BRE Bank SA Group

IFRS Condensed Consolidated Financial Statements for the first half of 2010

Contents

Selected financial data

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN '000		in EUR '000	
		Ist half of 2010 from 01.01.2010 to 30.06.2010	Ist half of 2009 from 01.01.2009 to 30.06.2009	Ist half of 2010 from 01.01.2010 to 30.06.2010	Ist half of 2009 from 01.01.2009 to 30.06.2009
I.	Interest income	1 681 501	1 790 686	419 934	396 310
II.	Fee and commission income	561 304	475 615	140 179	105 262
III.	Net trading income	218 229	223 962	54 500	49 567
IV.	Operating profit	328 779	16 188	82 109	3 583
V.	Profit before income tax	328 779	16 188	82 109	3 583
VI.	Net profit attributable to Owners of BRE Bank SA	239 667	15 664	59 854	3 467
VII.	Net profit attributable to non-controlling interests	14 317	(5 056)	3 575	(1 119)
VIII.	Net cash flows from operating activities	(3 666 728)	(2 573 011)	(915 720)	(569 452)
IX.	Net cash flows from investing activities	(44 847)	(91 224)	(11 200)	(20 189)
X.	Net cash flows from financing activities	2 059 853	25 037	514 423	5 541
XI.	Net increase / decrease in cash and cash equivalents	(1 651 722)	(2 639 198)	(412 497)	(584 100)
XII.	Earnings per 1 ordinary share (in PLN/EUR)	7.68	0.53	1.92	0.12
XIII.	Diluted earnings per 1 ordinary share (in PLN/EUR)	7.67	0.53	1.92	0.12
XIV.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN '000			in EUR '000		
		As at			As at		
		30.06.2010	31.12.2009	30.06.2009	30.06.2010	31.12.2009	30.06.2009
I.	Total assets	88 911 416	81 023 886	80 932 457	21 446 142	19 722 478	18 107 315
II.	Amounts due to the Central Bank	2 022 651	2 003 783	1 537 154	487 880	487 752	343 913
III.	Amounts due to other banks	28 380 750	25 019 805	27 189 396	6 845 663	6 090 211	6 083 183
IV.	Amounts due to customers	44 474 797	42 791 387	38 859 124	10 727 675	10 416 091	8 694 094
V.	Equity attributable to Owners of BRE Bank SA	6 508 609	4 120 187	3 917 541	1 569 928	1 002 918	876 486
VI.	Non-controlling interests	166 051	150 967	153 577	40 053	36 748	34 360
VII.	Share capital	118 764	118 764	118 764	28 647	28 909	26 572
VIII.	Number of shares	42 062 082	29 690 882	29 690 882	42 062 082	29 690 882	29 690 882
IX.	Book value per share (in PLN/EUR)	154.74	138.77	131.94	37.32	33.78	29.52
X.	Diluted book value per share (in PLN/EUR)	154.58	138.59	131.82	37.29	33.73	29.49
XI.	Capital adequacy ratio	12.03	11.50	11.08	12.03	11.50	11.08

In the second quarter of 2010 BRE Bank SA made a public issue with pre-emptive rights of 12 371 200 common bearer shares.

On 16 July 2010 the new amount of Bank's share capital - increased as a result of the new issue - was registered in the National Court Register. As at 16 July 2010 Bank's share capital (totally paid) amounts to PLN 168 248 328. As at 30 June 2010 the total income from shares' issue (decreased by issue costs) in the amount of PLN 1 966 301 thousand was presented separately in the statement of financial position as 'Paid, not registered share capital'.

The number of new issue shares and the increased amount of share capital are included in data, which are the base of book value, earnings per share and book value per share, diluted earnings per share and diluted book value per share calculation.

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

- for items of the Statement of Financial Position – exchange rate announced by the National Bank of Poland as at 30 June 2010: EUR 1 = 4.1458, exchange rate announced by the National Bank of Poland as at 31 December 2009: EUR 1 = PLN 4.1082, exchange rate announced by the National Bank of Poland as at 30 June 2009: EUR 1 = PLN 4.4696.

- for items of the Income Statement – 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 the first half of 2010 and 2009: 1 EUR = 4.0042 PLN and 1 EUR = 4.5184 PLN respectively.

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

Consolidated Income Statement

	Note	the period from from 01.01.2010 to 30.06.2010	the period from from 01.01.2009 to 30.06.2009
Interest income		1 681 501	1 790 686
Interest expense		(854 710)	(962 096)
Net interest income	5	**826 791**	**828 590**
Fee and commission income		561 304	475 615
Fee and commission expense		(214 962)	(195 651)
Net fee and commission income	6	**346 342**	**279 964**
Dividend income	7	2 941	2 822
Net trading income, including:	8	218 229	223 962
Foreign exchange result		*198 026*	*242 147*
Other trading income		*20 203*	*(18 185)*
Gains less losses from investment securities	9	16 896	(17 150)
Other operating income	10	145 399	156 733
Net impairment losses on loans and advances	11	(380 561)	(648 852)
Overhead costs	12	(627 157)	(604 500)
Amortization and depreciation		(118 535)	(117 790)
Other operating expenses	13	(101 566)	(87 591)
Operating profit		**328 779**	**16 188**
Profit before income tax		**328 779**	**16 188**
Income tax expense		(74 795)	(5 580)
Net profit		**253 984**	**10 608**
Net profit attributable to:			
- Owners of BRE Bank SA		239 667	15 664
- Non-controlling interests		14 317	(5 056)

Net profit attributable to Owners of BRE Bank SA		**239 667**	**15 664**
Weighted average number of ordinary shares	14	**31 194 564**	**29 690 882**
Earnings per 1 ordinary share (in PLN)	14	**7.68**	**0.53**
Weighted average number of ordinary shares for diluted earnings	14	**31 236 432**	**29 717 904**
Diluted earnings per 1 ordinary share (in PLN)	14	**7.67**	**0.53**

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

Consolidated Statement of Comprehensive Income

	the period from from 01.01.2010 to 30.06.2010	the period from from 01.01.2009 to 30.06.2009
Financial result	**253 984**	**10 608**
Other comprehensive income subject to taxation	**180 896**	**18 933**
Exchange differences on translating foreign operations (net)	52	14 696
Available-for-sale financial assets (net)	180 844	4 237
Total comprehensive income net of tax, total	**434 880**	**29 541**
Total comprehensive income (net), attributable to:		
- Owners of BRE Bank SA	419 796	28 551
- Non-controlling interests	15 084	990

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

Consolidated Statement of Financial Position

ASSETS	Note	30.06.2010	31.12.2009	30.06.2009
Cash and balances with the Central Bank		888 794	3 786 765	4 333 799
Debt securities eligible for rediscounting at the Central Bank		18 268	9 134	12 284
Loans and advances to banks		5 461 670	2 530 572	1 994 169
Trading securities	15	657 012	1 065 190	835 309
Derivative financial instruments		1 852 554	1 933 627	3 533 056
Loans and advances to customers	16	55 581 111	52 468 812	54 893 997
Investment securities	17	18 930 522	13 120 687	9 752 875
- Available-for-sale		18 930 522	13 120 687	9 752 875
Pledged assets	15, 17	3 072 434	3 516 525	2 927 131
Investments in associates		1 161	1 150	1 251
Intangible assets	18	412 652	441 372	439 932
Tangible fixed assets	19	766 234	786 446	795 728
Current income tax assets		5 821	125 308	-
Deferred income tax assets		326 552	331 828	359 560
Other assets		936 631	906 470	1 053 366
Total assets		**88 911 416**	**81 023 886**	**80 932 457**
EQUITY AND LIABILITIES				
Amounts due to the Central Bank		2 022 651	2 003 783	1 537 154
Amounts due to other banks		28 380 750	25 019 805	27 189 396
Derivative financial instruments and other trading liabilities		2 065 845	1 935 495	3 860 602
Amounts due to customers	20	44 474 797	42 791 387	38 859 124
Debt securities in issue		1 335 539	1 415 711	1 607 461
Subordinated liabilities		2 982 103	2 631 951	2 789 358
Other liabilities		778 667	776 195	800 756
Current income tax liabilities		16 299	904	2 019
Deferred income tax liabilities		1 814	544	1 884
Provisions		178 291	176 957	213 585
Total liabilities		**82 236 756**	**76 752 732**	**76 861 339**
Equity				
Equity attributable to Owners of BRE Bank SA		**6 508 609**	**4 120 187**	**3 917 541**
Share capital:		**3 487 984**	**1 521 683**	**1 521 683**
- Registered share capital		118 764	118 764	118 764
- Share premium		1 402 919	1 402 919	1 402 919
- Paid, not registered share capital		1 966 301	-	-
Retained earnings:		**2 954 386**	**2 712 394**	**2 597 339**
- Profit from the previous years		2 714 719	2 583 466	2 581 675
- Profit for the current year		239 667	128 928	15 664
Other components of equity		**66 239**	**(113 890)**	**(201 481)**
Non-controlling interests		**166 051**	**150 967**	**153 577**
Total equity		**6 674 660**	**4 271 154**	**4 071 118**
Total equity and liabilities		**88 911 416**	**81 023 886**	**80 932 457**
Capital adequacy ratio		**12.03**	**11.50**	**11.08**
Book value		**6 508 609**	**4 120 187**	**3 917 541**
Number of shares		**42 062 082**	**29 690 882**	**29 690 882**
Book value per share (in PLN)		**154.74**	**138.77**	**131.94**
Diluted number of shares		**42 103 950**	**29 729 741**	**29 717 904**
Diluted book value per share (in PLN)		**154.58**	**138.59**	**131.82**

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

Consolidated Statement of Changes in Equity

Changes from 1 January to 30 June 2010

	Share capital			Retained earnings					Other components of equity				
	Registered share capital	Share premium	Paid, not registered share capital	Other supplementary capital	Other reserve capital	General risk fund	Profit from the previous years	Profit for the current year	Exchange differences on translating foreign operations	Available for sale financial assets	Equity attributable to Owners of BRE Bank SA, total	Non-controlling interests	Total equity
Equity as at 1 January 2010	118 764	1 402 919	-	1 761 960	53 158	719 210	178 066	-	3 017	(116 907)	4 120 187	150 967	4 271 154
- reclassification to book value through profit and loss account	-	-	-	-	-	-	-	-	-	-	-	-	-
- changes to accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
- adjustment of errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2010	118 764	1 402 919	-	1 761 960	53 158	719 210	178 066	-	3 017	(116 907)	4 120 187	150 967	4 271 154
Total comprehensive income								239 667	(643)	180 772	419 796	15 084	434 880
Transfer to General Risk Fund	-	-	-	-	-	59 743	(59 743)	-	-	-	-	-	-
Transfer to supplementary capital	-	-	-	52 994	-	-	(52 994)	-	-	-	-	-	-
Loss coverage with reserve capital	-	-	-	-	(207)	-	207	-	-	-	-	-	-
Loss coverage with supplementary capital	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of shares	-	-	1 979 392	-	-	-	-	-	-	-	1 979 392	-	1 979 392
Issue expenses	-	-	(13 091)	-	-	-	-	-	-	-	(13 091)	-	(13 091)
Stock option program for employees	-	-	-	-	2 325	-	-	-	-	-	2 325	-	2 325
- value of services provided by the employees	-	-	-	-	*2 325*	-	-	-	-	-	*2 325*	-	*2 325*
Equity as at 30 June 2010	118 764	1 402 919	1 966 301	1 814 954	55 276	778 953	65 536	239 667	2 374	63 865	6 508 609	166 051	6 674 660

