BRE BANK SA

BRE Bank SA

IFRS Financial Statements 2007

Contents

Selected financial data

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

SELECTED FINANCIAL DATA FOR THE BANK		in PLN 000's (functional currency)		in EUR 000's	
		Year ended 31.12.2007	Year ended 31.12.2006	Year ended 31.12.2007	Year ended 31.12.2006
I.	Interest income	**1 860 514**	**1 334 383**	**492 617**	**342 228**
II.	Fee and commission income	**566 875**	**415 391**	**150 094**	**106 535**
III.	Net trading income	**472 361**	**379 957**	**125 069**	**97 447**
IV.	Operating profit	**788 428**	**406 371**	**208 756**	**104 222**
V.	Profit before income tax	**788 428**	**406 371**	**208 756**	**104 222**
VI.	Net profit	**637 231**	**324 194**	**168 722**	**83 146**
VII.	Net cash flows from operating activities	**(4 461 442)**	**(1 939 081)**	**(1 181 276)**	**(497 314)**
VIII.	Net cash flows from investing activities	**(12 887)**	**(268 237)**	**(3 412)**	**(68 795)**
IX.	Net cash flows from financing activities	**3 073 570**	**3 017 780**	**813 803**	**773 968**
X.	Net decrease in cash and cash equivalents	**(1 400 759)**	**810 462**	**(370 885)**	**207 859**
XI.	Total assets	**48 409 810**	**36 862 230**	**13 514 743**	**9 621 589**
XII.	Amounts due to the Central Bank	**-**	**-**	**-**	**-**
XIII.	Amounts due to other banks	**7 972 900**	**5 186 286**	**2 225 824**	**1 353 698**
XIV.	Amounts due to customers	**32 734 316**	**25 934 634**	**9 138 558**	**6 769 324**
XV.	Equity	**3 080 133**	**2 353 073**	**859 892**	**614 187**
XVI.	Share capital	**118 643**	**118 064**	**33 122**	**30 816**
XVII.	Number of shares	**29 660 668**	**29 516 035**	**29 660 668**	**29 516 035**
XVIII.	Book value per share (in PLN/EUR per share)	**103.85**	**79.72**	**28.99**	**20.81**
XIX.	Diluted book value per share (in PLN/EUR per share)	**103.74**	**79.25**	**28.96**	**20.69**
XX.	Capital adequacy ratio	**10.65**	**11.07**	**10.65**	**11.07**
XXI.	Earnings per 1 ordinary share (in PLN/EUR per share) (for 12 months)	**21.54**	**11.05**	**5.70**	**2.83**
XXII.	Diluted earnings per 1 ordinary share (in PLN/EUR per share) (for 12 months)	**21.52**	**10.98**	**5.70**	**2.82**
XXIII.	Declared or paid dividend per share (in PLN/EUR per share)	**-**	**-**	**-**	**-**

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

- for balance sheet items – 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.
- for profit and loss account items – 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 Financial Statements 2007 PLN (000's)

Profit and Loss Account

	Note	Year ended 31 December 2007	2006
Interest income	5	1 860 514	1 334 383
Interest expense	5	(1 073 212)	(795 011)
Net interest income		**787 302**	**539 372**
Fee and commission income	6	566 875	415 391
Fee and commission expense	6	(182 770)	(135 774)
Net fee and commission income		**384 105**	**279 617**
Dividend income	7	37 726	36 797
Net trading income	8	472 361	379 957
Foreign exchange result		*427 530*	*343 265*
Other trading income		*44 831*	*36 692*
Gains less losses from investment securities	22	132 038	40 115
Other operating income	9	59 266	63 244
Impairment losses on loans and advances	13	(58 222)	(26 149)
Overhead costs	10, 12	(867 905)	(697 527)
Amortization and depreciation	25, 26	(138 952)	(135 779)
Other operating expenses	11	(19 291)	(73 276)
Operating profit		**788 428**	**406 371**
Profit before income tax		**788 428**	**406 371**
Income tax expense	14	(151 197)	(82 177)
Net profit		**637 231**	**324 194**
Net profit		**637 231**	**324 194**
Weighted average number of ordinary shares		**29 578 675**	**29 344 158**
Earnings per 1 ordinary share (in PLN)	15	**21.54**	**11.05**
Weighted average number of ordinary shares for diluted earnings		**29 608 139**	**29 518 255**
Diluted earnings per 1 ordinary share (in PLN)	15	**21.52**	**10.98**

Notes presented on pages 8-82 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2007 PLN (000's)

Balance Sheet

	Note	31.12.2007	31.12.2006
ASSETS			
Cash and balances with the Central Bank	16	1 998 380	3 710 737
Debt securities eligible for rediscounting at the Central Bank	17	23 259	26 725
Loans and advances to banks	18	2 166 310	3 003 226
Trading securities	19	3 721 311	3 519 954
Derivative financial instruments	20	2 263 845	1 411 030
Loans and advances to customers	21	26 378 887	17 689 756
Investment securities	22	6 226 318	2 957 221
- Available for sale		6 226 318	2 957 221
Non-current assets held for sale	28	335 819	361 855
Pledged assets	38	3 707 359	2 701 491
Investments in subsidiaries	23	449 098	433 343
Intangible assets	25	379 504	356 136
Tangible fixed assets	26	532 175	470 926
Deferred income tax assets	35	2 824	9 720
Other assets	27	224 721	210 110
Total assets		**48 409 810**	**36 862 230**
EQUITY AND LIABILITIES			
Amounts due to other banks	29	7 972 900	5 186 286
Derivative financial instruments and other trading liabilities	20	2 181 420	1 267 825
Amounts due to customers	30	32 734 316	25 934 634
Debt securities in issue	31	36 810	36 215
Subordinated liabilities	32	1 661 785	1 547 354
Other liabilities	33	552 894	457 926
Current income tax liabilities		120 659	11 543
Deferred income tax provision	35	62	-
Provisions	34	68 831	67 374
Total liabilities		**45 329 677**	**34 509 157**
Equity			
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
Revaluation reserve	41	**79 231**	**3 959**
Retained earnings:	42	**1 483 470**	**852 168**
- Profit for the previous years		846 239	527 974
- Net profit for the current year		637 231	324 194
Total equity		**3 080 133**	**2 353 073**
Total equity and liabilities		**48 409 810**	**36 862 230**
Capital adequacy ratio	48	**10.65**	**11.07**
Book value		**3 080 133**	**2 353 073**
Number of shares		**29 660 668**	**29 516 035**
Book value per share (in PLN)		**103.85**	**79.72**
Diluted number of shares		**29 690 132**	**29 690 132**
Diluted book value per share (in PLN)		**103.74**	**79.25**

Notes presented on pages 8-82 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2007 PLN (000's)

Statements of changes in equity

Changes in equity from 1 January 2007 to 31 December 2007

	Note	Share capital		Other reserves	Retained earnings					Total equity
		Registered share capital	Share premium		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**	**3 959**	**12 388**	**7 275**	**558 000**	**274 505**	**-**	**2 353 073**
- 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**	**3 959**	**12 388**	**7 275**	**558 000**	**274 505**	**-**	**2 353 073**
Net change in investments available for sale, net of tax	41	-	-	78 166	-	-	-	-	-	78 166
Currency translation differences	41	-	-	(2 894)	-	-	-	-	-	(2 894)
Net profit not recognised in income statement		**-**	**-**	**75 272**	**-**	**-**	**-**	**-**	**-**	**75 272**
Net profit	42	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**637 231**	**637 231**
Total profit recognised in current year		**-**	**-**	**75 272**	**-**	**-**	**-**	**-**	**637 231**	**712 503**
Transfer to supplementary capital		-	-	-	274 505	-	-	(274 505)	-	-
Issue of shares	39	579	13 330	-	-	-	-	-	-	13 909
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**	**79 231**	**286 893**	**1 346**	**558 000**	**-**	**637 231**	**3 080 133**

Changes in equity from 1 January 2006 to 31 December 2006

	Note	Share capital		Other reserves	Retained earnings					Total equity
		Registered share capital	Share premium		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**	**(2 637)**	**12 388**	**12 967**	**558 000**	**(49 690)**	**-**	**1 954 871**
- reclassification to book value through profit and loss account		-	-	-	-	-	-	-	-	-
- changes to accounting policies		-	-	-	-	-	-	-	-	-
- adjustment of errors		-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2006		**115 936**	**1 307 907**	**(2 637)**	**12 388**	**12 967**	**558 000**	**(49 690)**	**-**	**1 954 871**
Net change in investments available for sale, net of tax	41	-	-	6 158	-	-	-	-	-	6 158
Currency translation differences	41	-	-	438	-	-	-	-	-	438
Net profit not recognised in income statement		**-**	**-**	**6 596**	**-**	**-**	**-**	**-**	**-**	**6 596**
Net profit	42	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**324 194**	**324 194**
Total profit recognised in current year		**-**	**-**	**6 596**	**-**	**-**	**-**	**-**	**324 194**	**330 790**
Issue of shares	39	2 128	63 231	-	-	-	-	-	-	65 359
Other changes		-	(160)	-	-	-	-	1	-	(159)
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**	**3 959**	**12 388**	**7 275**	**558 000**	**(49 689)**	**324 194**	**2 353 073**

Notes presented on pages 8-82 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2007 PLN (000's)

Cash Flow Statement

	Note	Year ended 31 December 2007	2006
A. Cash flow from operating activities - indirect method		**(4 461 442)**	**(1 939 081)**
Profit before income tax		**788 428**	**406 371**
Adjustments:		***(5 249 870)***	***(2 345 452)***
Income taxes paid (negative amount)		(20 624)	33 900
Amortisation		138 952	135 779
Foreign exchange gains (losses)		(187 385)	(16 306)
Gains (losses) on investing activities		(93 263)	(18 442)
Impairment of financial assets		63	1 308
Dividends received		(37 726)	(36 594)
Interest paid		1 057 819	931 569
Net increase/(decrease) in loans and advances to banks		(157 750)	197 113
Net increase/(decrease) in trading securities		101 482	687 176
Net increase/(decrease) in derivative financial instruments		(852 815)	(146 530)
Net increase/(decrease) in loans and advances to customers		(8 689 131)	(4 711 525)
Net increase/(decrease) in investment securities		(3 243 823)	(1 897 355)
Net increase/(decrease) in other assets		(10 483)	48 934
Net increase/(decrease) in amounts due to other banks		(198 330)	(29 015)
Net increase/(decrease) in financial instruments and other trading liabilities		913 595	(2 589)
Net increase/(decrease) in amounts due to customers		5 967 770	2 447 945
Net increase/(decrease) in debt securities in issue		595	(55 330)
Net increase/(decrease) in provisions		1 457	(10 735)
Net increase/(decrease) in other liabilities		59 727	95 245
Net cash used in operating activities		**(4 461 442)**	**(1 939 081)**
B.Cash flows from investing activities		**(12 887)**	**(268 237)**
Investing activity inflows		**214 101**	**121 343**
Disposal of shares in associates		-	10 944
Disposal of shares in subsidiaries, net of cash disposed	46	173 504	55 078
Proceeds from sale of intangible assets and tangible fixed assets		2 871	13 712
Other investing inflows		37 726	41 609
Investing activity outflows		**226 988**	**389 580**
Acquisition of associates		-	38
Acquisition of subsidiaries, net of cash acquired		29 153	230 540
Purchase of intangible assets and tangible fixed assets		197 835	75 221
Other investing outflows		-	83 781
Net cash used in investing activities		**(12 887)**	**(268 237)**
C. Cash flows from financing activities		**3 073 570**	**3 017 780**
Financing activity inflows		**4 368 750**	**4 367 583**
Proceeds from loans and advances from other banks		3 124 658	4 112 064
Increase of subordinated liabilities		1 230 184	190 160
Issuance of ordinary shares		13 908	65 359
Financing activity outflows		**1 295 180**	**1 349 803**
Repayments of loans and advances from other banks		124 927	1 174 565
Repayments of other loans and advances		18 849	71 535
Decrease of subordinated liabilities		969 100	-
Other financing outflows		182 304	103 703
Net cash from financing activities		**3 073 570**	**3 017 780**
Net increase / decrease in cash and cash equivalents (A+B+C)		**(1 400 759)**	**810 462**
(Decrease)/increase in cash and cash equivalents in respect of foreign exchange gains and losses		(1 023)	1 526
Cash and cash equivalents at the beginning of the reporting period		8 951 008	8 139 020
Cash and cash equivalents at the end of the reporting period	44	**7 549 226**	**8 951 008**

Notes presented on pages 8-82 constitute an integral part of these Financial Statements.

Explanatory Notes to the Financial Statements

1. Information concerning BRE Bank SA

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

The Bank may open and maintain accounts with Polish and foreign banks, as well as having the right to possess foreign exchange assets, to trade with them and to purchase foreign currencies.

The average employment in 2007 in Bank was 4 374 persons (2006: 3 803).

The Management Board approved these Financial Statements on February 28, 2008.

2. Description of Relevant Accounting Policies

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

2.1. Accounting Basis

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

These Financial Statements of the BRE Bank SA 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 Bank 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. Since 1 January 2007 the Bank has applied where neccessary the provisions of International Financial Reporting Standard 7 in the preparation of half-year financial statements which include disclosure requirements of International Accounting Standard 34. All disclosures in accordance with IFRS 7 were presented in the financial statements for the year 2007.

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

2.2. Interest Income and Expenses

All interest proceeds linked with financial instruments carried at amortised cost using the effective interest rate method are recognised in the Income Statement.

The effective interest rate method is a method of calculation of the amortised initial value of financial assets or financial liabilities and allocation of interest income or interest expenses to the proper periods. The effective interest rate is the interest rate at which the discounted future payments or future cash inflows are equal to the net present carrying value of the respective financial asset or liability. When calculating the effective interest rate, the Bank estimates the cash flows taking into account all the contractual conditions attached to the given financial instrument, 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.

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

2.3. Fee and Commission Income

Income on account of fees and commissions is basically recognised on the accrual basis, at the time of performance of the respective services. Fees charged for the opening of credit concerning loans which will most probably actually be used are deferred (together with the respective direct costs) and recognised as adjustments of the effective interest rate charge on the loan. Fees on account of syndicated loans are recognised as income at the time of closing of the process of organisation of the respective syndicate, if the Bank has not retained any part of the credit risk on its own account or has retained a part with the same effective interest rate as other participants. Commissions and fees on account of negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the acquisition of shares or other securities, or the acquisition or disposal of an enterprise, are recognised at the time of realisation of the respective transaction. Fees on account of portfolio management and fees for management, 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 Bank on account of cash management operations, keeping of customer accounts, managing bank transfers and providing letters of credit.

2.4. Financial Assets

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

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

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

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

The Bank classifies financial assets/financial liabilities as measured at fair value through the Profit and Loss Account 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 Bank 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 Bank 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 2.10, 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 Bank 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 Bank supplies monetary assets, goods or services directly to the debtor, without any intention of trading the receivable.

Held to maturity investments

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

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

There were no assets held to maturity at the Bank within all reporting periods presented in these financial statements.

Available for sale investments

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

Interest income and expense from available for sale investments are presented in net interest income. 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 Bank 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 the 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 Bank 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 Bank determines the fair value by applying valuation techniques. These comprise recently conducted transactions concluded according to normal market principles, reference to other instruments, discounted cash flow analysis, as well as valuation models for options and other valuation methods generally applied by market participants.

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, they are stated at cost.

