f) determining long term financing strategy.

Financial liquidity risk management within the operational level takes place in Department of The Treasury of the Bank in the following areas:

a) ensuring resources for the purposes of settlements on Bank's accounts (e.g. nostro accounts),
b) realization strategic recommendations of Assets and Liabilities Committee (ALCO) of BRE Bank SA Group,
c) forming the structure of future cash flows in the range of the limits set up by Risk Committee,
d) keeping securities portfolios in proper size, which ensures preservation of liquidity in the scope of the limits of Risk Committee, on established levels (liquid assets),
e) keeping other parameters on levels determined by the limits established by ALCO and Risk Committee,
f) performing emergency procedures in order to neutralize emergency situation related to the threatment of losing financial liquidity.

The Bank monitors financial liquidity daily, using methods based on cash flows analyses. The measurement of liquidity risk is based on an internal model created on the basis of 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 reserves of the Bank, and the rate of usage of internal limits. The Bank systematically estimates liquidity as well as probability of its worsening, using scenario methods, herein stress test.

The Bank also monitors the level of financing concentration, especially in relation to deposits, and of liquidity provisions.

For the purposes of securing liquidity, the Bank establishes resources of current and immediate reinforcement of liquidity which are liquidity reserves.

The Bank holds its own procedures concerning emergency actions against material worsening of financial liquidity of the Bank.

For the purposes of current monitoring liquidity, the Bank establishes values of realistic, cumulated gap of cash flows misfit. The gap is calculated on the basis of contractual cash flows (Note 3.7.1). Both cash flows in portfolios of: non-banking customers' deposits and current account loans are mainly materialized. It is also assumed that term loans portfolio is stable and that there is an earlier sale clause or a clouse of pledge of liquid securities portfolio.

Value of realistic, cumulative gap of cash flows misfit (in PLN millions)

Time range	31 December 2007	31 December 2006
up to 3 working days	3 600	2 641
up to 7 calendar days	3 706	4 707
up to 15 calendar days	3 647	4 404
up to 1 month	4 005	5 430
up to 2 months	4 656	5 368
up to 3 months	4 655	5 610
up to 4 months	4 024	5 709
up to 5 months	3 817	5 711
up to 6 months	3 217	5 692
up to 7 months	2 743	5 749
up to 8 months	2 242	5 768
up to 9 months	2 276	5 689
up to 10 months	2 346	4 855
up to 11 months	1 344	4 884
up to 12 months	1 425	4 985

The liquidity of the Bank was maintained on the safe and stable level in 2007.

BRE Bank Hipoteczny SA

Liquidity risk occurs due to a gap between the maturity of the Bank's assets and its liabilities. The Bank manages liquidity risk by implementing procedures of monitoring of and reporting on the expected inflows and outflows and the net cash flows.

The sources of financing are diversified by means of co-operation with multiple partners and the selection of diverse instruments in order to finance lending. The Bank finances long-term assets in the first place with mortgage bonds of long-term maturity and fulfils its current demand for financing in the interbank market by means of issues of short-term bonds and accepted placements.

The Bank has put in place a contingency plan applicable in the event of deterioration of liquidity.

In 2007, the liquidity ratios up to 1 month were between 22.86% and 63.58% and the average liquidity ratio was 33.58%. The liquidity ratio was 43.82% at 31 December 2006.*

* Liquidity up to 1 month to the amount of 43.82% results from including unconditional stand-by lines of credit in the amount of PLN 300 million.

BRE Leasing Sp. z o.o.

The purpose of liquidity risk management is to assure and maintain the capacity of the company to honour both its current and future liabilities, taking into the account the costs of achieving liquidity.

The company manages its liquidity risk by matching the maturity of amounts receivable under leasing contracts with the maturity of credit liabilities on the basis of cash flow reports. In addition, the company has open sources of refinancing for periods exceeding 6 months.

3.7.1 Cash Flows from Transactions in Non-derivative Financial Instruments

The table below shows cash flows the Group is required to settle, resulting from financial liabilities. The cash flows have been presented as at the Balance Sheet date, categorized by the remaining contractual maturities. The amounts denominated in foreign currencies were converted to Polish zloty at average rate of exchange announced by National Bank of Poland at the Balance Sheet date. The amounts disclosed in maturity dates analysis are the undiscounted contractual cash flows.

Liabilities (by contractual maturity dates)	as at 31.12.2007					
	up to 1 months	1-3 months	3-12 months	1-5 years	over 5 years	Total
Amounts due to other banks	2 107 563	696 793	3 914 038	5 897 205	1 814	**12 617 413**
Amounts due to customers	29 009 445	1 164 424	694 740	300 339	1 946 554	**33 115 502**
Debt securities in issue	535 515	179 843	1 222 306	993 190	-	**2 930 854**
Subordinated liabilities	537 857	15 047	31 380	166 715	1 309 242	**2 060 241**
Other liabilities	471 905	5 495	21 327	7 265	19 765	**525 757**
Total liabilities	**32 662 285**	**2 061 602**	**5 883 791**	**7 364 714**	**3 277 375**	**51 249 767**
Assets (by remaining contractual maturity dates)						
Total assets	**13 497 096**	**4 034 611**	**9 019 547**	**16 623 119**	**27 510 434**	**70 684 807**
Net liquidity gap	**(19 165 189)**	**1 973 009**	**3 135 756**	**9 258 405**	**24 233 059**	**19 435 040**

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Liabilities (by contractual maturity dates)	as at 31.12.2006					
	up to 1 months	1-3 months	3-12 months	1-5 years	over 5 years	Total
Amounts due to other banks	1 473 922	477 001	652 086	5 522 836	20 437	**8 146 282**
Amounts due to customers	22 602 233	988 017	672 701	329 027	208 228	**24 800 206**
Debt securities in issue	397 790	181 259	973 779	1 840 871	-	**3 393 699**
Subordinated liabilities	584 796	21 158	36 685	194 898	974 849	**1 812 386**
Other liabilities	478 278	13 755	112 664	5 985	-	**610 682**
Total liabilities	**25 537 019**	**1 681 190**	**2 447 915**	**7 893 617**	**1 203 514**	**38 763 255**
Assets (by remaining contractual maturity dates)						
Total assets	**13 436 253**	**3 143 526**	**6 484 034**	**10 881 384**	**14 446 776**	**48 391 973**
Net liquidity gap	**(12 100 766)**	**1 462 336**	**4 036 119**	**2 987 767**	**13 243 262**	**9 628 718**

The assets which ensure the realization of all the liabilities and lending commitments comprise cash in hand, cash at the central bank, cash in transit and T-bonds and other eligible bonds; amounts due from banks; loans and advances to customers.

In the normal course of activities, some of the loans granted to customers with the contractual repayment date falling due within the year, will be prolonged.

Moreover, debt securities and T-bonds and other bonds have been pledged as collateral for liabilities. The Group could ensure cash for unexpected net outflows by selling securities and availing itself of other sources of financing, such as the market of securities secured with assets (eg. securitization transactions).

3.7.2 Cash Flows from Derivatives

Derivative financial instruments settled in net amounts

Derivative financial instruments settled in net amounts by the Group comprise:

- Derivative futures;
- Forward Rate Agreements (FRA);
- Options;
- Warrants;
- Interest rate swaps (IRS);
- Currency interest rate swaps (CIRS);
- Security forwards.

The table below shows derivative financial liabilities of the Group, which will be settled on a net basis, grouped by appropriate remaining maturities as at the Balance Sheet date. The amounts denominated in foreign currencies were converted to Polish zloty at average rate of exchange announced by National Bank of Poland at the Balance Sheet date. The amounts disclosed in the table are undiscounted contractual outflows.

31.12.2007

Derivatives settled on a net basis *)	up to 1 months	1-3 months	3-12 months	1-5 years	over 5 years	Total
Forward Rate Agreements (FRA)	22 154	14 274	94 817	17 014	-	**148 259**
Overnight Index Swap (OIS)	3 576	483	12 109	98	-	**16 266**
Interest Rate Swap (IRS)	38 202	47 500	324 847	388 744	48 435	**847 728**
Cross Currency Interest Rate Swap (CIRS)	2 130	36	39 128	53 738	2 571	**97 603**
Options	29 364	19 833	110 519	25 275	7 245	**192 236**
Futures contracts	-	-	435	-	-	**435**
Other	-	-	1 917	5 040	10 988	**17 945**
Total derivatives settled on a net basis	**95 426**	**82 126**	**583 772**	**489 909**	**69 239**	**1 320 472**

31.12.2006

Derivatives settled on a net basis *)	up to 1 months	1-3 months	3-12 months	1-5 years	over 5 years	Total
Forward Rate Agreements (FRA)	8 725	15 501	43 899	17 115	-	**85 240**
Overnight Index Swap (OIS)	1 849	5 018	23 066	-	-	**29 933**
Interest Rate Swap (IRS)	81 109	116 465	197 377	626 646	42 945	**1 064 542**
Cross Currency Interest Rate Swap (CIRS)	49	176	888	58 211	1 293	**60 617**
Tom-next index swap (TOIS)	46	-	-	-	-	**46**
Options	3 551	7 003	18 435	3 480	-	**32 469**
Total derivatives settled on a net basis	**95 329**	**144 163**	**283 665**	**705 452**	**44 238**	**1 272 847**

* Derivatives settled on a net basis is a negative amount of the valuation of the transactions

Derivative financial instruments settled in gross amounts

Derivative financial instruments settled in gross amounts by the Group comprise foreign exchange derivatives: currency forwards and currency swaps.

The table below shows derivative financial liabilities/assets of the Group, which will be settled on a gross basis, grouped by appropriate remaining maturities as at the Balance Sheet date. The amounts denominated in foreign currencies were converted to Polish zloty at average rate of exchange announced by National Bank of Poland at the Balance Sheet date.

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31.12.2007

Derivatives settled on a gross basis	up to 1 months	1-3 months	3-12 months	1-5 years	over 5 years	Total
Foreign exchange derivatives:						
- outflows	15 352 270	3 284 341	12 341 266	786 180	-	**31 764 057**
- inflows	15 374 162	3 327 334	12 436 107	765 524	-	**31 903 127**

31.12.2006

Derivatives settled on a gross basis	up to 1 months	1-3 months	3-12 months	1-5 years	over 5 years	Total
Foreign exchange derivatives:						
- outflows	13 794 796	5 087 793	9 885 947	579 713	-	**29 348 249**
- inflows	14 045 666	5 127 695	9 815 607	575 683	-	**29 564 651**

The amounts disclosed in the table are undiscounted contractual outflows/inflows.

The detailed data concerning liquidity risk related to off-balance sheet items are presented in Note 37.

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 Group 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 Group 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 Group at their fair values.

	31.12.2007		31.12.2006	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Loans and advances to banks	**2 089 936**	**2 089 932**	**2 844 124**	**2 840 879**
Loans and advances to customers	**33 682 665**	**33 869 929**	**23 044 694**	**23 053 340**
Loans and advances to individuals	***13 692 771***	***13 691 515***	***8 728 452***	***8 727 694***
current accounts	2 184 779	2 184 779	1 430 606	1 430 606
term loans including:	11 507 992	11 506 736	7 297 846	7 297 088
- housing and mortgage loans	10 597 448	10 597 069	6 703 565	6 703 500
Loans and advances to corporate entities	***18 978 524***	***19 167 044***	***13 558 643***	***13 568 017***
current accounts	2 688 130	2 688 130	1 853 685	1 853 685
term loans	13 864 715	14 053 235	9 953 406	9 962 780
- corporate & institutional enterprises	2 934 338	2 921 539	2 224 323	2 228 256
- medium & small enterprises	10 930 377	11 131 696	7 729 083	7 734 524
reverse repo / buy sell back transactions	669 018	669 018	40 436	40 436
other	1 756 661	1 756 661	1 711 116	1 711 116
Loans and advances to public sector	***598 841***	***598 841***	***429 349***	***429 379***
Other receivables	***412 529***	***412 529***	***328 250***	***328 250***
Assets available for sale				
Debt securities	***6 078 433***	***6 078 433***	***2 842 902***	***2 842 902***
- listed	6 014 425	6 014 425	2 806 229	2 806 229
- unlisted	64 008	64 008	36 673	36 673
Equity securities	***388 583***	***388 583***	***270 030***	***270 030***
- listed	10 021	10 021	10 411	10 411
- unlisted	378 562	378 562	259 619	259 619
Financial liablitities				
Amounts due to other banks	**12 286 940**	**12 286 805**	**7 972 386**	**7 972 386**
Amounts due to customers	**32 401 863**	**32 384 977**	**24 669 856**	**24 679 751**
Debt securities in issue	**2 928 414**	**2 927 792**	**3 389 559**	**3 388 722**

The following sections present the key assumptions and methods used by the Group 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 value of expected future receivables on the account of principal and interest discounted on the basis of zero-coupon curve, including credit spread. It was assumed that credits and loans would be repaid on dates set in agreements. The fair values of credits with recognised impairment 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 from the grant of each credit/loan and changes in interest rates for fixed rate credits.

Within the fourth quarter of 2007 the Bank took over bonds of the following companies: ABC Data Holding SA (bonds with embedded warrant), Internet Group (bonds with embedded warrant), Marvipol SA (convertible bonds), JM Holdings S.a.r.l. (exchange bonds). The maturity dates for the bonds are from 1 year to 5 years with earlier redempition clauses through refinancing at capital market (it is possible to take over capital shares by BRE Bank). Because of complicated agreements and lack of analogous transactions at Polish market it is not possible to determine fair value of acquired instruments at the transaction moment for them.

So, the Bank, abiding by the principle of prudence, recognised the transactions in the accounting ledgers at acquisition cost which is simultaneously the nominal value of acquired bonds.

The bonds were classified as loan receivables, they are tested for impairment and valued at amortised cost.

Available for sale financial assets. Listed available for sale financial instruments held by the Group are priced on the basis of quoted market prices. The fair value of the unlisted at active market debt securities was calculated by the use of zero-coupon curve (including credit spread). The Group 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 exceptions are shares of VECTRA SA which valuation at fair value is presented in Note 23.

The Group applied this rule concerning equity instruments to the shares of PZU SA.

The Group 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.

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

1. Contracted loans;
2. Liabilities resulting from the issue of securities;
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 Group 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.

The fair value of the listed debt securities issued was calculated on the basis of the quoted market prices.

Credit risk exposures relating to off-balance sheet items. As at 31 December 2007 the fair value of financial guarantees amounted to PLN 18 523 thousand (31 December 2006: PLN 28 600 thousand). As at 31 December 2007 and 31 December 2006 the fair value of lending commitments did not significantly differ from their carrying amount.

3.9 Other Business

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties. In connection with these, the Group 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 Group 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 Group 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 Group 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. If the current value of estimated cash flows for portfolio of loans and advances, individually impaired, changed by +/-10%, the estimated loans and advances impairment would either decrease by PLN 6.5 million or increase by PLN 10.5 million relatively. The above indicated estimation was performed for portfolio of loans and advance impaired on the basis of individual analysis of future cash flows due to repayments and recovery from collateral.

The matters on valuation of bonds acquired under mezzanine transaction were described in the Note 3.8.

In November 2007, for the purpose of calculating provision portfolio new PD estimation model for corporate customers, was introduced. It is based mainly on logistic regression of financial data. The conversion on PD, which directly arose from more stable model, recalibrated within one-year and longer periods in comparison with monthly updating PDs in rating classes in the previous model, forced LIP scale extension from 6 months to 9 months. To the previous level, determined mainly by monitoring frequency, the element of delay in presentation of financial data of creditworthy customers was added. The element is the main factor determining period of loss identification in the new model. Total effect of the above indicated changes caused increase of provisions for impairment of loans and advances by PLN 11 million.

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. The matter with impact of changes in market conditions on valuation of trading book of the Group (containing inter alia derivatives) was presented in Note 3.4.

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. The matter with valuation of shares of PZU SA was presented in Note 3.8.

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 and results from higher credit risk, 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. If in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement. Had all the declines in fair values of financial available for sale debt instruments below acquisition cost been considered significant or prolonged, the estimated impairment of available for sale debt instruments portfolio would amount to PLN 0.1 million, being the transfer that should be recognized in the income statement of the Group in correspondence with revaluation reserve. For the purpose of the analysis, the declines in particular securities ratings that decreased by four rating classes within the period longer than 3 months were assumed to be significant and prolonged declines in fair values of financial available for sale debt securities.

Goodwill

The Group tests the value of goodwill arising from acquisition of shares in Group member companies consolidated in the financial statements in terms of the risk of goodwill impairment during each annual period. The movements are disclosed in Note 25. If the current value of estimated cash flows, assumed for the purpose of goodwill impairment losses testing, decreased by 10%, the estimated goodwill impairment losses would increase by PLN 3.6 million.

Deferred tax

The Group analysed the requirements of IAS 12 „Income Taxes" and based on the paragraph 44 did not recognize deferred tax asset in relation to provision for impairment of shares of PTE in the consolidated financial statements. If the deferred tax was recognized, the Group would found the asset in the amount of PLN 81.1 million.

5. Business Segments

The classification by business segments is based on client groups and products defined by homogenous transaction characteristics. The classification is consistent with sales management and philosophy of delivering complex products to Bank's clients, including both standard banking products and more sophisticated investment products. Connecting the method of the presentation of financial results with business management model ensures constant focus on creating added value in relations with Bank's and Group's clients and should be seen as a primary division which serves best both managing and perceiving business within the Group.

The business activities of the Group are conducted in the following business segments:

1) Retail Banking, including private banking services, current accounts for retail customers, savings accounts, deposits, investment products, custody services, credit and debit cards, consumer and mortgage loans, term deposits for retail customers, small and medium-sized enterprises, financial settlements, operations on bills of exchange, checks and guarantees issue.

Since the beginning of the fourth quarter of 2007, results of retail banking include the results of new foreign branches of mBank: mBank Czech Republic and mBank Slovakia. Within the year 2007 the branches provided basic products such as current and savings accounts as well as cash credits and mortgage loans. The aim is to operate a full scope of services typical of retail banking.

Since the beginning of 2007, Retail Banking has also included the results of BRE Wealth Management SA and emFinanse Sp. z o.o. BRE Wealth Management SA provides corporate finance services and complex asset management services for wealthy private banking clients. emFinanse Sp z o.o. acts on financial advisors and agents market, and deals with sales of bank products (cash credit, credit on car, mortgage loan) and insurance products.

2) Corporates and Markets - consists of two main sub-segments:

2.1) Corporates and Institutions, including current accounts, savings accounts and term deposits, FX products and derivative instruments, trust and fiduciary activities, sell buy back and buy sell back transactions, offering of investment products, credit cards and debit cards, business loans, as well as financial and operating leasing of vehicles, machines, office equipment, leasing of real estates, as well as administration support in leasing of the above indicated fixed assets. Within that sub-segment, the Bank solely, or in consortium with other Banks, covenants financing large projects with loans.