Changes from 1 January to 31 December 2009

	Share capital		Retained earnings					Other components of equity				
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General risk fund	Profit from the previous years	Profit for the current year	Exchange differences on translating foreign operations	Available for sale financial assets	Equity attributable to Owners of BRE Bank SA, total	Non-controlling interests	Total equity
Equity as at 1 January 2009	118 764	1 402 919	971 541	43 495	613 310	958 791	-	(4 139)	(210 229)	3 894 452	153 584	4 048 036
- reclassification to book value through profit and loss account	-	-	-	-	-	-	-	-	-	-	-	-
- changes to accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
- adjustment of errors	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2009	118 764	1 402 919	971 541	43 495	613 310	958 791	-	(4 139)	(210 229)	3 894 452	153 584	4 048 036
Total comprehensive income							128 928	7 156	93 322	229 406	571	229 977
Dividends paid	-	-	-	-	-	-	-	-	-	-	(3 188)	(3 188)
Transfer to General Risk Fund	-	-	-	-	105 900	(105 900)	-	-	-	-	-	-
Transfer to reserve capital	-	-	-	13 334	-	(13 334)	-	-	-	-	-	-
Transfer to supplementary capital	-	-	790 419	-	-	(790 419)	-	-	-	-	-	-
Stock option program for employees	-	-	-	(3 671)	-	-	-	-	-	(3 671)	-	(3 671)
- value of services provided by the employees	-	-	-	*(3 671)*	-	-	-	-	-	*(3 671)*	-	*(3 671)*
Equity as at 31 December 2009	118 764	1 402 919	1 761 960	53 158	719 210	49 138	128 928	3 017	(116 907)	4 120 187	150 967	4 271 154

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

Changes from 1 January to 30 June 2009

	Share capital		Retained earnings					Other components of equity				
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General risk fund	Profit from the previous years	Profit for the current year	Exchange differences on translating foreign operations	Available for sale financial assets	Equity attributable to Owners of BRE Bank SA, total	Non-controlling interest	Total equity
Equity as at 1 January 2009	**118 764**	**1 402 919**	**971 541**	**43 495**	**613 310**	**958 791**	**-**	**(4 139)**	**(210 229)**	**3 894 452**	**153 584**	**4 048 036**
- reclassification to book value through profit and loss account	-	-	-	-	-	-	-	-	-	-	-	-
- changes to accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
- change in the scope of consolidation	-	-	-	-	-	-	-	-	-	-	-	-
- adjustment of errors	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2009	**118 764**	**1 402 919**	**971 541**	**43 495**	**613 310**	**958 791**	**-**	**(4 139)**	**(210 229)**	**3 894 452**	**153 584**	**4 048 036**
Total comprehensive income							**15 664**	**8 658**	**4 229**	**28 551**	**990**	**29 541**
Dividends paid	-	-	-	-	-	-	-	-	-	-	(996)	(996)
Transfer to General Risk Fund	-	-	-	-	105 900	(105 900)	-	-	-	-	-	-
Transfer to reserve capital	-	-	-	14 525	-	(14 525)	-	-	-	-	-	-
Transfer to supplementary capital	-	-	789 860	-	-	(789 860)	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Stock option program for employees	-	-	-	(5 462)	-	-	-	-	-	(5 462)	-	(5 462)
- value of services provided by the employees	*-*	*-*	*-*	*(5 462)*	*-*	*-*	*-*	*-*	*-*	*(5 462)*	*-*	*(5 462)*
Equity as at 30 June 2009	**118 764**	**1 402 919**	**1 761 401**	**52 558**	**719 210**	**48 506**	**15 664**	**4 519**	**(206 000)**	**3 917 541**	**153 577**	**4 071 118**

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

Consolidated Statement of Cash Flows

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
A. Cash flow from operating activities	**(3 666 728)**	**(2 573 011)**
Profit before income tax	**328 779**	**16 188**
Adjustments:	***(3 995 507)***	***(2 589 199)***
Income taxes paid (negative amount)	33 436	(323 218)
Amortisation	118 535	117 790
Foreign exchange (gains) losses	510 535	197 408
(Gains) losses on investing activities	(16 676)	(943)
Impairment of financial assets	-	36 312
Dividends received	(3 065)	(2 833)
Interest received	(984 939)	(1 143 037)
Interest paid	761 950	860 926
Change in loans and advances to banks	(818 782)	741 730
Change in trading securities	131 807	3 338 446
Change in derivative financial instruments	81 073	2 099 816
Change in loans and advances to customers	(2 184 369)	(1 723 764)
Change in investment securities	(5 679 808)	(4 231 768)
Change in other assets	(34 087)	38 233
Change in amounts due to other banks	2 816 067	(397 887)
Change in other trading liabilities	130 350	(2 313 889)
Change in amounts due to customers	1 117 516	567 795
Change in debt securities in issue	18 819	(296 909)
Change in provisions	1 334	47 579
Change in other liabilities	4 797	(200 986)
Net cash from operating activities	**(3 666 728)**	**(2 573 011)**
B.Cash flows from investing activities	**(44 847)**	**(91 224)**
Investing activity inflows	**38 643**	**13 112**
Disposal of intangible assets and tangible fixed assets	13 578	10 279
Other investing inflows	25 065	2 833
Investing activity outflows	**83 490**	**104 336**
Purchase of intangible assets and tangible fixed assets	83 490	103 592
Other investing outflows	-	744
Net cash used in investing activities	**(44 847)**	**(91 224)**
C. Cash flows from financing activities	**2 059 853**	**25 037**
Financing activity inflows	**3 976 759**	**2 043 107**
Proceeds from loans and advances from other banks	1 573 458	857 231
Issue of debt securities	437 000	1 185 876
Issue of ordinary shares	1 966 301	-
Financing activity outflows	**1 916 906**	**2 018 070**
Repayments of loans and advances from other banks	1 202 886	637 735
Repayments of other loans and advances	7 447	15 528
Redemption of debt securities	538 194	1 100 419
Payments of financial lease liabilities	48	24
Dividends and other payments to shareholders	2 272	-
Other financing outflows	166 059	264 364
Net cash from financing activities	**2 059 853**	**25 037**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(1 651 722)**	**(2 639 198)**
Increase / decrease in cash and cash equivalents in respect of foreign exchange gains and losses	13 767	2 693
Cash and cash equivalents at the beginning of the reporting period	6 867 880	8 693 728
Cash and cash equivalents at the end of the reporting period	**5 229 925**	**6 057 223**

Explanatory Notes to the Condensed Consolidated Financial Statements

1. Information Concerning the Group of BRE Bank SA

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

- strategic: shares and equity interests in companies supporting particular business lines of BRE Bank SA (corporates and financial markets line, retail banking line) with an investment horizon not shorter than 3 years. The formation or acquisition of these companies was intended to expand the range of services offered to the clients of the Bank;
- other: shares and equity interests in companies acquired in exchange for receivables, in transactions resulting from composition and work out agreements with debtors, with the intention to recover a part or all claims to loan receivables and insolvent companies under liquidation or receivership.

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

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

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

As at 30 June 2010, the BRE Bank SA Group covered by the Condensed Consolidated Financial Statements comprised the following companies:

BRE Bank SA; the parent entity

Bank Rozwoju Eksportu SA (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 Economic Registration Division on 23 December 1986 in the Business Register under the number RHB 14036. The 9th Extraordinary Meeting of Shareholders held on 4 March 1999 adopted the resolution changing the Bank's name to BRE Bank SA. The new name of the Bank was entered in the Business Register on 23 March 1999. On 11 July 2001, the District Court in Warsaw issued the decision on the entry of the Bank in the National Court Registry (KRS) under number KRS 0000025237.

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

According to the By-laws of the Bank, the scope of its business consists of providing banking services and consulting and advisory services in financial matters, as well as the conduct of business activities within the scope described in its By-laws. 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.
The Bank provides services to Polish and international corporations and individuals, both in the local currency (Polish Zloty, PLN) and in foreign currencies. In particular, the Bank supports all kinds of activities leading to the development of exports.

The Bank may open and maintain accounts with Polish and foreign banks, and can possess foreign exchange assets and trade in them.

The Bank conducts retail banking business in Czech Republic and Slovakia through its foreign branches of mBank in those countries.

The average employment in the first half of 2010 was: in BRE Bank SA 5 020 persons and in the Group 6 674 (first half 2009: the Bank 5 453, the Group 7 590).

Corporates and Financial Markets, including:

Corporates and Institutions

- BRE Bank Hipoteczny SA, subsidiary
- BRE Corporate Finance SA, subsidiary
- BRE Holding Sp. z o.o., subsidiary
- BRE Leasing Sp. z o.o., subsidiary
- Dom Inwestycyjny BRE Banku SA, subsidiary
- Garbary Sp. z o.o., subsidiary
- Intermarket Bank AG, subsidiary
- Magyar Factor zRt., subsidiary
- Polfactor SA, subsidiary
- Transfinance a.s., subsidiary
- Tele-Tech Investment Sp. z o.o., subsidiary
- BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, subsidiary

Trading and Investment Activity

- BRE Finance France SA, subsidiary

Retail Banking (including private banking)

- Aspiro Sp. z o.o. (previously emFinanse Sp. z o.o.), subsidiary
- BRE Wealth Management SA, subsidiary
- BRE Ubezpieczenia TUiR SA, subsidiary, insurer
- BRE Ubezpieczenia Sp. z o.o., subsidiary, insurance broker

Remaining business

- Centrum Rozliczeń i Informacji CERI Sp. z o.o., subsidiary
- BRE.locum SA, subsidiary

Other information concerning companies of the Group

A detailed description of the business of the companies of BRE Bank SA Group was presented in the Explanatory Notes to the Condensed Consolidated Financial Statements for 2009, published on 1 March 2010.

Additionally, information concerning the business conducted by the Group's entities is presented under the Note 4 "Business Segments" of these Condensed Consolidated Financial Statements.

The Management Board of BRE Bank SA approved these Condensed Consolidated Financial Statements for issue on 4 August 2010.

2. Description of Relevant Accounting Policies

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

2.1 Accounting Basis

These Condensed Consolidated Financial Statements of BRE Bank SA Group have been prepared for the 6-month period ended 30 June 2010.

The presented Condensed Consolidated Financial Statements for the first half of 2010 fulfill the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting", concerning interim financial statements.

The Condensed Consolidated Financial Statements for the first half of 2010 should be read in conjunction with the Consolidated Financial Statements of BRE Bank SA Group for the year ended 31 December 2009, which have been prepared in accordance with IFRSs.

The drafting of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Group. The issues in relation to which a greater degree of judgment is required, more complex issues, or such issues where estimates or judgments are material to the Condensed Consolidated Financial Statements are disclosed in the Note 3.

2.2 Consolidation

Subsidiaries

Subsidiaries comprise any entities (including special purpose vehicles) over which the Group has the power to manage their financial and operating policies generally accompanying a shareholding of a majority of the voting rights. When assessing whether the Group actually controls the given entity, the existence and impact of potential voting rights that are currently exercisable or convertible are considered. Subsidiary entities are subject to full consolidation from the date of acquisition of control over them by the Group. Their consolidation is discontinued from the date when control is not exercised any longer. The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement (see Note 2.18).

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

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

The company also applies accounting policy in line with IFRS 3 Business Combinations to combinations of bussines under common control.

Consolidation does not cover those companies whose scale of business operations is immaterial in relation to the volume of business of the Group, as well as companies acquired for the purpose of their resale or liquidation. Those companies were recognised at cost less impairment.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are settled using the equity method of accounting and they are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment losses) identified on the acquisition date (see Note 2.18).