Investments in subsidiaries and associaties

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

2.5. Offsetting Financial Instruments

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

2.6. Impairment of Financial Assets

Assets carried at amortised cost

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

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

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

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 similar risk characteristics.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current market 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 Bank 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 Bank makes an assessment whether the impairment should be recognised on either individual or group basis.

2.7. Financial Guarantee Contracts

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

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

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

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

2.8. Cash and Cash Equivalents

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

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

2.9. Sell-buy-back Contracts

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

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

Securities borrowed by the Bank are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale transactions are recorded in Financial Statements and the respective 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.

2.10. Derivative Financial Instruments and Hedge Accounting

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

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

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

In accordance with IAS 39 AG 30 (g), there is no need to separate the prepayment option from the host debt instrument and valuated for the needs of consolidated financial statement, because the prepayment 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 host debt instrument, the option would be measured and recognised in the consolidated financial statement 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) highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Derivative instruments designated as hedges against positions maintained by the Bank are recorded by means of hedge accounting, subject to the fulfilment of the criteria specified in IAS 39:

a) At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity 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 achieving 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 and Loss Account.
d) The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows connected to 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 Bank documents the objectives of risk management and the strategy of concluding hedging transactions, as well as, at the time of concluding the respective transactions, the relationship between the hedging instrument and the hedged item. The Bank also documents its own assessment of efficiency of fair value hedging and cash flow hedging transactions, measured both prospectively and retrospectively from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

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

<u>Fair value hedges</u>

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 respective 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.

<u>Cash flow hedges</u>

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

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

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

<u>Derivative instruments not fulfilling the criteria of hedge accounting</u>

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

The Bank holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

2.11. 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 initial 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 Bank assumes that the transaction price is the best approximation 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.

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 Profit and Loss Account without reversal of deferred day one profits and losses.

2.12. 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.

2.13. 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.

<u>Computer software</u>

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 Bank, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets. Direct costs comprise personnel expenses attached to the development of software and the corresponding part of the respective general overhead costs.

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life.

Computer software directly connected with the functioning of specific information technology hardware is recognised as "Tangible fixed assets".

<u>Development costs</u>

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

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

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

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

2.14. Tangible Fixed Assets

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

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

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

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

- Buildings and constructed structures	25-40 years,
- Technical plant 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 might not be possible to be recovered. The value of a fixed asset carried in the Balance Sheet is reduced to the level of its recoverable value if the carrying value in the Balance Sheet exceeds the estimate recoverable amount. The recoverable value is the higher of two amounts: the fair value of the fixed asset reduced by its selling costs and the value in use.

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

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

2.15. Non Current Assets Held for Sale and Discontinued Operation

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and it sale must be highly probable, i.e. the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

When criteria for classification to non-current assets held for sale are not met, the Bank ceases to classify the assets as held for sale and reclassify them into appropriate category of assets. The Bank measures a non-current 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 before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

Discontinued operations are a component of the Bank that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The classification to this category takes places at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously. Disposal group which is to be backed out of usage may also be classified as discontinued operation.

2.16. Deferred Income Tax

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

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

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

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

The Bank presents the deferred tax assets and deferred tax provisions netted in the Balance Sheet for each country separately where the Bank conducts its business and is obliged to settle up due to corporate income tax. Such assets and provisions may be netted against each other if the Bank possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

The Bank discloses separately the amount of negative temporary differences (mainly on account of 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 Bank and it is possible that the difference will not reverse in the foreseeable future.

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

2.17. 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.

2.18. 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".

2.19. Leasing

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

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

2.20. 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.

2.21. Retirement Benefits and Other Employee Benefits

<u>Retirement benefits</u>

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

<u>Benefits based on shares</u>

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

2.22. Equity

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

<u>Registered share capital</u>

Share capital is presented at its nominal value, in accordance with the bylaw and with the entry in the business register.

a) Share Issue Costs

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

b) Dividends

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

c) Own Shares

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

Share premium

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

Revaluation reserve

Revaluation reserve is formed as a result of:

- valuation of available for sale financial instruments,
- valuation of cash flow hedge financial assets,
- exchange rate differences resulting from valuation of structural items.

Retained earnings

Retained earnings include:

- other supplementary capital,
- other reserved capital,
- general banking risk fund,
- undistributed financial profit (loss) 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 bylaw or other regulations of the law.

2.23. Valuation of Items Denominated in Foreign Currencies

Functional currency and presentation currency

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

Transactions and balances

Transactions denominated in foreign currencies are converted to the functional currency at the exchange rate in force at the transaction date. Foreign exchange gains and losses on such transactions as well as Balance Sheet revaluation of monetary assets and liabilities denominated in foreign currency are recognised in the Profit and Loss Account.
Foreign exchange differences arising on account of non-monetary items, such as financial assets measured at fair value through the Profit and Loss Account, are recognised under gains or losses arising in connection with changes of fair value. Foreign exchange differences on account of such non-monetary assets as equity instruments classified as available for sale financial assets are recognised under revaluation reserve.

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 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 application of medium exchange rates as at the end of each month of the reporting period. Arisen in such way foreign exchange differences are recognized under revaluation reserve.

2.24. Custody Services Business

BRE Bank SA operates a custody business including domestic and foreign securities and services provided to investment and pension funds. The assets concerned are not shown in these financial statements as they do not belong to the Bank.

2.25. 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 Bank 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.

2.26. Comparative Data

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

2.27. Business segments

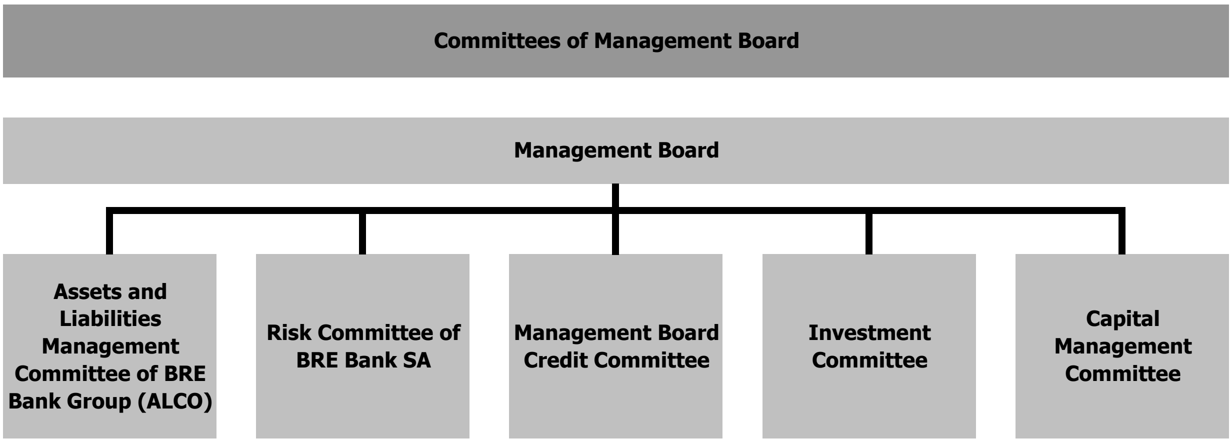
Data concerning business segments were presented in the Consolidated Financial Statements 2007 of the BRE Bank Group, prepared in compliance with the International Financial Reporting Standards, published on 28 February 2008.

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.

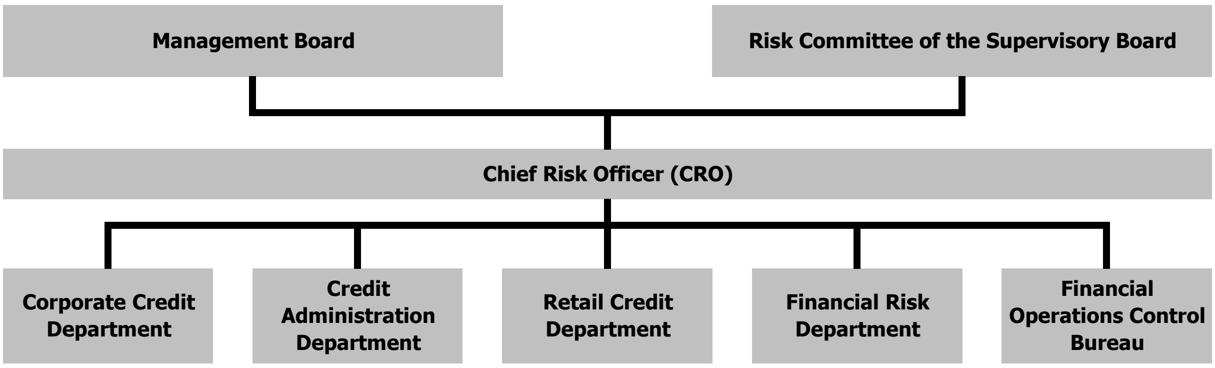
The daily risk management process is performed on several defined management levels, starting with the Management Board level at the top and ranging to the risk control and risk management units level at the bottom. The Management Board has established a few types of risk committees in order to effectively 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 Bank focuses on using financial instruments, including derivatives. The Bank accepts customers' deposits with both fixed and variable interest for various terms and attempts to earn above-average percent margins by investing the funds in top quality assets. The Bank works to increase its percent margins by accumulating short-term funds and lending the funds for longer terms, for higher interest rates, while retaining liquidity at a level ensuring that all liabilities are met.

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

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

Hedge Accounting

The Bank did not use hedge accounting in the reporting periods.

3.2 Credit Risk

The Bank is exposed to credit risk, i.e., risk that a contracting party may be unable to repay its liabilities to the Bank on time. The bank creates provisions for its losses on the Balance Sheet date. Because of strong concentration of the risk portfolio, a change in the economy or an industry sector with a large share in the Bank'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 Bank is significant.

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

3.2.1 Collateral

Derivative instruments

The Bank 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 Bank does not require collateral for credit risk related to such instruments. The exception is a situation when the Bank requires deposits as collateral from its contracting parties.

Master netting agreements

Master netting agreements made with contracting parties with which the Bank concludes large transactions are an additional measure used by the Bank to 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 Bank related to derivative instruments covered by master netting agreements can undergo significant changes over a short time because each transaction covered by the agreement affects the exposure.

Off-balance sheet credit-related commitments

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

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

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 of 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 Loan Department who verify 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 plant and machinery
- Current market situation
- Forecast demand trends 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.

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, 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-long 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 is described as % of EAD is a function of 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).

IFRS Financial Statements 2007 PLN (000's)

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 of internal PD-rating scale to external ratings

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 major 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

Provision portfolio is formed on credit portfolio of the customers not classified to default category. The portfolio is divided into 8 subportfolios for corporates based on 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 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.

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.

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

IFRS Financial Statements 2007 PLN (000's)

PD/Rating	31.12.2007		31.12.2006	
	Share of exposure (%)	Provision coverage (%)	Share of exposure (%)	Provision coverage (%)
1	36.68	0.01	34.06	0.01
2	15.99	0.11	12.81	0.40
3	15.38	0.35	13.31	0.22
4	15.43	0.76	15.70	0.58
5	5.13	1.80	6.81	1.33
6	0.30	3.29	0.63	0.37
7	0.20	2.48	0.24	6.73
8	9.28	0.58	13.49	0.40
Default category	1.61	68.69	2.96	70.15
Total	**100.00**	**1.46**	**100.00**	**2.41**

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	**2 166 310**	**3 003 226**
Loans nad advances to customers:	**26 378 887**	**17 689 756**
Loans to individuals:	13 609 757	8 614 580
– current accounts	2 184 779	1 430 606
– term loans, including:	11 424 978	7 183 974
housing and mortgage loans	10 514 434	6 589 693
Loans to corporate clients:	12 324 426	8 715 561
– current accounts	2 663 851	1 923 046
– term loans:	8 991 557	6 752 079
corporate & institutional enterprises	3 297 868	2 566 706
medium & small enterprises	5 693 689	4 185 373
– Reverse repo / buy sell back transactions	669 018	40 436
Loans and advances to public sector	32 175	31 365
Other receivables	412 529	328 250
Trading assets		
– Debt securities	3 719 731	3 508 569
Derivative financial instruments	2 263 845	1 411 030
Investment securities		
– Debt securities	5 877 067	2 746 698
Pledged assets	3 707 359	2 701 491
Other assets	224 721	210 110
Total exposures relating to on-balance sheet assets	**44 361 179**	**31 297 605**
Credit risk exposures relating to off-balance sheet items:		
Loan commitments and other financial liabilities	12 720 453	9 711 857
Guarantees, banker's acceptences, documentary and commercial letters of credit	3 219 625	4 166 435
Total exposures relating to off-balance sheet items	**15 940 078**	**13 878 292**
Total on-balance sheet assets and off-balance sheet items	**60 301 257**	**45 175 897**

The above table shows the maximum exposure to credit risk as at 31 December 2007 and 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, 64.35% of the total maximum balance sheet exposure is derived from loans and advances to banks and customers (31 December 2006: 66.12%); 13.25% represents investments in debt securities (31 December 2006: 8.78%).

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:

- 52.67% of loans and advances portfolio is categorized in the top two grades of the internal rating system (31 December 2006: 46.87%);
- 94.65 % of portfolio of loans and advances to customers is considered to be neither past due nor impaired (31 December 2006: 92.82%);

- an improvement in the credit quality of loans and advances has resulted in lower provisions, showing 22.8% decrease in 2007 comparing with 2006;
- 81.46% of the investments in debt securities got at least A- credit rating (31 December 2006: 57.83%).

3.2.5 Loans and Advances to Customers and Banks

Loans and advances to customers	30.12.2007		31.12.2006	
	exposure in PLN '000s	share / coverage (%)	exposure in PLN '000s	share / coverage (%)
Neither overdue nor impaired	25 487 717	94.65	17 081 820	92.82
Past due but not impaired	854 316	3.17	508 781	2.76
Impaired	586 662	2.18	813 486	4.42
Total, gross	**26 928 695**	**100.00**	**18 404 087**	**100.00**
Provision (for impaired loans and advances, including IBNI provision)	(549 808)	2.04	(714 331)	3.88
Total, net	**26 378 887**	**97.96**	**17 689 756**	**96.12**

The table below shows amounts due from banks:

Loans and advances to banks	30.12.2007		31.12.2006	
	exposure in PLN '000s	share / coverage (%)	exposure in PLN '000s	share / coverage (%)
Neither overdue nor impaired	2 171 519	100.00	3 007 804	100.00
Past due but not impaired	-	0.00	-	0.00
Impaired	-	0.00	-	0.00
Total, gross	**2 171 519**	**100.00**	**3 007 804**	**100.00**
Provision (for impaired loans and advances, including IBNI provision)	(5 209)	0.24	(4 578)	0.15
Total, net	**2 166 310**	**99.76**	**3 003 226**	**99.85**

The total impairment provision for loans and advances amounts to PLN 555 017 thousand (as at 31 December 2006: PLN 718 909 thousand) of which PLN 456 214 thousand (as at 31 December 2006: PLN 654 343 thousand) represents the individually impaired loans and the remaining amount of PLN 98 803 thousand represents the portfolio provision (as at 31 December 2006: PLN 64 566 thousand). Further information of the impairment allowance for loans and advances to banks and to customers is provided in Notes 18 and 21.

In 2007, the amount of loans and advances granted to the Bank's customers increased by 46% as a result of the expansion on lending business market, i.e. loans to retail customers and loans to large corporate enterprises. For the purpose of minimizing potential increase of exposure to credit risk, the Bank focused on large corporate enterprises and retail customers, providing sufficient collateral.