The Bank's product offer within this business sub-segment, is targeted at large, medium and small-sized corporations, as well as local governments. A significant part of the activities within corporate customers and institutions segment consists of services supporting foreign trade transactions. The Bank's offer addressed to business includes currency exchange, international transfers, checks, collection of payments, short-term loans, as well as a whole range of financial tools, such as purchasing of claims to receivables, forfeiting, letters of credit, bank guarantees, and others. Moreover, clients are offered financial instruments designed to hedge against foreign exchange risk exposure. The Bank also offers financial instruments used in interest rate risk management, including forward rate agreements (FRA), interest rate swaps (IRS), interest rate options, as well as cross-currency interest rate swaps (CIRS).

Within Corporates and Institutions sub-segment the Bank cooperates with domestic and foreign financial institutions (except transactions via nostro and loro accounts) in acquiring loans on international inter-bank market. The Bank also administers overdrafts for import financing and refinancing investment loans for medium and small-sized corporations, mainly with European Investment Bank's sources.

Corporates and Institutions sub-segment includes the results of the following subsidiaries: BRE Bank Hipoteczny SA, BRE Leasing Sp. z o.o., Dom Inwestycyjny BRE Banku SA, BRE Corporate Finance SA, Intermarket Bank AG, Polfactor SA, Transfinance a.s. and Magyar Factor zRt. Subsidiaries enrich Bank's offer by commercial real estates financing, leasing, factoring, publicly traded stocks and securities, purchase and sales of securities in the name of client, merger and acquisition advisory, corporate restructuring consulting and performing any corporate privatizing activities.

2.2) Trading and Investments, including financial instruments dealing, purchasing and sales of stocks and securities on primary and secondary market, which are: transactions on bills, bonds, Treasury Bills, Treasury Bonds, monetary bills of the National Bank of Poland, investment-deposit and FX SWAP transactions. The Bank also participates on the securities market, focusing on trading of securities on the primary and secondary markets, as well as repo and reverse repo transactions. Moreover the Bank is engaged in sell buy back and buy sell back transactions on the inter-bank market. The Bank also participates in money market inter-bank transactions.

Within Trading and Investments sub-segment, the Bank solely, or in consortium with other Banks, underwrites securities' issue (bonds, investment bills and certificates of deposit).

The Bank also benefits from capital gains on own investments portfolio, including direct and indirect stakes acquired with objective on high long-term yields. Apart from the specialized organizational unit of the Bank managing the long-term investment portfolio, the segment also comprises the activities of Tele-Tech Investment Sp. z o.o., whose core business is to invest in securities, to trade in debt, to manage controlled companies and to provide advisory services. Proprietary investment also includes the results of Garbary Sp. z o.o. and BRE Finance France SA.

3) Asset Management (discontinued activity), including the results of: Skarbiec Asset Management Holding SA (until 31. December 2006) and PTE Skarbiec-Emerytura SA. Due to the sale of SAMH that took place on January 8, 2007 and the intention to sell PTE, asset management activity is being considered as discontinued activity of the Group.

4) The remaining business of the Group includes results on transactions not classified as strict business areas and the results of the companies BRE Locum SA and CERI Sp. z o.o.

The rules of the division of the Group's activities are described below.

Transactions between the business segments are conducted on regular commercial terms.

Funds are allocated to particular business segments, which results in funding cost transfers. Interest charged for these funds is based on the Group's weighted average cost of capital and presented in operating income.

Internal funds transfers between Bank's departemnts are calculated on transfer rates based on market rates. Transfer rates are determined on the same basis for all operating units of the Bank and their differentiation results only from currency and term structure of assets and liabilities. Internal settlements concerning internal valuation of funds transfer have been reflected in the performance of each business.

Assets and liabilities of a business segment comprise operating assets and liabilities, which account for most of the Balance Sheet, whereas they do not include such items as taxes or loans.

The separation of the assets and liabilities of a segment, as well as of its income and costs, was done on the basis of internal information prepared at the Bank for the purposes of management accounting. Assets and liabilities for which the units of the given segment are responsible as well as income and costs related to such assets and liabilities are attributed to individual business segments. The financial result (profit/loss) of a business segment takes into account all the income and cost items attributable to it.

The business operations of particular companies of the Group are attributed in full to a relevant business segment (including consolidation adjustments).

The primary and unique basis used by the Group in the segment reporting is business line division. The Group does not distinguish geographic segments as reportable segments due to their immateriality.

Business segment reporting on the activities of the BRE Bank Group
for the period from 01.01.2007 to 31.12.2007
(PLN'000s)

	Corporates & Markets		Retail Banking (including Private Banking)	Asset Management (discontinued operation)	Remaining Business	Eliminations	Group
	Corporates & Institutions	Trading & Investments					
Net interest income	**556 947**	**63 964**	**431 516**	**(12 979)**	**(1 129)**	**(7 129)**	**1 031 190**
- sales to external clients	633 704	73 846	327 355	3 407	7	(7 129)	1 031 190
- sales to other segments	(76 757)	(9 882)	104 161	(16 386)	(1 136)	-	-
Net fee and commission income	**392 657**	**(17 400)**	**189 977**	**26 978**	**(712)**	**-**	**591 500**
- sales to external clients	374 336	(1 808)	192 706	26 978	(712)	-	591 500
- sales to other segments	18 321	(15 592)	(2 729)	-	-	-	-
Unallocated costs	-	-	-	-	-	-	-
Gross profit / (loss) of the segment	**444 811**	**131 930**	**227 507**	**91 285**	**80 808**	**(21 796)**	**954 545**
Profit on operating acitivities	-	-	-	-	-	-	954 545
Contribution of profit sharing in associated companies (before tax)	-	-	-	-	-	-	-
Gross profit (before tax)	-	-	-	-	-	-	954 545
Corporate income tax	-	-	-	-	-	-	(206 928)
Net profit attributable to minority interest	-	-	-	-	-	-	37 523
Net profit (after tax)	-	-	-	-	-	-	710 094
Assets of the segment	**22 304 587**	**21 272 628**	**14 201 223**	**501 522**	**759 334**	**(3 056 321)**	**55 982 973**
Total assets	-	-	-	-	-	-	55 982 973
Segment's liabilities	**31 534 832**	**9 911 571**	**12 927 618**	**12 543**	**632 240**	**(2 477 154)**	**52 541 650**
Total liabilities	-	-	-	-	-	-	52 541 650
Other items of the segment	-	-	-	-	-	-	-
Expenditures incurred on fixed assets and intangible assets	(170 508)	(12 094)	(91 711)	(1 853)	(9 292)	-	(285 458)
Amortisation/depreciation	(99 443)	(7 937)	(63 136)	(1 117)	(3 057)	(2 082)	(176 772)
Losses on credits and loans	(233 292)	(6 409)	(38 039)	-	(1 221)	-	(278 961)
Other costs/ income without cash outflows/ inflows*	-	(51 781)	(1)	-	-	-	(51 782)
- other costs without outflows	-	*(1 308 542)*	*(1)*	-	-	-	*(1 308 543)*
- other income without inflows	-	*1 256 761*	-	-	-	-	*1 256 761*

* Other costs/income without cash outflows/inflows include income and expenses arising from valuation of both financial instruments available for sale and foreign exchange result.

Business segment reporting on the activities of the BRE Bank Group
for the period from 01.01.2006 to 31.12.2006
(PLN'000s)

	Corporates & Markets		Retail Banking (including Private Banking)	Asset Management (discontinued operation)*	Remaining Business	Eliminations	Group
	Corporates & Institutions	Trading & Investments					
Net interest income	**433 224**	**24 280**	**291 587**	**(18 531)**	**(2 374)**	**(442)**	**727 744**
- sales to external clients	556 091	54 482	113 759	4 225	(371)	(442)	727 744
- sales to other segments	(122 867)	(30 202)	177 828	(22 756)	(2 003)	-	-
Net fee and commission income	**335 370**	**(20 817)**	**102 618**	**105 803**	**(464)**	**(5 378)**	**517 132**
- sales to external clients	320 057	(6 603)	103 715	105 803	(462)	(5 378)	517 132
- sales to other segments	15 313	(14 214)	(1 097)	-	(2)	-	-
Unallocated costs	-	-	-	-	-	-	-
Gross profit / (loss) of the segment	**325 689**	**122 250**	**114 799**	**24 424**	**20 429**	**(31 231)**	**576 360**
Profit on operating acitivities	-	-	-	-	-	-	576 472
Contribution of profit sharing in associated companies (before tax)	-	-	-	-	-	(112)	(112)
Gross profit (before tax)	-	-	-	-	-	-	576 360
Corporate income tax	-	-	-	-	-	-	(129 966)
Net profit attributable to minority interest	-	-	-	-	-	-	25 136
Net profit (after tax)	-	-	-	-	-	-	421 258
Asset of the segment	**16 929 805**	**18 465 591**	**9 118 674**	**654 743**	**782 036**	**(3 620 268)**	**42 330 581**
Total assets	-	-	-	-	-	-	42 330 581
Segment's liabilities	**23 030 394**	**9 689 854**	**9 490 966**	**37 177**	**470 375**	**(3 010 384)**	**39 708 382**
Total liabilities	-	-	-	-	-	-	39 708 382
Other items of the segment	-	-	-	-	-	-	-
Expenditures incurred on fixed assets and intangible assets	(74 269)	(12 255)	(49 422)	(1 514)	(76)	-	(137 536)
Amortisation/depreciation	(89 899)	(8 973)	(60 480)	(2 798)	(2 372)	(2 081)	(166 603)
Losses on credits and loans	(339 352)	(8 545)	(43 351)	-	(2 874)	-	(394 122)
Other costs/ income without cash outflows/ inflows**	10 837	148 468	-	-	-	-	159 305
- other costs without outflows	*(552)*	*(1 251 420)*	-	-	-	-	*(1 251 972)*
- other income without inflows	*11 389*	*1 399 888*	-	-	-	-	*1 411 277*

* The "Asset Management" segment includes the result of BRE Wealth Management SA (to December 29 2006 Skarbiec Investment Management SA), which will remain in the Group in the below amounts:

Net interest income	217
Net fee and commission income	11 113
Profit before income tax	4 107
Assets	10 119
Liabilities	10 119
Amortization	(104)

**Other costs/income without cash outflows/inflows include income and expenses arising from valuation of both financial instruments available for sale and foreign exchange result.

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6. Net Interest Income

	Year ended 31 December 2007	2006
Interest income		
Cash and short-term investments	268 495	218 880
Investment securities	184 481	89 573
Loans and advances including the unwind of the impairment provision discount	1 713 284	1 222 860
Trading debt securities	154 418	135 004
Other	34 601	34 234
	2 355 279	**1 700 551**
Interest expense		
Arising from amounts due to banks and customers	(1 095 770)	(742 603)
Arising from issue of debt securities	(168 682)	(159 414)
Other borrowed funds	(58 460)	(69 025)
Trading debt securities	(831)	(2 605)
Other	(3 753)	(2 726)
	(1 327 496)	**(976 373)**

Interest income related to financial assets which have been impaired amounted to PLN 12 555 thousand (PLN 14 854 thousand for 2006).

Net interest income per segment is as follows:

	Year ended 31 December 2007	2006
Interest income		
From banking sector	356 401	369 431
From clients, including:	1 998 878	1 331 120
- corporate clients	1 123 590	770 898
- individual clients	590 494	336 025
- public sector	284 794	224 197
	2 355 279	**1 700 551**
Interest expense		
From banking sector	(464 609)	(273 585)
From clients, including:	(847 590)	(682 537)
- corporate clients	(603 129)	(451 962)
- individual clients	(203 587)	(223 268)
- public sector	(40 874)	(7 307)
Own issue	(15 297)	(20 251)
	(1 327 496)	**(976 373)**

7. Net Fee and Commission Income

	Year ended 31 December 2007	2006
Fee and commission income		
Credit activity related fees and commissions	201 515	132 176
Fees from brokerage activity	138 611	79 514
Fees from portfolio-management services and other management-related fees	10 755	15 048
Guarantees granted and trade finance commissions	39 182	26 946
Commissions from payment cards	152 787	104 316
Commissions from money transfers	76 074	67 753
Commissions from bank accounts	45 398	39 111
Commissions on trust and fiduciary activities	10 997	2 708
Other	109 918	115 199
	785 237	**582 771**
Fee and commission expense		
Brokerage fees	(24 094)	(24 499)
Payment cards related fees	(106 854)	(77 427)
Other fees	(90 011)	(64 435)
	(220 959)	**(166 361)**

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8. Dividend Income

	Year ended 31 December	
	2007	**2006**
Trading securities	2	140
Securities available for sale	2 325	16 725
Dividend income, total	**2 327**	**16 865**

9. Net Trading Income

	Year ended 31 December	
	2007	**2006**
Foreign exchange result	**434 956**	**354 140**
Foreign exchange differences from the translation (net)	506 744	226 231
Net transaction gains and losses	(71 788)	127 909
Other net trading income	**51 512**	**45 445**
Interest-bearing instruments	18 522	21 431
Equities	23 444	6 560
Market risk instruments	9 546	17 454
Total net trading income	**486 468**	**399 585**

The "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 income 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 "Equities" include the profit/(loss) on the global trade with equity securities and derivative equity instruments, such as swap contracts, options, futures and forward contracts.

10. Other Operating Income

	Year ended 31 December	
	2007	**2006**
Income from sale of tangible and intangible fixed assets and assets held for resale	148 449	118 567
Income from the release of impairment provisions for tangible and intangible assets	1 830	-
Income from recovering previously designated as uncollectible receivables	2 553	5 765
Income from compensation, penalties and fines received	513	1 093
Income due to release of other provisions	15 801	20 377
Proceeds from services provided*	49 417	69 729
Other	31 098	13 508
Total other operating income	**249 661**	**229 039**

* concern non-banking services

11. Overhead Costs

	Year ended 31 December	
	2007	**2006**
Staff-related expenses (Note 13)	(628 586)	(475 925)
Material costs	(447 729)	(379 077)
Taxes and fees	(12 191)	(12 568)
Contributions and transfers to the Banking Guarantee Fund	(5 438)	(4 160)
Contribution to the Social Benefits Fund	(4 326)	(3 601)
Other	(5 049)	(4 161)
Total overhead costs	**(1 103 319)**	**(879 492)**

"Material costs" consist of tangible assets operating lease payment costs (mainly real estate) of PLN 30 053 thousand (for 2006: PLN 30 434 thousand).

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12. Other Operating Expenses

	Year ended 31 December 2007	2006
Costs of selling or scrapping fixed assets, intangible assets and assets held for resale	(89 775)	(95 388)
Impairment provisions created for tangible and intangible assets	(367)	(2 229)
Impairment provisions created for tangible and intangible assets under lease agreements and rentals	(1 367)	-
Impairment provisions created for other receivables (excluding loans and advances)	(1 111)	(1 376)
Receivables and liabilities recognised as uncollectible and written off	(3 698)	(5 266)
Compensation, penalties and fines paid	(402)	(11 429)
Donations made	(2 630)	(2 366)
Impairment losses on other non-financial assets	-	(828)
Provisions for future commitments	(8 565)	(20 116)
Costs of sale of services*	(3 957)	(32 910)
Other operating costs	(20 470)	(11 760)
Total other operating expenses	**(132 342)**	**(183 668)**

* concern non-banking services

13. Staff Costs

	Year ended 31 December 2007	2006
Wages and salaries	(521 439)	(385 835)
Social security expenses	(64 414)	(57 578)
Pension fund expenses	(3 433)	(1 383)
Salaries in form of share option program for employees	(648)	(2 212)
Other staff expenses	(38 652)	(28 917)
Staff-related expenses, total	**(628 586)**	**(475 925)**

The average level of employment in the Group in 2007 was 5 826 persons (2006: 5 159).

The additional information related to share-based payment has been presented in the Note 42 "Retained earnings".

14. Impairment Losses on Loans and Advances

	Year ended 31 December 2007	2006
Amounts due from other banks (Note 19)	(631)	(4 578)
Off-balance sheet contingent liabilities due to other banks (Note 34)	(247)	(397)
Loans and advances to customers (Note 22)	(71 213)	(53 129)
Off-balance sheet contingent liabilities due to customers (Note 34)	(4 719)	12 143
Total impairment losses on loans and advances	**(76 810)**	**(45 961)**

15. Income Tax Expense

	Year ended 31 December 2007	2006
Current income tax	(232 819)	(80 055)
Deferred income tax (Note 35)	48 241	(44 177)
Total income tax	**(184 578)**	**(124 232)**
Profit before tax	**845 555**	**534 481**
Tax calculated at Polish current tax rate (19%)	(160 655)	(101 551)
Effect of different tax rates in other countries	(2 070)	(2 055)
Income not subject to tax	7 136	9 994
Costs other than tax deductible costs	(21 509)	(21 199)
Other positions effecting income tax	(7 235)	(9 421)
Utilisation of previously unrecognized tax losses	(245)	-
Income tax expense	**(184 578)**	**(124 232)**
Effective tax rate calculation		
Profit before income tax	845 555	534 481
Income tax	(184 578)	(124 232)
Effective tax rate	**21.83%**	**23.24%**

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

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16. Earnings per Share

Earnings per share for the year – continued operations

	Year ended 31 December	
	2007	**2006**
Basic:		
Net profit from continued operations attributable to the Bank's equity holders	623 454	385 113
Weighted average number of ordinary shares	29 578 675	29 344 158
Net basic profit per share (in PLN per share)	**21.08**	**13.12**
Diluted:		
Net profit from continued operations attributable to the Bank's equity holders applied for calculation of diluted earnings per share	623 454	385 113
Weighted average number of ordinary shares	29 578 675	29 344 158
Adjustments for:		
- stock options for employees	29 464	174 097
Weighted average number of ordinary shares for calculation of diluted earnings per share	29 608 139	29 518 255
Diluted earnings per share (in PLN per share)	**21.06**	**13.05**

Earnings per share for the year – together continued and discontinued operations

	Year ended 31 December	
	2007	**2006**
Basic:		
Net profit from continued and discontinued operations attributable to the Bank's equity holders	710 094	421 258
Weighted average number of ordinary shares	29 578 675	29 344 158
Earnings per 1 ordinary share (in PLN per share)	**24.01**	**14.36**
Diluted:		
Net profit from continued and discontinued operations attributable to the Bank's equity holders applied for calculation of diluted earnings per share	710 094	421 258
Weighted average number of ordinary shares	29 578 675	29 344 158
Adjustments for:		
- stock options for employees	29 464	174 097
Weighted average number of ordinary shares for calculation of diluted earnings per share	29 608 139	29 518 255
Diluted earnings per share (in PLN per share)	**23.98**	**14.27**

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 would be issued if all share options were realised at the market price, determined as the average annual closing price of the Bank's shares.