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

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

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

Company	30.06.2010		30.06.2009	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro Sp. z o.o. (previously emFinanse Sp. z o.o.)	100%	full	100%	full
BRE Bank Hipoteczny SA	100%	full	100%	full
BRE Corporate Finance SA	100%	full	100%	full
BRE Holding Sp. z o.o.	100%	full	100%	full
BRE Ubezpieczenia Sp. z o.o.	100%	full	100%	full
BRE Ubezpieczenia TUiR SA	100%	full	100%	full
BRE Wealth Management SA	100%	full	100%	full
Centrum Rozliczeń i Informacji CERI Sp. z o.o.	100%	full	100%	full
Dom Inwestycyjny BRE Banku SA	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full
BRE Finance France SA	99.98%	full	99.98%	full
BRE.locum SA	79.99%	full	79.99%	full
Magyar Factor zRt.	78.12%	full	78.12%	full
Polfactor SA	78.12%	full	78.12%	full
Transfinance a.s.	78.12%	full	78.12%	full
Intermarket Bank AG	56.24%	full	56.24%	full
BRE Leasing Sp. z o.o.	50.004%	full	50.004%	full
BRE GOLD FIZ Aktywów Niepublicznych	100% of certificates	full	-	-

2.3 Interest Income and Expenses

All interest proceeds linked with financial instruments carried at amortised cost using the effective interest rate method are recognised in the 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 Group estimates the cash flows taking into account all the contractual conditions attached to the given financial instrument, but without taking into account the possible future losses on account of non-recovered loans. This calculation takes into account all the fees paid or received between the contracting parties, which constitute an integral component of the effective interest rate, as well as transaction expenses and any other premiums or discounts.

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

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

Interest income, including interest on loans, is recognised in the Income Statement, and on the other side in the Statement of Financial Position as receivables from banks or from other customers.

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

2.4 Fee and Commission Income

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

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

Additionally, fee and commission income on insurance activity comprises income on services provided by an insurance agent and income on account of payments for arranging instalments for a premium for insurance products sold through the Internet platform. Payment on account of arranging instalments for a premium is recognised entirely at the policy issue date.

Income on account of services provided as an insurance agent is recognised at the time of performance of the services in the net amount, after deduction of expenses (directly connected with the income) of services provided by the entities from outside of the Group.

2.5 Insurance premium revenue

Insurance premium revenue accomplished upon insurance activity is recognised at the policy issue date and calculated proportionally over the period of insurance cover. Insurance premium revenue is recognised under other operating income in the consolidated financial statements of the Group.

2.6 Compensations and benefits, net

Compensations and benefits, net concern insurance activity. They comprise payoffs and charges made in the reporting period due to compensations and benefits for events arising in the current and previous periods, together with costs of claims handling and costs of enforcement of recourses, less received returns, recourses and any recoveries, including recoveries from sale of remains after claims and reduced by reinsurers' share in these positions. Costs of claims handling and costs of enforcement of recourses also comprise costs of legal proceedings. The item also comprises compensations and benefits due to co-insurance activity in the part related to the share of the Group. Compensations and benefits, net are recognised together with insurance premium revenue recognition under other operating income in the consolidated financial statements of the Group.

2.7 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Management Board of the Bank as its chief operating decision-maker (as defined in IFRS 8).

In accordance with IFRS 8, the Group has the following business segments: Retail Banking, Corporates and Markets including Corporates and Institutions and Trading and Investment Acivity, and the remaining business.

2.8 Financial Assets

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

Financial assets valued at fair value through the Income Statement

This category comprises two subcategories: financial assets held for trading and financial assets designated at fair value through the Income Statement 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 companies of the Group. Derivative instruments are also classified as "held for trading", unless they were designated for hedging.

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

The Group classifies financial assets/financial liabilities as measured at fair value through the Income Statement if they meet either of the following conditions:

- 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 as and being effective hedging instruments),
- upon initial recognition, assets/liabilities are designated by the entity at fair value through the Income Statement.

If a contract contains one or more embedded derivatives, the Group designates the entire hybrid (combined) contract as a financial asset or financial liability at fair value through the Income Statement unless:

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

The Group also designates the financial assets/ financial liabilities at fair value through the Income Statement when doing so results in more relevant information, because either

- 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
- a group of financial assets, financial liabilities or both is properly 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.

Financial assets and financial liabilities classified to this category are valued at fair value upon initial recognition.

Interest income/expense on financial assets/financial liabilities designated at fair value, except for derivatives the recognition of which is discussed in the Note 2.15, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

Loans and Receivables

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

Held to Maturity Investments

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

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

In reporting periods presented in these Condensed Consolidated Financial Statements, there were no assets held to maturity at the Group.

Available for Sale Investments

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

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

Standardised purchases and sales of financial assets at fair value through the Income Statement, held to maturity and available for sale are recognised on the settlement date – the date on which the Group delivers or receives the asset. Changes in fair value in the period between trade and settlement date with respect to assets carried at fair value is recognised in profit or loss or in other components of equity. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs, except for financial assets at fair value through the Income Statement. Financial assets are excluded from the Statement of Financial Position when the rights to receive cash flows from the financial assets have expired or have been transferred and where the Group has transferred substantially all risks and rewards of ownership.

Available for sale financial assets and financial assets measured at fair value through the Income Statement are valued at the end of the reporting period 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. Gains and losses resulting from changes in the fair value of "financial assets measured at fair value through the Income Statement" are recognised in the Income Statement 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 Statement of Financial Position or until its impairment: at such time the aggregate net gain or loss previously recognised in equity is now recognised in the Income Statement. However, interest calculated using the effective interest rate is recognised in the Income Statement. Dividends on available for sale equity instruments are recognised in the Income Statement when the entity's right to receive payment is established.

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

If the application of valuation techniques does not ensure obtaining a reliable fair value of investments in equity instruments not quoted on an active market, they are stated at cost.
Investments in associates are initially recognised at cost and settled using the equity method of accounting.

2.9 Reinsurance assets

The Group transfers insurance risks to reinsurers in the course of typical operating activities in insurance activity. Reinsurance assets comprise primarily reinsurers' share in technical-insurance provisions.

The amounts of settlements with reinsurers are estimated according to relevant reinsured polices and reinsurance agreements.

Tests for impairment of reinsurance assets are carried out if there is objective evidence that the reinsurance asset is impaired. Impairment loss of reinsurance asset is calculated if either there is an objective evidence that the Group might not receive the receivable in accordance with the agreement or the value of such impairment can be reliably assessed.

If in a subsequent period the impairment loss is decreasing and the decrease can be objectively related to an event occurring after the recognition of impairment, then the previously recognised impairment loss is reversed as an adjustment of the impairment loss through the Consolidated Income Statement.

The reversal cannot cause an increase of the carrying amount of the financial asset more than the amount which would constitute the amortised cost of this asset on the reversal date if the recognition of the impairment did not occur at all.

2.10 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position 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.

2.11 Impairment of Financial Assets

Assets Carried at Amortised Cost

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

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

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

If there is impairment indicator for impairment of loans and receivables or investments held to maturity and recognised at amortised cost, the impairment amount is calculated as the difference between the carrying value in the Statement of Financial Position 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 Income Statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

Future cash flows concerning groups of financial assets assessed collectively in terms of their possible impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with credit risk characteristics similar to those in the Group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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

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

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 Income Statement.

Assets Measured at Fair Value

At the end of the reporting period the Group estimates whether there is an 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 Income Statement. The above indicated difference should be reduced by the impairment concerning the given asset which was previously recognised in the Income Statement. Impairment losses concerning equity instruments recorded in the Income Statement are not reversed through the Income Statement, 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 Income Statement, then the respective impairment loss is reversed in the Income Statement.

Renegotiated agreements

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

2.12 Financial Guarantee Contracts

In accordance with an amendment to IAS 39, which came into force at 1 January 2006, the Group has an obligation to recognise financial guarantee contracts 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 recognised initially, it is measured at the fair value. After initial recognition, an issuer of such a contract measures it at the higher of:

- the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and
- the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with IAS 18 Revenue.

2.13 Cash and Cash Equivalents

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

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

2.14 Sell-buy-back, Buy-sell-back, Reverse Repo and Repo 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 and are recognised when the money is transferred.

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. Securities purchased together with a resale clause (reverse repos) 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 BRE Bank Group sells or buys securities with a repurchase or resale clause specifying a contractual date and price. Such transactions are presented in the Statement of Financial Position as financial assets held for trading or as investment financial assets, and also as liabilities in the case of "sell-buy-back" transactions and as receivables in the case of "buy-sell-back" transactions.

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

Securities borrowed under "buy-sell-back" transactions and then lent under "sell-buy-back" transactions are not recognised as financial assets.

As a result of "sell-buy-back" transactions concluded on securities held by the Group, financial assets are transferred in such way that they do not qualify for derecognition. Thus, the Group retains substantially all risks and rewards of ownership of the financial assets.

2.15 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 Statement of Financial Position as assets, those with a negative value as liabilities.

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

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

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

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

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

The Group documents the objectives of risk management and the strategy of concluding hedging transactions, as well as at the time of concluding the respective transactions, the relationship between the hedging instrument and the hedged item. The Group also documents its own assessment of the effectiveness 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 Income Statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

In case a hedge has ceased to fulfil the criteria of hedge accounting, the adjustment to the carrying value of the hedged item for which the effective interest method is used is amortised to the Income Statement 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 Income Statement of the current period.

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

In case the hedging instrument has expired or has been sold, or 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 Income Statement 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 Income Statement.

<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 Income Statement of the current period.

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

- Futures contracts for bonds, index futures
- Options for securities and for stock-market indices
- Options for futures contracts
- Forward transactions for securities
- Commodity swaps

Interest rate risk instruments:

- Forward Rate Agreement (FRA)
- Interest Rate Swap (IRS), Overnight Index Swap (OIS)
- Interest Rate Options

Foreign exchange risk instruments:

- Currency forwards, fx swap, fx forward
- Cross Currency Interest Rate Swap (CIRS)
- Currency options.

2.16 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 payment given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

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

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

2.17 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 Income Statement over the period of duration of the respective agreements according to the effective interest rate method.

2.18 Intangible Assets

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

Goodwill

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

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

Goodwill is allocated to cash generating units or groups of cash generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose identified in accordance with IFRS 8.

Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. These costs are amortised on the basis of the expected useful life of the software (2-11 years). Expenses attached to the development or maintenance of computer software are expensed when incurred. Costs directly linked to the development of identifiable and unique proprietary computer programmes controlled by the Group, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets. Direct costs comprise personnel expenses attached to the development of software and the corresponding part of the respective general overhead costs.

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

Development costs

The Group identifies development costs as intangible asset as the asset will generate probable future economic benefits and fulfil the following requirements described in IAS 38, i.e., the Group has the intention and technical feasibility to complete and to use 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 utilisation. The Group shows separately additions from internal development and separately those acquired through business combinations.

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

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

2.19 Tangible Fixed Assets

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

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

Accounting principles concerning assets held for liquidation or withdrawal from usage were described under Note 2.21.

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 fixed assets 10-40 years or the period of the lease contract,
- Office 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 the end of the reporting period and adjusted accordingly as the need arises.

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

If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the cash-generating unit to which the asset belongs (cash-generating unit of the asset).

Gains and losses on account of the disposal of fixed assets are determined by comparing the proceeds from their sale against their carrying value in the Statement of Financial Position and they are recognised in the Income Statement.

2.20 Inventories

Inventories are stated at the lower of: cost of purchase/cost of construction and net realisable value. Cost of construction of inventories comprises direct construction costs, the relevant portion of fixed indirect production costs incurred in the construction process and the borrowing costs, which can be directly allocated to the purchase or construction of an asset. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs. The amount of any inventory write-downs to the net realisable value and any inventory losses are recorded as costs of the period in which a write-down or a loss occurred and they are classified as the cost of finished goods sold. Reversals of inventory write-downs resulting from increases in their net realisable value are recorded as a reduction of the inventories recognized as cost of the period in which the reversals took place. Inventory issues are valued through detailed identification of the individual purchase prices or costs of construction of the assets which relate to the realisation of the individual separate undertakings. In particular, inventories comprise land and rights to perpetual usufruct of land designated for use as part of construction projects carried out. They also comprise assets held for lease as well as assets taken over as a result of terminated lease agreements.

2.21 Non-Current Assets Held for Sale and Discontinued Operation

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

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

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

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

Discontinued operations are a component of the Group that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation 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 taken out of usage may also be classified as discontinued operation.