Loans and advances neither past due nor impaired

31 December 2007	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
			including:		Term loans							
PD / Rating	Current accounts	Term loans	housing and mortgage loans	Current accounts	corporate & institutional enterprises	medium & small enterprises	Reverse repo / buy sell back transactions	Other				
1	830 083	10 667 540	10 247 208	24 279	350	71 557	-	-	15	-	11 593 824	2 171 519
2	560 089	182 790	-	569 189	733 657	1 200 038	-	-	-	-	3 245 763	-
3	437 680	18 754	-	644 713	1 262 470	1 100 935	-	-	17 994	-	3 482 546	-
4	-	-	-	853 048	725 771	1 932 465	-	-	4 365	-	3 515 649	-
5	-	-	-	406 590	157 183	639 741	-	-	6 229	-	1 209 743	-
6	-	-	-	9 518	48 285	33 644	-	-	-	-	91 447	-
7	-	-	-	6 329	2 763	27 376	-	-	-	-	36 468	-
8	193 127	260 245	33 389	128 140	178 642	455 501	669 018	-	3 883	412 529	2 301 085	-
Default category	111	1 232	135	224	-	9 625	-	-	-	-	11 192	-
Total	**2 021 090**	**11 130 561**	**10 280 732**	**2 642 030**	**3 109 121**	**5 470 882**	**669 018**	**-**	**32 486**	**412 529**	**25 487 717**	**2 171 519**

31 December 2006	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
			including:		Term loans							
PD / Rating	Current accounts	Term loans	housing and mortgage loans	Current accounts	corporate & institutional enterprises	medium & small enterprises	Reverse repo / buy sell back transactions	Other				
1	676 012	6 700 445	6 416 257	39 559	-	257 402	-	-	-	-	7 673 418	3 007 804
2	307 574	35 936	-	437 577	752 135	848 417	-	-	444	-	2 382 083	-
3	201 606	-	-	398 557	369 885	772 218	-	-	15 048	-	1 757 314	-
4	-	-	-	638 666	926 895	1 307 242	-	-	13 316	-	2 886 119	-
5	-	-	-	241 017	242 825	646 290	-	-	-	-	1 130 132	-
6	-	-	-	64 533	60 305	36 480	-	-	-	-	161 318	-
7	85	2 535	2 455	21 835	4 011	17 381	-	-	-	-	45 847	-
8	143 101	247 594	18 938	100 203	43 461	104 210	40 436	-	2 651	328 250	1 009 906	-
Default category	4	6 764	558	2 005	1 750	25 160	-	-	-	-	35 683	-
Total	**1 328 382**	**6 993 274**	**6 438 208**	**1 943 952**	**2 401 267**	**4 014 800**	**40 436**	**-**	**31 459**	**328 250**	**17 081 820**	**3 007 804**

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:

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31 December 2007	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers
	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			
Past due up to 30 days	136 395	232 206	184 630	-	70 412	153 229	-	-	-	-	592 242
Past due 31 - 60 days	17 224	23 843	20 935	-	-	13 686	-	-	-	-	54 753
Past due 61 - 90 days	15 903	14 696	11 432	32 697	133 178	10 844	-	-	3	-	207 321
Total	**169 522**	**270 745**	**216 997**	**32 697**	**203 590**	**177 759**	**-**	**-**	**3**	**-**	**854 316**

31 December 2006	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers
	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			
Past due up to 30 days	81 487	140 928	112 202	54	148 333	82 784	-	-	-	-	453 586
Past due 31 - 60 days	7 487	15 475	13 337	-	-	1 308	-	-	-	-	24 270
Past due 61 - 90 days	9 613	12 576	8 991	-	33	8 703	-	-	-	-	30 925
Total	**98 587**	**168 979**	**134 530**	**54**	**148 366**	**92 795**	**-**	**-**	**-**	**-**	**508 781**

As at 31 December 2007 the fair value of received collaterals for mortgage loans to retail customers, amounted to PLN 227 802 thousand (31 December 2006: PLN 266 357 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 on each balance sheet date.

Loans and advances individually impaired

Loans and advances individually impaired are presented in the Balance Sheet after taking into account cash flows in respect of collateral held by the Bank and amounted to PLN 130 448 thousand (PLN 210 550 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			Corporate entities					Public sector	Other receivables	Total - Loans nad advances to customers
	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			
31 December 2007											
Loans and advances with impairment	111 074	87 566	38 738	69 087	13 637	305 298	-	-	-	-	586 662
Fair value of collateral	13 708	27 596	21 706	19 028	4 334	59 203	-	-	-	-	123 869
31 December 2006											
Loans and advances with impairment	84 100	91 793	33 846	88 285	104 500	444 808	-	-	-	-	813 486
Fair value of collateral	14 740	76 111	22 976	19 598	13 950	197 648	-	-	-	-	322 047

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 on the balance sheet date.

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

In the year ended 31 December 2007, the Bank 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

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31 December 2007	Trading securities			Investment securities	Total
Rating	Government bonds	Treasury bills	Other		
AAA	-	-	-	19 649	19 649
AA- to AA+	-	-	168 907	28 701	197 608
A- to A+	4 774 608	25 623	1 431 085	4 389 409	10 620 725
BBB+ to BBB-	-	-	-	-	-
BB+ to BB-	-	-	-	-	-
B+ to B-	-	-	1 015	-	1 015
Lower than B-	-	-	-	-	-
Unrated	-	-	946 209	1 518 951	2 465 160
Total	**4 774 608**	**25 623**	**2 547 216**	**5 956 710**	**13 304 157**

31 December 2006	Trading securities			Investment securities	Total
Rating	Government bonds	Treasury bills	Other		
AAA	-	-	18 529	298 459	316 988
AA- to AA+	-	-	158 303	27 223	185 526
A- to A+	2 690 635	-	108 667	1 877 929	4 677 231
BBB+ to BBB-	55 851	745 038	2 188 977	-	2 989 866
BB+ to BB-	-	-	-	-	-
B+ to B-	-	-	-	-	-
Lower than B-	-	-	-	-	-
Unrated	-	-	187 333	599 814	787 147
Total	**2 746 486**	**745 038**	**2 661 809**	**2 803 425**	**8 956 758**

Information about impairment allowance for investment debt securities occurs under the Note 22.

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

3.2.7 Repossessed Collateral

In 2007 the Bank received PLN 131 thousand by taking possession of established collateral and sold the assets worth of PLN 1 314 thousand. In 2006 only takeovers worth of PLN 1 314 thousand took place.

The Bank classifies repossessed collateral as assets repossessed for debt and measures them in accordance with the adopted accounting policies described in Note 2.17. 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 Bank is to sell repossessed assets. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Bank's urgent need, and must each time be approved by the Management Board. In 2007, the Bank did not have any difficult to sell assets repossessed as collaterals. 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.

BRE Bank 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 Bank 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 the event 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.

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 Market Economy Research Institute (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 of 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

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.

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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.

Value at Risk

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.

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 Bank is exposed to changes in currency exchange rates. The following table presents the exposure of the Bank to currency risk as at 31 December 2007 and 31 December 2006. The table presents assets and liabilities of the Bank 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	1 987 116	6 353	3 636	170	357	748	**1 998 380**
Debt securities eligible for rediscounting at the Central Bank	23 259	-	-	-	-	-	**23 259**
Loans and advances to banks	1 003 889	445 580	701 368	249	6 082	9 142	**2 166 310**
Financial instruments at fair value through profit or loss (including trading)	3 566 751	107 301	47 259	-	-	-	**3 721 311**
Derivative financial instruments	2 230 405	18 295	13 175	1 849	-	121	**2 263 845**
Loans and advances to customers	14 322 439	2 034 181	801 952	9 119 242	9 593	91 480	**26 378 887**
Investment securities	6 144 288	50 802	31 228	-	-	-	**6 226 318**
- Available for sale	6 144 288	50 802	31 228	-	-	-	**6 226 318**
Pledged assets	3 707 359	-	-	-	-	-	**3 707 359**
Investments in subsidiaries	391 055	34 333	-	-	-	23 710	**449 098**
Intangible assets	379 478	-	-	-	-	26	**379 504**
Tangible fixed assets	528 922	-	-	-	-	3 253	**532 175**
Other assets, including deferred income tax assets	558 220	1 496	(18)	1 021	11	2 634	**563 364**
Total assets	**34 843 181**	**2 698 341**	**1 598 600**	**9 122 531**	**16 043**	**131 114**	**48 409 810**
LIABILITIES	**PLN**	**EUR**	**USD**	**CHF**	**GBP**	**Other**	**Total**
Amounts due to other banks	1 172 929	126 300	28 838	6 644 725	-	108	**7 972 900**
Derivative financial instruments and other trading liabilities	2 079 449	85 112	16 366	268	116	109	**2 181 420**
Amounts due to customers	27 362 741	3 954 247	1 269 383	20 417	69 897	57 631	**32 734 316**
Debt securities in issue	36 810	-	-	-	-	-	**36 810**
Subordinated liabilities	-	362 440	-	1 299 345	-	-	**1 661 785**
Other liabilities including tax liabilities	658 256	449	3 333	965	1	10 611	**673 615**
Provisions	67 840	614	377	-	-	-	**68 831**
Total liabilities	**31 378 025**	**4 529 162**	**1 318 297**	**7 965 720**	**70 014**	**68 459**	**45 329 677**
Net on-balance sheet position	**3 465 156**	**(1 830 821)**	**280 303**	**1 156 811**	**(53 971)**	**62 655**	**3 080 133**
Credit commitments and other granted financial commitments	**11 122 424**	**788 698**	**311 131**	**490 632**	**5 464**	**2 104**	**12 720 453**

31.12.2006	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	3 689 570	12 095	5 492	717	1 727	1 136	**3 710 737**
Debt securities eligible for rediscounting at the Central Bank	26 725	-	-	-	-	-	**26 725**
Loans and advances to banks	1 534 013	567 551	840 695	633	27 605	32 729	**3 003 226**
Financial instruments at fair value through profit or loss (including trading)	3 266 417	154 489	99 048	-	-	-	**3 519 954**
Derivative financial instruments	1 398 581	5 539	6 061	598	3	248	**1 411 030**
Loans and advances to customers	8 695 212	2 049 546	533 207	6 373 411	10 944	27 436	**17 689 756**
Investment securities	2 602 151	101 532	253 538	-	-	-	**2 957 221**
- Available for sale	2 602 151	101 532	253 538	-	-	-	**2 957 221**
Pledged assets	2 657 106	44 385	-	-	-	-	**2 701 491**
Investments in subsidiaries	371 832	36 722	-	-	-	24 789	**433 343**
Intangible assets	356 136	-	-	-	-	-	**356 136**
Tangible fixed assets	470 926	-	-	-	-	-	**470 926**
Other assets, including deferred income tax assets	581 198	434	23	1	29	-	**581 685**
Total assets	**25 649 867**	**2 972 293**	**1 738 064**	**6 375 360**	**40 308**	**86 338**	**36 862 230**
LIABILITIES	**PLN**	**EUR**	**USD**	**CHF**	**GBP**	**Other**	**Total**
Amounts due to other banks	836 027	219 541	90 574	4 026 789	13 342	13	**5 186 286**
Derivative financial instruments and other trading liabilities	1 237 157	25 727	4 176	480	36	249	**1 267 825**
Amounts due to customers	19 895 469	4 420 720	1 501 285	18 381	74 376	24 403	**25 934 634**
Debt securities in issue	36 215	-	-	-	-	-	**36 215**
Subordinated liabilities	-	1 356 399	-	190 955	-	-	**1 547 354**
Other liabilities including tax liabilities	459 992	1 407	8 063	-	1	6	**469 469**
Provisions	66 422	952	-	-	-	-	**67 374**
Total liabilities	**22 531 282**	**6 024 746**	**1 604 098**	**4 236 605**	**87 755**	**24 671**	**34 509 157**
Net on-balance sheet position	**3 118 585**	**(3 052 453)**	**133 966**	**2 138 755**	**(47 447)**	**61 667**	**2 353 073**
Credit commitments and other granted financial commitments	**7 838 298**	**850 144**	**319 128**	**680 467**	**5 739**	**18 081**	**9 711 857**

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 in 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

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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.

The following tables present the Bank's exposure to interest rate risk. The table present financial instruments of the Bank at balance sheet carrying amounts by earlier date of either the change of contractual interest rate or maturity date.

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	963 312	-	-	-	-	1 035 068	**1 998 380**
Debt securities eligible for rediscounting at the Central Bank	-	23 259	-	-	-	-	**23 259**
Loans and advances to banks	1 470 158	432 779	243 996	-	-	19 377	**2 166 310**
Trading securities, investment securities and pledged assests	6 323 358	1 864 011	1 814 713	2 300 509	1 001 566	350 831	**13 654 988**
Loans and advances to customers	24 665 087	958 610	235 756	87 288	19 618	412 528	**26 378 887**
Other assets and derivative financial instruments	414 633	417 654	896 372	340 775	10 868	408 264	**2 488 566**
T o t a l a s s e t s	**33 836 548**	**3 696 313**	**3 190 837**	**2 728 572**	**1 032 052**	**2 226 068**	**46 710 390**
LIABILITIES							
Amounts due to other banks	4 054 616	3 291 498	147 094	-	-	479 692	**7 972 900**
Amounts due to customers	30 068 475	1 906 991	633 181	122 927	2 742	-	**32 734 316**
Debt securities in issue	-	11 152	18 342	7 316	-	-	**36 810**
Subordinated liabilities	6 745	1 655 040	-	-	-	-	**1 661 785**
Other liabilities and derivative financial instruments	392 049	366 229	1 023 889	330 665	10 494	610 988	**2 734 314**
Total liabilities	**34 521 885**	**7 230 910**	**1 822 506**	**460 908**	**13 236**	**1 090 680**	**45 140 125**
Total interest repricing gap	**(685 337)**	**(3 534 597)**	**1 368 331**	**2 267 664**	**1 018 816**		

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	3 106 092	-	-	-	-	604 645	**3 710 737**
Debt securities eligible for rediscounting at the Central Bank	-	26 725	-	-	-	-	**26 725**
Loans and advances to banks	1 859 784	452 464	550 477	85 972	-	54 529	**3 003 226**
Trading securities, investment securities and pledged assests	4 799 383	824 515	851 045	2 117 646	379 892	206 185	**9 178 666**
Loans and advances to customers	16 571 750	749 661	162 180	163 769	37 763	4 633	**17 689 756**
Other assets and derivative financial instruments	137 290	76 752	186 618	76 778	1 496	1 142 206	**1 621 140**
T o t a l a s s e t s	**26 474 299**	**2 130 117**	**1 750 320**	**2 444 165**	**419 151**	**2 012 198**	**35 230 250**
LIABILITIES							
Amounts due to other banks	2 121 773	2 756 530	304 631	-	-	3 352	**5 186 286**
Amounts due to customers	23 432 256	1 536 558	594 618	192 975	178 227	-	**25 934 634**
Debt securities in issue	-	14 272	13 943	8 000	-	-	**36 215**
Subordinated liabilities	398 818	1 148 536	-	-	-	-	**1 547 354**
Other liabilities and derivative financial instruments	142 383	77 690	186 597	77 652	1 589	1 239 840	**1 725 751**
Total liabilities	**26 095 230**	**5 533 586**	**1 099 789**	**278 627**	**179 816**	**1 243 192**	**34 430 240**
Total interest repricing gap	**379 069**	**(3 403 469)**	**650 531**	**2 165 538**	**239 335**		

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 into account costs of obtaining liquidity.