According to IAS 33, the Bank prepares a calculation of the so-called "diluted earnings per share", taking account of share purchase options granted to employees. BRE Bank has conducted one employee options program within the year 2007.

The employee options program (initiated in May 2003) assumes that the 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.

In 2006 there was additional employee options program (started in May 2000 and amended in May 2003) under which 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 detailed information concerning both programs is described in the Note 42.

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17. Cash and Balances with Central Bank

as at	31.12.2007	31.12.2006
Cash in hand	96 818	102 705
Current account	1 906 717	1 213 372
Other	-	2 400 530
Total cash and balances with central bank (Note 44)	**2 003 535**	**3 716 607**
Including: mandatory reserve deposit	965 707	708 759

The mandatory reserve is held in an account with the central bank and in the Bank's hand. As at 31 December 2007, the former part of the reserve bore 4.73% interest (31 December 2006: 3.83%).

18. 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.

19. Loans and Advances to Banks

as at	31.12.2007	31.12.2006
Current accounts	87 756	50 394
Placements with other banks	638 590	1 702 432
Included in cash equivalents (Note 44)	**726 346**	**1 752 826**
Loans and advances	687 558	896 565
Reverse repo / buy sell back transactions	513 866	124 339
Other receivables	167 375	74 972
Total (gross) loans and advances to banks	**2 095 145**	**2 848 702**
Provisions created for loans and advances to banks (negative amount)	(5 209)	(4 578)
Total (net) loans and advances to banks	**2 089 936**	**2 844 124**
Short-term (up to 1 year)	1 851 413	2 623 379
Long-term (over 1 year)	238 523	220 745

The following table presents receivables from Polish and foreign banks:

as at	31.12.2007	31.12.2006
Loans and advances to Polish banks (gross)	618 539	319 290
Provisions created for loans and advances to Polish banks	(247)	(323)
Loans and advances to foreign banks (gross)	1 476 606	2 529 412
Provisions created for loans and advances to foreign banks	(4 962)	(4 255)
Total (net) loans and advances to banks	**2 089 936**	**2 844 124**

The variable rate loans to banks amount to PLN 558 833 thousand and the fixed rate loans to banks amounted to PLN 31 178 thousand (as at 31 December 2006 all loans to banks were variable rate loans which amounted to PLN 744 692 thousand). An average deposit interest rate for deposits in other banks and loans granted to banks amounted to 4.86%.

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

as at	31.12.2007	31.12.2006
Provisions for loans and advances to banks as at the beginning of the period	**4 578**	**-**
Increase (due to)	631	9 563
- provisions created (Note 14)	631	9 563
Release (due to)	-	(4 985)
- release of provisions (Note 14)	-	(4 985)
Provisions for loans and advances to banks as at the end of the period	**5 209**	**4 578**

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Provisions for loans and advances to banks of PLN 5 209 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.

20. Trading Securities and Pledged Assets

as at	31.12.2007	31.12.2006
Debt securities:	**7 026 627**	**6 148 676**
Government bonds included in cash equivalents and pledged government bonds (sell buy back transactions) (Note 44), including:	4 774 608	2 746 486
- pledged government bonds (sell buy back transactions) (Note 38)	3 613 322	1 921 475
Treasury bills included in cash equivalents and pledged treasury bills (sell buy back transactions) (Note 44), including:	25 623	829 649
- pledged treasury bills (sell buy back transactions) (Note 38)	14 394	723 289
Other debt securities:	2 226 396	2 572 541
Equity securities:	**4 263**	**12 237**
- listed	4 263	12 237
Debt and equity securities, including:	**7 030 890**	**6 160 913**
- Trading securities	*3 403 174*	*3 516 149*
- Pledged assets (Note 38)	*3 627 716*	*2 644 764*

Government bonds include securities used to secure sell buy back transactions with customers, the market value of which as at 31 December 2007 amounted to PLN 3 613 322 thousand (31 December 2006 PLN 1 921 475 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 securities under the Bank Guarantee Fund of PLN 80 442 thousand (31 December 2006 PLN 57 416 thousand), which have been presented as investment securities (the Note 23).

21. Derivative Financial Instruments and Other Trading Liabilities

The Group 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 Group 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 Group 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 Group and a customer (private transaction). The Group 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 Group'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.

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

	Contract amount	Fair value of asset	Fair value of liability
As at 31 December 2007			
Derivatives held for trading			
Foreign exchange derivatives			
- Currency forwards	30 260 578	271 004	195 657
- Currency swaps	46 652 748	657 209	518 362
- Cross-currency interest rate swaps	10 389 184	88 104	84 247
- OTC currency options bought and sold	11 535 732	144 038	230 131
Total OTC derivatives	**98 838 242**	**1 160 355**	**1 028 397**
Total foreign exchange derivatives	**98 838 242**	**1 160 355**	**1 028 397**
Interest rate derivatives			
- Interest rate swaps, OIS	338 510 860	699 573	760 889
- Forward rate agreements	196 823 280	184 062	146 944
- OTC interest rate options	806 850	8 351	8 401
Total OTC interest rate derivatives	**536 140 990**	**891 986**	**916 234**
- Stock exchange traded interest rate options	-	136	-
Total interest rate derivatives	**536 140 990**	**892 122**	**916 234**
Stock exchange traded market risk transactions	**563 119**	**220 161**	**219 583**
Total derivative assets / liabilities held for trading	**635 542 351**	**2 272 638**	**2 164 214**
Total recognised derivative assets/ liabilities	**635 542 351**	**2 272 638**	**2 164 214**
Total recognised derivative assets/ liabilities and other trading liabilities	**635 542 351**	**2 272 638**	**2 164 214**
Short-term (up to 1 year)	463 255 701	1 527 474	1 425 502
Long-term (over 1 year)	172 286 650	745 164	738 712

	Contract amount	Fair value of asset	Fair value of liability
As at 31 December 2006			
Derivatives held for trading			
Foreign exchange derivatives			
- Currency forwards	21 167 613	196 646	129 054
- Currency swaps	42 027 419	389 998	209 462
- Cross-currency interest rate swaps	267 306	6 389	1 456
- OTC currency options bought and sold	2 612 114	37 111	50 066
Total OTC derivatives	**66 074 452**	**630 144**	**390 038**
- Currency futures	36 954	-	-
- Stock exchange traded currency options - bought and sold	14 585	609	233
Total foreign exchange derivatives	**66 125 991**	**630 753**	**390 271**
Interest rate derivatives			
- Interest rate swaps, OIS	285 014 560	466 629	536 456
- Forward rate agreements	167 856 340	81 705	83 666
- OTC interest rate options	-	104	162
Total OTC interest rate derivatives	**452 870 900**	**548 438**	**620 284**
Total interest rate derivatives	**452 870 900**	**548 438**	**620 284**
Stock exchange traded market risk transactions	**540 010**	**233 874**	**243 345**
Total derivative assets / liabilities held for trading	**519 536 901**	**1 413 065**	**1 253 900**
Total recognised derivative assets/ liabilities	**519 536 901**	**1 413 065**	**1 253 900**
Total recognised derivative assets/ liabilities and other trading liabilities	**519 536 901**	**1 413 065**	**1 253 900**
Short-term (up to 1 year)	280 336 940	757 558	679 535
Long-term (over 1 year)	239 199 961	655 507	574 365

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In all reporting periods, transactions securing against market risk comprise of the fair values of: stock index options, shares and other equity securities, futures for commodities, swap contracts for commodities.

As at 31 December 2007 and 31 December the Group did not have any other assets or financial liabilities in the category of financial liabilities priced at fair value through the Profit and Loss Account.

Moreover, as at 31 December 2007 the fair value of market risk options, embedded in deposits provided by the Group, amounted to: assets – PLN 192 499 thousand, commitment – PLN 197 684 thousand (as at 31 December 2006: assets – PLN 177 832 thousand, commitment – PLN 178 539 thousand). These options are presented separately from the host contract and are included as "Stock exchange traded market risk transactions" in the table above.

22. Loans and Advances to Customers

as at	31.12.2007	31.12.2006
Loans and advances to individuals:	**13 876 425**	**8 882 742**
- overdrafts	2 301 686	1 511 069
- term loans, including:	11 574 739	7 371 673
- housing and mortgage loans	10 622 334	6 724 211
Loans and advances to corporate entities:	**19 477 259**	**14 241 341**
- overdrafts	2 768 093	1 962 930
- term loans:	14 234 717	10 480 665
- corporate & institutional enterprises	2 962 818	2 311 750
- medium & small enterprises	11 271 899	8 168 915
- reverse repo / buy sell back transactions	669 018	40 436
- other	1 805 431	1 757 310
Loans and advances to public sector	**599 155**	**429 443**
Other receivables	**412 529**	**328 250**
Total (gross) loans and advances to customers	**34 365 368**	**23 881 776**
Provisions for loans and advances to customers (negative amount)	(682 703)	(837 082)
Total (net) loans and advances to customers	**33 682 665**	**23 044 694**
Short-term (up to 1 year)	13 824 483	10 364 072
Long-term (over 1 year)	19 858 182	12 680 622

As at 31 December 2007, variable and fixed rate credits amounted to PLN 32 743 697 thousand and PLN 1 066 177 thousand, respectively (as at 31 December 2006: PLN 21 837 890 thousand and PLN 600 816 thousand respectively). The values mentioned above relate to loans granted to individual clients, corporate clients and budget sector. An average loan interest rate for loans granted to customers (excluding reverse repos) amounted to 6.07%.

The Group accepted exchange-listed securities at the fair value of PLN 956 634 thousand (31 December 2006 PLN 1 151 932 thousand) as collateral for commercial loans.

Provisions for Loans and Advances

as at	31.12.2007	31.12.2006
Receivables classified as "non-default"		
Gross balance sheet exposure	33 564 991	22 912 522
Provisions for impairment of exposures analysed according to portfolio approach	(112 460)	(106 986)
Net balance sheet exposure	**33 452 531**	**22 805 536**
Receivables classified as "default"		
Gross balance sheet exposure	800 377	969 254
Provisions for impairment of exposures analysed individually	(570 243)	(730 096)
Net balance sheet exposure	**230 134**	**239 158**

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Movements in provisions for loans and advances:

as at	31.12.2007	31.12.2006
INDIVIDUALS		
- Current accounts		
As at the beginning of the period	**80 463**	**69 214**
increase (due to)	40 395	24 199
- provisions created	37 311	24 199
- reclassification & foreign exchange differences	3 084	-
release (due to)	(3 951)	(12 950)
- release of provisions	(304)	(540)
- reclassification & foreign exchange differences	-	(8 776)
- write-offs	(3 647)	(3 634)
As at the end of the period	**116 907**	**80 463**
- Term loans		
As at the beginning of the period	**73 827**	**55 675**
increase (due to)	14 112	37 530
- provisions created	14 112	23 210
- reclassification & foreign exchange differences	-	14 320
release (due to)	(21 192)	(19 378)
- release of provisions	(12 536)	(15 433)
- reclassification & foreign exchange differences	(3 936)	-
- write-offs	(4 848)	(3 945)
- other	128	-
As at the end of the period	**66 747**	**73 827**
including:		
- Housing and mortgage loans		
As at the beginning of the period	**20 646**	**7 052**
increase (due to)	7 421	20 404
- provisions created	7 293	13 501
- reclassification & foreign exchange differences	-	6 903
- other	128	-
release (due to)	(3 181)	(6 810)
- release of provisions	(3 133)	(2 865)
- write-offs	(48)	(3 945)
As at the end of the period	**24 886**	**20 646**
TOTAL - INDIVIDUALS		
As at the beginning of the period	**154 290**	**124 889**
increase (due to)	54 507	61 729
- provisions created	51 423	47 409
- reclassification & foreign exchange differences	3 084	14 320
release (due to)	(25 143)	(32 328)
- release of provisions	(12 840)	(15 973)
- reclassification & foreign exchange differences	(3 936)	(8 776)
- write-offs	(8 495)	(7 579)
- other	128	-
As at the end of the period	**183 654**	**154 290**

as at	31.12.2007	31.12.2006
CORPORATE ENTITIES		
- Current accounts		
As at the beginning of the period	**109 245**	**102 141**
increase (due to)	38 274	47 452
- provisions created	38 274	40 080
- reclassification & foreign exchange differences	-	7 372
release (due to)	(67 556)	(40 348)
- release of provisions	(11 735)	(32 721)
- reclassification of provisions / fx	(16 030)	-
- write-offs	(39 791)	(7 627)
As at the end of the period	**79 963**	**109 245**

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- Term loans		
As at the beginning of the period	**527 259**	**583 668**
increase (due to)	109 986	285 702
- provisions created	90 206	255 453
- reclassification & foreign exchange differences	15 877	30 249
- other	3 903	-
release (due to)	(267 243)	(342 111)
- release of provisions	(96 309)	(248 119)
- reclassification & foreign exchange differences	(2 183)	(54 757)
- write-offs	(168 751)	(39 235)
As at the end of the period	**370 002**	**527 259**
including:		
- Corporate & institutional enterprises		
As at the beginning of the period	**87 427**	**60 800**
increase (due to)	10 692	43 332
- provisions created	10 692	21 900
- reclassification & foreign exchange differences	-	21 432
release (due to)	(69 639)	(16 705)
- release of provisions	(12 727)	(16 705)
- reclassification & foreign exchange differences	(2 183)	-
- write-offs	(54 729)	-
As at the end of the period	**28 480**	**87 427**
- Medium & small enterprises		
As at the beginning of the period	**439 832**	**522 868**
increase (due to)	99 294	242 369
- provisions created	79 514	233 553
- reclassification & foreign exchange differences	15 877	8 816
- other	3 903	-
release (due to)	(197 604)	(325 405)
- release of provisions	(83 582)	(231 414)
- reclassification & foreign exchange differences	-	(54 756)
- write-offs	(114 022)	(39 235)
As at the end of the period	**341 522**	**439 832**
- Other		
As at the beginning of the period	**46 194**	**52 255**
increase (due to)	16 557	19 049
- provisions created	16 557	17 863
- reclassification & foreign exchange differences	-	1 186
- other	-	-
release (due to)	(13 981)	(25 110)
- release of provisions	(4 583)	(10 299)
- reclassification & foreign exchange differences	(2 034)	(305)
- write-offs	(7 364)	(14 506)
As at the end of the period	**48 770**	**46 194**
TOTAL - CORPORATE ENTITIES		
As at the beginning of the period	**682 698**	**738 064**
increase (due to)	164 817	352 203
- provisions created	145 037	313 396
- reclassification & foreign exchange differences	15 877	38 807
- other	3 903	-
release (due to)	(348 780)	(407 569)
- release of provisions	(112 627)	(291 139)
- reclassification & foreign exchange differences	(20 247)	(55 062)
- write-offs	(215 906)	(61 368)
As at the end of the period	**498 735**	**682 698**

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as at	31.12.2007	31.12.2006
PUBLIC SECTOR		
As at the beginning of the period	**94**	**516**
increase (due to)	220	-
- provisions created	220	-
release (due to)	-	(422)
- release of provisions	-	(422)
As at the end of the period	**314**	**94**

as at	31.12.2007	31.12.2006
OTHER RECEIVABLES		
As at the beginning of the period	**-**	**142**
release (due to)	-	(142)
- release of provisions	-	(142)
As at the end of the period	**-**	**-**
TOTAL - MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS		
As at the beginning of the period	**837 082**	**863 611**
increase (due to)	219 544	413 932
- provisions created	196 680	360 805
- reclassification & foreign exchange differences	18 961	53 127
- other	3 903	-
release (due to)	(373 923)	(440 461)
- release of provisions	(125 467)	(307 676)
- reclassification & foreign exchange differences	(24 183)	(63 838)
- write-offs	(224 401)	(68 947)
- other	128	-
As at the end of the period	**682 703**	**837 082**

Loans and advances to customers include finance lease receivables.

Finance Lease Receivables

as at	31.12.2007	31.12.2006
Gross investment in finance leases, receivable:	**3 168 011**	**2 137 315**
- no later than 1 year	1 115 880	804 412
- later than 1 year and no later than 5 years	1 998 797	1 296 871
- later than 5 years	53 334	36 032
Unearned future finance income on finance leases (negative amount)	(383 607)	(256 453)
Net investment in finance leases	**2 784 404**	**1 880 862**
Net investment in finance leases, receivable:		
- no later than 1 year	934 942	678 032
- later than 1 year and no later than 5 years	1 799 662	1 169 478
- later than 5 years	49 800	33 352
	2 784 404	**1 880 862**

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23. Investment Securities and Pledged Assets

as at	31.12.2007	31.12.2006
Debt securities	**6 078 433**	**2 842 902**
- listed	6 014 425	2 806 229
- unlisted	64 008	36 673
Equity securities	**388 583**	**270 030**
- listed	10 021	10 411
- unlisted	378 562	259 619
Total securities	**6 467 016**	**3 112 932**
Total investment securities and pledged assets, including:	**6 467 016**	**3 112 932**
- Available for sale securities	*6 386 574*	*3 055 516*
- Pledged assets (Note 38)	*80 442*	*57 416*
Short-term (up to 1 year)	3 061 950	933 582
Long-term (over 1 year)	3 405 066	2 179 350

The presented above fair values of equity securities include impairment in the amount of PLN 29 076 thousand (31 December 2006 PLN 29 015 thousand).

As at 31 December 2007, the carrying values of debt securities based on fixed interest rate amounted to PLN 4 849 093 thousand and variable interest rate PLN 1 318 084 thousand (31 December 2006 respectively: PLN 2 680 626 thousand and PLN 2 471 731 thousand).

Listed debt securities included Brady bonds in reporting periods till September of 2007. 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. The Bank disposed all Brady bonds from portfolio of investment securities in the fourth quarter of 2007. The carrying value of Brady bonds in the Bank's accounting ledgers was PLN 29 083 thousand as at 31 December 2006.

The above note includes treasury bills under the Bank Guarantee Fund, which are presented in the Balance Sheet in a separate position "Pledged assets" (see Note 38).

In accordance with the Bank Guarantee Fund Law of 14 December 1994, the Group had PLN 80 442 thousand, at face value PLN 81 000 thousand worth of treasury notes disclosed in its Balance Sheet as at 31 December 2007 (face value as at 31 December 2006: PLN 58 200 thousand). The notes were used as security under the Bank Guarantee Fund and they were deposited in a separate account at the National Bank of Poland.