2.22 Deferred Income Tax

The Group forms a provision for the temporary difference on account of deferred corporate income tax arising due to the discrepancy between the timing of recognition of income as earned and of costs as incurred according to accounting regulations and according to legal regulations concerning corporate income taxation. A positive net difference is recognised in liabilities as "Provisions for deferred income tax". A negative net difference is recognised under "Deferred income tax assets". Any change in the balance of the deferred tax assets and 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 Statement of Financial Position. Such liabilities or assets are determined by application of the tax rates in force by virtue of law or of actual obligations at the end of the reporting period. 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 write-offs recognised in relation to the loss of value of credits and granted guarantees of repayment of loans, amortisation of intangible assets, revaluation of certain financial assets and liabilities, including contracts concerning derivative instruments and forward transactions, provisions for retirement benefits and other benefits following the period of employment, and also deductible tax losses.

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

The Group presents the deferred income tax assets and provisions netted in the Statement of Financial Position separately for each subsidiary undergoing consolidation. Such assets and provisions may be netted against each other if the Group possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

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

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

Deferred income tax for the Group is provided on assets or liabilities due to temporary differences arising from investments in subsidiaries and associates, except where, on the basis of any evidence, the timing of the reversal of the temporary difference is controlled by the Group and it is possible that the difference will not reverse in the foreseeable future.

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

2.23 Assets Repossessed for Debt

Assets repossessed for debt at their initial recognition are measured at their fair values. In case the fair value of acquired assets is higher than the debt amount the difference constitutes a liability toward the debtor. At the end of the reporting period the initial amount is tested for impairment.

2.24 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 Statement of Financial Position 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 Statement of Financial Position under the item "Other liabilities".

Deferred income comprises reinsurance and co-insurance commissions, resulting from insurance agreements included in reinsurance and co-insurance agreements, which are subject to settlement over the period in the proportional part to the future reporting periods.

Acquisition costs in the part attributable to future reporting periods are subject to settlement, proportionally to the duration of the relevant insurance agreements.

2.25 Leasing

BRE Bank SA Group as a Lessor

In the case of assets in use on the basis of a finance lease agreement, the amount equal to the net investment in the lease is recognised as receivables. The difference between the gross receivable amount and the present value of the receivables is recognised as unrealised financial income. The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

BRE Bank SA Group as a Lessee

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

2.26 Provisions

The value of provisions for contingent liabilities such as unutilised guarantees and (import) 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 reliably estimated.

Technical-insurance provisions for unpaid claims, benefits and premiums concern insurance activity.

Provision for unpaid claims and benefits is created in the amount of the established or expected final value of future claims and benefits paid in connection with events before the reporting period date, including related claims handling costs.

Provision for unpaid claims and benefits which were notified to the insurer and in relation to which the information held does not enable to assess the value of claims and benefits is calculated using the lump sum method.

Provision for premiums is created individually for each insurance agreement as premium written, attributed to subsequent reporting periods, proportionally to the period for which the premium was written on the daily basis. However, in case of insurance agreements whose risk is not evenly apportioned in the period of duration of insurance, provision is created proportionally to the expected risk in subsequent reporting periods.

At each reporting date the Group tests for adequacy of technical-insurance provisions to ensure whether the provisions deducted by deferred acquisition costs are sufficient. The adequacy test is carried out using up-to-date estimates of future cash flows arising from insurance agreements, including costs of claims handling and policy-related costs.

If the assessment reveals that the technical-insurance provisions are insufficient in relation to estimated future cash flows, then the whole disparity is promptly recognised in the Consolidated Income Statement through impairment of deferred acquisition costs or/and supplementary provisions.

2.27 Retirement Benefits and Other Employee Benefits

Retirement Benefits

The Group forms provisions against future liabilities on account of retirement benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. All provisions formed are charged to the Income Statement.

Benefits Based on Shares

The Group runs a program of remuneration based on and settled in own shares and shares of the ultimate parent of the Group. 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 and shares granted increases the costs of the respective period, corresponding to own equity in the case of transaction settled in own shares and liabilities in the case of transaction settled in shares of the ultimate parent of the Group (cash-settled part). The total amount which needs to be expensed over the period when the outstanding rights of the employees for their options and shares to become exercisable are vested is determined on the basis of the fair value of the granted options and shares. There are no market vesting conditions that shall be taken into account when estimating the fair value of share options and shares at the measurement date. Non-market vesting conditions are not taken into account when estimating the fair value of share options and shares but they are taken into account through adjustment on the number of equity instruments. At the end of each reporting period, the Group revises its estimates of the number of options and shares that are expected to become exercised. In accordance with IFRS 2 it is not necessary to recognise the change in fair value of the share-based payment over the term of the program. In case of cash-settled part until the liability is settled, the Group measures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

2.28 Equity

Equity consists of capital and own funds attributable to the Bank's equity holders, and minority interest created in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the By-laws or the Company Articles of Association.

Registered share capital

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

- 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.

- Dividends

Dividends for the given year, which have been approved by the Annual General Meeting but not distributed at the end of the reporting period, are shown under the liabilities on account of dividends payable under the item "Other liabilities".

- Own Shares

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

Share premium

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

Paid, not registered share capital

Paid, not registered share capital was formed in the second quarter of 2010 as a result of new issue of shares with pre-emptive rights.

Retained earnings

Retained earnings include:

- other supplementary capital,
- other reserve capital,
- general risk fund,
- undistributed profit for the previous year,
- net profit (loss) for the current year.

Other supplementary capital, other reserve capital and general risk fund are formed from allocations of profit and they are assigned to purposes specified in the By-laws or other regulations of the law.

Moreover, other reserve capital comprises valuation of employee options.

Other components of equity

Other components of equity result from:

- valuation of available for sale financial instruments,
- currency translation differences resulting from valuation of foreign operations.

2.29 Valuation of Items Denominated in Foreign Currencies

Functional Currency and Presentation Currency

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

Foreign exchange differences arising on account of such non-monetary items as financial assets measured at fair value through the Income Statement 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 other components of equity.

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 value, which are recognised under other components of equity.

Items of the Statement of Financial Position of foreign branches are converted from functional currency to the presentation currency with the application of the average exchange rate as at the end of the reporting period. Income Statement items of these entities are converted to presentation currency with the application of the arithmetical mean of average exchange rates quoted by the National Bank of Poland on the last day of each month of the reporting period. Foreign exchange differences so arisen are recognised under other components of equity.

Companies Belonging to the Group

The performance and the financial position of all the entities belonging to the Group, none of which conduct their operations under hyperinflationary conditions, the functional currencies of which differ from the presentation currency, are converted to the presentation currency as follows:

- assets and liabilities in each presented Statement of Financial Position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period;
- revenues and expenses in each Income Statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of six months of each presented periods; whereas
- all resulting foreign exchange differences are recognised as a distinct item of equity.

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

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

Leasing Business

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

Additionally, in the case of operating lease agreements, all future receivables on account of leasing payments (including receivables in foreign currencies) are not presented on the face of the financial reports. In the case of finance lease agreements the foreign exchange differences arising from the valuation of leasing payments due as well as of liabilities denominated in foreign currency are recognised through the Income Statement at the end of the reporting period.

2.30 Trust and Fiduciary Activities

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

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

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

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

2.31 New Standards, Interpretations and Amendments to Published Standards

Published Standards and Interpretations which have been issued and binding of the Group for annual periods starting on 1 January 2010:

Standards and Interpretations approved by the European Union:

- IFRIC 12, Service Concession Arrangements, binding for annual periods starting on 29 March 2009.
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation, binding for annual periods starting on or after 1 July 2009.
- IFRIC 17, Distribution of Non-Cash Assets to Owners, binding for annual periods starting after 1 November 2009.
- IFRIC 18, Transfers of Assets from Customers, binding for annual periods starting after 1 November 2009.
- IFRS 1 (Revised), Additional Exemptions in First-time Adoption of IFRS, binding for annual periods starting on or after 1 January 2010.
- IFRS 2 (Revised), Share-based Payment, binding for annual periods starting on or after 1 January 2010.
- IFRS 3 (Revised), Business Combinations, binding prospectively to business combinations for which the acquisition date is on or after 1 July 2009.
- IAS 27 (Revised), Consolidated and Separate Financial Statements, binding for annual periods starting after 1 July 2009.
- IAS 39 (Revised), Financial Instruments: Recognition and Measurement – criteria of qualification as hedged item, binding for annual periods starting on or after 1 July 2009.
- Improvements to IFRS 2009 revising 12 standards, binding mostly for annual periods starting on 1 January 2010. Improvements have been approved by the European Union.

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

Standards and Interpretations approved by the European Union:

- IFRIC 14, (Revised), Prepayments of a Minimum Funding Requirement, binding for annual periods starting on or after 1 January 2011.
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, binding for annual periods starting on or after 1 July 2010.
- IFRS 1 (Revised), Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, binding for annual periods starting on or after 1 July 2010.
- IAS 24, Related Party Disclosures, retrospectively binding for annual periods starting on or after 1 January 2011.
- IAS 32 (Revised), Classification of Rights Issues, binding for annual periods starting on or after 1 February 2010.

Standards and Interpretations which have not been approved by the European Union yet.

- IFRS 9, Financial Instruments, binding for annual periods starting on or after 1 January 2013.
- Improvements to IFRS, in majority binding for annual periods starting on or after 1 January 2011.

The Group is considering the implications of the IFRS 9, the impact on the Group and the timing of its adoption by the Group. The Group believes that the application of remaining standards and interpretations will not have a significant effect on the financial statements in the period of their first application.

2.32 Comparative Data

Data prepared as at 30 June 2009 as well as data presented in the Statement of Financial Position prepared as at 31 December 2009 are totally comparable with data intoduced in the current financial period so they were not adjusted.

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

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

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the Income Statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio, before such a decrease will be able to be attributed to a specific loan. The estimates may take into account any observable indications pointing at the occurrence of an unfavourable change in the solvency position of debtors belonging to any particular group or in the economic situation of a given country or part of a country, which is associated with the problems appearing in that group of assets. The Management plans future cash flows based on estimates drawing on historical experience of losses incurred on assets featuring the traits of credit risk exposure and objective impairment symptoms similar to those which characterise the portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are 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 37.0 million or increase by PLN 65.3 million respectively. 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.

Fair value of derivative instruments

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

Impairment of 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. at the end of the reporting period, separately for each category of debt security. Impairment is recognised if the issuer incurs a loss not covered by its 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.

Technical-insurance provisions

Provision for unpaid claims and benefits which were reported to the insurer and in relation to which the information held does not enable to make an assessment of claims and benefits, is calculated using a lump sum method. Values of lump sum-based ratios for particular risks were established on the basis of information concerning the average value of claims arising from the given risk.

Provision for claims incurred but not reported to the insurer (IBNR), is calculated using the Naive Loss Ratio ULR (Ultimate Loss Ratio) method which consists in establishing the value of claims only on the basis of the expected loss ratio. The expected loss-based ratios are composed on the basis of available market studies concerning loss arising from the given group of risks.

4. Business Segments

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Bank's Management Board (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses their performance.

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

The Group conducts it business through different business segments which offer specific products and services targeted at specific client groups and market segments. The Group currently conducts its operations through the following business segments:

1. The Retail Banking segment, which divides its customers into mBank customers, MultiBank customers and BRE Private Banking customers, offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as car loans, cash loans, overdrafts, credit cards and other loans products), debit cards, insurance, investment products and brokerage services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of BRE Wealth Management SA, Aspiro Sp. z o.o. (until 2 October 2009: emFinanse Sp. z o.o.) as well as BRE Ubezpieczenia TUiR SA and BRE Ubezpieczenia Sp. z o.o..