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 threat 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.

3.7.1 Cash Flows from Transactions in Non-derivative Financial Instruments

The table below show cash flows the Bank 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.

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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	1 291 237	51 120	3 729 162	3 230 040	1 814	**8 303 373**
Amounts due to customers	28 751 997	1 027 262	1 406 685	315 457	1 946 554	**33 447 955**
Debt securities in issue	372	344	30 534	8 000	-	**39 250**
Subordinated liabilities	537 857	15 047	31 380	166 715	1 309 242	**2 060 241**
Other liabilities	352 298	24	254	1 866	207	**354 649**
Total liabilities	**30 933 761**	**1 093 797**	**5 198 015**	**3 722 078**	**3 257 817**	**44 205 468**
Assets (by remaining contractual maturity dates)						
Total assets	**12 599 754**	**2 568 047**	**8 100 654**	**13 737 392**	**26 114 719**	**63 120 566**
Net liquidity gap	**(18 334 007)**	**1 474 250**	**2 902 639**	**10 015 314**	**22 856 902**	**18 915 098**

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	705 544	118 231	409 776	4 116 749	9 882	**5 360 182**
Amounts due to customers	22 385 522	813 529	1 540 510	1 117 195	208 228	**26 064 984**
Debt securities in issue	-	456	1 272	38 627	-	**40 355**
Subordinated liabilities	584 796	21 158	36 685	194 898	974 849	**1 812 386**
Other liabilities	305 595	-	3 214	-	-	**308 809**
Total liabilities	**23 981 457**	**953 374**	**1 991 457**	**5 467 469**	**1 192 959**	**33 586 716**
Assets (by remaining contractual maturity dates)						
Total assets	**12 823 678**	**1 884 128**	**5 889 150**	**8 871 335**	**13 842 560**	**43 310 851**
Net liquidity gap	**(11 157 779)**	**930 754**	**3 897 693**	**3 403 866**	**12 649 601**	**9 724 135**

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 Bank 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 Bank 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 Bank, 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	14 150	94 817	17 014	-	**148 135**
Overnight Index Swap (OIS)	3 576	483	12 109	98	-	**16 266**
Interest Rate Swap (IRS)	38 202	47 500	324 527	388 833	48 435	**847 497**
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**	**82 002**	**583 452**	**489 998**	**69 239**	**1 320 117**

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	15 349	43 899	17 115	-	**85 088**
Overnight Index Swap (OIS)	1 849	5 018	23 066	-	-	**29 933**
Interest Rate Swap (IRS)	81 090	116 484	197 537	626 981	42 945	**1 065 037**
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	**95 310**	**144 030**	**283 825**	**705 787**	**44 238**	**1 273 190**

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* 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 Bank comprise foreign exchange derivatives: currency forwards and currency swaps.

The table below shows derivative financial liabilities/assets of the Bank, 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.

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	15 327 605	3 284 341	12 372 956	786 180	-	**31 771 082**
- inflows	15 347 612	3 327 334	12 474 667	765 524	-	**31 915 137**

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	13 985 649	5 087 793	9 751 855	579 713	-	**29 405 010**
- inflows	14 045 666	5 127 695	9 815 607	575 683	-	**29 564 651**

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

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

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

	31.12.2007		31.12.2006	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Loans and advances to banks	**2 166 310**	**2 166 306**	**3 003 226**	**2 999 981**
Loans and advances to customers	**26 378 887**	**26 360 526**	**17 689 756**	**17 693 531**
Loans and advances to individuals	***13 609 757***	***13 608 501***	***8 614 580***	***8 613 822***
current accounts	2 184 779	2 184 779	1 430 606	1 430 606
term loans including:	11 424 978	11 423 722	7 183 974	7 183 216
- housing and mortgage loans	10 514 434	10 514 053	6 589 693	6 589 628
Loans and advances to corporate entities	***12 324 426***	***12 307 321***	***8 715 561***	***8 720 064***
current accounts	2 663 851	2 663 851	1 923 046	1 923 046
term loans	8 991 557	8 974 452	6 752 079	6 756 582
- corporate & institutional enterprises	3 297 868	3 285 069	2 566 706	2 570 639
- medium & small enterprises	5 693 689	5 689 383	4 185 373	4 185 943
reverse repo / buy sell back transactions	669 018	669 018	40 436	40 436
Loans and advances to public sector	**32 175**	**32 175**	**31 365**	**31 395**
Other receivables	**412 529**	**412 529**	**328 250**	**328 250**
Assets available for sale	**6 305 961**	**6 305 961**	**2 957 221**	**2 957 221**
Debt securities	***5 956 710***	***5 956 710***	***2 746 698***	***2 746 698***
- listed	5 931 685	5 931 685	2 746 698	2 746 698
- unlisted	25 025	25 025	-	-
Equity securities	***349 251***	***349 251***	***210 523***	***210 523***
- listed	10 021	10 021	10 411	10 411
- unlisted	339 230	339 230	200 112	200 112
Financial liabilities				
Amounts due to other banks	**7 972 900**	**7 972 765**	**5 186 286**	**5 185 501**
Amounts due to customers	**32 734 316**	**32 717 430**	**25 934 634**	**25 944 529**
Debt securities in issue	**36 810**	**36 188**	**36 215**	**35 378**

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

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

Loans and advances to customers are disclosed at net values adjusted for impairment write-offs. The fair value of fixed interest rate loans and advances granted to customers with more than 1 year to maturity was calculated as 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 at 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.

Therefor, 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 Bank 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 Bank was unable to prepare reliable fair value estimates for unlisted equity instruments and it used the purchase price adjusted for the balance sheet valuation purposes. The exceptions are shares of VECTRA SA which valuation at fair value is presented in Note 22.

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

The Bank holds 653 660 shares of PZU SA, representing 0.76% of the share capital; their book value is PLN 73 989 thousand. 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 Bank assumed that the fair values of such variable interest rate instruments or fixed interest rate instruments with less than 1 year to maturity was equal to the balance sheet values of the instruments.

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 Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties. In connection with these, the Bank makes decisions concerning allocation, purchase and sale of numerous financial instruments of many types. Assets held in a fiduciary capacity are not disclosed in these financial statements.

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

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

Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the Profit and Loss Account, the Bank assesses, whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio, before such a decrease will be able to be attributed to a specific loan. The estimates may take into account any observable indications pointing at the occurrence of an unfavourable change in the solvency position of debtors belonging to any particular group or in the economic situation of a given country or part of a country, which is associated with the problems appearing in that group of assets. The Management plans future cash flows based on estimates drawing on historical experience of losses incurred on assets featuring the traits of credit risk exposure and objective impairment symptoms similar to those, which characterise the portfolio. The methodology and the assumptions on the basis of which the estimated cash flow amounts and their anticipated timing will be regularly reviewed in order to reduce the discrepancies between the estimated and the actual magnitude of the impairment losses concerned. 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 8.5 million or increase by PLN 10.3 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 Bank (containing inter alia derivatives) was presented in Note 3.4 of Financial Statements.

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 of Financial Statements.

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 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 Bank 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.

Deferred tax

The Bank 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 Skarbiec-Emerytura SA in the financial statements. If the deferred tax was recognized, the Bank would found the asset in the amount of PLN 76.9 million.

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5. Interest Income

	Year ended 31 December	
	2007	**2006**
Interest income		
Cash and short-term investments	219 580	214 034
Investment securities	179 413	84 757
Loans and advances including the unwind of the impairment provision discount	1 297 594	887 878
Debt securities	154 418	134 722
Other	9 509	12 992
	1 860 514	**1 334 383**
Interest expense		
Arising from amounts due to banks and customers	(1 008 377)	(718 856)
Arising from issue of debt securities	(1 987)	(3 758)
Other borrowed funds	(58 460)	(67 116)
Debt trading securities	(831)	(2 605)
Other	(3 557)	(2 676)
	(1 073 212)	**(795 011)**

Interest income related to financial assets which have been impaired amounted to PLN 7 215 thousand (PLN 12 529 thousand for 2006).

Net interest income per segment is as follows:

	Year ended 31 December	
	2007	**2006**
Interest income		
From banking sector	359 031	332 039
From clients, including:	1 501 483	1 002 344
- corporate clients	659 956	483 119
- individual clients	582 946	325 403
- public sector	258 581	193 822
	1 860 514	**1 334 383**
Interest expense		
From banking sector	(209 020)	(115 135)
From clients, including:	(862 205)	(676 118)
- corporate clients	(619 573)	(446 375)
- individual clients	(201 773)	(222 462)
- public sector	(40 859)	(7 281)
Debt securities in issue	(1 987)	(3 758)
	(1 073 212)	**(795 011)**

6. Net Fee and Commission Income

	Year ended 31 December	
	2007	**2006**
Fee and commission income		
Credit related fees and commissions	128 098	86 431
Fees from portfolio-management services and other management-related fees	-	5 318
Guarantees granted and trade finance commissions	38 470	26 143
Commissions from credit cards	152 787	104 316
Commissions from money transfers	75 791	67 500
Commissions from bank accounts	58 226	47 686
Commission on trust and fiduciary activities	10 997	2 708
Other	102 506	75 289
	566 875	**415 391**
Fee and commission expense		
Discharged brokerage fees	(6 713)	(8 067)
Credit cards related fees	(106 182)	(76 234)
Other discharged fees	(69 875)	(51 473)
	(182 770)	**(135 774)**

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7. Dividend Income

	Year ended 31 December	
	2007	**2006**
Trading securities	-	139
Securities available for sale, shares and participation units in subsidiaries and associates	37 726	36 658
Dividend income, total	**37 726**	**36 797**

8. Net Trading Income

	Year ended 31 December	
	2007	**2006**
Foreign exchange result	**427 530**	**343 265**
- foreign exchange differences from the translation	499 318	215 356
- transaction gains less losses	(71 788)	127 909
Other trading income	**44 831**	**36 692**
- interest-bearing instruments	18 522	21 512
- equities	20 486	6 306
- market risk instruments	5 823	8 874
Total net trading income	**472 361**	**379 957**

"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 from interest-bearing instruments include the profit/(loss) on money market instrument trading, swap contracts for interest rates and currencies, options and other derivative instruments. The profit/(loss) on equity instrument transactions includes the profit/(loss) on the global trade with equity securities and derivative equity instruments, such as swap contracts, options, futures and forward contracts.

9. Other Operating Income

	Year ended 31 December	
	2007	**2006**
Income from sale or liquidation of non-current assets, intangible assets and assets held for sale	3 002	14 303
Income from recovering previously designated as uncollectible receivables	616	396
Income from compensation, penalties and fines received	494	141
Income due to release of provisions	17 313	20 562
Proceeds from services provided	16 556	11 973
Other	21 285	15 869
Total other operating income	**59 266**	**63 244**

10. Overhead Costs

	Year ended 31 December	
	2007	**2006**
Staff-related expenses (Note 12)	(453 131)	(350 089)
Material costs	(400 339)	(334 535)
Taxes and fees	(6 439)	(6 555)
Contributions and transfers to the Banking Guarantee Fund	(5 171)	(3 924)
Contribution to the Social Benefits Fund	(2 825)	(2 424)
Total overhead costs	**(867 905)**	**(697 527)**

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

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11. Other Operating Expenses

	Year ended 31 December	
	2007	**2006**
Costs of sale or liquidation of non-current assets, intangible assets and assets held for sale	(1 372)	(13 238)
Impairment provisions created for other receivables (excluding loans and advances)	(795)	(1 013)
Receivables and liabilities recognised as uncollectible	(130)	(260)
Compensation, penalties and fines paid	(339)	(25 139)
Donations made	(2 405)	(2 336)
Provisions for future commitments	(5 078)	(16 377)
Other operating costs	(9 172)	(14 913)
Total other operating expenses	**(19 291)**	**(73 276)**

12. Staff Costs

	Year ended 31 December	
	2007	**2006**
Wages and salaries	(370 164)	(279 649)
Social security expenses	(47 487)	(42 074)
Salaries in form of share option program for employees	(648)	(2 212)
Other staff expenses	(34 832)	(26 154)
Staff-related expenses, total	**(453 131)**	**(350 089)**

The average level of employment in the Bank in 2007 was 4 374 persons (vs. 3 803 in 2006).

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

13. Impairment Losses on Loans and Advances

	Year ended 31 December	
	2007	**2006**
Amounts due from other banks (Note 18)	(631)	(4 578)
Off-balance sheet contingent liabilities due to other banks (Note 34)	(247)	(397)
Loans and advances to customers (Note 21)	(52 625)	(33 317)
Off-balance sheet contingent liabilities due to customers (Note 34)	(4 719)	12 143
Total impairment losses on loans and advances	**(58 222)**	**(26 149)**

14. Income Tax Expense

	Year ended 31 December	
	2007	**2006**
Current income tax	(142 457)	(18 799)
Deferred income tax (Note 35)	(8 740)	(63 378)
Total income tax	**(151 197)**	**(82 177)**
Profit before tax	**788 428**	**406 371**
Income tax	(149 801)	(77 210)
Income not deductible for tax purposes	15 877	8 890
Accrued expenses	(11 440)	(11 582)
Other positions	(5 833)	(2 275)
Income tax recognised in the profit and loss account	**(151 197)**	**(82 177)**
Effective tax rate calculation		
Gross profit (loss)	788 428	406 371
Income tax	(151 197)	(82 177)
Effective tax rate	**19.18%**	**20.22%**

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

15. Earnings per Share

Earnings per share for the year

	Year ended 31 December	
	2007	**2006**
Basic:		
Net profit	637 231	324 194
Weighted average number of ordinary shares	29 578 675	29 344 158
Net basic profit per share (in PLN per share)	**21.54**	**11.05**
Diluted:		
Net profit applied for calculation of diluted earnings per share	637 231	324 194
Weighted average number of ordinary shares	29 578 675	29 344 158
Adjustments for:		
- stock options for employees (in PLN thousands)	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)	**21.52**	**10.98**

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 statement of the so-called "diluted earnings per share", taking account of share purchase options granted to employees. BRE Bank 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 data concerning both programs is described in the Note 42.

16. Cash and Balances with Central Bank

as at	**31.12.2007**	**31.12.2006**
Cash in hand	96 751	102 633
Current accounts	1 901 629	1 207 574
Other	-	2 400 530
Total cash and balances with the Central Bank (Note 44)	**1 998 380**	**3 710 737**
Including: mandatory reserve deposit	963 054	705 562

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%).

17. Debt Securities Eligible for Rediscounting at the Central Bank

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

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18. Loans and Advances to Banks

as at	31.12.2007	31.12.2006
Current accounts	41 386	19 598
Placements with other banks	685 970	1 702 424
Included in cash equivalents (Note 44)	**727 356**	**1 722 022**
Loans and advances	787 850	1 105 566
Reverse repo / buy sell back transactions	513 866	124 339
Other receivables	142 447	55 877
Total (gross) loans and advances to banks	**2 171 519**	**3 007 804**
Provisions created for loans and advances to banks (negative amount)	(5 209)	(4 578)
Total (net) loans and advances to banks	**2 166 310**	**3 003 226**
Short-term (up to 1 year)	1 827 787	2 682 481
Long-term (over 1 year)	338 523	320 745

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)	654 232	406 527
Provisions created for loans and advances to Polish banks	(247)	(323)
Loans and advances to foreign banks (gross)	1 517 287	2 601 277
Provisions created for loans and advances to foreign banks	(4 962)	(4 255)
Total (net) loans and advances to banks	**2 166 310**	**3 003 226**

The variable and fixed rate loans and advances to banks amounted to PLN 741 511 thousand and PLN 31 178 thousand, respectively (31 December 2006: all loans were variable rate loans that amounted to PLN 744 692 thousand). The average interest rate for deposits in other banks as well as for loans granted to other banks was 4.81%.