Gains and Losses from Investment Securities:

as at	31.12.2007	31.12.2006
Redemption / sale by the issuer of the financial assets available for sale and investments in subsidiaries and associates	3 882	23 289
Impairment of available for sale equity securities and investments in subsidiaries and associates	(48)	(767)
Total gains and losses from investment securities	**3 834**	**22 522**

Movements in Investment Securities and Pledged Assets

as at	31.12.2007	31.12.2006
Available for sale securities		
As at the beginning of the period	**3 112 932**	**1 147 319**
Foreign exchange differences	(38 993)	(43 044)
Additions	9 879 618	7 359 621
Disposals (sale and redemption)	(6 553 660)	(5 381 063)
Losses from impairment of equities and debt securities available for sale	(48)	(767)
Gains / losses from changes in fair value (Note 41)	67 167	30 866
As at the end of the period	**6 467 016**	**3 112 932**

Valuation of shares of Vectra SA ("Vectra") has had the most material impact on profit/(loss) due to changes in the fair value in 2007. In relation to negotiations on sale of shares of Vectra, the Bank revalued shares held from the acquisition price (PLN 124 963 thousand) to the fair value (PLN 264 035 thousand). Prior to entering into the transaction, the Bank had no reliable estimate of the fair value of this investment. The revaluation effect in the amount of PLN 139 073 thousand was reflected in the revaluation reserve. As a result, the amount of revaluation reserve rose by the net amount of PLN 112 649 thousand. The revaluation has had no impact on profit/(loss) for the current period.

Vectra's shares were disposed on 25 January 2008. In accordance with the agreement on sale the Bank disposed 9 045 404 shares with nominal value PLN 10 each. The Bank disposed the above indicated shares with total amount of PLN 264 035 thousand, which represented the fair value of the shares in the Bank's accounting ledgers. Payment for shares took place on the transaction date.

In 2008 gross profit of the Group, arising from the transaction will amount to PLN 137 673 thousand, net of transaction costs.

Changes in allowance for losses on investment securities and pledged assets:

as at	31.12.2007	31.12.2006
Available for sale		
Equity securities		
- Listed		
As at the beginning of the period	**(64)**	**-**
allowance for impairment	(48)	(65)
amounts recovered during the period	(13)	1
As at the end of the period	**(125)**	**(64)**
- Unlisted		
As at the beginning of the period	**(28 951)**	**(57 809)**
allowance for impairment	-	(702)
amounts recovered during the period	-	29 115
foreign exchange differences	-	445
As at the end of the period	**(28 951)**	**(28 951)**
Total equity securities		
As at the beginning of the period	**(29 015)**	**(57 809)**
allowance for impairment	(48)	(767)
amounts recovered during the period	(13)	29 116
foreign exchange differences	-	445
As at the end of the period	**(29 076)**	**(29 015)**

24. Investments in Associates

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

31 December 2007 (in PLN '000s)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held
Xtrade S.A.	Poland	1 785	2 861	1 758	(757)	24.90
Compania de Factoring S.A	Romania	109 491	101 609	15 225	1 711	28.12

31 December 2006 (in PLN '000s)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held
Xtrade S.A.	Poland	700	983	1 560	(734)	24.90
Transfactor Slovakia A.S.	Slovakia	81 005	78 460	2 294	454	56.24
Compania de Factoring S.A	Romania	24 250	7 103	761	(930)	28.12

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Changes in investments in associates:

as at	31.12.2007	31.12.2006
As at the beginning of the period	**5 356**	**6 477**
Increase due to:	**1 003**	**3 878**
- purchase	1 003	3 831
- reversion of impairment	-	47
Decrease due to:	**(1 536)**	**(4 999)**
- sale	-	(2 934)
- movement to other group of financial assets	(1 203)	(1 938)
- foreign exchange differences	(333)	(15)
- share in results	-	(112)
As at the end of the period	**4 823**	**5 356**

25. Intangible Assets

as at	31.12.2007	31.12.2006
Development costs	3 591	4 315
Goodwill	7 137	7 137
Patents, licences and similar assets, including:	311 152	309 293
- computer software	277 302	278 661
Other intangible assets	8 018	11 273
Intangible assets under development	75 069	49 093
Total intangible assets	**404 967**	**381 111**

Movements in intangible assets:

Movements in intangible assets from 1 January 2007 to 31 December 2007	Development costs	Acquired patents, licences and other similar assets, including:	acquired computer software	Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets	Assets held for sale (Note 28)
Gross value of intangible assets as at the beginning of the period: 01.01.2007	**33 119**	**501 275**	**428 233**	**17 587**	**49 093**	**7 137**	**608 211**	**495 774**
Increase (due to)	**1 528**	**78 568**	**56 848**	**112**	**82 219**	**-**	**162 427**	**100**
- purchase	185	14 717	6 407	27	82 183	-	97 112	100
- transfer from assets under construction	-	273	273	85	-	-	358	-
- transfer from intangible assets under development	1 343	52 705	49 997	-	-	-	54 048	-
- included in consolidation for the first time	-	170	170	-	-	-	170	-
- other increases	-	10 703	1	-	36	-	10 739	-
Decrease (due to)	**(2 688)**	**(19 733)**	**(14 781)**	**-**	**(56 243)**	**-**	**(78 664)**	**(30 553)**
- sale	-	-	-	-	(21)	-	**(21)**	-
- liquidation	(2 677)	(8 356)	(3 804)	-	-	-	**(11 033)**	-
- transfer from investment expenditure	-	-	-	-	(54 048)	-	**(54 048)**	-
- sale of the company covered consolidation previously	-	-	-	-	-	-		(30 553)
- other decreases	(11)	(11 377)	(10 977)	-	(2 174)	-	**(13 562)**	-
Gross value of intangible assets as at the end of the period: 31 December 2007	**31 959**	**560 110**	**470 300**	**17 699**	**75 069**	**7 137**	**691 974**	**465 321**
Accumulated amortization as at the beginning of the period: 01.01.2007	**(28 804)**	**(191 943)**	**(149 533)**	**(6 314)**	**-**	**-**	**(227 061)**	**(5 683)**
Amortization for the period (due to)	**436**	**(57 008)**	**(43 458)**	**(3 367)**	**-**	**-**	**(59 939)**	**5 341**
- depreciation charges	(1 267)	(66 536)	(48 121)	(3 366)	-	-	**(71 169)**	(34)
- included in consolidation for the first time	-	(52)	(52)	-	-	-	**(52)**	-
- other increases	(985)	-	-	(1)	-	-	**(986)**	-
- sale of the company covered consolidation previously	-	-	-	-	-	-	**-**	5 375
- liquidation	2 677	8 351	3 799	-	-	-	**11 028**	-
- other decreases	11	1 229	916	-	-	-	**1 240**	-
Accumulated amortization as at the end of the period: 31.12.2007	**(28 368)**	**(248 951)**	**(192 991)**	**(9 681)**	**-**	**-**	**(287 000)**	**(342)**
Impairment losses as at the beginning of the period: 01.01.2007	**-**	**(39)**	**(39)**	**-**	**-**	**-**	**(39)**	**(239 466)**
- increase	-	-	-	-	-	-	**-**	(4 501)
- decrease	-	32	32	-	-	-	**32**	-
Impairment losses as at the end of the period: 31.12.2007	**-**	**(7)**	**(7)**	**-**	**-**	**-**	**(7)**	**(243 967)**
Net value of intangible assets as at the end of the period: 31.12.2007	**3 591**	**311 152**	**277 302**	**8 018**	**75 069**	**7 137**	**404 967**	**221 012**

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Movements in intangible assets from 1 January 2006 to 31 December 2006	Development costs	Acquired patents, licences and other similar assets, including:	acquired computer software	Other intangible assets	Intangible assets under development, including:	Goodwill	Total intangible assets	Assets held for sale (Note 28)
Gross value of intangible assets as at the beginning of the period: 01.01.2006	**33 119**	**495 882**	**415 306**	**9 724**	**37 436**	**31 612**	**607 773**	**466 854**
Increase (due to)	**-**	**56 938**	**44 417**	**11 995**	**57 987**	**-**	**126 920**	**32 980**
- purchase	-	6 289	2 834	11 978	55 991	-	**74 258**	440
- transfer from assets under construction	-	408	296	-	123	-	**531**	-
- transfer from intangible assets under development	-	43 723	34 769	17	-	-	**43 740**	-
- assets held for sale	-	6 396	6 396	-	-	-	**6 396**	-
- other increases	-	122	122	-	1 873	-	**1 995**	32 540
Decrease (due to)	**-**	**(51 545)**	**(31 490)**	**(4 132)**	**(46 330)**	**(24 475)**	**(126 482)**	**(4 060)**
- sale	-	(902)	(630)	-	-	-	**(902)**	-
- liquidation	-	(48 296)	(29 742)	-	(197)	-	**(48 493)**	(4 060)
- transfer from investment expenditure	-	(538)	(538)	-	(43 740)	-	**(44 278)**	-
- other decreases	-	(1 809)	(580)	(4 132)	(2 393)	(24 475)	**(32 809)**	-
Gross value of intangible assets as at the end of the period: 31.12.2006	**33 119**	**501 275**	**428 233**	**17 587**	**49 093**	**7 137**	**608 211**	**495 774**
Accumulated amortization as at the beginning of the period: 01.01.2006	**(27 545)**	**(166 857)**	**(124 856)**	**(6 923)**	**-**	**-**	**(201 325)**	**(1 933)**
Amortization for the period (due to)	**(1 259)**	**(25 086)**	**(24 677)**	**609**	**-**	**-**	**(25 736)**	**(3 750)**
- depreciation charges	(1 259)	(67 739)	(48 312)	(3 325)	-	-	**(72 323)**	(297)
- included in consolidation for the first time	-	(4 892)	(4 892)	-	-	-	**(4 892)**	-
- other increases	-	(119)	(119)	-	-	-	**(119)**	(7 508)
- sale	-	902	630	-	-	-	**902**	-
- liquidation	-	45 407	27 548	-	-	-	**45 407**	4 055
- other decreases	-	1 355	468	3 934	-	-	**5 289**	-
Accumulated amortization as at the end of the period: 31.12.2006	**(28 804)**	**(191 943)**	**(149 533)**	**(6 314)**	**-**	**-**	**(227 061)**	**(5 683)**
Impairment losses as at the beginning of the period: 01.01.2006	**-**	**(68)**	**(68)**	**-**	**-**	**-**	**(68)**	**(224 706)**
- increase	-	-	-	-	-	-	**-**	(14 760)
- decrease	-	29	29	-	-	-	**29**	**-**
Impairment losses as at the end of the period: 31.12.2006	**-**	**(39)**	**(39)**	**-**	**-**	**-**	**(39)**	**(239 466)**
Net value of intangible assets as at the end of the period: 31.12.2006	**4 315**	**309 293**	**278 661**	**11 273**	**49 093**	**7 137**	**381 111**	**250 625**

26. Tangible Fixed Assets

as at	31.12.2007	31.12.2006
Fixed assets, including:	615 443	541 665
- land	7 990	2 672
- buildings and constructions	226 393	231 637
- equipment	127 563	119 985
- vehicles	121 487	79 096
- other fixed assets	132 010	108 275
Fixed assets under construction	54 730	38 443
Prepayments for fixed assets under construction	40	-
Total tangible fixed assets	**670 213**	**580 108**

Movements in Fixed Assets:

Movements in tangible fixed assets from 1 January 2007 to 31 December 2007	Land	Buildings	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Prepayments for fixed assets under construction	Total	Assets held for sale (Note 28)
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2007	**2 841**	**345 994**	**405 969**	**113 720**	**240 048**	**39 004**	**-**	**1 147 576**	**12 942**
Increase (due to)	**5 381**	**4 691**	**57 842**	**89 350**	**48 010**	**84 712**	**40**	**290 026**	**691**
- purchase	5 223	221	33 934	52 192	11 335	84 653	40	**187 598**	690
- transfer from fixed assets under construction	-	2 716	22 402	276	36 091	-	-	**61 485**	-
- included in consolidation for the first time	-	1 601	769	1 195	507	10	-	**4 082**	-
- other increases	158	153	737	35 687	77	49	-	**36 861**	1
Decrease (due to)	**(68)**	**(8 501)**	**(13 112)**	**(42 313)**	**(6 155)**	**(68 425)**	**-**	**(138 574)**	**(10 792)**
- sale	(21)	(8 238)	(1 489)	(12 410)	(1 382)	-	-	**(23 540)**	-
- liquidation	-	-	(9 494)	(1 566)	(3 558)	-	-	**(14 618)**	-
- transfer to fixed assets	-	-	-	-	-	(61 482)	-	**(61 482)**	-
- transfer to intangible assets	-	-	-	-	-	(361)	-	**(361)**	-
- sale of the company consolidated previously	-	-	-	-	-	-	-	**-**	(10 792)
- other decreases	(47)	(263)	(2 129)	(28 337)	(1 215)	(6 582)	-	**(38 573)**	-
Gross value of tangible fixed assets as at the end of the period: 31.12.2007	**8 154**	**342 184**	**450 699**	**160 757**	**281 903**	**55 291**	**40**	**1 299 028**	**2 841**
Accumulated depreciation as at the beginning of the period: 01.01.2007	**(65)**	**(54 676)**	**(284 515)**	**(34 335)**	**(131 610)**	**-**	**-**	**(505 201)**	**(7 295)**
Depreciation for the period (due to)	**5**	**(5 508)**	**(37 416)**	**(4 665)**	**(18 152)**	**-**	**-**	**(65 736)**	**5 790**
- depreciation charge	-	(7 146)	(49 300)	(24 823)	(23 887)	-	-	**(105 156)**	(414)
- included in consolidation for the first time	-	(64)	(188)	(195)	(62)	-	-	**(509)**	-
- other increases	-	-	(497)	-	(29)	-	-	**(526)**	-
- sale	-	1 672	1 365	3 696	1 325	-	-	**8 058**	-
- liquidation	-	-	9 240	610	3 264	-	-	**13 114**	-
- sale of the company consolidated previously	-	-	1 391	-	97	-	-	**1 488**	6 204
- other decreases	5	30	573	16 047	1 140	-	-	**17 795**	-
Accumulated depreciation as at the end of the period: 31.12.2007	**(60)**	**(60 184)**	**(321 931)**	**(39 000)**	**(149 762)**	**-**	**-**	**(570 937)**	**(1 505)**
Impairment losses as at the beginning of the period: 01.01.2007	**(104)**	**(59 681)**	**(1 469)**	**(289)**	**(163)**	**(561)**	**-**	**(62 267)**	**(97)**
- increase	-	(1 367)	-	-	-	-	-	**(1 367)**	**-**
- decrease	-	5 441	264	19	32	-	-	**5 756**	97
Impairment losses as at the end of the period: 31.12.2007	**(104)**	**(55 607)**	**(1 205)**	**(270)**	**(131)**	**(561)**	**-**	**(57 878)**	**-**
Net value of tangible fixed assets as at the end of the period: 31.12.2007	**7 990**	**226 393**	**127 563**	**121 487**	**132 010**	**54 730**	**40**	**670 213**	**1 336**

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Movements in tangible fixed assets from 1 January 2006 to 31 December 2006	Land	Buildings	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Prepayments for fixed assets under construction	Total	Assets held for sale (Note 28)
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2006	**2 732**	**369 694**	**365 824**	**77 188**	**216 593**	**33 626**	**-**	**1 065 657**	**1 855**
Increase (due to)	**189**	**1 125**	**59 080**	**48 556**	**29 697**	**66 139**	**580**	**205 366**	**14 249**
- purchase	77	365	18 345	46 622	4 904	65 935	580	**136 828**	3 650
- transfer from fixed assets under construction	-	9	28 033	339	21 152	-	-	**49 533**	-
- included in consolidation for the first time	-	-	12 461	1 232	3 512	-	-	**17 205**	-
- other increases	112	751	241	363	129	204	-	**1 800**	10 599
Decrease (due to)	**(80)**	**(24 825)**	**(18 935)**	**(12 024)**	**(6 242)**	**(60 761)**	**(580)**	**(123 447)**	**(3 162)**
- sale	(75)	(23 795)	(767)	(8 574)	(1 306)	-	-	**(34 517)**	(1 110)
- liquidation	-	(310)	(9 984)	(862)	(3 344)	-	-	**(14 500)**	(2 052)
- transfer to fixed assets	-	-	-	-	-	(49 533)	-	**(49 533)**	-
- transfer to intangible assets	-	-	-	-	-	(531)	-	**(531)**	-
- other decreases	(5)	(720)	(8 184)	(2 588)	(1 592)	(10 697)	(580)	**(24 366)**	-
Gross value of tangible fixed assets as at the end of the period: 31.12.2006	**2 841**	**345 994**	**405 969**	**113 720**	**240 048**	**39 004**	**-**	**1 147 576**	**12 942**
Accumulated depreciation as at the beginning of the period: 01.01.2006	**(69)**	**(49 317)**	**(245 177)**	**(23 462)**	**(113 669)**	**-**	**-**	**(431 694)**	**(1 555)**
Depreciation for the period (due to)	**4**	**(5 359)**	**(39 338)**	**(10 873)**	**(17 941)**	**-**	**-**	**(73 507)**	**(5 740)**
- depreciation charge	-	(7 845)	(46 144)	(18 231)	(20 342)	-	-	**(92 562)**	(1 421)
- included in consolidation for the first time	-	-	(9 555)	(218)	(2 299)	-	-	**(12 072)**	-
- other increases	-	(3)	(179)	(130)	(14)	-	-	**(326)**	(6 889)
- sale	-	1 979	771	6 070	1 286	-	-	**10 106**	862
- liquidation	-	301	9 624	358	2 266	-	-	**12 549**	1 708
- other decreases	4	209	6 145	1 278	1 162	-	-	**8 798**	-
Accumulated depreciation as at the end of the period: 31.12.2006	**(65)**	**(54 676)**	**(284 515)**	**(34 335)**	**(131 610)**	**-**	**-**	**(505 201)**	**(7 295)**
Impairment losses as at the beginning of the period: 01.01.2006	**(104)**	**(71 712)**	**(1 566)**	**(289)**	**(1 196)**	**(561)**	**-**	**(75 428)**	-
- increase	-	(192)	-	-	-	-	-	**(192)**	(97)
- decrease	-	12 223	97	-	1 033	-	-	**13 353**	-
Impairment losses as at the end of the period: 31.12.2006	**(104)**	**(59 681)**	**(1 469)**	**(289)**	**(163)**	**(561)**	**-**	**(62 267)**	**(97)**
Net value of tangible fixed assets as at the end of the period: 31.12.2006	**2 672**	**231 637**	**119 985**	**79 096**	**108 275**	**38 443**	**-**	**580 108**	**5 550**

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

27. Other Assets

as at	31.12.2007	31.12.2006
Assets taken over and held for resale	**1 266**	**1 328**
- other	1 266	1 328
Other, including:	**879 397**	**593 312**
- debtors	277 968	203 135
- receivables from income tax	2 764	2 577
- interbank balances	519	932
- other accruals	49 878	88 672
- accrued income	21 560	16 080
- inventories	364 747	196 800
- other	161 961	85 116
Total other assets	**880 663**	**594 640**
Short-term (up to 1 year)	633 786	469 740
Long-term (over 1 year)	246 877	124 900

28. Assets and Liabilities Held for Sale and Discontinued Operations

Bank supports its strategy concerning the sale of pension business of PTE Skarbiec-Emerytura SA. Therefore, the BRE Bank Group considered "Asset Management" segment as discontinued operations. On 29th June 2007 the Bank concluded with Aegon Woningen Nova B.V. holding 100% of the shares of Powszechne Towarzystwo Emerytalne Ergo Hestia S.A. (PTE Ergo Hestia) "Agreement to Merge PTE Ergo Hestia and PTE Skarbiec-Emerytura" and "The Optional Agreement". The integration will be carried out on the basis of article 492, paragraph 1, point 1 of Code of Commercial Companies through taking over the property of PTE Skarbiec Emerytura SA by PTE Ergo Hestia SA.