2. The Corporates and Markets segment, which is divided into two sub-segments:

   - *Corporates and Institutions* sub-segment, which targets small, medium and large-sized companies, public sector entities, non-banking financial institutions and banks. The key products offered to non-banking institutions include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offering of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing and factoring services. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by KUKE to support the Polish export market. The Corporates and Institutions sub-segment includes the results of the following subsidiaries: BRE Bank Hipoteczny SA, BRE Leasing Sp. z o.o., DI BRE Banku SA, BRE Corporate Finance SA, Intermarket Bank AG, Polfactor SA, BRE Holding Sp. z o.o., Transfinance a.s., Magyar Factor zRt., Garbary Sp. z o.o., Tele-Tech Investment Sp. z o.o. as well as BRE Gold Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, all of whose investment certificates were acquired by BRE Bank in November 2009. The main item of assets of BRE Gold FIZ Aktywów Niepublicznych is a shareholding in PZU, owned previously by BRE Bank.
   - *The Trading and Investment Activity* sub-segment consists primarily of treasury, financial markets, and financial institutions operations, and manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments, debt origination, and financial institutions' coverage. This sub-segment also includes the results of BRE Finance France SA.

3. Operations which are not included in the Retail Banking segment and the Corporates and Markets segment were reported under "Remaining Business" below. This segment includes the results of BRE.locum SA and Centrum Rozliczeń i Informacji CERI Sp. z o.o..

The principles of segment classification of the Group's activities are described below.

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

Allocation of funds to the Group companies and assigning them to particular business segments results in funding cost transfers. Interest charged for these funds is based on the Group's weighted average cost of capital and presented in operating income.

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

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

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

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

The primary and unique basis used by the Group in the segment reporting is business line division.

Business segment reporting on the activities of BRE Bank Group
for the period from 01.01.2010 to 30.06.2010
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Remaining Business	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates & Institutions	Trading & Investment Activity					
Net interest income	**366 499**	**(16 976)**	**480 921**	**(177)**	**(3 476)**	**826 791**	**826 791**
- sales to external clients	364 208	249 260	215 874	925	(3 476)	826 791	
- sales to other segments	2 291	(266 236)	265 047	(1 102)	-	-	
Net fee and commission income	**198 361**	**(2 057)**	**134 033**	**(937)**	**16 942**	**346 342**	**346 342**
- sales to external clients	191 996	2 500	135 840	(936)	16 942	346 342	
- sales to other segments	6 365	(4 557)	(1 807)	(1)	-	-	
Trading income	**80 416**	**59 166**	**79 167**	**2 290**	**(2 810)**	**218 229**	**218 229**
Gains less losses from investment securities	**16 896**	**-**	**-**	**-**	**-**	**16 896**	**16 896**
Net impairment losses on loans and advances	**(173 382)**	**(8 039)**	**(199 139)**	**(1)**	**-**	**(380 561)**	**(380 561)**
Gross profit of the segment	**65 454**	**65 038**	**190 289**	**10 618**	**(2 620)**	**328 779**	**328 779**
Income tax	-	-	-	-	-	(74 795)	(74 795)
Net profit attributable to Owners of BRE Bank SA	-	-	-	-	-	239 667	239 667
Net profit attributable to non-controlling interests	-	-	-	-	-	14 317	14 317
Assets of the segment	**30 419 644**	**29 274 884**	**33 131 237**	**917 233**	**(4 831 582)**	**88 911 416**	**88 911 416**
Liabilities of the segment	**53 672 016**	**5 120 321**	**26 849 535**	**514 293**	**(3 919 409)**	**82 236 756**	**82 236 756**
Other items of the segment	-	-	-	-	-	-	-
Expenditures incurred on fixed assets and intangible assets	(68 633)	(1 998)	(12 694)	(297)	-	(83 622)	
Amortisation/depreciation	(65 127)	(6 451)	(45 260)	(1 885)	188	(118 535)	(118 535)
Losses on credits and loans	(621 764)	(12 212)	(368 872)	(1)	-	(1 002 849)	
Other costs/ income without cash outflows/ inflows*	5 745	(128 868)	1 578	1	(2 810)	(124 354)	
- other non-cash costs	*(44)*	*(1 756 216)*	*-*	*-*	*(1 949)*	*(1 758 209)*	
- other non-cash income	*5 789*	*1 627 348*	*1 578*	*1*	*(861)*	*1 633 855*	

* Other costs/income without cash outflows/inflows include income and expenses arising from valuation of both trading financial instruments and foreign exchange result as well as changes in technical-insurance provisions.

Business segment reporting on the activities of BRE Bank Group
for the period from 01.01.2009 to 31.12.2009
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Remaining Business	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates & Institutions	Trading & Investment Activity					
Net interest income	**714 400**	**(1 949)**	**955 375**	**(4 671)**	**(4 978)**	**1 658 177**	**1 658 177**
- sales to external clients	727 399	347 244	591 869	(3 357)	(4 978)	1 658 177	
- sales to other segments	(12 999)	(349 193)	363 506	(1 314)	-	-	
Net fee and commission income	**395 035**	**(9 674)**	**173 585**	**(1 504)**	**37 281**	**594 723**	**594 723**
- sales to external clients	381 025	(97)	178 018	(1 504)	37 281	594 723	
- sales to other segments	14 010	(9 577)	(4 433)	-	-	-	
Trading income	**125 912**	**134 740**	**142 647**	**(452)**	**3 527**	**406 374**	**406 374**
Gains less losses from investment securities	**(19 805)**	**985**	**(1 508)**	**19 794**	**(238)**	**(772)**	**(772)**
Net impairment losses on loans and advances	**(651 210)**	**(5 280)**	**(440 647)**	**3**	**-**	**(1 097 134)**	**(1 097 134)**
Gross profit of the segment	**(215 916)**	**186 103**	**216 253**	**17 136**	**5 813**	**209 389**	**209 389**
Income tax						(78 866)	(78 866)
Net profit attributable to Owners of BRE Bank SA						128 928	128 928
Net profit attributable to non-controlling interests						1 595	1 595
Assets of the segment	**29 697 434**	**24 944 930**	**29 152 371**	**1 243 486**	**(4 014 335)**	**81 023 886**	**81 023 886**
Liabilities of the segment	**49 412 460**	**4 608 648**	**25 577 889**	**373 356**	**(3 219 621)**	**76 752 732**	**76 752 732**
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(169 654)	(12 264)	(85 234)	(2 883)	-	(270 035)	-
Amortisation/depreciation	(140 493)	(8 785)	(107 476)	(2 984)	376	(259 362)	(259 362)
Losses on credits and loans	(1 405 347)	(11 241)	(527 981)	(933)	-	(1 945 502)	-
Other costs/ income without cash outflows/ inflows*	17 732	12 233	(97)	(55)	-	29 813	-
- other non-cash costs	*(925)*	*(5 465 237)*	*(97)*	*(55)*	-	*(5 466 314)*	-
- other non-cash income	*18 657*	*5 477 470*	-	-	-	*5 496 127*	-

* Other costs/income without cash outflows/inflows include income and expenses arising from valuation of both trading financial instruments and foreign exchange result as well as changes in technical-insurance provisions.

Business segment reporting on the activities of BRE Bank Group
for the period from 01.01.2009 to 30.06.2009
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Remaining Business	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates & Institutions	Trading & Investment Activity					
Net interest income	**350 734**	**(7 249)**	**491 811**	**(985)**	**(5 721)**	**828 590**	**828 590**
- sales to external clients	356 783	165 283	312 620	(375)	(5 721)	828 590	
- sales to other segments	(6 049)	(172 532)	179 191	(610)	-	-	
Net fee and commission income	**194 283**	**(5 015)**	**68 118**	**(579)**	**23 157**	**279 964**	**279 964**
- sales to external clients	186 705	356	70 325	(579)	23 157	279 964	
- sales to other segments	7 578	(5 371)	(2 207)	-	-	-	
Trading income	**59 692**	**95 444**	**69 129**	**(908)**	**605**	**223 962**	**223 962**
Gains less losses from investment securities	**(16 844)**	**933**	**(1 000)**	**-**	**(239)**	**(17 150)**	**(17 150)**
Net impairment losses on loans and advances	**(434 607)**	**(1 554)**	**(212 661)**	**(30)**	**-**	**(648 852)**	**(648 852)**
Gross profit of the segment	**(259 092)**	**119 124**	**135 525**	**18 216**	**2 415**	**16 188**	**16 188**
Income tax	-	-	-	-	-	(5 580)	(5 580)
Net profit attributable to Owners of BRE Bank SA	-	-	-	-	-	15 664	15 664
Net profit attributable to non-controlling interests	-	-	-	-	-	(5 056)	(5 056)
Assets of the segment	**31 132 664**	**21 796 812**	**29 870 072**	**1 946 525**	**(3 813 616)**	**80 932 457**	**80 932 457**
Liabilities of the segment	**50 465 897**	**5 942 916**	**22 437 878**	**1 117 025**	**(3 102 377)**	**76 861 339**	**76 861 339**
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(60 184)	(4 960)	(41 956)	(1 919)	-	(109 019)	-
Amortisation/depreciation	(66 087)	(4 173)	(46 252)	(1 466)	188	(117 790)	(117 790)
Losses on credits and loans	(673 912)	(4 703)	(213 515)	(812)	-	(892 942)	-
Other costs/ income without cash outflows/ inflows*	11 008	(77 663)	67	(27)	-	(66 615)	-
- other non-cash costs	*(796)*	*(2 451 764)*	*(5)*	*(27)*	*-*	*(2 452 592)*	*-*
- other non-cash income	*11 804*	*2 374 101*	*72*	*-*	*-*	*2 385 977*	*-*

* Other costs/income without cash outflows/inflows include income and expenses arising from valuation of both trading financial instruments and foreign exchange result as well as changes in technical-insurance provisions.

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

5. Net Interest Income

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
Interest income		
Loans and advances including the unwind of the impairment provision discount	1 200 032	1 349 910
Cash and short-term placements	85 488	122 940
Investment securities	367 966	245 824
Trading debt securities	18 893	62 207
Other	9 122	9 805
Total interest income	**1 681 501**	**1 790 686**
Interest expense		
Arising from amounts due to banks and customers	(794 024)	(875 165)
Arising from issue of debt securities	(32 664)	(54 063)
Other borrowed funds	(24 606)	(31 949)
Other	(3 416)	(919)
Total interest expense	**(854 710)**	**(962 096)**

Interest income related to financial assets which have been impaired amounted to PLN 89 656 thousand (30 June 2009: PLN 44 880 thousand).

6. Net Fee and Commission Income

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
Fee and commission income		
Credit-related fees and commissions	114 471	103 549
Payment cards-related fees	151 506	134 406
Commissions from insurance activity	70 936	34 323
Fees from brokerage activity	52 825	50 571
Commissions from money transfers	37 354	36 334
Commissions from bank accounts	48 669	41 601
Commissions due to guarantees granted and trade finance commissions	22 052	23 001
Commissions on trust and fiduciary activities	4 774	4 863
Fees from portfolio management services and other management-related fees	4 354	3 926
Other	54 363	43 041
Fee and commission income	**561 304**	**475 615**
Fee and commission expense		
Payment cards-related fees	(103 101)	(87 031)
Discharged brokerage fees	(13 616)	(14 300)
Insurance activity-related fees	(13 546)	(1 927)
Other discharged fees	(84 699)	(92 393)
Total fee and commision expense	**(214 962)**	**(195 651)**

The amount of other discharged fees comprises primarily commissions paid to external entities for sale of the Bank's products.

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
Fee and commission income from insurance contracts		
- Income from insurance policies administration	6 875	6 373
- Income from insurance intermediation	64 061	27 950
Total fee and commission income from insurance contracts	70 936	34 323

7. Dividend Income

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
Trading securities	7	102
Securities available for sale	2 934	2 720
Total dividend income	2 941	2 822

8. Net Trading Income

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
Foreign exchange result	198 026	242 147
Net exchange differences from the conversion	244 826	(608 539)
Net transaction gains and losses	(46 800)	850 686
Other net trading income	20 203	(18 185)
Interest-bearing instruments	13 402	(25 710)
Equity instruments	2 317	1 734
Market risk instruments	4 484	5 791
Total net trading income	218 229	223 962

"Foreign exchange result" includes profits/(loss) on spot transactions and forward contracts, options, futures and translated assets and liabilities denominated in foreign currencies. "Interest-bearing instruments" include the profit/(loss) on money market instrument trading, swap contracts for interest rates and currencies (IRS), options and other derivative instruments. "Equity instruments" include the valuation and profit/(loss) on global trade in equity securities. "Market risk instruments" include profit/(loss) on: bond futures, index futures, security options, stock exchange index options, and options on futures contracts as well as the result from securities forward transactions and commodity swaps.