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 13)	631	9 563
Release (due to)	-	(4 985)
- release of provisions (Note 13)	-	(4 985)
Provisions for loans and advances to banks as at the end of the period	**5 209**	**4 578**

Provisions for loans and advances to banks amounted to PLN 5 209 thousand. Changes in allowance for losses on amounts due from banks relate in total to exposures analysed according to a portfolio based approach.

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19. Trading Securities and Pledged Assets

as at	31.12.2007	31.12.2006
Debt securities:	**7 347 447**	**6 153 333**
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)	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	745 038
- pledged treasury bills (sell buy back transactions)	14 394	723 289
Other debt securities	2 547 216	2 661 809
Equity securities:	**1 580**	**11 385**
- listed	1 580	11 385
Total trading debt and equity securities, including:	**7 349 027**	**6 164 718**
- Trading securities	*3 721 311*	*3 519 954*
- 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 under the item "Pledged assets" in the Balance Sheet.

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

The note above does not include treasure and money bills under the Bank Guarantee Fund of PLN 79 643 thousand (31 December 2006: PLN 56 727 thousand), which have been classified as investment securities (Note 22).

20. Derivative Financial Instruments and Other Trading Liabilities

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

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

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

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

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

	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	270 880	195 533
- Currency swaps	46 516 632	659 201	515 373
- Cross-currency interest rate swaps	10 209 184	80 023	102 644
- OTC currency options bought and sold	11 535 732	144 038	230 131
Total OTC derivatives	**98 522 126**	**1 154 142**	**1 043 681**
Total foreign exchange derivatives	**98 522 126**	**1 154 142**	**1 043 681**
Interest rate derivatives			
- Interest rate swaps	337 888 697	696 993	762 811
- 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	**535 518 827**	**889 406**	**918 156**
- Stock exchange traded interest rate options	-	136	-
Total interest rate deivatives	**535 518 827**	**889 542**	**918 156**
Transactions against market risk	**563 119**	**220 161**	**219 583**
Total derivative assets / liabilities held for trading	**634 604 072**	**2 263 845**	**2 181 420**
Total recognised derivative assets / liabilities	**634 604 072**	**2 263 845**	**2 181 420**
Total recognised derivative assets / liabilities and other trading liabilities	**634 604 072**	**2 263 845**	**2 181 420**
Short-term (up to 1 year)	462 322 795	1 518 493	1 442 533
Long-term (over 1 year)	172 281 277	745 352	738 887

	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	196 494	128 902
- Currency swaps	42 307 959	392 523	221 430
- Cross-currency interest rate swaps	87 306	-	-
- OTC currency options bought and sold	2 612 114	37 111	50 066
Total OTC derivatives	**66 174 992**	**626 128**	**400 398**
- Currency futures	36 954	-	-
- Stock exchange traded currency options - bought and sold	14 585	609	233
Total foreign exchange derivatives	**66 226 531**	**626 737**	**400 631**
Interest rate derivatives			
- Interest rate swaps	285 443 918	468 610	540 021
- Forward rate agreements	167 856 340	81 705	83 666
- OTC interest rate options	-	104	162
Total OTC interest rate derivatives	**453 300 258**	**550 419**	**623 849**
Total interest rate deivatives	**453 300 258**	**550 419**	**623 849**
Market risk transactions	**540 010**	**233 874**	**243 345**
Total derivative assets / liabilities held for trading	**520 066 799**	**1 411 030**	**1 267 825**
Total recognised derivative assets / liabilities	**520 066 799**	**1 411 030**	**1 267 825**
Total recognised derivative assets / liabilities and other trading liabilities	**520 066 799**	**1 411 030**	**1 267 825**
Short-term (up to 1 year)	279 047 446	759 463	678 145
Long-term (over 1 year)	241 019 353	651 567	589 680

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 and swap contracts for commodities.

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As at 31 December 2007 and 31 December 2006 the Bank did not have any other assets or 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 Bank 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.

21. Loans and Advances to Customers

as at	31.12.2007	31.12.2006
Loans and advances to individuals:	**13 790 558**	**8 765 115**
- overdrafts	2 301 686	1 511 069
- term loans, including:	11 488 872	7 254 046
housing and mortgage loans	10 536 467	6 606 584
Loans and advances to corporate entities:	**12 693 119**	**9 279 263**
- overdrafts	2 743 814	2 032 291
- term loans:	9 280 287	7 206 536
corporate & institutional enterprises	3 326 348	2 654 133
medium & small enterprises	5 953 939	4 552 403
- reverse repo / buy sell back transactions	669 018	40 436
Loans and advances to public sector	**32 489**	**31 459**
Other receivables	**412 529**	**328 250**
Total (gross) loans and advances to customers	**26 928 695**	**18 404 087**
Provisions for loans and advances to customers (negative amount)	(549 808)	(714 331)
Total (net) loans and advances to customers	**26 378 887**	**17 689 756**
Short-term (up to 1 year)	11 196 418	8 256 104
Long-term (over 1 year)	15 182 469	9 433 652

As at 31 December 2007, variable and fixed rate credits amounted to PLN 26 342 485 thousand and PLN 586 210 thousand, respectively (as at 31 December 2006: PLN 17 700 074 thousand and PLN 170 900 thousand respectively). The values mentioned above relate to loans granted to individual clients, corporate clients and budget sector. The average interest rate for loans granted to customers (excluding reverse repo transactions) was 5.57%.

The Bank 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	26 342 033	17 590 601
Provisions for impairment of exposures analysed according to portfolio approach	(93 594)	(59 988)
Net balance sheet exposure	**26 248 439**	**17 530 613**
Receivables impaired		
Gross balance sheet exposure	586 662	813 486
Provisions for impairment of exposures analysed individually	(456 214)	(654 343)
Net balance sheet exposure	**130 448**	**159 143**

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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	**70 072**	**55 675**
increase (due to)	11 961	26 965
- provisions created	11 961	19 548
release (due to)	(18 139)	(12 568)
- release of provisions	(9 403)	(12 568)
- reclassification & foreign exchange differences	(3 936)	-
- write-offs	(4 800)	-
As at the end of the period	**63 894**	**70 072**
- Housing and mortgage loans		
As at the beginning of the period	**16 891**	**7 052**
increase (due to)	5 142	9 839
- provisions created	5 142	9 839
release (due to)	-	-
- release of provisions	-	-
As at the end of the period	**22 033**	**16 891**
TOTAL - INDIVIDUALS		
As at the beginning of the period	**150 535**	**124 889**
increase (due to)	52 356	51 164
- provisions created	49 272	43 747
- reclassification & foreign exchange differences	3 084	7 417
release (due to)	(22 090)	(25 518)
- release of provisions	(9 707)	(13 108)
- reclassification & foreign exchange differences	(3 936)	(8 776)
- write-offs	(8 447)	(3 634)
As at the end of the period	**180 801**	**150 535**

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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 & foreign exchange differences	(16 030)	-
- write-offs	(39 791)	(7 627)
As at the end of the period	**79 963**	**109 245**
- Term loans		
As at the beginning of the period	**454 457**	**512 172**
increase (due to)	72 792	249 250
- provisions created	56 915	227 818
- reclassification & foreign exchange differences	15 877	21 432
release (due to)	(238 519)	(306 965)
- release of provisions	(70 614)	(231 935)
- reclassification & foreign exchange differences	(2 183)	(54 732)
- write-offs	(165 722)	(20 298)
As at the end of the period	**288 730**	**454 457**
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	**367 030**	**451 372**
increase (due to)	62 100	205 918
- provisions created	46 223	205 918
- reclassification & foreign exchange differences	15 877	-
release (due to)	(168 880)	(290 260)
- release of provisions	(57 887)	(215 230)
- reclassification & foreign exchange differences	-	(54 732)
- write-offs	(110 993)	(20 298)
As at the end of the period	**260 250**	**367 030**
TOTAL - CORPORATE ENTITIES		
As at the beginning of the period	**563 702**	**614 313**
increase (due to)	111 066	296 702
- provisions created	95 189	267 898
- reclassification & foreign exchange differences	15 877	28 804
release (due to)	(306 075)	(347 313)
- release of provisions	(82 349)	(264 656)
- reclassification & foreign exchange differences	(18 213)	(54 732)
- write-offs	(205 513)	(27 925)
As at the end of the period	**368 693**	**563 702**

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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**
OTHER RECEIVABLES		
As at the beginning of the period	**-**	**142**
release (due to)	-	(142)
- release of provisions (Note 13)	-	(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	**714 331**	**739 860**
increase (due to)	163 642	347 866
- provisions created (Note 13)	144 681	311 645
- reclassification	18 961	36 221
release (due to)	(328 165)	(373 395)
- release of provisions (Note 13)	(92 056)	(278 328)
- reclassification & foreign exchange differences	(22 149)	(63 508)
- write-offs	(213 960)	(31 559)
As at the end of the period	**549 808**	**714 331**

22. Investment Securities and Pledged Assets

as at	31.12.2007	31.12.2006
Debt securities	5 956 710	2 803 425
- listed	5 931 685	2 803 425
- unlisted	25 025	-
Equity securities	349 251	210 523
- listed	10 021	10 411
- unlisted	339 230	200 112
Total securities	**6 305 961**	**3 013 948**
Total investment securities and pledged assets, including:	**6 305 961**	**3 013 948**
- Available for sale securities	*6 226 318*	*2 957 221*
- Pledged assets	*79 643*	*56 727*
Short-term (up to 1 year)	2 979 205	920 958
Long-term (over 1 year)	3 326 756	2 092 990

The above indicated value of equity securities priced at fair value covers provisions for impairment in the amount of PLN 125 thousand (2006: PLN 64 thousand).

The carrying amount of debt securities based on fixed interest rate amounted to PLN 4 677 609 thousand and variable interest rate PLN 1 279 101 thousand (2006 respectively: PLN 2 677 822 thousand, PLN 125 603 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 pledged under the Bank Guarantee Fund, which are presented in the balance sheet in a separate position "Pledged assets" (see Note 38).

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In accordance with the Bank Guarantee Fund Law of 14 December 1994, BRE Bank SA had PLN 79 643 thousand worth of treasury bills, at face value PLN 80 000 thousand, in its Balance Sheet as at 31 December 2007 (2006: PLN 56 727 thousand at face value PLN 57 500 thousand). The bills were used as security under the Bank Guarantee Fund and they were deposited in a separate account with the National Bank of Poland.

Gains and Losses from Investment Securities:

as at	31.12.2007	31.12.2006
Redemption / sale by the issuer of the financial assets including:	105 850	41 279
- investments available for sale	*1 985*	*8 235*
- investments in subsidiaries	*103 865*	*24 646*
- investment in associates	*-*	*8 398*
Impairment of available for sale equity securities including:	26 188	(1 164)
- investments available for sale	*(63)*	*(65)*
- investments in subsidiaries	*26 251*	*(285)*
- investment in associates	*-*	*(814)*
Total gains and losses from investment securities	**132 038**	**40 115**

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	**3 013 948**	**1 077 661**
Exchange differences	(37 397)	(42 847)
Additions	9 765 486	7 315 881
Disposals (sale and redemption)	(6 503 295)	(5 345 799)
Losses from impairment	(63)	(65)
Gains / losses from changes in fair value	67 282	9 117
As at the end of the period	**6 305 961**	**3 013 948**

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 124 962 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 the sale 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 places at the transaction date.

Gross profit of the Bank arising from the transaction will amount to PLN 137 673 thousand, net of transaction costs.

The changes in allowance for impairment of investment securities and pledged assets are as follows:

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	(63)	(65)
amounts recovered during the period	2	1
As at the end of the period	**(125)**	**(64)**
As at the beginning of the period	**(64)**	**-**
allowance for impairment	(63)	(65)
amounts recovered during the period	2	1
As at the end of the period	**(125)**	**(64)**

23. Investments in Subsidiaries

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

31 December 2007 (in PLN 000's)

No	Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held	Carrying value
1.	**AMBRESA Sp. z o.o.**	Poland	1 176	138	621	120	100.00	866
2.	**BRE Bank Hipoteczny SA**	Poland	3 395 759	3 126 108	197 270	35 351	100.00	214 540
3.	**BRE Corporate Finance SA**	Poland	6 625	1 738	12 253	1 617	100.00	6 256
4.	**BRE Finance France SA**	France	732 966	731 895	64 452	222	99.98	806
5.	**BRE Holding Sp. z o.o.**	Poland	98	3	-	(5)	100.00	100
6.	**BRE Leasing Sp. z o.o.**	Poland	3 272 197	3 183 381	282 437	38 941	50.00	3 737
7.	**BRE Ubezpieczenia SA**	Poland	-	-	-	-	100.00	26 353
8.	**BRE Wealth Management**	Poland	10 966	3 671	11 038	3 118	100.00	12 000
9.	**BRE.locum SA**	Poland	306 539	246 642	152 144	38 034	79.99	22 252
10.	**BRELINVEST Sp. z o.o. FLY 2 Commandite company**	Poland	56 429	52 837	6 508	(560)	99.84	3 629
11.	**BREL-MAR Sp. z o.o.**	Poland	44	162	-	(73)	100.00	50
12.	**Centrum Rozliczeń i Informacji CERI Sp. z o.o.**	Poland	28 514	17 699	33 000	292	100.00	10 566
13.	**Dom Inwestycyjny BRE Banku SA**	Poland	780 501	702 890	157 205	43 110	100.00	26 719
14.	**emFinanse Sp. z o.o.**	Poland	6 210	9 427	15 929	(3 439)	100.00	5 700
15.	**Garbary Sp. z o.o.**	Poland	50 105	3 436	224	(2 251)	100.00	53 384
16.	**Intermarket Bank AG**	Austria	849 252	728 496	89 163	18 013	56.24	33 528
17.	**Magyar Factor Rt.**	Hungary	225 281	201 788	28 136	4 147	78.12	7 803
18.	**Polfactor SA**	Poland	301 488	265 793	38 787	9 904	78.12	4 803
19.	**PTE Skarbiec - Emerytura SA***	Poland	166 975	12 543	49 792	17 214	100.00	335 819
20.	**ServicePoint Sp. z o.o.**	Poland	2 535	1 163	14 523	33	100.00	50
21.	**Tele -Tech Investment Sp. z o.o.**	Poland	39 701	39 020	4 521	435	100.00	50
22.	**TRANSFINANCE a.s.**	Czech Republic	456 405	414 609	42 235	7 614	78.11	15 906
	including non-current assets held for sale (Note 28)							(335 819)
								449 098