On 28 September 2007 the Bank was informed on the decision of the President of Office of Competition and Consumer Protect (Polish abbreviation is "UOKiK") of 27 September 2007, concerning the consent on concentration that lies in the merger of Aegon PTE SA and PTE Skarbiec-Emerytura SA. The consent is one of the necessary terms to carry out the merger of the above indicated general pension funds.

The merger of the companies also depends on getting assent of Polish Financial Supervision Authority (Polish abbreviation is 'KNF'). On 7 November 2007 both pension funds submitted motions for merger to KNF.

As at the issue date of these Consolidated Financial Statements, KNF did not announce the decision on merger of the pension funds.

The Option Agreement contains the put and call options, in the form of irrevocable offers pursuant to Article 66 of the Civil Code, entitling the Parties to purchase (sell) all the shares of the merger issue held by BRE Bank SA following the merger.

The sale of shares as a consequence of acceptance of the offer and payment for the shares may take place once the consent from KNF is obtained.

The share price (the "Price") will be the sum of the following:
- PLN 385 million, subject to adjustment of the said amount resulting from the number of members of OFE Skarbiec-Emerytura, published in the last report of KNF before the date of the merger (date of entry of the merger in the National Court Register maintained for PTE Ergo Hestia); and
- the net value of current assets of PTE Skarbiec-Emerytura, calculated as the value of current assets, minus liabilities and provisions of PTE Skarbiec-Emerytura as of the end of the last calendar month preceding the date of the merger.

If the merger is not carried out until June 30, 2008, each of the Parties will have the right to rescind the "Agreement to Merge PTE Ergo Hestia and PTE Skarbiec-Emerytura". The option agreement will expire at the date of termination the "Agreement to Merge PTE Ergo Hestia and PTE Skarbiec-Emerytura", if the consent for the merger is not obtained from KNF.

According to the rules described under the point 2.17 of Explanatory notes to the consolidated financial statements, as at 31 December 2007 the Bank classified PTE Skarbiec Emerytura SA (PTE) as non-current assets held for sale and discontinued operations. In accordance with IFRS 5 "Non-current Assets held for Sale and Discontinued Operations", as at 31 December 2007, all requirements set out in IFRS 5 to present PTE pension business as asset held for sale were met, except the expectation to complete a sale within 12 months from the initial timing of classification (December 2005). The delay in sale is caused by events outside the Bank's control (the requirement of gaining the assent on sale from the market regulator).

The Bank believes that the facts meet the requirement of IFRS 5, Appendix B to justify an extension to the 12-month period in which PTE should be recognized as assets (or disposal group) held for sale.

The Group analysed the requirements of IAS 12 "Income Taxes" and based on the paragraph 44 did not recognize deferred tax asset in relation to allowances due to shares of PTE in the consolidated financial statements. If the deferred tax was recognized, the Group would establish an asset in the amount of PLN 81.1 million.

The activity of PTE and SAMH was presented in the business segment reporting in the "Asset Management-discontinued operations" segment (Note 5).

In comparative data, i.e. as at 31 December 2006, the Bank also classified Skarbiec Asset Management Holding SA ("SAMH") as non-current assets held for sale and discontinued operations.

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

The Bank sold the aforementioned shares for a total amount of PLN 155 000 thousand.The price for shares was paid on 8 January 2007. Ownership of those shares was transferred to PEF V on 8 January 2007. The value of sold shares of net assets of SAMH was PLN 57 927 thousand. After the transaction the Group does not possess any shares of SAMH. The profit of the Group on sale of shares of SAMH in the gross amount of PLN 89 458 thousand was included in the result of discontinued operations. Detailed information concerning sold assets was presented in the Note 46.

Below are presented financial data concerning non-current assets (disposal groups) held for sale and discontinued operations as at December 31, 2007, December 31, 2006.

Financial data concerning balance sheet positions connected with the assets held for sale December 31, 2006.

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as at	31.12.2007	31.12.2006
Assets held for sale, including:		
Cash and balances with the Central Bank	-	3
Loans and advances to banks	4 064	10 550
Trading securities	-	6 548
Investment securities	88 744	79 098
- available for sale	-	10 642
- held to maturity	88 744	68 456
Intangible assets (including goodwill)	221 012	250 625
Tangible fixed assets	1 336	5 550
Deferred income tax assets	1 307	7 268
Other assets	19 615	25 552
Total assets held for sale	**336 078**	**385 194**

as at	31.12.2007	31.12.2006
Liabilities held for sale, including:		
Other liabilities	10 596	23 288
Provisions	1 947	1 713
Total liabilities held for sale	**12 543**	**25 001**

Financial data concerning profit and loss positions connected with the assets held for sale and discontinued operations for the periods: from 1 January to 31 December 2007 and from 1 January to 31 December 2006.

	Year ended 31 December	
	2007	**2006**
Interest income	3 407	3 631
Interest expense	-	(65)
Net interest income	**3 407**	**3 566**
Fee and commission income	46 347	140 530
Fee and commission expense	(19 125)	(39 808)
Net fee and commission income	**27 222**	**100 722**
Net trading income, including:	(4)	695
Foreign exchange result	*(4)*	-
Other trading income	-	*695*
Gains less losses from investment securities	2 731	212
Other operating income	38	152
Overhead costs	(8 290)	(44 281)
Amortization and depreciation	(448)	(1 718)
Other operating expenses	(5 124)	(17 469)
Operating profit	**19 532**	**41 879**
Net income from sale of assets held for sale	89 458	-
Profit before income tax from discontinued operations	**108 990**	**41 879**
Income tax expense	(22 350)	(5 734)
Net profit from discontinued operations including minority interest	**86 640**	**36 145**
Net profit attributable to minority interest	-	-
Net profit from discontinued operations	**86 640**	**36 145**

Financial data concerning cash-flow positions connected with non-current assets held for sale and discontinued operations for the periods: from 1 January to 31 December 2007 and from 1 January to 31 December 2006.

	Year ended 31 December	
the period	**2007**	**2006**
Cash flow from operating activities	(5 404)	(15 050)
Cash flows from investing activities	153 915	27 229
including sale of assets held for sale	*154 705*	-

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Earnings per share for the year - discontinued operations

	Year ended 31 December 2007	2006
Basic:		
Net profit from discontinued operations	86 640	36 145
Weighted average number of ordinary shares	29 578 675	29 344 158
Earnings per 1 ordinary share (in PLN per share)	**2.93**	**1.23**
Diluted:		
Net profit from discontinued operations applied for calculation of diluted earnings per share	86 640	36 145
Weighted average number of ordinary shares	29 578 675	29 344 158
Adjustments for:		
- stock options for employees	29 464	174 097
Weighted average number of ordinary shares for calculation of diluted earnings per share	29 608 139	29 518 255
Diluted earnings per share (in PLN per share)	**2.93**	**1.22**

29. Amounts due to Other Banks

as at	31.12.2007	31.12.2006
Payables to be settled	20 068	3 352
Current accounts	567 619	429 113
Term deposits	792 730	1 108 579
Loans and advances received	10 316 862	6 275 827
Repo / sell buy back transactions	558 180	124 225
Liabilities in respect of cash collaterals	31 481	31 290
Amounts due to other banks	**12 286 940**	**7 972 386**
Short-term (up to 1 year)	6 506 887	2 470 970
Long-term (over 1 year)	5 780 053	5 501 416

As at 31 December 2007 term deposits accepted from other banks were fixed interest rate deposits. An average deposit interest rate and loan interest rate for loans obtained from banks in 2007 amounted to 3.80%.

BRE Bank did not provide collateral to its lenders. The Group did not note any violations of contractual terms related to liabilities in respect of loans granted.

30. Amounts due to Customers

as at	31.12.2007	31.12.2006
Corporate customers:	**18 764 868**	**15 007 913**
Current accounts	9 349 668	7 987 527
Term deposits	5 364 977	3 827 122
Loans and advances received	193 510	237 026
Repo transactions	3 343 495	2 520 539
Other liabilities:	513 218	435 699
- liabilities in respect of cash collaterals	336 265	249 032
- other	176 953	186 667
Individual customers:	**12 932 340**	**9 505 764**
Current accounts	9 676 219	6 526 383
Term deposits	3 195 406	2 896 351
Other liabilities:	60 715	83 030
- liabilities in respect of cash collaterals	55 620	82 170
- other	5 095	860
Public sector customers:	**704 655**	**156 179**
Current accounts	658 632	26 999
Term deposits	39 480	86 310
Loans and advances received	-	1 685
Other liabilities:	6 543	41 185
- other	6 543	41 185
Total amounts due to customers	**32 401 863**	**24 669 856**
Short-term (up to 1 year)	31 765 645	23 847 669
Long-term (over 1 year)	636 218	822 187

As at 31 December 2007 the majority of the deposits from individual and corporate customers bore variable interest rates. An average interest rate for amounts due to customers (excluding repos) in 2007 amounted to 3.03%.

31. Debt Securities in Issue

As at 31 December 2007

Debt securities in issue by cathegory	Nominal value	Contractual interest rate	Guarantees/collaterals	Redemption date	Carrying value
Long-term issues					
- Deposit certificates (in PLN)	8 000	7.75%	no collateral	06-05-09	7 330
- Mortgage bonds (in EUR)	8 900	5.34%	mortgage bond register	20-05-09	32 012
- Mortgage bonds (in EUR)	16 000	5.34%	mortgage bond register	20-05-09	57 510
- Mortgage bonds (in EUR)	25 000	5.19%	mortgage bond register	20-05-09	89 830
- Mortgage bonds (in USD)	25 000	5.41%	mortgage bond register	20-05-09	61 036
- Mortgage bonds (in PLN)	100 000	5.54%	mortgage bond register	12-04-10	101 007
- Mortgage bonds (in USD)	10 000	5.10%	mortgage bond register	22-11-10	24 438
- Mortgage bonds (in PLN)	83 000	6.30%	mortgage bond register	29-11-10	82 622
- Mortgage bonds (in PLN)	95 000	6.20%	mortgage bonds publicly registered	29-11-10	94 998
- Mortgage bonds (in PLN)	82 250	5.11%	mortgage bonds publicly registered	27-07-12	84 207
- Mortgage bonds (in PLN)	200 000	5.53%	mortgage bonds publicly registered	28-09-12	202 764
- Bonds (in PLN)	13 200	5.19%	no collateral	26-01-09	13 922
- Bonds (in PLN)	34 000	5.49%	no collateral	16-10-09	34 347
- Bonds (in PLN)	20 000	5.49%	no collateral	16-10-09	20 204
- Bonds (in PLN)	75 000	6.06%	no collateral	01-12-09	75 283
- Bonds (in USD)	6 240	step up coupon (3.25, 3.75, 4.25, 4.75, 5.25)	deposit	09-12-09	15 092
Short-term issues					
- Deposit certificates (in PLN)	18 000	average return - 5.66%	no collateral	08/2008-10/2008	18 162
- Mortgage bonds (in PLN)	200 000	0.58%	mortgage bond register	10-04-08	202 572
- Mortgage bonds (in USD)	5 300	5.65%	mortgage bond register	20-05-08	12 948
- Mortgage bonds (in PLN)	200 000	5.73%	mortgage bond register	10-10-08	202 414
- Bonds (in EUR)	200 000	EURIBOR 3m + 0,20%	deposit	27-06-08	716 658
- Bonds (in PLN)	781 200	average return - 5.52%	no collateral	01/2008-09/2008	779 058
Debt securities in issue (carrying value in PLN '000s)					**2 928 414**
Short-term (up to 1 year)					1 931 812
Long-term (over 1 year)					996 602

As at 31 December 2006

Debt securities in issue by cathegory	Nominal value	Contractual interest rate	Guarantees/collaterals	Redemption date	Carrying value
Long-term issues					
- Deposit certificates (in PLN)	3 000	4.67%	no collateral	27-08-08	3 013
- Deposit certificates (in PLN)	5 000	4.86%	no collateral	01-10-08	5 061
- Deposit certificates (in PLN)	10 000	4.72%	no collateral	13-10-08	10 104
- Deposit certificates (in PLN)	8 000	7.75%	no collateral	06-05-09	6 765
- Bonds (in PLN)	59 300	5.25%	letter of comfort CB	22-09-08	59 576
- Bonds (in PLN)	11 200	4.71%	no collateral	16-10-09	11 272
- Bonds (in PLN)	15 000	4.51%	no collateral	16-10-09	15 169
- Bonds (in PLN)	34 000	4.69%	no collateral	01-12-09	34 334
- Bonds (in PLN)	20 000	4.61%	no collateral	26-01-09	20 166
- Bonds (in PLN)	75 000	4.59%	no collateral	23-07-08	75 290
- Mortgage bonds (in PLN)	200 000	5.04%	mortgage bond register	20-05-09	202 277
- Mortgage bonds (in USD)	5 300	6.08%	mortgage bond register	20-05-08	15 410
- Mortgage bonds (in PLN)	200 000	4.93%	mortgage bond register	10-04-08	202 227
- Mortgage bonds (in EUR)	25 000	4.34%	mortgage bond register	20-05-09	96 261
- Mortgage bonds (in EUR)	5 900	4.49%	mortgage bond register	10-10-08	22 466
- Mortgage bonds (in EUR)	20 000	4.49%	mortgage bond register	20-05-09	77 095
- Mortgage bonds (in USD)	25 000	5.99%	mortgage bond register	20-05-09	73 265
- Mortgage bonds (in PLN)	100 000	4.74%	mortgage bond register	12-04-10	101 071
- Mortgage bonds (in USD)	10 000	5.64%	mortgage bond register	22-11-10	29 290
- Bonds (in EUR)	225 000	EURIBOR 3m + 0,20%	deposit	18-10-07	867 910
- Bonds (in EUR)	200 000	EURIBOR 3m + 0,20%	deposit	27-06-08	766 125
- Bonds (in USD)	7 410	step up coupon (3.25, 3.75, 4.25, 4.75, 5.25)	deposit	09-12-09	21 611
Short-term issues					
- Bonds (in PLN)	220 700	average return - 4.33%	letter of comfort CB	01/2007-07/2007	220 264
- Bonds (in PLN)	454 900	average return - 4.21%	no collateral	01/2007-04/2007	453 537
Debt securities in issue (carrying value in PLN '000s)					**3 389 559**

Short-term (up to 1 year)	673 801
Long-term (over 1 year)	2 715 758

BRE Bank did not provide any collateral to holders of the issued bonds of the Bank. The Group did not note any violations of contractual terms related to liabilities in respect of issued debt securities.

Movements in Debt Securities in Issue

as at	31.12.2007	31.12.2006
As at the beginning of the period	**3 389 559**	**2 731 157**
Increase (due to):	1 440 449	7 652 669
- issuance	1 305 066	6 416 775
- valuation at amortization cost	135 383	135 963
- other *	-	1 099 931
Decrease (due to):	(1 901 594)	(6 994 267)
- redemption	(1 646 498)	(6 840 559)
- valuation at amortization cost	(112 025)	(115 598)
- foreign exchange differences	(141 653)	(38 110)
- other	(1 418)	-
Debt securities in issue at the end of the period	**2 928 414**	**3 389 559**

* change in the scope of consolidation due to including the opening balance sheet of BRE Bank Hipoteczny

32. Subordinated Liabilities

SUBORDINATED LIABILITIES	Nominal value	Currency	Interest rate (%)	Redemption date	As at the end of the period (in PLN '000s)
As at 31 December 2007					
- Commerzbank AG	400 000	CHF	3M LIBOR + 0.7%*	08.03.2017	866 391
- Commerzbank AG	100 000	EUR	3M EURIBOR + 2.5%	undefined	362 440
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	undefined	173 153
- Commerzbank AG	120 000	CHF	3M LIBOR + 1.5%***	18.12.2017	259 801
					1 661 785

* margin amounting to 0.70% is in force within the period of first five years. Within the period of next five years it will be equal to 1.20%.
** margin amounting to 1.4% is in force within the period of first ten years. Within the period of next years it will be equal to 3.4%.
***margin amounting to 1.5% is in force within the period of first five years. Within the period of next years it will be equal to 2.0%.

SUBORDINATED LIABILITIES	Nominal value	Currency	Interest rate (%)	Redemption date	As at the end of the period (in PLN '000s)
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%	undefined	386 992
- Commerzbank AG	80 000	CHF	3M LIBOR+1,4%	undefined	190 955
					1 547 354

In 2007 likewise in the year of 2006, the Group 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.

On 5 March 2007 BRE Bank SA (Bank) entered into agreement with Commerzbank AG on issue of subordinated debt securities. Commerzbank committed itself to take over ten-year subordinated debt securities based on floating interest rate and issued in accordance with Banking Act (art. 127 par. 3 p. 2 l. b), total nominal value amounted to CHF 400 000 thousand (PLN 980 400 thousand in accordance with the average rate of exchange of National Bank of Poland as at March 5, 2007); interest rate is floating and based on LIBOR 3M, increased by a margin. Debt securities were issued on March 8, 2007.

Simultaneously, i.e. on 5 March, 2007 Bank entered into two agreements on early repurchase of subordinated debt securities of the Bank, amounting to EUR 50 000 thousand (PLN 195 850 thousand in accordance with the average rate of exchange of National Bank of Poland as at March 5, 2007), interest rate is floating and maturity date by 2012, and subordinated debt securities of Bank amounting to EUR 200 000 thousand (PLN 783 400 thousand in accordance with the average rate of exchange of National Bank of Poland as at March 5, 2007), interest rate is floating and maturity date by 2012 respectively. Debt securities were repurchased on March 26, 2007. Impact of early repurchase on income statement amounted to PLN 11 495 thousand.

On 12 December 2007, BRE Bank entered into the following agreements with Commerzbank AG:

1. Bonds Issuance Agreement under which Commerzbank undertook itself to take up floating rate subordinated bonds with unspecified redemption date, issued on the basis of article 127 section 3 item 2 letter d) of the Banking Law, with total nominal value of CHF 170 000 thousand (PLN 373 388 thousand according to NBP's medium exchange rate as of 9 January 2008). The Bank issued the bonds on 9 January 2008. On 24 December 2007 the Bank obtained the Banking Supervision Commission's consent to classify funds from the issued bonds into its supplementary funds.