9. Gains and Losses from Investment Securities

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
Sale/redemption of the financial assets available for sale	16 961	686
Impairment of available for sale equity securities	(65)	(17 836)
Total gains and losses from investment securities	16 896	(17 150)

In 2010 the whole amount of sale/redemption of the financial assets available for sale relates to the sale of 70 490 shares of PZU SA by BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych.

In 2009, impairment of available for sale equity securities includes the write-off in the amount of PLN 16 836 thousand which was done by Intermarket Bank AG due to impairment of Compania de Factoring IFN, Romania, of which 50% were held by Intermarket. On 28 October 2009, Intermarket Bank AG sold all shares held in Company Compania de Factoring IFN SA.

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

10. Other Operating Income

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
Income from sale or liquidation of fixed assets, intangible assets and assets held for resale	81 043	66 683
Income from services provided	28 629	22 192
Income from insurance activity net	23 698	22 379
Income due to release of provisions for future commitments	997	25 313
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	416	1 986
Income from compensations, penalties and fines received	178	3 162
Other	10 438	15 018
Total other operating income	**145 399**	**156 733**

Income from sale or liquidation of tangible fixed assets, intangible assets as well as assets held for disposal comprises primarily income of the company BRE.locum from developer activity.

Income from services provided concerns non-banking services.

Income from insurance activity net comprises income from premiums, reinsurance and co-insurance activity, reduced by claims paid and costs of claims handling and adjusted by the changes in provisions for claims connected with the insurance activity conducted within BRE Bank SA Group.

Income from insurance activity net generated in the first half of 2010 and 2009 respectively is presented below.

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
Income from premiums		
- Premiums attributable	49 155	41 649
- Change in provision for premiums	(820)	(1 350)
Premium revenue	**48 335**	**40 299**
Reinsurance contracts		
- Premiums attributable	(17 419)	(12 293)
- Change in provision for premiums	2 892	724
Premiums on reinsurer's share	**(14 527)**	**(11 569)**
Net premiums	**33 808**	**28 730**
Compensation and benefits		
- Compensation and benefits paid out in the current year including costs of liquidation before tax	(14 421)	(7 910)
- Change in provision for compensation and benefits paid out in the current year including costs of liquidation before tax	(9 954)	(9 050)
- Compensation and benefits paid out in the current year including reinsurer's share of costs of liquidation	11 319	7 476
- Change in provision for compensation and benefits paid out in the current year including reinsurer's share of costs of liquidation	3 364	2 920
Compensation and benefits net	**(9 692)**	**(6 564)**
- Other costs on own share	(273)	267
- Other operating income	18	70
- Costs of expertise and certificates concerning risk assessment	(163)	(124)
Income from insurance activity net, total	**23 698**	**22 379**

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

11. Net Impairment Losses on Loans and Advances

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
Impairment losses on amounts due from other banks	(11 105)	(10 523)
Impairment losses on off-balance sheet contingent liabilities due to other banks	-	145
Impairment losses on loans and advances to customers	(406 099)	(597 256)
Impairment losses on off-balance sheet contingent liabilities due to customers	36 643	(41 218)
Total impairment losses on loans and advances	**(380 561)**	**(648 852)**

12. Overhead Costs

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
Staff-related expenses	(330 819)	(317 600)
Material costs	(265 808)	(256 999)
Taxes and fees	(14 973)	(14 389)
Contributions and transfers to the Bank Guarantee Fund	(10 608)	(11 777)
Contributions to the Social Benefits Fund	(3 078)	(2 612)
Other	(1 871)	(1 123)
Total overhead costs	**(627 157)**	**(604 500)**

Staff-related expenses for the first half of 2010 and 2009 are presented below.

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
Wages and salaries	(271 550)	(264 513)
Social security expenses	(42 936)	(39 014)
Pension fund expenses	(299)	(671)
Remuneration settled in the form of shares and share options	(3 100)	-
Other staff expenses	(12 934)	(13 402)
Staff-related expenses, total	**(330 819)**	**(317 600)**

In the first half of 2010 the average level of employment in the Group was 6 674 persons (first half 2009: 7 590 persons).

13. Other Operating Expenses

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
Costs arising from sale or liquidation of fixed assets, intangible assets and assets held for resale	(70 852)	(49 764)
Costs arising from provisions created for other receivables (excluding loans and advances)	(1 018)	(19 316)
Provisions for future commitments	(13 770)	(50)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(59)	(4 449)
Donations made	(2 941)	(2 865)
Costs of sale of services	(506)	(623)
Compensation, penalties and fines paid	(1 067)	(455)
Other operating costs	(11 353)	(10 069)
Total other operating expenses	**(101 566)**	**(87 591)**

Costs of sale or liquidation of tangible fixed assets, intangible assets and assets held for disposal comprise primarily BRE.locum's income from developer activity. Costs of sale of services concern non-banking services.

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

14. Earnings per Share

Earnings per share for 6 months – consolidated data

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
Basic:		
Net profit attributable to Owners of BRE Bank SA	239 667	15 664
Weighted average number of ordinary shares	31 194 564	29 690 882
Net basic profit per share (in PLN per share)	**7.68**	**0.53**
Diluted:		
Net profit attributable to Owners of BRE Bank SA, applied for calculation of diluted earnings per share	239 667	15 664
Weighted average number of ordinary shares	31 194 564	29 690 882
Adjustments for:		
- stock options for employees	41 868	27 022
Weighted average number of ordinary shares for calculation of diluted earnings per share	31 236 432	29 717 904
Diluted earnings per share (in PLN per share)	**7.67**	**0.53**

In the calculation of net basic profit per share and diluted earnings per share was taken into account the new issue of 12 371 200 shares which took place in the second quarter of 2010 and was registered on 16 July 2010.

15. Trading Securities and Pledged Assets

	30.06.2010	31.12.2009	30.06.2009
Debt securities:	**888 676**	**1 824 702**	**1 397 994**
Government bonds included in cash equivalents and pledged government bonds (sell-buy-back transactions), including:	314 499	1 079 141	548 358
- pledged government bonds (sell-buy-back transactions)	48 874	766 313	417 493
Treasury bills included in cash equivalents and pledged treasury bills (sell-buy-back transactions), including:	282 122	227 557	240 269
- pledged treasury bills (sell-buy-back transactions)	199 639	-	152 551
Other debt securities:	292 055	518 004	609 367
Equity securities:	**16 849**	**6 801**	**7 359**
- listed	16 849	6 801	7 359
Debt and equity securities, including:	**905 525**	**1 831 503**	**1 405 353**
- Trading securities	*657 012*	*1 065 190*	*835 309*
- Pledged assets	*248 513*	*766 313*	*570 044*

The note above includes neither Treasury bills nor government bonds pledged in favour of the Bank Guarantee Fund in the amount of PLN 184 658 thousand (31 December 2009: PLN 187 564 thousand, 30 June 2009: PLN 184 558 thousand), nor investment government bonds pledged as sell-buy-back transactions and loan collateral in the amount of PLN 2 639 263 thousand (31 December 2009: PLN 2 562 648 thousand, 30 June 2009: PLN 2 172 529 thousand), which have been classified as investment securities (Note 17).

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

16. Loans and Advances to Customers

	30.06.2010	31.12.2009	30.06.2009
Loans and advances to individuals	32 863 045	28 855 129	28 937 733
Loans and advances to corporate entities	23 190 545	23 433 995	26 230 823
Loans and advances to public sector	1 141 732	1 327 936	642 180
Other receivables	710 647	816 521	583 230
Total (gross) loans and advances to customers	**57 905 969**	**54 433 581**	**56 393 966**
Provisions for loans and advances to customers (negative amount)	(2 324 858)	(1 964 769)	(1 499 969)
Total (net) loans and advances to customers	**55 581 111**	**52 468 812**	**54 893 997**
Short-term (up to 1 year)	19 211 962	17 018 006	17 446 363
Long-term (over 1 year)	36 369 149	35 450 806	37 447 634

The Group presents loans to microenterprises supported by Retail Banking of BRE Bank (mBank and MultiBank) under the item "loans and advances to individuals". Loans to microenterprises in the presented reporting periods amounted to respectively: 30 June 2010 – PLN 2 889 400 thousand, 31 December 2009 – PLN 2 546 900 thousand, 30 June 2009 – PLN 2 417 000 thousand.

Provisions for Loans and Advances

	30.06.2010	31.12.2009	30.06.2009
Receivables classified as "non-default"			
Gross balance sheet exposure	54 815 494	51 872 653	54 504 466
Impairment provisions for exposures analysed according to portfolio approach	(234 595)	(232 516)	(235 287)
Net balance sheet exposure	**54 580 899**	**51 640 137**	**54 269 179**
Receivables classified as "default"			
Gross balance sheet exposure	3 090 475	2 560 928	1 889 500
Provisions for exposures analysed individually	(2 090 263)	(1 732 253)	(1 264 682)
Net balance sheet exposure	**1 000 212**	**828 675**	**624 818**

17. Investment Securities and Pledged Assets

	30.06.2010	31.12.2009	30.06.2009
Debt securities	**21 524 628**	**15 728 539**	**12 009 230**
Listed, including:	21 462 859	15 671 265	11 950 060
- pledged government bonds (sell-buy-back transactions)	2 245 822	2 188 251	2 172 529
- pledged government bonds (loan collateral)	393 441	374 397	-
- government bonds pledged under the Bank Guarantee Fund	147 994	145 323	143 438
- Treasury bills pledged under the Bank Guarantee Fund	36 664	42 241	41 120
Unlisted	61 769	57 274	59 170
Equity securities	**229 815**	**142 360**	**100 732**
- listed	214 594	14 068	13 156
- unlisted	15 221	128 292	87 576
Total investment securities and pledged assets, including:	**21 754 443**	**15 870 899**	**12 109 962**
- *Available for sale securities*	18 930 522	13 120 687	9 752 875
- *Pledged assets*	2 823 921	2 750 212	2 357 087
Short-term (up to 1 year)	11 123 175	9 547 762	5 850 848
Long-term (over 1 year)	10 631 268	6 323 137	6 259 114

As at 30 June 2010 the fair value of equity securities include provisions for impairment in the amount of PLN 371 thousand (31 December 2009: PLN 2 814 thousand, 30 June 2009: PLN 21 941 thousand).

As at 30 June 2010 equity securities include fair value of PZU shares in amount PLN 204 110 thousand.

The above includes government bonds and Treasury bills under the Bank Guarantee Fund, investment government bonds pledged as sell-buy-back transactions and government bonds pledged as collateral for the loan received from

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

European Investment Bank, which are presented in the Statement of Financial Position in a separate position "Pledged assets".