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

31 December 2006 (in PLN 000's)

No	Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held	Carrying value
Lp.	**Nazwa spółki**	Poland	Aktywa	Zobowiązania	Przychody	Zysk/strata	Posiadane udziały %	Wartość bilansowa
1.	**AMBRESA Sp. z o.o.**	Poland	1 200	281	48	(311)	100	866
2.	**BRE Bank Hipoteczny SA**	Poland	2 400 972	2 166 585	160 659	30 389	100	214 540
3.	**BRE Corporate Finance SA**	Poland	4 047	631	8 959	146	100	6 256
4.	**BRE Finance France SA**	France	1 657 226	1 655 849	77 032	493	100	862
5.	**BRE Leasing Sp. z o.o.**	Poland	2 228 556	2 168 010	205 140	21 343	50	3 737
6.	**BRE Ubezpieczenia SA**	Poland	3 577	705	427	(1 128)	100	4 000
7.	**BRE Wealth Management**	Poland	10 119	2 669	12 930	3 273	100	12 000
8.	**BRE.locum Sp. z o.o.**	Poland	190 104	154 712	141 164	14 582	80	12 587
9.	**BRELIM Sp. z o.o.*** **	Poland	4 505	2	-	(24)	100	10 205
10.	**BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa**	Poland	61 753	57 601	-	(640)	100	3 629
11.	**BREL-MAR Sp. z o.o.**	Poland	30	75	-	(74)	100	50
12.	**Centrum Rozliczeń i Informacji CERI Sp. z o.o.**	Poland	19 494	8 971	23 544	436	100	10 566
13.	**Dom Inwestycyjny BRE Banku SA**	Poland	445 840	392 157	101 511	20 850	100	26 719
14.	**emFinance Sp. z o.o.**	Poland	4 666	7 877	3 651	(5 422)	100	3 000
15.	**Fund Advisory and Management Company (FAMCO) S.A. in liquidation**	Poland	3 920	20	-	3 900	100	5 340
16.	**Garbary Sp. z o.o.**	Austria	49 010	90	257	(1 796)	100	53 384
17.	**Intermarket Bank AG**	Hungary	826 704	714 024	74 820	17 303	56	35 860
18.	**Magyar Factor Rt.**	Poland	201 780	178 547	24 869	5 256	78	8 352
19.	**Polfactor SA**	Poland	290 039	259 748	32 381	9 339	78	4 803
20.	**PTE Skarbiec - Emerytura SA***	Poland	146 972	9 754	45 977	15 071	100	310 822
21.	**ServicePoint Sp. z o.o.**	Poland	3 034	1 183	11 901	913	100	50
22.	**Skarbiec Asset Management Holding SA***	Poland	103 440	23 044	109 273	17 748	54	51 033
23.	**Tele -Tech Investment Sp. z o.o.**	Poland	49 013	48 767	4 005	(748)	100	50
24.	**TRANSFINANCE a.s.**	Czech Republic	465 303	426 051	39 871	7 766	78	16 437
25.	**TV-Tech Investment 1 Sp. z o.o. in liquidation****	Poland	780	19	1	(32)	100	50
	including non-current assets held for sale (Note 28)							(361 855)
								433 343

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

Changes in Investments in Subsidiaries:

as at	31.12.2007	31.12.2006
As at the beginning of the period	**433 343**	**285 251**
Increase due to:	38 817	243 253
- purchase	37 564	236 530
- other	1 253	6 723
Decrease due to:	(23 062)	(95 161)
- sale	(19 595)	(43 843)
- impairment	-	(285)
- foreign exchange differences	(3 467)	-
- reclassification to non-current asstes held for sale	-	(51 033)
As at the end of the period	**449 098**	**433 343**

24. Investments in Associates

The Bank 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

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

Changes in Investments in Associates:

as at	31.12.2007	31.12.2006
As at the beginning of the period	**-**	**5 649**
Increase due to:	-	38
- purchase	-	38
Decrease due to:	-	(5 687)
- sale	-	(2 885)
- reclassification	-	(1 988)
- other	-	(814)
As at the end of the period	**-**	**-**

25. Intangible Assets

as at	31.12.2007	31.12.2006
Development costs	3 412	4 315
Patents, licences and similar assets, including:	301 519	303 130
- computer software	267 860	272 836
Other intangible assets	1 573	2 688
Intangible assets under development	73 000	46 003
Total intangible assets	**379 504**	**356 136**

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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, including:	Total intangible assets
Gross value of intangible assets as at the beginning of the period: 01.01.2007	**33 108**	**475 132**	**403 046**	**6 129**	**46 003**	**560 372**
Increase (due to)	**1 343**	**71 233**	**49 513**	**3**	**80 310**	**152 889**
- purchase	-	10 730	2 420	3	80 274	**91 007**
- transfer from assets under construction	-	-	-	-	-	**-**
- transfer from intangible assets under development	1 343	49 800	47 092	-	-	**51 143**
- other increases	-	10 703	1	-	36	**10 739**
Decrease (due to)	**(2 677)**	**(19 185)**	**(14 234)**	**-**	**(53 313)**	**(75 175)**
- sale	-	-	-	-	-	**-**
- liquidation	(2 677)	(8 086)	(3 534)	-	-	**(10 763)**
- transfer from investment expenditure	-	-	-	-	(51 143)	**(51 143)**
- other decreases	-	(11 099)	(10 700)	-	(2 170)	**(13 269)**
Gross value of intangible assets as at the end of the period: 31.12.2007	**31 774**	**527 180**	**438 325**	**6 132**	**73 000**	**638 086**
Accumulated amortization as at the beginning of the period: 01.01.2007	**(28 793)**	**(172 002)**	**(130 210)**	**(3 441)**	**-**	**(204 236)**
Amortization for the period (due to)	**431**	**(53 659)**	**(40 255)**	**(1 118)**	**-**	**(54 346)**
- depreciation charges	(1 261)	(62 728)	(44 459)	(1 117)	-	**(65 106)**
- other increases	(985)	-	-	(1)	-	**(986)**
- liquidation	2 677	8 086	3 534	-	-	**10 763**
- other decreases	-	983	670	-	-	**983**
Accumulated amortization as at the end of the period: 31.12.2007	**(28 362)**	**(225 661)**	**(170 465)**	**(4 559)**	**-**	**(258 582)**
Net value of intangible assets as at the end of the period: 31.12.2007	**3 412**	**301 519**	**267 860**	**1 573**	**73 000**	**379 504**

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

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26. Tangible Fixed Assets

as at	31.12.2007	31.12.2006
Tangible assets, including:	487 459	437 605
- land	1 733	1 733
- buildings and constructions	218 813	223 938
- equipment	105 044	106 153
- vehicles	34 163	463
- other tangible fixed assets	127 706	105 318
Tangible assets under construction	44 716	33 321
Total tangible fixed assets	**532 175**	**470 926**

Movements in Tangible Fixed Assets:

Movements in tangible fixed assets from 1 January 2007 to 30 June 2007	Land	Buildings	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2007	**1 733**	**333 594**	**359 056**	**7 578**	**229 548**	**33 882**	**965 391**
Increase (due to)	**-**	**2 658**	**42 250**	**35 686**	**45 172**	**77 086**	**202 852**
- purchase	-	90	20 497	-	9 204	77 037	**106 828**
- transfer from assets under construction	-	2 568	21 023	-	35 891	-	**59 482**
- other increases	-	-	730	35 686	77	49	**36 542**
Decrease (due to)	**-**	**(8 181)**	**(8 469)**	**(348)**	**(5 610)**	**(65 691)**	**(88 299)**
- sale	-	(8 181)	(644)	(344)	(1 150)	-	**(10 319)**
- liquidation	-	-	(6 225)	(4)	(3 282)	-	**(9 511)**
- transfer to tangible assets	-	-	-	-	-	(59 482)	**(59 482)**
- other decreases	-	-	(1 600)	-	(1 178)	(6 209)	**(8 987)**
Gross value of tangible fixed assets as at the end of the period: 30.06.2007	**1 733**	**328 071**	**392 837**	**42 916**	**269 110**	**45 277**	**1 079 944**
Accumulated depreciation as at the beginning of the period: 01.01.2007 r.	**-**	**(51 497)**	**(252 723)**	**(7 115)**	**(124 067)**	**-**	**(435 402)**
Depreciation for the period (due to)	**-**	**(5 031)**	**(35 070)**	**(1 638)**	**(17 206)**	**-**	**(58 945)**
- depreciation charge	-	(6 687)	(42 652)	(1 985)	(22 522)	-	**(73 846)**
- other increases	-	-	(497)	-	(29)	-	**(526)**
- sale	-	1 656	527	344	1 142	-	**3 669**
- liquidation	-	-	5 984	3	2 988	-	**8 975**
- sale of the company consolidated previously	-	-	1 391	-	97	-	**1 488**
- other decreases	-	-	177	-	1 118	-	**1 295**
Accumulated depreciation as at the end of the period: 30.06.2007	**-**	**(56 528)**	**(287 793)**	**(8 753)**	**(141 273)**	**-**	**(494 347)**
Impairment losses as at the beginning of the period: 01.01.2007	**-**	**(58 159)**	**(180)**	**-**	**(163)**	**(561)**	**(59 063)**
- decrease	-	5 429	180	-	32	-	**5 641**
Impairment losses as at the end of the period: 30.06.2007	**-**	**(52 730)**	**-**	**-**	**(131)**	**(561)**	**(53 422)**
Net value of tangible fixed assets as at the end of the period: 30.06.2007	**1 733**	**218 813**	**105 044**	**34 163**	**127 706**	**44 716**	**532 175**

Movements in tangible fixed assets from 1 January 2006 to 31 December 2006	Land	Buildings	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2006	**1 733**	**356 043**	**328 091**	**9 538**	**209 352**	**32 671**	**937 428**
Increase (due to)	**-**	**215**	**38 917**	**-**	**25 019**	**58 970**	**123 121**
- purchase	-	206	12 474	-	4 040	58 781	**75 501**
- transfer from assets under construction	-	9	26 443	-	20 911	-	**47 363**
- other increases	-	-	-	-	68	189	**257**
Decrease (due to)	**-**	**(22 664)**	**(7 952)**	**(1 960)**	**(4 823)**	**(57 759)**	**(95 158)**
- sale	-	(22 664)	(532)	(1 923)	(713)	-	**(25 832)**
- liquidation	-	-	(7 295)	(37)	(3 203)	-	**(10 535)**
- transfer to tangible assets	-	-	-	-	-	(47 363)	**(47 363)**
- transfer to intangible assets	-	-	-	-	-	(274)	**(274)**
- other decreases	-	-	(125)	-	(907)	(10 122)	**(11 154)**
Gross value of tangible fixed assets as at the end of the period: 31.12.2006	**1 733**	**333 594**	**359 056**	**7 578**	**229 548**	**33 882**	**965 391**
Accumulated depreciation as at the beginning of the period: 01.01.2006 r.	**-**	**(45 943)**	**(219 717)**	**(7 461)**	**(108 349)**	**-**	**(381 470)**
Depreciation for the period (due to)	**-**	**(5 554)**	**(33 006)**	**346**	**(15 718)**	**-**	**(53 932)**
- depreciation charge	-	(7 368)	(40 579)	(1 458)	(19 374)	-	**(68 779)**
- other increases	-	-	-	(7)	(3)	-	**(10)**
- sale	-	1 814	590	1 778	697	-	**4 879**
- liquidation	-	-	6 978	33	2 148	-	**9 159**
- other decreases	-	-	5	-	814	-	**819**
Accumulated depreciation as at the end of the period: 31.12.2006	**-**	**(51 497)**	**(252 723)**	**(7 115)**	**(124 067)**	**-**	**(435 402)**
Impairment losses as at the beginning of the period: 01.01.2006	**-**	**(69 949)**	**(180)**	**(1)**	**(1 196)**	**(561)**	**(71 887)**
- increase	-	-	-	-	-	-	**-**
- decrease	-	11 790	-	1	1 033	-	**12 824**
Impairment losses as at the end of the period: 31.12.2006	**-**	**(58 159)**	**(180)**	**-**	**(163)**	**(561)**	**(59 063)**
Net value of tangible fixed assets as at the end of the period: 31.12.2006	**1 733**	**223 938**	**106 153**	**463**	**105 318**	**33 321**	**470 926**

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The recoverable value of impaired fixed assets is 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:	223 455	208 782
- debtors	150 853	154 157
- income tax receivables	-	463
- interbank balances	519	932
- other accruals	47 557	34 660
- accrued income	21 268	15 776
- inventories	2 917	2 717
- other	341	77
Total other assets	**224 721**	**210 110**
Short-term (up to 1 year)	154 676	194 584
Long-term (over 1 year)	70 045	15 526

28. Non-current Assets and Liabilities Held for Sale

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 June 29, 2007 the Bank concluded with Aegon Woningen Nova B.V. holding 100% of the shares of Powszechne Towarzystwo Emerytalne Ergo Hestia SA (Aegon PTE SA at present) "Agreement to Merge Aegon PTE SA and PTE Skarbiec-Emerytura" and "The Optional Agreement". The integration will be carried out on the basis of article 492, paragraph 1, item 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 integration of Aegon PTE SA and PTE Skarbiec-Emerytura SA. The consent is one of the necessary terms to carry out the integration 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") is going to 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 as of 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 2.15 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 of PTE is caused by events outside the Bank's control (the requirement of gaining the assent on sale from the market regulator).

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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 Bank 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 Bank would established an asset in the amount of PLN 76.9 million.

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 SAMH to the Polish Enterprise Fund V, L.P. ("PEF V"), the Bank 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 payment for shares took place on 8 January 2007. Ownership of those shares was transferred to PEF V on 8 January 2007. The value of sold net assets of SAMH was PLN 57 927 thousand. After the transaction the Bank has had no shares of SAMH.

Total impact of the transaction on gross profit of the Bank for 2007 amounted to PLN 96 118 thousand.

29. Amounts due to Other Banks

as at	31.12.2007	31.12.2006
Payables to be settled	20 068	3 352
Current accounts	459 624	273 713
Term deposits	210 299	559 742
Loans and advances received	6 693 248	4 193 964
Repo / sell buy back transactions	558 180	124 225
Liabilities in respect of cash collaterals	31 481	31 290
Amounts due to other banks	**7 972 900**	**5 186 286**
Short-term (up to 1 year)	4 858 965	1 101 513
Long-term (over 1 year)	3 113 935	4 084 773

As at 31 December 2007 term deposits accepted from other banks were fixed interest rate deposits.

The average interest rate for deposits and loans received from banks in 2007 was 3.28%.

BRE Bank did not provide collateral to its lenders. The Bank 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:	**19 385 792**	**16 529 100**
Current accounts	9 496 912	8 102 153
Term deposits	5 266 397	3 702 684
Loans and advances received	193 510	237 026
Repo transactions	3 343 495	2 520 539
Other liabilities:	1 085 478	1 966 698
- liabilities in respect of cash collaterals	1 067 852	1 904 749
- other	17 626	61 949
Individual customers:	**12 643 879**	**9 290 594**
Current accounts	9 387 769	6 312 074
Term deposits	3 195 395	2 895 490
Other liabilities:	60 715	83 030
- liabilities in respect of cash collaterals	55 620	82 170
- other	5 095	860
Public sector customers:	**704 645**	**114 940**
Current accounts	658 622	26 945
Term deposits	39 480	86 310
Loans and advances received	-	1 685
Other liabilities:	6 543	-
- other	6 543	-
Total amounts due to customers	**32 734 316**	**25 934 634**
Short-term (up to 1 year)	32 073 720	24 324 279
Long-term (over 1 year)	660 596	1 610 355

As at 31 December 2007 term deposits accepted from individual and corporate customers were mainly floating interest rate deposits. The average interest rate for amounts due to customers (excluding repo transactions) in 2007 was 3.03%.