2. Together with the above agreement, the Bank concluded an agreement on redemption of the Bank's subordinated bonds in the amount of EUR 100 000 thousand (PLN 357 730 thousand at the NBP's medium exchange rate as of 12 December 2007), with floating rate and unspecified redemption date. The bonds were issued by the Bank under the agreement as of 2005, between the Bank and AT BRE COM LTD, a subsidiary of the Commerzbank. In 2006 Commerzbank took up issuance from AT BRE COM LTD.The redemption of the bonds with value of EUR 100 000 thousand is associated with issuance of the bonds, described in point. The above bonds were repurchased by the Bank on 16 January 2008 and they were redeemed on the same day. The main reason for the subordinated bonds repurchase and redemption was the change in the currency of the Bank's subordinated commitment from EUR to CHF.

3. The agreement under which on 18 December 2007 Commerzbank granted to the Bank 10-year subordinated loan amounting to CHF 120 000 thousand (PLN 261 612 thousand according to NBP's medium exchange rate as af 18 December 2007). On 24 December 2007 the Bank obtained the Banking Supervision Commission's consent to classify subordinated loan into supplementary funds on the basis of aricle 127 section 3 letter b) of the Banking law.

Subordinated liabilities include the amount of issued subordinated 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 KNB for the inclusion of the funds obtained from the said issue of bonds into the Bank's supplementary capital. The whole 2005 issue was taken over 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.

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Movements in Subordinated Liabilities

as at	31.12.2007	31.12.2006
As at the beginning of the period	**1 547 354**	**1 362 528**
Increase (due to:)	1 298 872	320 486
- subordinated loan raised	1 230 184	190 160
- interest on subordinated loan	68 688	67 097
- foreign exchange differences	-	1 417
- other*	-	61 812
Decrease (due to):	(1 184 441)	(135 660)
- capital repayment	(969 100)	(63 230)
- interest repayment	(66 104)	(62 920)
- foreign exchange differences	(149 237)	(9 510)
Subordinated liabilities as at the end of the period	**1 661 785**	**1 547 354**
Long-term (over 1 year)	1 661 785	1 547 354

* change in the scope of consolidation due to including the opening balance sheet of BRE Bank Hipoteczny SA

33. Other Liabilities

as at	31.12.2007	31.12.2006
Special Fund	**5 865**	**25 970**
- Social Benefits Funds	5 865	25 970
Other liabilities	**874 110**	**733 829**
- tax liabilities	11 146	9 550
- interbank settlements	69 825	112 429
- creditors	304 729	219 668
- accrued expenses	116 852	101 490
- deferred income	190 926	137 930
- provisions for pension dismissals	12 413	9 873
- provisions for holiday equivalents	6 957	5 461
- provisions for other employee benefits	149 005	108 518
- other	12 257	28 910
Total special funds and other liabilities	**879 975**	**759 799**

34. Provisions

as at	31.12.2007	31.12.2006
For off-balance sheet contingent liabilities* (Note 14)	58 060	53 370
For legal proceedings	4 355	7 460
Other	8 812	9 338
Total other provisions	**71 227**	**70 168**

* include valuation of financial guarantees

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

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Movements in the Provisions:

as at	31.12.2007	31.12.2006
As at the beginning of the period (by type)	**70 168**	**86 135**
For off-balance sheet contingent liabilities	53 370	63 920
For legal proceedings	7 460	7 926
Other	9 338	14 289
Increase (due to)	**40 103**	**32 956**
- increase of provisions	40 079	31 760
for off-balance-sheet contingent liabilities	*35 171*	*17 585*
for legal proceedings	*3 385*	*13 662*
other	*1 523*	*513*
- foreign exchange differences	-	1 196
- other	24	-
Decrease (due to)	**(39 044)**	**(48 923)**
- charge-offs	(12)	(6 883)
- release of provisions, due to:	(38 225)	(37 355)
for off-balance-sheet contingent liabilities	*(30 205)*	*(29 331)*
for legal proceedings	*(6 836)*	*(6 823)*
other	*(1 184)*	*(1 201)*
- utilization	(437)	(2 200)
- reclassification	-	(2 452)
- foreign exchange differences	(370)	(33)
As at the end of the period (by type)	**71 227**	**70 168**
For off-balance sheet contingent liabilities	58 060	53 370
For legal proceedings	4 355	7 460
Other	8 812	9 338

Allowance for Losses on Off-balance Sheet Contingent Liabilities

as at	31.12.2007	31.12.2006
Off-balance sheet contingent liabilities classified as "non-default"		
Off-balance sheet contingent liabilities	16 898 092	13 941 200
Provisions for impairment of exposures analysed according to portfolio approach (negative amount)	(53 546)	(47 387)
Net off-balance sheet contingent liabilities	**16 844 546**	**13 893 813**
Off-balance sheet contingent liabilities classified as "default"		
Off-balance sheet contingent liabilities	29 240	66 473
Provisions for impairment of exposures analysed individually (negative amount)	(4 514)	(5 983)
Net off-balance sheet contingent liabilities	**24 726**	**60 490**

35. Assets and Provisions for Deferred Income Tax

Assets and provisions for deferred income tax 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 2006 and 2007).

Below there are presented changes in assets and provisions for deferred income tax:

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as at	31.12.2007	31.12.2006
As at the beginning of the period	**64 800**	**116 887**
Deferred income tax included in the financial result of the period	48 241	(44 177)
Deferred income tax included in equity:	12 861	(94)
- valuation of available for sale securities	12 861	(19)
- valuation of cash flow hedge financial assets	-	(75)
transfer to profit and loss account	-	*(75)*
Other changes	(10 067)	(4 968)
Deferred income related to tax of asset held for sale	-	(2 848)
As at the end of the period	**115 835**	**64 800**
Interest payable on bank deposits	9 607	4 721
Interest payable on customer deposits	6 513	10 985
Valuation of derivatives and futures	32 471	24 900
Valuation of financial instruments at fair value through profit or loss and held for trading	1 953	455
Valuation of financial instruments available for sale	14 698	1 468
Provisions for impairment of loans and off-balance sheet exposures	47 412	60 474
Provisions for pensions, holiday equivalents, jubilee and other bonuses	33 731	23 038
Other provisions	265	518
Accruals and prepayments	20 849	19 884
Impairment of shares	1 740	5 844
Tax loss to be settled in future periods	1 613	-
Other negative temporary differences	143 291	79 326
Interest receivable on loans and advances granted to banks	(1 468)	(4 071)
Interest receivable on loans granted to customers	(19 045)	(16 590)
Valuation of derivatives and futures	(41 482)	(46 041)
Valuation of financial instruments at fair value through profit or loss and held for trading	(6 461)	(3 358)
Valuation of financial instruments available for sale	(32 378)	(17 618)
Investment tax relief	(30 446)	(31 146)
Difference between the amortization and depreciation for tax and accounting purposes	(40 351)	(33 011)
Other positive temporary differences	(26 677)	(14 978)
Total net deferred income tax assets	**116 290**	**65 112**
Total net deferred income tax liabilities	**(455)**	**(312)**

as at	31.12.2007	31.12.2006
Deferred income tax included in the profit and loss account		
Interest	507	3 742
Provisions for impairment of loans and guarantees determined individually	(13 062)	(16 546)
Valuation of derivatives and futures	12 130	(32 440)
Valuation of financial instruments at fair value through profit or loss and held for trading	(1 603)	8 664
Valuation of financial instruments available for sale	(14 066)	(16 672)
Investment tax relief	700	(371)
Tax losses carried forward	387	(12 755)
Provisions for pensions, holiday equivalents, jubilee and other bonuses	10 752	5 925
Other provisions	(253)	(449)
Accruals and prepayments	1 121	6 093
Impairment of shares	(4 104)	4 158
Difference between the amortization and depreciation for tax and accounting purposes	(7 345)	(11 326)
Other temporary differences	63 077	17 800
Total deferred income tax included in the profit and loss account (Note 15)	**48 241**	**(44 177)**

Deferred income tax assets are recognized if it is probable that there will be sufficient taxable income in the future (see also the Note 28 for unrecognized deferred tax assets in relation to write-offs due to shares of PTE).

There were no tax losses from previous years which would be included in the deferred tax assets calculation as at December 31, 2007 and December 31, 2006.

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

As at 31 December 2007, BRE Bank ('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 issuer'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 2007 was PLN 312 718 thousand, equal to 10.15 % of the issuer's equity.

Report on major proceedings concerning contingent liabilities of the Issuer

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 Supreme 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. On November 8, 2006, the Court of Appeal dismissed the claim in part, which was send back for further recognition by the Supreme Court. The claimant filed the last resort appeal for the ruling of the Supreme Court on 17 February 2007. On 18 May 2007 the Supreme Court dismissed the ruling as of 8 November 2006 of the Court of Appeal and referred the case back to the Court of Appeal in Warsaw. On 13 December 2007 the Court of Appeal in Warsaw changed the partial judgement of the District Court in Warsaw as of 26 June 2007 in point dismissing the claims in such a way that adjudged the amount of PLN 858 thousand plus statutory interest since 9 April 2007 till payment date from the Bank in favour of ART-B and dismissed the appeal in part concerning dismissal of the appeal on further amount of PLN 2 840 thousand plus interest as well as in part relating to dismissal of the appeal on adjudgement statutory interest on the amount of PLN 858 thousand for the period from 7 April 1993 to 8 April 2003.

   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 105.7 million according to the average exchange rate of the National Bank of Poland on 31 December 2007). 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. At present Bank Leumi and ART-B are on the final stage of establishing conditions of reconciliation to which the Bank is not going to accede. Acceding to no agreement by the Bank may have effects in Bank Leumi's recourse claims against the Bank, however probability of taking into account Bank Leumi's claims against the Bank is low in connection with favourable decisions for the Bank in Poland.

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 the office registered in Poznań ("POZMEAT") brought the case against BRE Bank SA ("Bank") and Tele-Tech Investment Sp. z o.o. to court on 29 July 2005. The value of the dispute amounted to PLN 100 000 thousand. 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 42 854 thousand. 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 100 000 thousand share capital of Garbary. On June 6, 2006 the District Court in Poznań issued the verdict according to which the claims were dismissed in their entirety. The claimant filed an appeal against that verdict. On 6 February 2007 the Appeal Court dismissed the claimant's appeal. The claimant filed the last resort appeal for the ruling of the Appeal Court. On 2 October 2007 the Supreme Court revoked the ruling of the Appeal Court and referred the case back for further recognition.

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

   On 19 October 2007 the settlement was concluded. As a result of realization of conditions of the settlement, both parties resigned all claims.

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Litigious cases are treated by the Group as contingent commitments.

As at 31 December 2007, the 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 2007 did not go beyond 10 % of the issuer's equity.

Contingent commitments of DI BRE due to Investor Compensation Scheme

In connection with passing by the Management Board of KDPW the resolution no 95/08, on 20 February 2008, related to donation the amounts of the compensation scheme for investors' compensation payments, constituting partly the amounts collected at KSR, to bankruptcy trustee of WGI Dom Maklerski SA as well as lack of information from KDPW about planned extra charges for KSR, DI BRE does not forecast creating the provision.

Taxes

Within the fourth quarter of 2007 tax audits concerning correctness of the settlements due to deferred corporate income tax with the national budget for the year 2002 were carried out at the Bank and the arrangements of the audits were presented in the protocol as of 21 December 2007. The audits did not indicate any uncorretnesses so BRE Bank did not have any reservations or explanations about the protocol.

There were no tax audits in the companies of the Group within the year 2007 or tax authorities did not carry out any full-scope tax audits at the Bank or at the companies of the Group within the year 2006.

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 Group's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

37. Off-balance Sheet Liabilities

Off-balance sheet liabilities of the Group comprise of:

(a) Lending commitments
The amounts and deadlines by which the Group will be obliged to realize its off-balance sheet liabilities by granting loans or other monetary services are presented in the table below.

(b) Guarantees and other financial facilities
Guarantees are presented in the table below based on the earliest contractual maturity date.

(c) Operating lease liabilities
Where the company of the Group is a lessee, the minimum future lease payments as part of irrevocable operating lease agreements are presented in the table below.

The following table presents the Group's off-balance sheet commitments granted and received as at 31 December 2007 and 31 December 2006.

31.12.2007	**up to 1 year**	**1 - 5 years**	**over 5 years**	**Total**
Contingent liabilities granted and received	**13 941 818**	**4 360 646**	**1 072 684**	**19 375 148**
Commitments granted	**11 986 919**	**4 090 200**	**1 063 019**	**17 140 138**
1. Financing	**9 937 554**	**3 126 558**	**1 037 829**	**14 101 941**
a) Lending commitments	9 918 073	3 032 295	938 767	13 889 135
b) Operating lease commitments	19 481	94 263	99 062	212 806
2. Guarantees and other financial facilities	**1 531 455**	**963 642**	**25 190**	**2 520 287**
a) Banker's acceptances	4 925	-	-	4 925
b) Guarantees and standby letters of credit	1 368 062	963 642	25 190	2 356 894
c) Documentary and commercial letters of credit	158 468	-	-	158 468
3. Other commitments	**517 910**	**-**	**-**	**517 910**
Commitments received	**1 954 899**	**270 446**	**9 665**	**2 235 010**
a) Financing	1 316 495	521	5	1 317 021
b) Guarantees	356 042	269 925	9 660	635 627
c) Other commitments	282 362	-	-	282 362
Liabilities related to realisation of purchase/sale transactions	**456 082 838**	**171 622 086**	**9 286 041**	**636 990 965**
Total off-balance sheet items	**470 024 656**	**175 982 732**	**10 358 725**	**656 366 113**

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31.12.2006	up to 1 year	1 - 5 years	over 5 years	Total
Contingent liabilities granted and received	**12 351 169**	**2 410 024**	**556 971**	**15 318 164**
Commitments granted	**11 408 884**	**2 318 852**	**527 242**	**14 254 978**
1. Financing	**8 865 132**	**1 452 304**	**433 943**	**10 751 379**
a) Lending commitments	8 838 924	1 375 689	289 461	10 504 074
b) Operating lease commitments	26 208	76 615	144 482	247 305
2. Guarantees and other financial facilities	**1 737 976**	**866 548**	**93 299**	**2 697 823**
a) Banker's acceptances	44 732	-	-	44 732
b) Guarantees and standby letters of credit	1 264 529	866 548	93 299	2 224 376
c) Documentary and commercial letters of credit	428 715	-	-	428 715
3. Other commitments	**805 776**	**-**	**-**	**805 776**
Commitments received	**942 285**	**91 172**	**29 729**	**1 063 186**
a) Financing	117 014	651	-	117 665
b) Guarantees	825 271	90 521	29 729	945 521
Liabilities related to realisation of purchase/sale transactions	**394 621 871**	**140 043 778**	**6 836 100**	**541 501 749**
Total off-balance sheet items	**406 973 040**	**142 453 802**	**7 393 071**	**556 819 913**

In 2007, the above operating lease liabilities fully concerned the lease of buildings but in 2006 they also concerned car lease.

Apart from commitments granted and received by BRE Bank SA, PLN 913 266 thousand of commitments incurred by BRE Bank Hipoteczny and PLN 322 152 thousand of commitments incurred by Polfactor had the largest impact on the amount of financial liabilities of the Group.

As at 31 December 2007, the list of issues covered by the guarantee of assumption by BRE Bank SA was as follows:

	Payee	Type of guaranteed securities	Amount of guaratee in PLN	Financial, organizational and personal relationships	Marketability
1.	ECHO Investment S.A.	Bonds	35 000 000	none	Marketable
2.	J.W. Construction	Bonds	39 500 000	none	Marketable
3.	Polimex Mostostal Siedlce S.A.	Bonds	32 500 000	none	Marketable
4.	Polski Koncern Energetyczny S.A.	Bonds	217 000 000	none	Marketable
5.	Prokom Software S.A.	Bonds	50 000 000	none	Marketable
6.	SPIN S.A.	Bonds	15 000 000	none	Marketable

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.

No other member of the Group except BRE Bank SA issued any guarantee commitments.

As at 31 December 2007, the Group had PLN 2 335 010 thousand worth of contingent commitments received.

As at 31 December 2007 BRE Bank SA received PLN 984 010 thousand worth of commitments, including both PLN 500 000 thousand worth of unused credits granted by foreign banks and PLN 484 010 thousand worth of received guarantees securing given credits and guarantees.

As at 31 December 2007, apart from BRE Bank, BRE Leasing received PLN 956 001 thousand worth of commitments from entities other than the companies of the Group and Transfinance a.s.- PLN 282 362 thousand relatively.

38. 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.

as at	31.12.2007	31.12.2006
Pledged assets, including:	**3 708 158**	**2 702 180**
- Trading securities (Note 20)	3 627 716	2 644 764
- Investment securities (Note 23)	80 442	57 416
Liabilities arising from pledged assets, including:	**3 977 776**	**2 683 309**
- Sell-buy back transactions (Note 29, 30)	3 901 675	2 644 764
- Funds guaranteed under BGF (Note 30)	76 101	38 545

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The Group did not pledge any assets as collateral for newly received loans in 2007.

39. Registered Share Capital

The total number of ordinary shares as at 31 December 2007 was 29 660 668 shares (vs. 29 516 035 as at 31 December 2006) with PLN 4 nominal value each (31 December 2006: PLN 4). All issued shares were fully paid.

The increase of registered share capital in 2007 results from the issuance of shares connected with realisation of employee options programs. The detailed information concerning the programs is described in the Note 42.