18. Intangible assets

	30.06.2010	31.12.2009	30.06.2009
Development costs	1 726	2 015	2 364
Goodwill	7 137	7 137	7 137
Patents, licences and similar assets, including:	327 278	363 251	373 904
- computer software	268 839	298 291	305 051
Other intangible assets	1 167	2 209	3 252
Intangible assets under development	75 344	66 760	53 275
Total intangible assets	**412 652**	**441 372**	**439 932**

19. Tangible assets

	30.06.2010	31.12.2009	30.06.2009
Tangible fixed assets, including:	746 108	742 880	764 987
- land	13 971	18 726	10 986
- buildings and constructions	237 567	236 811	243 888
- equipment	130 822	136 925	149 963
- vehicles	185 129	169 154	172 039
- other tangible fixed assets	178 619	181 264	188 111
Fixed assets under construction	20 126	43 566	30 741
Total tangible fixed assets	**766 234**	**786 446**	**795 728**

20. Amounts due to Customers

	30.06.2010	31.12.2009	30.06.2009
Individual customers:	**26 071 332**	**25 064 578**	**21 223 914**
Current accounts	16 153 893	16 808 287	15 868 167
Term deposits	9 854 527	8 206 679	5 301 840
Other liabilities:	62 912	49 612	53 907
- liabilities in respect of cash collaterals	44 095	36 030	44 418
- other	18 817	13 582	9 489
Corporate customers:	**17 625 524**	**17 479 925**	**17 258 476**
Current accounts	9 843 649	8 486 646	9 439 264
Term deposits	5 930 489	7 256 219	5 408 608
Loans and advances received	563 488	289 691	212 164
Repo transactions	831 120	881 157	1 427 590
Other liabilities:	456 778	566 212	770 850
- liabilities in respect of cash collaterals	397 538	378 540	634 538
- other	59 240	187 672	136 312
Public sector customers:	**777 941**	**246 884**	**376 734**
Current accounts	124 469	139 446	73 584
Term deposits	643 684	106 063	301 754
Other liabilities:	9 788	1 375	1 396
- liabilities in respect of cash collaterals	-	-	8
- other	9 788	1 375	1 388
Total amounts due to customers	**44 474 797**	**42 791 387**	**38 859 124**

Short-term (up to 1 year)	43 004 618	41 767 594	38 063 327
Long-term (over 1 year)	1 470 179	1 023 793	795 797

The Group presents amounts due to microenterprises supported by Retail Banking of BRE Bank (mBank and MultiBank) under the item "amounts due to individuals". In the presented reporting periods the value of liabilities in respect of current accounts and term deposits accepted from microenterprises amounted to respectively: 30 June 2010 – PLN 1 729 000 thousand, 31 December 2009 – PLN 1 956 200 thousand, 30 June 2009 – PLN 1 419 700 thousand.

Selected explanatory information

1. Compliance with International Financial Reporting Standards

The presented condensed consolidated report for the first half of 2010 fulfils the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

2. Consistency of Accounting Principles and Calculation Methods Applied to the Drafting of the Half Year Report and the Last Annual Financial Statements

A detailed description of the accounting policy principles of the Group is presented under items 2 and 3 of the Notes to the Condensed Consolidated Financial Statements for the first half of 2010. The accounting policies were applied consistently over all the periods presented in the financial statements.

3. Seasonal or Cyclical Nature of the Business

The business operations of the Group do not involve significant events that would be subject to seasonal or cyclical variations.

4. Nature and Values of Items Affecting Assets, Liabilities, Equity, Net Profit/(Loss) or Cash Flows, which are Extraordinary in Terms of Their Nature, Magnitude or Exerted Impact

- On 27 January 2010, BRE Bank and Commerzbank AG entered into three credit agreements totalling PLN 1 554 010 thousand. Under the largest agreement the Bank obtained a loan of CHF 350 000 thousand (the equivalent of PLN 972 370 thousand according to the average exchange rate of the National Bank of Poland of 27 January 2010) for the purpose of satisfying general financial needs of the Bank.
- In the second quarter of 2010 BRE Bank SA made a public issue with pre-emptive rights of 12 371 200 common bearer shares.

  On 16 July 2010 the new amount of Bank's share capital - increased as a result of the new issue - was registered in the National Court Register. As at 16 July 2010 Bank's share capital (totally paid) amounts to PLN 168 248 328. As at 30 June 2010 the total income from shares' issue (decreased by issue costs) in the amount of PLN 13 091 thousand was PLN 1 966 301 thousand. The new issue was presented separately in the statement of financial position as 'Paid, not registered share capital'. The nominal value of the new issue amounts to PLN 49 484 800 thousand (PLN 4 per share). The issued price per share amounted to PLN 160.

5. Nature and Amounts of Changes in Estimate Values of Items, which were Presented in Previous Interim Periods of the Current Reporting Year, or Changes of Accounting Estimates Indicated in Prior Reporting Years, if they Bear a Substantial Impact Upon the Current Interim Period

In the first half of 2010 there were no significant changes in estimate values of items presented in previous reporting periods.

6. Issues, Redemption and Repayment of Debt and Equity Securities

In the first half of 2010 BRE Bank Hipoteczny ('BBH') issued bonds in the amount of PLN 197 000 thousand and mortgage bonds in the amount of PLN 50 000 thousand. At the same time the company redeemed bonds in the amount of PLN 278 000 thousand and mortgage bonds in the amount PLN 100 000 thousand.

In the second quarter of 2010, BRE Bank issued 12 371 200 common bearer shares. Additional information connected with the issue are presented under item 4 of 'Selected Explanatory Information'.

7. Dividends Paid (or Declared) Altogether or Broken Down by Ordinary Shares and Other Shares

Pursuant to the resolution on profit distribution for the year 2009, adopted on 30 March 2010 by the 23rd Ordinary General Shareholders Meeting of BRE Bank SA, dividend for the year 2009 will not be paid.

8. Income and Profit by Business Segment

Income and profit by business segment within the Group are presented on the consolidated level under item 4 of the Notes to the Condensed Consolidated Financial Statements for the first half of 2010.

9. Significant Events After the End of the First Half of 2010, which are not Reflected in the Financial Statements

- From 26 April to 26 July 2010 BRE Bank has concluded underwriting four agreements with BRE Bank Hipoteczny SA ('BBH') whose total value is PLN 450 000 thousand. These agreements include:

a) an underwriting agreement of 26 July 2010, under which the Bank took up on the 28 July 2010 200 000 4-year mortgage bonds issued by BBH, for a total of PLN 200 000.
b) a stand-by credit agreement of 22 July 2010 for the period of 12 months, under which the Bank undertook to make a deposit in BBH the value of which will not exceed 200 000 thousand.

- On 2 August 2010 the Supervisory Board of BRE Bank, pursuant to § 23 of the By-laws of BRE Bank SA, released Mr. Mariusz Grendowicz from the Management Board of the Bank and from the function of the President of the Management Board and Chief Executive Officer of the Bank.

  As a consequence of the above, with the effect from 1 October 2010 the Supervisory Board appointed Mr. Cezary Stypułkowski to the Management Board of BRE Bank SA and for the post of the President of the Management Board of BRE Bank SA. Taking up by Mr. Cezary Stypułkowski of the function of the President of the Management Board is conditional upon issuing by the Financial Supervision Commission of the relevant consent to this extent.

  Until taking up by Mr. Cezary Stypułkowski of above mentioned function, the duties of the President of the Management Board shall be temporarily executed by the current Executive Vice-President, Mr. Wiesław Thor

10. Effect of Changes in the Structure of the Entity in the First Half of 2010, Including Business Combinations, Acquisitions or Disposal of Subsidiaries, Long-term Investments, Restructuring, and Discontinuation of Business Activities

On 29 April 2010 the Bank and Commerzbank AG concluded a binding Enterprise Sale Agreement of Commerzbank AG Spółka Akcyjna Oddział w Polsce (former branch of Dresdner Bank AG in Poland; the "Branch") with Commerzbank AG. Under the agreement, the Bank undertook to acquire the ownership of the banking enterprise of the Branch. The transfer is expected to take place in Q4 2010 under a dispositive agreement on sale of the banking enterprise of the Branch to be concluded by the Bank with Commerzbank AG.

The Bank announced the start of integration between the businesses and operations of the Bank and the Branch, and the consent for acquisition of the banking enterprise of the Branch granted by the Polish Financial Supervision Authority in Current Report No. 48/2009 dated 13 October 2009 and Current Report No. 15/2010 dated 23 March 2010.

The above matter does not have any effect on changes in the structure of the Group and does not have an impact on the financial data of the Group for the first half of 2010.

11. Changes in Contingent Liabilities and Commitments

In the first half of 2010 there were no changes in contingent liabilities and commitments of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

12. Write-offs of the Value of Inventories Down to Net Realisable Value and Reversals of such Write-offs

The above indicated events did not occur in the Group.

13. Revaluation Write-offs on Account of Impairment of Tangible Fixed Assets, Intangible Assets, or other Assets as well as Reversals of such Write-offs

The above indicated events did not occur in the Group.

14. Reversals of Provisions Against Restructuring Costs

The above indicated events did not occur in the Group.

15. Acquisitions and Disposals of Tangible Fixed Asset Items

In the first half of 2010, there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease and property development operations that are performed by the companies of the Group.

16. Liabilities Assumed on Account of Acquisition of Tangible Fixed Assets

The above indicated events did not occur in the Group.

17. Corrections of Errors from Previous Reporting Periods

In the first half of 2010, there were no corrections of errors from previous reporting periods.

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

18. Default or Infringement of a Loan Agreement or Failure to Initiate Composition Proceedings

The above indicated events did not occur in the Group.

19. Position of the Management on the Probability of Performance of Previously Published Profit/Loss Forecasts for the Year in the Light of the Results Presented in the Half-yearly Report Compared to the Forecast

BRE Bank did not publish a performance forecast for the year 2010. The description of the new BRE Bank Group strategy published in current report no. 8/2010 shall not be read as a forecast about financial results or their estimations with respect to the Bank and BRE Bank Group referred to in Article 5 item 1 point 25 of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic reports published by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws from 2009, No. 33, item 259).

20. Registered Share Capital

The total number of ordinary shares as at 30 June 2010 was 29 690 882 shares (30 June 2009: 29 690 882) at PLN 4 nominal value each (30 June 2009: PLN 4). All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE)

Series / issue	Share type	Type of privilege	Type of limitation	Number of shares	Series / issue value	Paid up	Registered on	Dividend right since
11-12-86	ordinary bearer**	-	-	9 978 500	39 914 000	fully paid up in cash	23-12-86	01-01-89
11-12-86	ordinary registered**	-	-	21 500	86 000	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*
21-05-03	ordinary bearer	-	-	2 700	10 800	fully paid up in cash	15-06-07*	15-06-07*
21-05-03	ordinary bearer	-	-	8 640	34 560	fully paid up in cash	12-07-07*	12-07-07*
21-05-03	ordinary bearer	-	-	41 898	167 592	fully paid up in cash	14-08-07*	14-08-07*
21-05-03	ordinary bearer	-	-	400	1 600	fully paid up in cash	14-09-07*	14-09-07*
21-05-03	ordinary bearer	-	-	2 540	10 160	fully paid up in cash	11-10-07*	11-10-07*
21-05-03	ordinary bearer	-	-	30 807	123 228	fully paid up in cash	15-11-07*	15-11-07*
21-05-03	ordinary bearer	-	-	12 349	49 396	fully paid up in cash	13-12-07*	13-12-07*
21-05-03	ordinary bearer	-	-	700	2 800	fully paid up in cash	13-02-08*	13-02-08*
21-05-03	ordinary bearer	-	-	2 410	9 640	fully paid up in cash	19-03-08*	19-03-08*
21-05-03	ordinary bearer	-	-	650	2 600	fully paid up in cash	15-04-08*	15-04-08*
21-05-03	ordinary bearer	-	-	18 609	74 436	fully paid up in cash	19-05-08*	19-05-08*
21-05-03	ordinary bearer	-	-	4 900	19 600	fully paid up in cash	13-06-08*	13-06-08*
21-05-03	ordinary bearer	-	-	2 945	11 780	fully paid up in cash	10-07-08*	10-07-08*
Total number of shares				29 690 882				
Total registered share capital					118 763 528			
Nominal value per share (in PLN)			4					

* date of registration of shares in National Securities Deposit (KDPW SA)

** as at the end of the reporting period

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

In the second quarter of 2010 BRE Bank SA made a public issue with pre-emptive rights of 12 371 200 common bearer shares.

On 16 July 2010 the new amount of Bank's share capital - increased as a result of the new issue - was registered in the National Court Register. As at 16 July 2010 Bank's share capital (totally paid) amounts to PLN 168 248 328. As at 30 June 2010 the total income from shares' issue (decreased by issue costs) in the amount of PLN 1 966 301 thousand was presented separately in the statement of financial position as 'Paid, not registered share capital'.