31. Debt Securities in Issue

As at 31 December 2007

Debt securities in issue by cathegory	Nominal value	Contractual interest rate	Guarantees/collateral	Redemption date	Commitment
Long-term issues					
- Deposit Certificate (in PLN)	3 000	5.95%	no collateral	27-08-08	3 017
- Deposit Certificate (in PLN)	5 000	5.69%	no collateral	01-10-08	5 072
- Deposit Certificate (in PLN)	10 000	5.34%	no collateral	13-10-08	10 073
- Deposit Certificate (in PLN)	8 000	7.75%	no collateral	06-05-09	7 330
- Bonds (in PLN)	11 200	5.35%	no collateral	22-09-08	11 318
Liabilities due to the issuance of debt securities (carrying value in PLN thousands)					**36 810**

As at 31 December 2006

Debt securities in issue by cathegory	Nominal value	Contractual interest rate	Guarantees/collateral	Redemption date	Commitment
Long-term issues					
- Deposit Certificate (in PLN)	3 000	4.67%	no collateral	27-08-08	**3 013**
- Deposit Certificate (in PLN)	5 000	4.86%	no collateral	01-10-08	**5 061**
- Deposit Certificate (in PLN)	10 000	4.72%	no collateral	13-10-08	**10 104**
- Deposit Certificate (in PLN)	8 000	7.75%	no collateral	06-05-09	**6 765**
- Bonds (in PLN)	11 200	4.71%	no collateral	22-09-08	**11 272**
Liabilities due to the issuance of debt securities (carrying value in PLN thousands)				-	**36 215**

BRE Bank did not deliver any collateral to the owners of the issued Bank's bonds or did not register any infringement of contractual terms related to commitments due to the issuance of debt securities.

Movements in Debt Securities in Issue:

as at	31.12.2007	31.12.2006
As at the beginning of the period	**36 215**	**91 545**
Increase (due to):	595	670
- valuation at amortised cost	595	670
Decrease (due to):	-	(56 000)
- redemption	-	(56 000)
Debt securities in issue at the end of the period	**36 810**	**36 215**
Short-term (up to 1 year)	29 480	-
Long-term (over 1 year)	7 330	36 215

32. Subordinated liabilities

SUBORDINATED LIABILITIES	Nominal value	Currency	Interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2007					
- Commerzbank AG	400 000	EUR	3M LIBOR + 0.7%*	08.03.2017	866 391
- Commerzbank AG	100 000	CHF	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 '000)
As at 31 December 2006					
- Commerzbank AG	200 000	EUR	3M EURIBOR+1.3%	27.03.2012	775 751
- Commerzbank AG	50 000	EUR	3M EURIBOR+1.3%	26.09.2012	193 656
- Commerzbank AG	100 000	EUR	3M EURIBOR+2.5%	undefined	386 992
- Commerzbank AG	80 000	CHF	3M LIBOR+1.4%	undefined	190 955
					1 547 354

In the year 2007 likewise in 2006, the Bank did not note any delays in repayments of principal or interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

On 5 March 2007 BRE Bank SA (Bank) entered into agreement with Commerzbank AG on issuance of subordinated debt securities upon which 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. The issuance took place on March 8, 2007.

Simultaneously, i.e. on 5 March, 2007 Bank entered into two agreements on early repurchase of subordinated debt securities of 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.

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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.

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	255 350
- subordinated loan raised	1 230 184	190 160
- interest on subordinated loan	68 688	65 190
Decrease (due to):	(1 184 441)	(70 524)
- capital repayment	(969 100)	-
- interest repayment	(66 104)	(61 014)
- 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

33. Other Liabilities

as at	31.12.2007	31.12.2006
Special Fund	**4 197**	**24 076**
- Social Benefits Funds	4 197	24 076
Other liabilities	**548 697**	**433 850**
- tax liabilities	10 834	5 625
- interbank settlements	69 825	112 429
- creditors	169 502	76 018
- accruals	100 291	87 304
- deferred income	63 234	54 793
- provisions for pension dismissals	2 807	2 673
- provisions for holiday equivalents	2 110	2 021
- provisions for other employee benefits	129 654	92 987
- other	440	-
Total special funds and other liabilities	**552 894**	**457 926**

34. Provisions

as at	31.12.2007	31.12.2006
For off-balance sheet contingent liabilities* (Note 13)	58 060	53 370
For legal proceedings	2 704	5 352
Other	8 067	8 652
Total other provisions	**68 831**	**67 374**

* include valuation of financial guarantees

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

Movements in the provisions:

as at	31.12.2007	31.12.2006
As at the beginning of the period (by type)	**67 374**	**78 109**
For off-balance sheet contingent liabilities	53 370	63 920
For legal proceedings	5 352	4 512
Other	8 652	9 677
Increase (due to)	**38 699**	**32 443**
- increase of provisions	38 699	31 247
for off-balance-sheet contingent liabilities	*35 171*	*17 585*
for legal proceedings	*3 010*	*13 662*
other	*518*	-
- other	-	1 196
Decrease (due to)	**(37 242)**	**(43 178)**
- charge-offs	(12)	(6 883)
- release of provisions, due to:	(36 954)	(36 295)
for off-balance-sheet contingent liabilities	*(30 205)*	*(29 331)*
for legal proceedings	*(5 646)*	*(5 939)*
other	*(1 103)*	*(1 025)*
- foreign exchange differences	(276)	-
As at the end of the period (by type)	**68 831**	**67 374**
For off-balance sheet contingent liabilities	58 060	53 370
For legal proceedings	2 704	5 352
Other	8 067	8 652

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	15 910 838	13 811 819
Provisions for impairment of exposures analysed according to portfolio approach (negative amount)	(53 546)	(47 387)
Net off-balance sheet contingent liabilities	**15 857 292**	**13 764 432**
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 assets 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 from the tax liability (19% in 2006 and 2007).

Below there are presented movements in the 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	**9 720**	**83 950**
Deferred income tax included in the financial result of the period (Note 14)	(8 740)	(63 378)
Deferred income tax included in equity:	12 861	(19)
- valuation of available for sale securities (Note 41)	12 861	(19)
Other changes	(11 079)	(10 833)
As at the end of the period	**2 762**	**9 720**
Interest payable on bank deposits	7 325	3 661
Interest payable on customer deposits	6 278	6 977
Valuation of derivatives and futures	32 471	23 484
Valuation of financial instruments at fair value through profit or loss and held for trading	1 959	459
Valuation of financial instruments available for sale	14 698	1 468
Provisions for impairment of loans and guarantees determined individually	42 650	55 240
Provisions for pensions, holiday equivalents, jubilee and other bonuses	25 568	18 559
Other provisions	47	47
Accruals and prepayments	19 326	17 382
Impairment of shares / participations units	1 740	5 844
Other negative temporary differences	17 875	25 795
Interest receivables on loans and advances granted to banks	(1 465)	(4 071)
Interest receivables on loans granted to customers	(16 185)	(15 132)
Valuation of derivatives and futures	(36 542)	(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	(29 215)	(11 949)
Investment tax relief	(30 446)	(31 146)
Difference between the amortization and depreciation for tax and accounting purposes	(39 802)	(32 488)
Other positive temporary differences	(7 059)	(5 011)
Total net deferred income tax assets	**2 824**	**9 720**
Total net deferred income tax provisions	**62**	**-**

as at	31.12.2007	31.12.2006
Deferred income tax included in the income statement		
Interest	4 518	(461)
Provisions for impairment of loans and guarantees determined individually	(12 590)	(14 751)
Valuation of derivatives and futures	18 486	(33 511)
Valuation of financial instruments at fair value through profit or loss and held for trading	(1 603)	8 647
Valuation of financial instruments available for sale	(16 897)	(13 889)
Investment tax relief	700	(371)
Tax losses settled	-	(12 755)
Provisions for pensions, holiday equivalents, jubilee and other bonuses	7 009	3 971
Other provisions	-	(46)
Accruals and prepayments	1 944	6 372
Impairment of shares / participation units	(4 104)	4 158
Difference between the amortization and depreciation for tax and accounting purposes	(7 314)	(11 127)
Other temporary differences	1 111	385
Total deferred income tax included in the profit and loss account (Note 14)	**(8 740)**	**(63 378)**

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 – not recognised deferred income tax asset in relation to write-offs due to PTE's shares).

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 issuer 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 issuer 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.

Information 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 Highest Court on the May 17, 2006 issued the verdict, according to which the claims of ART-B in the amount of PLN 3 697 thousand was sent back for further recognition to the Court of Appeal and the claims above that amount were dismissed. 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 Highest 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 same 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 small 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. ("TTI") 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 Highest Court revoked the ruling of the Appeal Court and referred the case back for further recognition.

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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.

Litigious cases are treated by the Bank 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.

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 BRE 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.

The tax authorities did not carry out any full-scope tax audits at the Bank in 2006.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, in which tax declarations were reported, and may impose additional tax assessments and penalties. The Management Board 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 Bank consist of:

(a) Lending commitments

The amounts and deadlines by which the Bank 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 commitments

The minimum future payments on the account of leasing under non-cancellable operating lease agreements are presented in the table below.

The following table presents the value of the Bank contingent liabilities 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	**12 585 521**	**3 473 017**	**1 072 679**	**17 131 217**
Commitments granted	**11 734 637**	**3 349 551**	**1 063 019**	**16 147 207**
1. Financing	**9 010 267**	**2 361 576**	**1 037 829**	**12 409 672**
a) Lending commitments	8 992 256	2 271 520	938 767	12 202 543
b) Operating lease commitments	18 011	90 056	99 062	207 129
2. Guarantees and other financial facilities	**2 206 460**	**987 975**	**25 190**	**3 219 625**
a) Banker's acceptances	6 454	-	-	6 454
b) Guarantees and standby letters of credit	2 056 868	987 975	25 190	3 070 033
c) Documentary and commercial letters of credit	143 138	-	-	143 138
3. Other commitments	**517 910**	**-**	**-**	**517 910**
Commitments received	**850 884**	**123 466**	**9 660**	**984 010**
a) Financing	500 000	-	-	500 000
b) Guarantees	350 884	123 466	9 660	484 010
Liabilities related to realisation of purchase/sale transactions	**455 241 956**	**171 665 786**	**9 286 041**	**636 193 783**
Total off-balance sheet items	**467 827 477**	**175 138 803**	**10 358 720**	**653 325 000**

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31.12.2006	up to 1 year	1 - 5 years	over 5 years	Total
Contingent liabilities granted and received	**11 770 227**	**2 623 500**	**556 966**	**14 950 693**
Commitments granted	**11 067 116**	**2 539 823**	**527 242**	**14 134 181**
1. Financing	**8 532 475**	**817 528**	**433 943**	**9 783 946**
a) Lending commitments	8 507 603	730 993	289 461	9 528 057
b) Operating lease commitments	24 872	86 535	144 482	255 889
2. Guarantees and other financial facilities	**2 350 841**	**1 722 295**	**93 299**	**4 166 435**
a) Banker's acceptances	26 939	-	-	26 939
b) Guarantees and standby letters of credit	2 060 773	1 722 295	93 299	3 876 367
c) Documentary and commercial letters of credit	263 129	-	-	263 129
3. Other commitments	**183 800**	**-**	**-**	**183 800**
Commitments received	**703 111**	**83 677**	**29 724**	**816 512**
a) Financing	-	651	-	651
b) Guarantees	703 111	83 026	29 724	815 861
Liabilities related to realisation of purchase/sale transactions	**395 625 776**	**140 085 814**	**6 836 100**	**542 547 690**
Total off-balance sheet items	**407 396 003**	**142 709 314**	**7 393 066**	**557 498 383**

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

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

	Payee	Types of guaranteed securities	Amount of guaratee in PLN	Financial, organizational and personal relationships	Marketability
1.	BRE.locum SA	Bonds	101 500 000	1) BRE Bank holds 79.99% of the company's shares; 2) 2 members in Supervisory Board	Marketable
2.	ECHO Investment SA	Bonds	35 000 000	none	Marketable
3.	J.W. Construction	Bonds	39 500 000	none	Marketable
4.	Polimex Mostostal Siedlce SA	Bonds	32 500 000	none	Marketable
5.	Polski Koncern Energetyczny SA	Bonds	217 000 000	none	Marketable
6.	Prokom Software SA	Bonds	50 000 000	none	Marketable
7.	SPIN SA	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.

As at 31 December 2007 the Bank received PLN 984 010 thousand worth of contingent commitments, including PLN 500 000 thousand worth of unused loans, granted by foreign banks and PLN 484 010 thousand worth of guarantees securing credits and guarantees issued.

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:	**3 707 359**	**2 701 491**
- Trading securities (Note 19)	3 627 716	2 644 764
- Investment securities (Note 22)	79 643	56 727
Liabilities arising from pledged assets, including:	**3 977 085**	**2 682 645**
- Sell-buy back transactions (Note 29, 30)	3 901 675	2 644 764
- Funds guaranteed under BGF (Note 30)	75 410	37 881

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 (PLN 4 in 2006). 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 program. The detailed information concerning the programs is described in the Note 42.