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
1986-12-11	ordinary bearer*	-	-	9 972 500	39 890 000	fully paid up in cash	23-12-86	01-01-89
1986-12-11	ordinary registered**	-	-	27 500	110 000	fully paid up in cash	23-12-86	01-01-89
1993-10-20	ordinary bearer	-	-	2 500 000	10 000 000	fully paid up in cash	04-03-94	01-01-94
1994-10-18	ordinary bearer	-	-	2 000 000	8 000 000	fully paid up in cash	17-02-95	01-01-95
1997-05-28	ordinary bearer	-	-	4 500 000	18 000 000	fully paid up in cash	10-10-97	10-10-97
1998-05-27	ordinary bearer	-	-	3 800 000	15 200 000	fully paid up in cash	20-08-98	01-01-99
2000-05-24	ordinary bearer	-	-	170 500	682 000	fully paid up in cash	15-09-00	01-01-01
2004-04-21	ordinary bearer	-	-	5 742 625	22 970 500	fully paid up in cash	30-06-04	01-01-04
2003-05-21	ordinary bearer	-	-	2 355	9 420	fully paid up in cash	05-07-05*	01-01-05
2003-05-21	ordinary bearer	-	-	11 400	45 600	fully paid up in cash	05-07-05*	01-01-05
2003-05-21	ordinary bearer	-	-	37 164	148 656	fully paid up in cash	11-08-05*	01-01-05
2003-05-21	ordinary bearer	-	-	44 194	176 776	fully paid up in cash	09-09-05*	01-01-05
2003-05-21	ordinary bearer	-	-	60 670	242 680	fully paid up in cash	18-10-05*	01-01-05
2003-05-21	ordinary bearer	-	-	13 520	54 080	fully paid up in cash	12-10-05*	01-01-05
2003-05-21	ordinary bearer	-	-	4 815	19 260	fully paid up in cash	14-11-05*	01-01-05
2003-05-21	ordinary bearer	-	-	28 580	114 320	fully paid up in cash	14-11-05*	01-01-05
2003-05-21	ordinary bearer	-	-	53 399	213 596	fully paid up in cash	08-12-05*	01-01-05
2003-05-21	ordinary bearer	-	-	14 750	59 000	fully paid up in cash	08-12-05*	01-01-05
2003-05-21	ordinary bearer	-	-	53 320	213 280	fully paid up in cash	10-01-06*	10-01-06*
2003-05-21	ordinary bearer	-	-	3 040	12 160	fully paid up in cash	10-01-06*	10-01-06*
2003-05-21	ordinary bearer	-	-	46 230	184 920	fully paid up in cash	08-02-06*	08-02-06*
2003-05-21	ordinary bearer	-	-	19 700	78 800	fully paid up in cash	08-02-06*	08-02-06*
2003-05-21	ordinary bearer	-	-	92 015	368 060	fully paid up in cash	09-03-06*	09-03-06*
2003-05-21	ordinary bearer	-	-	19 159	76 636	fully paid up in cash	09-03-06*	09-03-06*
2003-05-21	ordinary bearer	-	-	8 357	33 428	fully paid up in cash	11-04-06*	11-04-06*
2003-05-21	ordinary bearer	-	-	800	3 200	fully paid up in cash	11-04-06*	11-04-06*
2003-05-21	ordinary bearer	-	-	108 194	432 776	fully paid up in cash	16-05-06*	16-05-06*
2003-05-21	ordinary bearer	-	-	20 541	82 164	fully paid up in cash	16-05-06*	16-05-06*
2003-05-21	ordinary bearer	-	-	17 000	68 000	fully paid up in cash	09-06-06*	09-06-06*
2003-05-21	ordinary bearer	-	-	2 619	10 476	fully paid up in cash	09-06-06*	09-06-06*
2003-05-21	ordinary bearer	-	-	33 007	132 028	fully paid up in cash	10-07-06*	10-07-06*
2003-05-21	ordinary bearer	-	-	2 730	10 920	fully paid up in cash	10-07-06*	10-07-06*
2003-05-21	ordinary bearer	-	-	48 122	192 488	fully paid up in cash	09-08-06*	09-08-06*
2003-05-21	ordinary bearer	-	-	700	2 800	fully paid up in cash	12-09-06*	12-09-06*
2003-05-21	ordinary bearer	-	-	3 430	13 720	fully paid up in cash	11-10-06*	11-10-06*
2003-05-21	ordinary bearer	-	-	38 094	152 376	fully paid up in cash	10-11-06*	10-11-06*
2003-05-21	ordinary bearer	-	-	15 005	60 020	fully paid up in cash	08-12-06*	08-12-06*
2003-05-21	ordinary bearer	-	-	800	3 200	fully paid up in cash	10-01-07*	10-01-07*
2003-05-21	ordinary bearer	-	-	200	800	fully paid up in cash	16-02-07*	16-02-07*
2003-05-21	ordinary bearer	-	-	1 150	4 600	fully paid up in cash	09-03-07*	09-03-07*
2003-05-21	ordinary bearer	-	-	9 585	38 340	fully paid up in cash	09-03-07*	09-03-07*
2003-05-21	ordinary bearer	-	-	600	2 400	fully paid up in cash	11-04-07*	11-04-07*
2003-05-21	ordinary bearer	-	-	32 964	131 856	fully paid up in cash	17-05-07*	17-05-07*
2003-05-21	ordinary bearer	-	-	2 700	10 800	fully paid up in cash	15-06-07*	15-06-07*
2003-05-21	ordinary bearer	-	-	8 640	34 560	fully paid up in cash	12-07-07*	12-07-07*
2003-05-21	ordinary bearer	-	-	41 898	167 592	fully paid up in cash	14-08-07*	14-08-07*
2003-05-21	ordinary bearer	-	-	400	1 600	fully paid up in cash	14-09-07*	14-09-07*
2003-05-21	ordinary bearer	-	-	2 540	10 160	fully paid up in cash	11-10-07*	11-10-07*
2003-05-21	ordinary bearer	-	-	30 807	123 228	fully paid up in cash	15-11-07*	15-11-07*
2003-05-22	ordinary bearer	-	-	12 349	49 396	fully paid up in cash	13-12-07*	13-12-07*
Total number of shares				**29 660 668**				
Total registered share capital					**118 642 672**			
Nominal value per share			**4**					

* date of registration of shares in National Securities Deposit (KDPW SA)
** as at the balance sheet date

Commerzbank Auslandsbanken Holding AG is a shareholder holding over 5% of the share capital and votes at the General Meeting. As at 31 December 2007 Commerzbank Auslandsbanken Holding AG held 69.8558% of the share capital and votes at the General Meeting of BRE Bank SA (as at 31 December 2006 - 70.20%).

Moreover, in accordance with the notification sent to BRE Bank, BZ WBK AIB Asset Management SA held 1 486 325 shares of BRE Bank, which as at 31 December 2007 represented 5.0111% of share capital of BRE Bank and gave 1 486 325 rights to vote at the General Meeting of BRE Bank, which represented 5.0111% of general number of votes at the General Meeting of BRE Bank as at 31 December 2007. The shares were deposited on accounts of clients of BZ WBK AIB Asset Management SA. The above indicated figures included also shares of BRE Bank, being the property of investment funds managed by BZ WBK AIB TFI SA. BZ WBK AIB TFI SA informed BRE Bank about holding 1 484 452 shares of BRE Bank by the investments funds, managed by BZ WBK AIB TFI SA. The shares represented 5.0048% of share capital of BRE Bank as at 31 December 2007 and gave 1 484 452 rights to vote at the General Meeting of BRE Bank, which represented 5.0048% of general number of votes at the General Meeting of BRE Bank as at 31 December 2007.

40. 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 2007 results from realization of employee options programs. The detailed information concerning the programs are described in the Note 42.

Hyperinflationary restatements of the equity

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.

Because the effect of the restatement:

- represents 3.23% of own equity of the Group (the effect of the restatement would represent 7.07% of the item "Share capital");
- consists of reallocation of funds between various items of the own 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;

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 2007.

Hyperinflationary adjustments would also have no material effect for the period ended 31 December 2006 (the effect of the restatement would represent 4.23% of the owners' equity of the Group and 7.16% of the item-share capital).

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41. Revaluation Reserve

Movements in Revaluation Reserve:

as at	31.12.2007	31.12.2006
Translation reserve		
As at the beginning of the period	(1 321)	(1 923)
Exchange differences	(6 258)	602
As at the end of the period	**(7 579)**	**(1 321)**
Revaluation reserve - available for sale securities		
As at the beginning of the period	6 431	(731)
Net gains / (losses) from changes in fair value	67 167	30 866
- increase	*407 542*	*63 320*
- decrease	*(340 375)*	*(32 454)*
Net gains / (losses) transferred to net profit on disposal and impairment	(4 676)	(23 685)
Deferred income tax	12 861	(19)
As at the end of the period	**81 783**	**6 431**
Revaluation reserve - valuation of cash flow hedges		
Currency swap		
As at the beginning of the period	-	(321)
Movements in reporting period:	-	*(75)*
Deferred income tax	-	(75)
Transfer to profit and loss account on disposal and impairment	-	396
As at the end of the period	**-**	**-**
Total revaluation reserve	**74 204**	**5 110**

The net profit in total amount of PLN 4 676 thousand representing the balance of increases/decreases of securities (bonds, treasury notes and stocks) sold in the 2007 was charged off the revaluation capital and recognized in the Profit and Loss Account (as at 31 December 2006 PLN net profit 23 685 thousand).

Valuation of shares of VECTRA SA has had the most material impact on profit/(loss) due to changes in the fair value in 2007, net of tax effect (the Note 23).

42. 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.

as at	31.12.2007	31.12.2006
Other supplementary capital	322 262	9 451
Other reserved capital	22 288	20 899
General Banking Risk Fund	559 110	558 000
Profit from previous years	119 121	19 102
Profit for the current year	710 094	421 258
Total retained earnings	**1 732 875**	**1 028 710**

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 Group 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.

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.

Since July 1, 2006 Bank has been operating one employee options program. This program has been valued in accordance with IFRS 2.

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471 300 share options of PLN 96.16 issue price each, were granted on 15 October 2003 and they expire on 1 July 2008. Further 21 700 options were granted on 31 July 2004. As at 1 July 2005 further 7 000 options were granted. The program stipulates total pool of 500 000 options - 175 000 options for the Management Board and 325 000 options for other employees. The options were fair-valued.

Acquisition of options is payable and employees pay 0.1% of the issue price for each share. The options were distributed in proportion: 20% each year in advance, starting from 15 October 2003 until 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.

BRE Bank operated two employee options programs till 30 June 2006. The first program, under which members of the Bank's Management were granted 479 500 newly issued shares, expired on 30 June 2006. Allin 477 007 shares were acquired under this program.

The following table presents the changes in other reserved capital concerning the employee stock options program:

as at	31.12.2007	31.12.2006
As at the beginning of the period	**7 275**	**12 967**
- value of services provided (Note 13)	648	2 212
- settlement of exercised options	(6 577)	(7 904)
As at the end of the period	**1 346**	**7 275**

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

as at	31.12.2007	31.12.2006
As at the beginning of the period	**174 097**	**348 037**
Granted	-	-
Realized	144 633	173 940
Expired	-	-
As at the end of the period	**29 464**	**174 097**
exercisable at the end of period	29 464	71 489

947 543 shares related to realisation of both employee options programs were issued until 31 December 2007.

Share options outstanding at the end of year 2007 were 29 464 under the second share options program The outstanding share options shall be exercisable no later than 30 June 2008 under the condition of the employment.

Options exercised in 2007 resulted in 144 633 shares (2006: 532 063 shares, 2005: 270 847 shares relatively) being issued. In 2007 weighted average price for each share at the date for which options of the second program were exercised amounted to PLN 491.54 per share (in 2006 weighted average price for each share at the date when options of the first and the second program were exercised amounted to: PLN 184.82 and PLN 234.47 per share respectively).

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.

43. Dividend per Share

On 30 January 2008, the Management Board of BRE Bank SA passed a resolution related to considering a motion, concerning non-payment of dividend for 2007 to the shareholders, by the Ordinary General Meeting of the Bank. The Management Board's motion will be presented to the Supervisory Board.

The recommendation of the Management Board is based on continuation of conducting BRE Bank Group's development policy and intensive expansion at financial services market as well as necessity of providing a stable capital base for the Bank.

44. 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:

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as at	31.12.2007	31.12.2006
Cash and balances with the Central Bank (Note 17)*	2 003 535	3 716 610
Debt securities eligible for rediscounting at the Central Bank	23 259	26 725
Loans and advances to banks (Note 19)*	730 410	1 763 376
Trading securities (Note 20)	4 800 231	3 576 135
Total cash and cash equivalents	**7 557 435**	**9 082 846**

* Cash and balances with the Central Bank as well as loans and advances to banks include current receivables of PTE (in comparative data – PTE and SAMH) presented under the item "Non-current Assets and Discontinued Operations" (Note 28).

45. Transactions with Related Entities

All transactions between the Bank and related entities, exceeding the equivalent of EUR 500 000 and represented in PLN, were transactions concluded on market terms. Apart from the transactions described below, they were typical and routine transactions and their nature 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 9 November 2007 the Bank had incurred cost in connection with settlement the agreement concluded between the Bank and person fulfilling criteria of definition of the Bank's key executive personnel before that person started performing functions classifying the person into key executive personnel of the Bank, amounting to PLN 3 307 thousand. The agreement related to possibility and terms of share in equity of the above indicated person in one of the subsidiaries of BRE Bank. The transaction was concluded on market terms.

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

- On 5 March 2007 BRE Bank SA (the Bank) concluded with Commerzbank AG the Agreement for the issue of subordinated bonds. On the strength of the Agreement, Commerzbank AG assumed ten-year subordinated bonds of floating interest rate, issued based on art. 127 item 3 point 2 letter b) of Bank Law of total nominal value of CHF 400 000 thousand (PLN 980 400 thousand according to the average NBP rate of 5 March 2007). Bond interest rate is floating, based on the three-month LIBOR rate augmented by margin. The bonds were ussued on March 8, 2007.

  Together with the Agreement, that is on 5 March 2007, the Bank concluded two agreements concerning an earlier redemption, respectively, of the Bank's subordinated bonds for the sum of EUR 50 000 thousand (PLN 195 850 thousand according to the average NBP rate of 5 March 2007), on floating interest rate and redemption date in 2012 and the Bank's subordinated bonds for the sum of EUR 200 000 thousand (PLN 783 400 thousand according to the average NBP rate of 5 March 2007), on floating interest rate and redemption date in 2012. The bonds were repurchased on March 26, 2007.

  The Bank has obtained Banking Supervision Commission's consent to include the amount arising from the issue of subordinated bonds into complementary capital.

- On February 27, 2007 BRE Leasing Sp. z o.o. entered into a loan agreement with Commerzbank AG, Branch in Prague. An amount of the loan was PLN 500 000 thousand. This was a multicurrency loan to be used up by February 27, 2008. The loan is to be repaid until December 30, 2011.
  Interest on the loan was based on the base rate applicable to the currency being drawn and the interest period selected, increased by margin of Commerzbank AG, Branch in Praque, which is:
  - for PLN – WIBOR 2W, 1M, 3M, 6M,
  - for EUR – EURIBOR 2W, 1M, 3M, 6M,
  - for CHF – CHF LIBOR 2W, 1M, 3M, 6M.

- On 1 June 2007 BRE Leasing entered into a loan agreement with Commerzbank AG, Branch in Prague. An amount of the loan was PLN 500 000 thousand. This was a long-term multicurrency loan to be used up by 1 June 2008. The loan is to be repaid until May 31, 2012.
  Interest on the loan was based on the base rate applicable to the currency being drawn and the interest period selected, increased by margin of Commerzbank AG, Branch in Prague, which is:
  - for PLN – WIBOR 2W, 1M, 3M, 6M,
  - for EUR – EURIBOR 2W, 1M, 3M, 6M,
  - for CHF – CHF LIBOR 2W, 1M, 3M, 6M.

- On 29 June 2007 BRE Bank SA entered into a loan agreement with Commerzbank AG.The Bank got a loan in the amount of CHF 500 000 thousand (PLN 1 136 500 thousand at average rate of exchange published by National Bank of Poland as at 29 June 2007) for the purposes of fulfilling general financial needs of Bank. The loan is granted for 3 years, interest rate 0,155 % p.a. plus LIBOR.

- On 24 September 2007 BRE Leasing Sp. z o.o., a subsidiary company of BRE Bank, entered into a loan agreement with Commerzbank AG, Branch in Prague. The amount of the loan has amounted to PLN 1 000 000 thousand. This is a long-term multicurrency loan to be used up by 24 September 2008. The loan is to be repaid until September 27, 2012.

  The interest has been based on the base rate applicable to the currency being drawn and the interest period selected (plus margin of Commerzbank AG, Branch in Praque), i.e.:
  - for PLN – WIBOR 2W, 1M, 3M, 6M,
  - for EUR – EURIBOR 2W, 1M, 3M, 6M,
  - for CHF – CHF LIBOR 2W, 1M, 3M, 6M

- In July and September 2007 BRE Bank entered into agreement on servicing subissue of letters of pledge with BRE Bank Hipoteczny ("BBH"), a subsidiary company which is in 100 % controlled by the Bank, and appendices relating to agreement on letters of pledge issue program. Upon these agreements the Bank has taken over the letters of pledge, issued by BBH of total nominal value of PLN 300 000 thousand. The appendix concluded with BBH and Dom Inwestycyjny BRE Banku SA on 25 September 2007 was larger agreement of the two mentioned above. On the basis of the agreement the Bank made registration for 200 000 general letters of pledge on 27 September 2007, PUA2 set, issued by BBH of total nominal value of PLN 200 000 thousand and five-year maturity period. The letters of pledge were acquired by the Bank on 28 September 2007.

  Letters of pledge interest and remuneration terms were established on market terms.

  Moreover the Bank undertook itself to sell letters of pledge, PUA2 set, to international financial institution on 28 September 2007. The appendix to the agreement on letters of pledge issue program as well as the agreement on letters of pledge issue program (together known as "Agreement") include standard conditions applied in such agreements, however if the above indicated letters of pledge were not sold to the international financial institution, BRE Bank had a right to sell the letters of pledge to the third party and if so, BBH undertook itself to cover the disparity between issue price that would be paid by BRE Bank and the value received from sale of the letters of pledge to the third party plus transaction costs ("Disparity").

- On 28 September 2007 BRE Bank entered into a loan agreement with Commerzbank AG. The Bank will get a loan in the amount of CHF 500 000 thousand (PLN 1 138 100 thousand at the average rate of exchange announced by National Bank of Poland on 28 September 2007) for the purpose of fulfilling general financial needs of the Bank.

  The loan is granted for 3 years, interest rate 0.155 % p.a. plus LIBOR, the tranches will be rolled in every three months.

- On 12 November 2007, BRE Bank and Tele-Tech Investment Sp. z o.o. ("TTI"), the Bank's 100% subsidiary, concluded an agreement under which the Bank acquired from TTI 8 306 500 stocks of BRE.locum SA ("BRE.locum") of the nominal value PLN 1 each. The shares taken up by the Bank constitute 30.00% of the share capital of BRE.locum and authorise to exercise 8 306 500 votes which represent 30.00% of general number of votes at the general meeting of shareholders of BRE.locum.

  The shares were acquired by the Bank for the total amount of PLN 8 411 thousand. The value of the shares, as recorded in the Bank's accounts, amounts to PLN 8 411 thousand. The acquisition was financed from the Bank's own funds. As a result of the acquisition the Bank holds stocks representing 79.99% of BRE.locum's share capital as well as votes at the general meeting of shareholders.

- On 28 November, 2007 BRE Bank under the agreement signed with BRE Bank Hipoteczny SA ("BBH"), the Bank's 100% subsidiary, on 26 November, 2007, concerning sub-issue service took over 3-year mortgage bonds issued by BBH, up to PLN 170 000 thousand, and 3-year public mortgage bonds issued by BBH, up to PLN 170 000 thousand. The above mortgage bonds will be quote at CeTo.