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REGISTERED SHARE CAPITAL								
Series / issue	**Share type**	**Type of privilege**	**Type of limitation**	**Numebr of shares**	**Series / issue value**	**Paid up**	**Registered on**	**Dividend right since**
11-12-86	ordinary bearer*	-	-	9 972 500	39 890 000	fully paid up in cash	23-12-86	01-01-89
11-12-86	ordinary registered**	-	-	27 500	110 000	fully paid up in cash	23-12-86	01-01-89
20-10-93	ordinary bearer	-	-	2 500 000	10 000 000	fully paid up in cash	04-03-94	01-01-94
18-10-94	ordinary bearer	-	-	2 000 000	8 000 000	fully paid up in cash	17-02-95	01-01-95
28-05-97	ordinary bearer	-	-	4 500 000	18 000 000	fully paid up in cash	10-10-97	10-10-97
27-05-98	ordinary bearer	-	-	3 800 000	15 200 000	fully paid up in cash	20-08-98	01-01-99
24-05-00	ordinary bearer	-	-	170 500	682 000	fully paid up in cash	15-09-00	01-01-01
21-04-04	ordinary bearer	-	-	5 742 625	22 970 500	fully paid up in cash	30-06-04	01-01-04
21-05-03	ordinary bearer	-	-	2 355	9 420	fully paid up in cash	05-07-05*	01-01-05
21-05-03	ordinary bearer	-	-	11 400	45 600	fully paid up in cash	05-07-05*	01-01-05
21-05-03	ordinary bearer	-	-	37 164	148 656	fully paid up in cash	11-08-05*	01-01-05
21-05-03	ordinary bearer	-	-	44 194	176 776	fully paid up in cash	09-09-05*	01-01-05
21-05-03	ordinary bearer	-	-	60 670	242 680	fully paid up in cash	18-10-05*	01-01-05
21-05-03	ordinary bearer	-	-	13 520	54 080	fully paid up in cash	12-10-05*	01-01-05
21-05-03	ordinary bearer	-	-	4 815	19 260	fully paid up in cash	14-11-05*	01-01-05
21-05-03	ordinary bearer	-	-	28 580	114 320	fully paid up in cash	14-11-05*	01-01-05
21-05-03	ordinary bearer	-	-	53 399	213 596	fully paid up in cash	08-12-05*	01-01-05
21-05-03	ordinary bearer	-	-	14 750	59 000	fully paid up in cash	08-12-05*	01-01-05
21-05-03	ordinary bearer	-	-	53 320	213 280	fully paid up in cash	10-01-06*	10-01-06*
21-05-03	ordinary bearer	-	-	3 040	12 160	fully paid up in cash	10-01-06*	10-01-06*
21-05-03	ordinary bearer	-	-	46 230	184 920	fully paid up in cash	08-02-06*	08-02-06*
21-05-03	ordinary bearer	-	-	19 700	78 800	fully paid up in cash	08-02-06*	08-02-06*
21-05-03	ordinary bearer	-	-	92 015	368 060	fully paid up in cash	09-03-06*	09-03-06*
21-05-03	ordinary bearer	-	-	19 159	76 636	fully paid up in cash	09-03-06*	09-03-06*
21-05-03	ordinary bearer	-	-	8 357	33 428	fully paid up in cash	11-04-06*	11-04-06*
21-05-03	ordinary bearer	-	-	800	3 200	fully paid up in cash	11-04-06*	11-04-06*
21-05-03	ordinary bearer	-	-	108 194	432 776	fully paid up in cash	16-05-06*	16-05-06*
21-05-03	ordinary bearer	-	-	20 541	82 164	fully paid up in cash	16-05-06*	16-05-06*
21-05-03	ordinary bearer	-	-	17 000	68 000	fully paid up in cash	09-06-06*	09-06-06*
21-05-03	ordinary bearer	-	-	2 619	10 476	fully paid up in cash	09-06-06*	09-06-06*
21-05-03	ordinary bearer	-	-	33 007	132 028	fully paid up in cash	10-07-06*	10-07-06*
21-05-03	ordinary bearer	-	-	2 730	10 920	fully paid up in cash	10-07-06*	10-07-06*
21-05-03	ordinary bearer	-	-	48 122	192 488	fully paid up in cash	09-08-06*	09-08-06*
21-05-03	ordinary bearer	-	-	700	2 800	fully paid up in cash	12-09-06*	12-09-06*
21-05-03	ordinary bearer	-	-	3 430	13 720	fully paid up in cash	11-10-06*	11-10-06*
21-05-03	ordinary bearer	-	-	38 094	152 376	fully paid up in cash	10-11-06*	10-11-06*
21-05-03	ordinary bearer	-	-	15 005	60 020	fully paid up in cash	08-12-06*	08-12-06*
21-05-03	ordinary bearer	-	-	800	3 200	fully paid up in cash	10-01-07*	10-01-07*
21-05-03	ordinary bearer	-	-	200	800	fully paid up in cash	16-02-07*	16-02-07*
21-05-03	ordinary bearer	-	-	1 150	4 600	fully paid up in cash	09-03-07*	09-03-07*
21-05-03	ordinary bearer	-	-	9 585	38 340	fully paid up in cash	09-03-07*	09-03-07*
21-05-03	ordinary bearer	-	-	600	2 400	fully paid up in cash	11-04-07*	11-04-07*
21-05-03	ordinary bearer	-	-	32 964	131 856	fully paid up in cash	17-05-07*	17-05-07*
22-05-03	ordinary bearer	-	-	2 700	10 800	fully paid up in cash	15-06-07*	15-06-07*
22-05-03	ordinary bearer	-	-	8 640	34 560	fully paid up in cash	12-07-07*	12-07-07*
22-05-03	ordinary bearer	-	-	41 898	167 592	fully paid up in cash	14-08-07*	14-08-07*
22-05-03	ordinary bearer	-	-	400	1 600	fully paid up in cash	14-09-07*	14-09-07*
22-05-03	ordinary bearer	-	-	2 540	10 160	fully paid up in cash	11-10-07*	11-10-07*
22-05-03	ordinary bearer	-	-	30 807	123 228	fully paid up in cash	15-11-07*	15-11-07*
22-05-03	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.

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40. Share Premium

Share premium is formed from the share premium obtained from the issuance of shares reduced by the attached direct costs incurred with that issuance. 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 the issuance of shares connected with exercise of share options program. The detailed information concerning the share options program 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 3.48% of the owner's equity of the Bank (the effect of the restatement would represent 7.07% of the item "Share capital")
- consists of reallocation of funds between various items of the owners' equity, which has no effect on the equity as a whole;
- has no material effect on the presented financial data, both as a whole and on line items basis;

the Management Board of the Bank believes that such restatement will have no material effect on the accuracy and fairness of the presentation of the Bank's financial position as at, and for the period ended 31 December 2007.

Hyperinflationary adjustments would also have no material effect for the period ended 31 December 2006 (the effect of the restatement would represent 4.56% of the equity of the Bank and 7.16% of yhe item "Share capital" as at 31 December 2006).

41. Revaluation Reserve

The following table presents movements in revaluation reserve:

as at	31.12.2007	31.12.2006
Translation reserve		
As at the beginning of the period	**342**	**(96)**
Exchange differences	(2 894)	438
As at the end of the period	**(2 552)**	**342**
Revaluation reserve - available for sale securities		
As at the beginning of the period	**3 617**	**(2 541)**
Net gains / (losses) from changes in fair value	67 282	9 117
- increase	*407 542*	*41 556*
- decrease	*(340 260)*	*(32 439)*
Net gains / (losses) transferred to net profit on disposal and impairment	(1 977)	(2 940)
Deferred income tax	12 861	(19)
As at the end of the period	**81 783**	**3 617**
Other capital and reserves	**79 231**	**3 959**

The net profit in total amount of PLN 1 977 thousand representing the balance of increases/decreases of securities (bonds, treasury notes and stocks) sold in 2007 was charged off the revaluation reserve and recognized in the Profit and Loss Account.

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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	286 893	12 388
Other reserve capital	1 346	7 275
General risk fund	558 000	558 000
Undistributed profit from the previous years	-	(49 689)
Profit for the current year	637 231	324 194
Total retained earnings	**1 483 470**	**852 168**

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 1/3[rd] of the share capital.

In addition, the Bank transfers some of its net profit to the general risk fund to cover unexpected risks and future losses. The general risk fund can be distributed only on consent of stockholders at a general meeting.

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 realisation of such options.

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

471 300 share options of PLN 96.16 issue price each, were granted on 15 October 2003 and they expire on 1 July 2008. 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.

Bank operated two motivational employee options programs to 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 movements in other reserve capital in relation to the employee share 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 12)	648	2 212
- proceeds from shares issued	(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 the active 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 both the first and the second employee options programs were issued till 31 December 2007.

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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:

as at	31.12.2007	31.12.2006
Cash and balances with the Central Bank (Note 16)	1 998 380	3 710 737
Debt securities eligible for rediscounting at the Central Bank	23 259	26 725
Loans and advances to banks (Note 18)	727 356	1 722 022
Trading securities (Note 19)	4 800 231	3 491 524
Total cash and cash equivalents	**7 549 226**	**8 951 008**

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 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 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.

- In June 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 of BRE Bank 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. 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 shareholders meeting 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:

  The highest value agreements are as follows:

  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 affilaited entities (in PLN 000's) - 31 December 2007

No.	Company's name	Balance sheet		Profit and loss account				Off balance sheet items		
		Receivables	Liabilities	Interest income	Interest cost	Commission income	Commission cost	Commitments granted	Commitments received	Purchase/Sale commitments
	Subsidiaries									
1	BRE Corporate Finance SA	0	3 195	0	0	0	0	0	0	0
2	Dom Inwestycyjny BRE Bank SA	3 939	581 333	0	(21 808)	13 995	(6 447)	70 000	0	0
3	BRE Bank Hipoteczny SA	425 374	27 769	6 625	0	0	0	16 189	0	1 070 170
4	PTE Skarbiec Emerytura SA	0	4 055	0	0	0	0	0	0	0
5	BRE Wealth Management S.A. (Skarbiec Investment Management S.A. in the past)	0	3 712	0	0	2 307	0	0	0	0
6	BRE Leasing Sp. z o.o.	174 441	52 692	9 737	(5 944)	0	0	25 000	0	0
7	Polfactor S.A.	234 968	0	13 272	0	0	0	165 032	0	0
8	Intermarket Bank AG	82 386	0	4 377	0	0	0	0	0	0
9	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	3 465	12 684	0	0	0	0	16 535	0	0
10	BRE Finance France SA	0	731 809	0	(64 423)	0	0	740 733	0	0
11	BRE.locum SA	82 475	1 938	2 842	0	0	0	18 500	0	0
12	Tele-Tech Investment Sp. z o.o.	38 978	0	3 867	0	0	0	0	0	0
13	Garbary Sp. z o.o.	3 000	2 138	0	0	0	0	0	0	0
14	emFinanse Sp. z o.o.	6 803	0	0	0	0	(6 082)	0	0	0
15	ServicePoint Sp. z o.o.	155	74	1	(14)	10	0	345	0	0
16	BRELINVEST Sp. z o.o. Fly 2 Commandite company	0	1	0	(8)	1	0	0	0	0
17	BRE Holding Sp. z o.o.	0	98	0	0	0	0	0	0	0
18	BREL-MAR Sp. z o.o.	0	1	0	0	1	0	0	0	0
19	AMBRESA Sp. z o.o.	0	354	0	0	2	0	0	0	0
20	BRE Ubezpieczenia TU SA	0	8 383	0	(121)	2	0	0	0	0
	Associated									
1	Xtrade SA	0	61	0	(4)	7	0	0	0	0
	Commerzbank AG Capital Group (Ultimate Parent Group)	387 525	9 861 963	25 838	(246 096)	0	0	54 308	106 369	0

Numerical data concerning transactions with affilaited entities (in PLN 000's) - 31 December 2006

No.	Company's name	Balance sheet		Profit and loss account				Off balance sheet items		
		Receivables	Liabilities	Interest income	Interest cost	Commission income	Commission cost	Commitments granted	Commitments received	Purchase/Sale commitments
	Subsidiaries									
1	BRE Corporate Finance SA	0	0	0	0	0	0	2 000	0	0
2	Dom Inwestycyjny BRE Bank SA	3 016	353 052	0	(10 809)	9 264	(2 586)	70 000	0	0
3	BRE Bank Hipoteczny SA	201 874	23 113	4 947	0	0	0	17 775	0	1 884 928
4	PTE Skarbiec Emerytura SA	0	10 250	0	0	0	0	0	0	0
5	Skarbiec Asset Management Holding SA	7 797	16 353	0	0	8 710	0	60 417	0	0
6	BRE Wealth Management S.A. (Skarbiec Investment Management S.A. in the past)	0	4 056	0	0	0	0	0	0	0
7	BRE Leasing Sp. z o.o.	249 460	18 832	8 838	0	0	0	1 532	0	0
8	Polfactor S.A.	242 538	0	9 358	0	0	0	151 993	0	0
9	Intermarket Bank AG	107 274	0	3 014	0	0	0	0	0	0
10	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	0	9 244	0	0	0	0	0	0	0
11	BRE Finance France SA	0	1 655 717	0	(76 998)	0	0	1 657 350	0	0
12	BRE.locum SA	56 730	2 375	2 302	0	0	0	23 000	0	0
13	ServicePoint Sp. z o.o.	0	822	0	(4)	3	0	0	0	0
14	FAMCO SA	0	3 850	0	(144)	4	0	0	0	0
15	BRELINVEST Sp. z o.o. Fly 2 Commandite company	0	19	0	(6)	1	0	0	0	0
16	BRELIM Sp. z o.o.	0	13	49	0	1	0	0	0	0
17	BREL-MAR Sp. z o.o.	0	3	0	0	1	0	0	0	0
18	BREL-RES Sp. z o.o.	16 253	205	2 528	(121)	27	0	0	0	0
19	AMBRESA Sp. z o.o.	0	866	0	(2)	2	0	0	0	0
20	emFinanse Sp. z o.o.	6 385	11	88	(2)	57	0	5 216	0	0
21	BRE Ubezpieczenia Sp. z o.o.	0	2 516	0	(47)	2	0	0	0	0
22	Tele-Tech Investment Sp. z o.o.	48 703	0	3 997	0	0	0	0	0	0
	Associated									
1	Xtrade SA	0	88	2	(2)	7	0	0	0	0
	Commerzbank AG Capital Group (Ultimate Parent Group)	536 360	6 274 002	13 036	(128 374)	0	0	197 869	204 986	0

Below there are presented transactions between the Bank and the Management :

(in PLN '000s)	**Directors and key management personnel of the Bank**	
As at the end of the period	**31.12.2007**	**31.12.2006**
Loans outstanding	7 218	2 977
Deposits received	34 187	13 771
Interest expense on deposits	(370)	(150)
Interest, fee and commission income	322	115
Directors and key management personnel of the Bank remuneration	28 471	19 113

In the year 2007 no provisions were created in connection with credits granted to related entities (none in 2006).

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	-
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 545 760, 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.

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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 the members of the Bank's Management Board was PLN 21 460 345 thousand (2006: PLN 15 041 520).

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 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 been 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 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 as at 8 January 2007 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 gross result of BRE Bank in 2007 amounted to PLN 96 118 thousand.

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

	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 bank balance sheet management is to ensure an appropriate level of capital. Within the capital management framework, BRE Bank creates its framework and directions in order to form the most effective planning and utilization of capital. The framework and the directions of the Bank:

- are consistent with valid external regulations and internal regulations of the Bank,
- 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. <u>maintenance an optimal level and structure of own funds</u> with application of available methods and means (retention of net profit, subordinated loan, securitization – release of capital, issue shares, etc.);
2. <u>effective utilization of existing capital</u> 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 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 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 Bank's 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).

Capital adequacy ratio of the Bank amounted to 10.65% as at 31 December 2007. Due to significant trading activity full calculation of the capital charges is being made. Total capital charge of the Bank amounted to PLN 2 566 080 thousand as at 31 December 2007, including PLN 2 448 716 thousand of credit capital charge (31 December 2006 respectively: 1 873 263 thousand and 1 780 546).

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Capital adequacy	31.12.2007	31.12.2006
Own funds:		
- Share capital	118 643	118 064
- Supplementary fund	1 685 682	1 391 270
- Reserve fund	559 346	565 276
- Revaluation reserve arising from valuation of non-current and financial assets available for sale	7 051	3 959
- Net profit for the current year	342 224	-
- Uncovered loss from previous years	-	(49 689)
- Investments and participations in financial institutions	(456 996)	(489 469)
- Intangible assets	(379 503)	(356 136)
- Subordinated liabilities	1 539 527	1 408 249
I. Total own funds	**3 415 974**	**2 591 524**
Risk weighted balance-sheet assets:		
- 20% risk assets	251 662	589 241
- 50% risk assets	377 247	578 071
- 100% risk assets	26 809 417	17 965 576
II. Total risk weighted balance-sheet liabilities:	**27 438 326**	**19 132 888**
- 20% risk off-balance sheet liabilities	105 555	38 821
- 50% risk off-balance sheet liabilities	2 870 116	2 347 489
- 100% risk off-balance sheet liabilities	110 934	632 205
- 1.5% - 10% risk off-balance sheet liabilities	84 016	105 425
III. Total risk weighted off-balance sheet liabilities:	**3 170 621**	**3 123 940**
IV. Total risk weighted assets and off-balance sheet liabilities (II + III)	**30 608 947**	**22 256 828**
V. Credit risk (IV * 8%)	**2 448 716**	**1 780 546**
VI. Foreign exchange risk	**14 050**	**5 030**
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	**2 566 080**	**1 873 263**
XIII. Capital adequacy ratio (%)	**10.65%**	**11.07%**

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 22.
- 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 bearer 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 bearer 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 chosen Companies of Corporate Banking.