- On 12 December 2007, BRE Bank entered into the following agreements with Commerzbank AG:

  1. Bonds Issuance Agreement under which Commerzbank undertook itself to take up floating rate subordinated bonds with unspecified redemption date, issued on the basis of article 127 section 3 item 2 letter d) of the Banking Law, with total nominal value of CHF 170 000 thousand (PLN 373 388 thousand according to NBP's medium exchange rate as of 9 January 2008). The Bank issued bonds on 9 January 2008. On 24 December 2007 the Bank obtained the Banking Supervision Commission's (Polish abbreviation is "KNB") consent to classify funds from the issued bonds into its supplementary funds.

  2. Together with the above agreement, the Bank concluded an agreement on redemption of the Bank's subordinated bonds in the amount of EUR 100 000 thousand (PLN 357 730 thousand at the NBP's medium

exchange rate as of 12 December 2007), with floating rate and unspecified redemption date. The bonds were issued by the Bank under the agreement as of 2005, between the Bank and AT BRE COM LTD, a subsidiary of the Commerzbank. In 2006 Commerzbank took up issuance from AT BRE COM LTD.The redemption of the bonds with value of EUR 100 000 thousand is associated with issuance of the bonds, described in point 1. The above bonds were repurchased by the Bank on 16 January 2008 and they were redeemed on the same day. The main reason for the subordinated bonds repurchase and redemption was the change in the currency of the Bank's subordinated commitment from EUR to CHF.

3. The agreement under which on 18 December 2007 Commerzbank granted to the Bank 10-year subordinated loan amounting to CHF 120 000 thousand (PLN 261 612 thousand according to NBP's medium exchange rate as af 18 December 2007). On 24 December 2007 the Bank obtained the Banking Supervision Commission's consent to classify subordinated loan into supplementary funds on the basis of aricle 127 section 3 letter b) of the Banking law.

In all reporting periods there were no mutual transactions with direct parent entity of BRE Bank.

The amounts of transactions with related entities, i.e. balance sheet balances and related expenses and income as at 31 December 2007 and 31 December 2006 and for the years ended then were as follows:

Numerical data concerning transactions with affiliated entities (in PLN thousands) - 31 December 2007

No.	Company's name	Balance sheet		Income Statement				Off-balance sheet items	
		Receivables	Liabilities	Interest income	Interest cost	Commission income	Commission cost	Commitments granted	Commitments received
	Subsidiaries not included in consolidation due to immateriality								
1	ServicePoint Sp. z o.o.	155	74	1	(14)	10	0	345	0
2	BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	0	1	0	(8)	1	0	0	0
3	BRE Holding Sp. z o.o.	0	98	0	0	0	0	0	0
4	BREL-MAR Sp. z o.o.	0	1	0	0	1	0	0	0
5	AMBRESA Sp. z o.o.	0	354	0	0	2	0	0	0
6	BRE Ubezpieczenia TU SA	0	8 383	0	(121)	2	0	0	0
	Associated								
	Xtrade SA	0	61	0	(4)	7	0	0	0
	Ultimate Parent Group								
	Commerzbank AG Group	387 525	9 861 963	25 838	(246 096)	0	0	54 308	106 369

Numerical data concerning transactions with affiliated entities (in PLN thousands) - 31 December 2006

No.	Company's name	Balance sheet		Income Statement				Off-balance sheet items	
		Receivables	Liabilities	Interest income	Interest cost	Commission income	Commission cost	Commitments granted	Commitments received
	Subsidiaries not included in consolidation due to immateriality								
1	emFinanse Sp. z o.o.	6 385	11	88	(2)	57	0	5 216	0
2	ServicePoint Sp. z o.o.	0	822	0	(4)	3	0	0	0
3	FAMCO SA	0	3 850	0	(144)	4	0	0	0
4	BRELINVEST Sp. z o.o. Fly 2 Commandite company	0	19	0	(6)	1	0	0	0
5	BRELIM Sp. z o.o.	0	13	49	0	1	0	0	0
6	BREL-MAR Sp. z o.o.	0	3	0	0	1	0	0	0
7	BREL-RES Sp. z o.o.	16 253	205	2 528	(121)	27	0	0	0
8	AMBRESA Sp. z o.o.	0	866	0	(2)	2	0	0	0
9	BRE Ubezpieczenia Sp. z o.o.	0	2 516	0	(47)	2	0	0	0
	Associated								
	Xtrade SA	0	88	2	(2)	7	0	0	0
	Ultimate Parent Group								
	Commerzbank AG Capital Group	536 360	6 274 002	13 036	(128 374)	0	0	197 869	204 986

The table below presents the values of transactions between the Bank and: the management of the Bank, the management of the subsidiaries as well as key executive management of the Group.

(in PLN '000s)	**Directors and key management personnel of the Bank**		**Directors and key management personnel in other entities of the Group**	
As at the end of the period	**31.12.2007**	**31.12.2006**	**31.12.2007**	**31.12.2006**
Loans outstanding	7 218	2 977	2 177	5 075
Deposits received	34 187	13 771	713	237
Interest expense on deposits	(370)	(150)	-	(4)
Interest, fee and commission income	322	322	66	75
Directors and key management personnel of the Bank remuneration	28 471	19 113	25 132	32 655

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In the year 2007 no provisions were created in connection with credits granted to related entities.

Management Board Compensation

Management Board of BRE Bank consists of seven 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. Jarosław Mastalerz – Member of the Management Board, Bank Director in charge of Retail Banking
5. Rainer Ottenstein – Member of the Management Board, Bank Director in charge of Operation and IT
6. Wiesław Thor – Member of the Management Board, Bank Director in charge of Risk Management
7. Janusz Wojtas – Member of the Management Board, Bank Director in charge of Corporate Banking

Supervisory Board of BRE Bank SA in its resolution dated June 29, 2007, appointed Mr. Jarosław Mastalerz as Management Board Member and Director of the Bank as of August 1, 2007, until the end of present term of office of the Management Board of BRE Bank SA. Mr. Jarosław Mastalerz is responsible for the retail banking division of BRE Bank SA.

Information on the Board members' salaries, bonuses and benefits paid and due to the members of the Management Board of the Bank that were the members at the end of 2007 as at 31 December 2007 and 31 December 2006 is presented below:

	Remuneration paid in 2007 (in PLN)		
	Basic salary	**Other benefits**	**Bonus for 2006**
1. Sławomir Lachowski	1 200 000	95 000	3 930 395
2. Jerzy Jóźkowiak	738 000	39 145	2 355 693
3. Bernd Loewen	681 522	201 847	2 298 237
4. Jarosław Mastalerz	307 500	36 838	0
5. Rainer Ottenstein	681 522	242 870	2 298 237
6. Wiesław Thor	738 000	53 781	2 355 693
7. Janusz Wojtas	738 000	53 781	2 083 157
Razem	**5 084 544**	**723 262**	**15 321 412**

	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
Razem	**4 812 613**	**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 the 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.

The total compensation of members of the Management Board consists of: salary, bonuses, termination of agreement payment, prohibition of competitiveness payment, insurance costs and accommodation costs. The above mentioned benefis are short-term employee benefits.

In accordance with the Bank's remuneration system in force, the members of the Management Board of the Bank are bonuses eligible for the year 2007, which will be paid out in 2008. The final decision concerning the level of the bonus will be taken by the Executive Committee of the Supervisory Board on March 14, 2008.

Additionally, in 2007 the members of the Bank's Management Board received in aggregate PLN 331 127 thousand as a compensation for their role as members of the management boards and supervisory boards of the Bank's related companies (in 2006: PLN 271 904 thousand).

The total amount of remuneration received in 2007 by Bank's Management Board members was PLN 21 460 345 (2006: PLN 15 041 520).

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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. Michael Schmid - Member of the Supervisory Board, Chairman of the Risk Committee
6. Gromosław Czempiński – Member of the Supervisory Board
7. Achim Kassow – Member of the Supervisory Board
8. Teresa Mokrysz – Member of the Supervisory Board

Information about Supervisory members' salaries, bonuses and benefits paid as at 31 December 2007 and 31 December 2006 is presented below:

	Remuneration paid in 2007 (in PLN)	**Remuneration paid in 2006 (in PLN)**
1. Maciej Leśny	315 000	315 000
2. Martin Blessing	234 000	234 000
3. Michael Schmid	198 000	198 000
4. Jan Szomburg	231 000	231 000
5. Nicholas Teller	231 000	231 000
7. Gromosław Czempiński	132 000	132 000
6. Achim Kassow	198 000	41 250
8. Teresa Mokrysz	132 000	132 000
Renate Kreummer*	-	182 000
Krzysztof Szwarc**	33 000	198 000
Razem	**1 704 000**	**1 894 250**

* Ms. Renate Kreumer resigned from her membership of Supervisory Board of BRE Bank SA on 13 October 2006.
** On 28 February 2007 Mr. Krzysztof Szwarc resigned from role that he had performed.

In accordance with the wording of paragraph 11 letter j) of the Bylaws 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 Bylaws of BRE Bank SA).

46. Acquisitions and Disposals

Disposals

On 8 January 2007 in relation to the agreement of 25 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 SA sold 72 582 shares of SAMH of face value PLN 1 000 each.

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

The value of sold shares of SAMH in the Bank's accounts was PLN 51 033 thousand. After the transaction the Bank has had no shares of SAMH. The Bank considered investment in shares of SAMH as a long-term investment. Total impact of the transaction on consolidated gross result of BRE Bank Group in 2007 amounted to PLN 89 458 thousand. The gain to the Group on sale of shares of shares was included in the result of discontinued operations.

Detailed information concerning fair value of sold assets and liabilities is presented below:

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	31.12.2006
Cash and balances with the Central Bank	3
Loans and advances to banks	16 645
Trading securities	6 548
Investment securities	10 642
Intangible assets, including recognized according to IFRS 3	25 178
Tangible fixed assets	4 490
Deferred income tax assets	2 821
Other assets	14 644
Other liabilities	(22 868)
Provisions	(176)
Net assets	57 927
Proceeds from sale (discharged by cash)	155 000
Less: Cash and cash equivalents in subsidiary sold	(295)
Net cash inflow on sale	154 705

47. 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 on 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 2 924 thousand in 2007 (2006: PLN 2 334 thousand).

The total amount of PwC remuneration related to consulting services for BRE Bank SA was PLN 1 130 thousand in 2007 (2006: PLN 892 thousand).

48. Capital Adequacy Ratio / Capital Adequacy

One of the main tasks of balance sheet management is to ensure an appropriate level of capital. Within the Group's capital management framework, BRE Bank creates its framework and directions in order to both form the most effective planning and utilization of capital which:

- are consistent with valid external regulations and internal regulations of the Group,
- place in safety continuation of accomplishment of financial aims providing a suitable level of return for shareholders,
- provide maintaining a stable capital basis which is the basis for progress of the business.

Capital management policy in BRE Bank is based on:

1. maintenance an optimal level and structure of own funds with application of available methods and means (retention of net profit, subordinated loan, securitization – release of capital, issue shares, etc.);
2. effective utilization of existing capital among others through application of set of measure instruments of effective utilization of capital, limitation of activities that do not provide an expected rate of return, development of products with lower capital absorption.

Effective utilization of capital is an integral part of capital management policy oriented to reach an optimal rate of return on capital and thanks to it, forming a stable basis of reinforcement of capital basis in future periods, which enables to maintain the capital adequacy ratio at least on the level required by the supervision authority (Banking Supervision Commission). Adequacy ratio is a quotient of own funds by total capital charge, multiplied by 12.5, and adequacy ratio is to equal 8% at least.

Own funds comprise of:

a) core funds comprise of:

- principal funds (paid and registered initial capital, capital surplus fund and reserve funds excluding any liabilities due to preference shares),
- additional items of core funds (general risk fund for unidentified banking business risk, profit from previous years, profit under approval by shareholders and net profit for the current year, calculated in accordance with valid accounting principles, less any expected costs and dividends in the amounts not greater than the profit verified by auditors, other balance sheet items determined by Banking Supervision Commission),
- items reducing core funds – own shares held by the Bank, valued at carrying amount and reduced by impairment losses on them, intangible assets measured at carrying amounts, loss from the previous year, loss under approval by shareholders, net loss for the current year, other decreases of core funds of the Bank

determined by Banking Supervision Commission (including missing provisions for banking business risk and exposure to securitization items)

b) supplementary funds comprise of:

- revaluation reserve resulting from valuation of tangible fixed assets – formed on the basis of separate regulations,
- balance sheet items on including which Banking Supervision Commission takes decisions (including subordinated liabilities, liabilities due to securities with unlimited maturities and other similar instruments),
- items determined by Banking Supervision Commission for the purpose of providing business safety and proper risk management within the Bank,
- decreases of supplementary funds, determined by Banking Supervision Commission.

Total capital charge comprises of:

- credit capital charge,
- market risk capital charge comprising of: foreign exchange risk capital charge, commodities risk capital charge, specific risk for equity instruments capital charge, specific risk for debt instruments capital charge, general interest rate risk capital charge,
- settlement risk capital charge, delivery risk capital charge and counterparty risk capital charge,
- capital charges due to: risk of exceeding the limit of concentration of exposures and risk of exceeding the limit of concentration of large exposures,
- capital charge due to risk of exceeding capital concentration level charge.

The calculation of the Group 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 1/2007 of Banking Supervision Commission (KNB) dated at 13 March 2007 (Dz. Urz. NBP from the year 2007 No 2 pos. 3),
- Resolution no 2/2007 of Banking Supervision Commission (KNB) dated at 13 March 2007 (Dz. Urz. NBP from the year 2007 No 3 pos. 4),
- Resolution no 3/2007 of Banking Supervision Commission (KNB) dated at 13 March 2007 (Dz. Urz. NBP from the year 2007 No 3 pos. 5).
- Resolution no 5/2007 of Banking Supervision Commission (KNB) dated at 13 March 2007 (Dz. Urz. NBP from the year 2007 No 3 pos. 7).

Consolidated capital adequacy ratio of the BRE Bank SA Group amounted to 10.16% as at 31 December 2007. Due to significant trading activity full calculation of the capital charges is being made. Total capital charge of the Group amounted to PLN 3 127 259 thousand as at 31 December 2007, including PLN 3 009 261 thousand of credit capital charge (31 December 2006 respectively: 2 290 618 thousand and 2 193 508).

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Capital adequacy	**31.12.2007**	**31.12.2006**
Own funds:		
- Share capital	118 643	118 064
- Supplementary fund	1 398 789	1 378 882
- Reserve fund	1 022 781	607 452
- Revaluation reserve arising from valuation of non-current and financial assets available for sale	(1 057)	5 110
- Profit for the current year	323 866	-
- Investments and participations in financial institutions	(37 794)	(14 689)
- Additional increase	116 812	91 433
- Additional decrease	(192 283)	(221 259)
- Intangible assets	(433 696)	(410 477)
- Subordinated liabilities	1 655 040	1 420 817
I. Total own funds	**3 971 101**	**2 975 333**
Risk weighted balance-sheet assets:		
- 20% risk assets	385 326	682 529
- 50% risk assets	748 522	853 452
- 100% risk assets	32 922 236	22 182 567
II. Total risk weighted balance-sheet liabilities:	**34 056 084**	**23 718 548**
- 20% risk off-balance sheet liabilities	128 809	38 821
- 50% risk off-balance sheet liabilities	2 870 116	2 798 590
- 100% risk off-balance sheet liabilities	476 738	740 306
- 0.1% - 10% risk off-balance sheet liabilities	84 016	122 591
III.Total risk weighted off-balance sheet liabilities	**3 559 679**	**3 700 308**
IV. Total risk weighted off-balance sheet assets and liabilities (II + III)	**37 615 763**	**27 418 856**
V. Credit risk (IV * 8%)	**3 009 261**	**2 193 508**
VI. Foreign exchange risk	**14 684**	**9 423**
VII. Specific risk for equity instruments	**231**	**747**
VIII. Specific risk for debt instruments	**44 027**	**6 042**
IX. General interest rate risk	**35 366**	**63 841**
X. Counterparty risk	**23 661**	**14 316**
XI. Commodities risk	**29**	**2 741**
XII. Total capital charge	**3 127 259**	**2 290 618**
XIII. Capital adequacy ratio (%)	**10.16%**	**10.39%**

49. Events after the Balance Sheet Date

- On 25 January 2008 BRE Bank, in accordance with the agreement, sold shares of Vectra SA for total amount of PLN 264 035 thousand. The transaction was described in the Note 23.

- On 31 January 2008 BRE Bank granted a multiple currency mid-term unsecured loan in the amount of EUR 50 000 thousand (PLN 181 300 thousand according to NBP's average exchange rate as of 31 January 2008) to one of its clients. The agreement concerning the aforementioned loan has been the highest value agreement concluded with the client within the last twelve months and total value of all concluded agreements with the client has amounted to PLN 355 584 thousand.

  The loan was granted within the bank consortium for a period of 3 years with a prolongation clause for subsequent 2 years and it was assigned to the client's ongoing business activity. The interest rate on the loan consists of reference rates plus bank margin.

- On 5 February 2008 the Bank concluded with BRE Holding Sp. z o.o. ("BRE Holding"), the Bank's 100% subsidiary, an agreement on transfer the property of shares and stocks of chosen Bank's subsidiaries. In accordance with the agreement the Bank transferred:

  - 6 121 shares of BRE Leasing Sp. z o.o. (BRE Leasing) of nominal value PLN 500 each, which represent 50.004% of share capital of BRE Leasing as well as voting rights at the general meeting of shareholders of the company. Value of the transferred shares amounted to PLN 3 737 thousand in the accounting ledgers of the Bank. The Bank has had no shares of BRE Leasing since the transaction,

  - 2 301 ordinary registered shares of Polfactor SA ("Polfactor") of nominal value PLN 2 500 each, which represent 50.00% of share capital and authorise to exercise 2 302 votes at the general meeting of Polfactor, which represent 50.01% of general number of votes at the general meeting of Polfactor. Value of the transferred shares amounted to PLN 4 808 thousand in the accounting ledgers of the Bank. The Bank has had no shares of Polfactor since the transaction,

- 1 325 000 ordinary registered shares of BRE bank Hipoteczny SA ("BBH") of nominal value PLN 100 each, which represent 75.71% of share capital of BBH as well as voting rights at general meeting of BBH. Value of the transferred shares amounted to PLN 162 437 thousand in the accounting ledgers of the Bank. After the transaction the Bank has had 425 000 shares of BBH, representing 24.29% of share capital and voting rights at general meeting of BBH.

BRE Holding had no shares or stocks of the above mentioned Companies before the above indicated transactions.

The transfer of the above indicated shares and stocks results from restructuring, conducted within BRE Bank Group with the object of effective supervising of chosen Companies of Corporate Banking.