21. Material Share Packages

There was no change in the holding of material share packages of the Bank in the first half of 2010.

Commerzbank Auslandsbanken Holding AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 30 June 2010 it held 69.7847% of the share capital and votes at the General Meeting of BRE Bank SA (as at 31 March 2010 – 69.7847%).

Registration of the new issue of shares on 16 July 2010 did not change the share of the main shareholder in the Bank's share capital.

22. Change in Bank Shares and Options held by Managers and Supervisors

	Number of rights to shares held as at the date of publishing the report for Q1 2010	Number of rights to shares acquired from the date of publishing the report for Q1 2010 to the date of publishing the report for H1 2010	Number of rights to shares realised from the date of publishing the report for Q1 2010 to the date of publishing the report for H1 2010	Number of rights to shares held as at the date of publishing the report for H1 2010
Management Board				
1. Wiesław Thor	-	4 545	-	4 545
2. Karin Katerbau	-	1 176	-	1 176
3. Przemysław Gdański	-	-	-	-
4. Hans-Dieter Kemler	-	-	-	-
5. Jarosław Mastalerz	-	4 585	-	4 585
6. Christian Rhino	-	2 919	-	2 919

As at the date of publishing the report for the first quarter of 2010 and as at the date of publishing the report for the first half of 2010, the Members of the Management Board had no Bank shares and they have no Bank shares.

As at the date of publishing the report for the first half of 2010 Mr. Andre Carls, the Member of the Supervisory Board of BRE Bank SA has 1 635 rights to shares of BRE Bank SA.

The other Members of the Supervisory Board of BRE Bank SA had neither Bank shares nor rights to shares of BRE Bank SA and they have neither Bank shares nor rights to shares of BRE Bank SA.

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

As at 30 June 2010, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the issuer or its subsidiaries whose value would be equal to or greater than 10% of the issuer's equity. Moreover, the total value of claims concerning liabilities of the issuer or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority underway at 30 June 2010 also was not greater than 10% of the issuer's equity.

Report on major proceedings brought against the issuer

1. Lawsuit initiated by Bank Leumi and Migdal Insurance Company against the Bank for indemnity

   At present proceedings are pending against BRE Bank in the Court of Jerusalem initiated by Bank Leumi and an insurance company of Bank Leumi, Migdal Insurance Company. It is an action for indemnity in the amount of USD 13.5 million (PLN 45.8 million according to the average exchange rate of the National Bank of Poland of 30 June 2010). This action was originally initiated by Art-B Sp. z o.o. Eksport – Import with its registered office in Katowice, under liquidation ("Art-B") against the main defendant Bank Leumi, whereas BRE Bank was garnished by Bank Leumi. Considering a settlement concluded between ART-B and Bank Leumi, and Migdal Insurance Company, on the basis of which Art-B received from Bank Leumi and Migdal Insurance Company an amount of USD 13.5 million, Bank Leumi and Migdal Insurance Company claim from BRE Bank refund of the amount paid to Art-B that is USD 13.5 million. BRE Bank's liability towards Bank Leumi and Migdal Insurance Company is under recourse.

2. Lawsuit brought by Bank BPH SA ("BPH") against Garbary Sp. z o.o. ('Garbary')

BPH 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 cancel actions related to the creation of Garbary and the contribution in kind. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings that ZM Pozmeat SA contributed in kind to Garbary as payment for a stake in ZM Pozmeat SA share capital worth PLN 100 000 thousand. On 6 June 2006 the District Court in Poznań issued a verdict according to which the claims were dismissed in their entirety. The claimant filed an appeal against that verdict. On 6 February 2007 the Court of Appeal dismissed the claimant's appeal. The claimant filed the last resort appeal against the ruling of the Court of Appeal. On 2 October 2007, the Supreme Court revoked the ruling of the Court of Appeal and referred the case back. After re-examining the case, the Court of Appeal dismissed the ruling of the District Court in Poznań on 4 March 2008 and referred the case back. The action is still before the District Court in Poznań.

3. Lawsuit brought by Bank BPH SA against the Bank and Tele-Tech Investment Sp. Z o.o. ("TTI")

On 17 November 2007 BPH brought to court a case for damages in the amount of PLN 34 880 thousand plus statutory interest from 20 November 2004 to the date of payment, due to alleged illegal actions such as the sale by ZM Pozmeat SA to TTI of all shares in the equity of Garbary Sp. z o.o. (previously Milenium Center Sp. z o.o.), an important part of its assets, while ZM Pozmeat SA was at risk of insolvency .

The case was filed with the District Court in Warsaw. The Court has not set the date of the first hearing in this case. In the light of the action, the claimed amount of damages of PLN 34 880 thousand is equivalent to the claim of the creditor under a credit agreement between ZM Pozmeat SA and Bank BPH SA not paid to date in the bankruptcy proceeding of ZM Pozmeat SA.

The defendants filed a reply to the claim, where they request dismissal of the claim due to the lack of right of action on the part of the claimant. In case the District Court does not accept their arguments, the defendants refer to the merit of the claim, raising an objection that their actions were not illegal and that the claimant has not proven to have incurred losses.

4. Claims of clients of Interbrok

As at 2 August 2010, 153 entities who were clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter referred to as Interbrok) called the Bank for amicable settlement in the total amount of PLN 296 461 thousand and via the District Court in Warsaw. In addition, as at 2 August 2010, 8 legal suits have been delivered to the Bank where former clients of Interbrok claimed compensation in the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. Plaintiffs allege that Bank aided in Interbrok's illegal activities, which caused damage to plaintiffs. In all court cases the Bank moves for dismissal of the claims in entirety and objects to charges raised in the legal suits. The legal analysis of the abovementioned claims indicates that there are not significant grounds to state that the Bank bears liability in the case. Therefore BRE Bank SA did not create provisions for the above claims.

The District Court in Warsaw settled two of the aforementioned court cases and dismissed both actions of the former clients of Interbrok. As a consequence of the Court of Appeal verdict on 4th March 2010, the first District Court's judgment becomes final and valid (the appeal was dismissed). The second mentioned verdict was appealed and litigation is still pending.

As at 30 June 2010, 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 30 June 2010 also was not greater than 10% of the issuer's equity.

Taxes

On 19 July 2010 officers of the Treasury Control Office launched in BRE Bank audit proceeding concerning reliability of declared tax bases and correctness of the calculation and payment of the corporate income tax for the period from 1 January 2006 to 31 December 2006.

Within the period from 9 February to 11 March 2010, the officers of the First Mazovian Treasury Office carried out tax audits at the company BRE Leasing concerning the settlement of the value added tax for the period from 1 June to 31 July 2005 and for the period from 1 December to 31 December 2005. The audits did not identify any irregularities.

Within the period from 20 March to 8 April 2009, officers of the First Mazovian Treasury Office carried out tax audits, concerning calculation, reporting and withholding of the personal income tax for the Treasury for the period from 1 January to 31 December 2007. The audits did not identify any irregularities.

Within the period from 12 May to 30 June 2009, the officers of the First Mazovian Treasury Office carried out tax audits at the company BRE Leasing concerning the settlement of the value added tax for the period from 1 March to 31 December 2007. The audits did not identify any irregularities.

There were no tax audits at the other companies of the Group within the year 2010 or 2009.

IFRS Condensed Consolidated Financial Statements for the first half of 2010 PLN (000's)

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

24. Off-balance Sheet Liabilities

Off-balance sheet liabilities as at 30 June 2010, 31 December 2009 and 30 June 2009.

	30.06.2010	31.12.2009	30.06.2009
Contingent liabilities granted and received	**14 629 613**	**13 191 260**	**16 123 284**
Commitments granted	**13 416 317**	**12 458 234**	**15 465 704**
- financing	10 757 477	10 102 505	12 973 497
- guarantees and other financial facilities	1 908 216	2 312 114	2 491 299
- other commitments	750 624	43 615	908
Commitments received	**1 213 296**	**733 026**	**657 580**
- financing	689 724	260 410	59 105
- guarantees	523 572	472 616	598 475
Derivative financial instruments (nominal value of contracts)	**332 547 396**	**315 781 176**	**467 036 780**
Interest rate derivatives	274 797 225	256 843 650	382 896 802
Currency derivatives	55 527 975	57 286 283	82 255 847
Market risk derivatives	2 222 196	1 651 243	1 884 131
Total off-balance sheet items	**347 177 009**	**328 972 436**	**483 160 064**

25. Transactions with Related Entities

BRE Bank SA is the parent entity of the 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 100% controlled by Commerzbank AG.

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

- On 27 January 2010, BRE Bank and Commerzbank AG entered into three credit agreements totalling PLN 1 554 010 thousand. Under the largest agreement the Bank obtained a loan of CHF 350 000 thousand (the equivalent of PLN 972 370 thousand according to the average exchange rate of the National Bank of Poland of 27 January 2010) for the purpose of satisfying general financial needs of the Bank.
- On 29 April 2010 the Bank concluded a binding Enterprise Sale Agreement of Commerzbank AG Spółka Akcyjna Oddział w Polsce (former branch of Dresdner Bank AG in Poland; the "Branch") with Commerzbank AG. Under the agreement, the Bank undertook to acquire the ownership of the banking enterprise of the Branch. The transfer is expected to take place in Q4 2010 under a dispositive agreement on sale of the banking enterprise of the Branch to be concluded by the Bank with Commerzbank AG.

In all reporting periods there were no related-party transactions with the direct parent entity of BRE Bank.

The amounts of transactions with related entities, i.e., balances of receivables and liabilities and related costs and income as at 30 June 2010, 31 December 2009 and 30 June 2009 are as follows:

Numerical data concerning transactions with related entities (in PLN '000) as at 30 June 2010

No.	Company's name	Statement of Financial Position		Income Statement				Contingent commitments granted and received	
		Receivables	Liabilities	Interest income	Interest costs	Commission income	Commission costs	Commitments granted	Commitments received
	Subsidiaries not included in consolidation due to immateriality								
1	AMBRESA Sp. z o.o.	-	633	-	(10)	1	-	-	-
2	BRELINVEST Sp. z o.o. Fly 2 Commandite company	-	12 530	-	(32)	-	-	-	-
3	BRE Systems Sp. z o.o.	535	72	14	(2)	8	-	465	-
	Ultimate Parent Group								
	Commerzbank AG Capital Group	1 130 943	28 547 532	7 402	(192 310)	-	-	756 586	584 456

Numerical data concerning transactions with related entities (in PLN '000) as at 31 December 2009

No.	Company's name	Statement of Financial Position		Income Statement				Contingent commitments granted and received	
		Receivables	Liabilities	Interest income	Interest costs	Commission income	Commission costs	Commitments granted	Commitments received
	Subsidiaries not included in consolidation due to immateriality								
1	AMBRESA Sp. z o.o.	-	688	-	-	2	-	-	-
2	BRELINVEST Sp. z o.o. Fly 2 Commandite company	-	775	-	(3)	1	-	-	-
3	BRE Systems Sp. z o.o.	-	2 469	17	(2)	30	-	1 000	-
	Ultimate Parent Group								
	Commerzbank AG Capital Group	311 900	23 420 712	13 019	(466 647)	-	-	782 779	171 656

Numerical data concerning transactions with related entities (in PLN '000) as at 30 June 2009

No.	Company's name	Statement of Financial Position		Income Statement				Contingent commitments granted and received	
		Receivables	Liabilities	Interest income	Interest costs	Commission income	Commission costs	Commitments granted	Commitments received
	Subsidiaries not included in consolidation due to immateriality								
1	AMBRESA Sp. z o.o.	-	770	-	-	1	-	-	-
2	BRELINVEST Sp. z o.o. Fly 2 Commandite company	-	1 393	-	(2)	-	-	-	-
3	BRE Systems Sp. z o.o.	615	264	10	(1)	9	-	385	-
	Ultimate Parent Group								
	Commerzbank AG Capital Group	566 547	25 445 998	11 097	(268 705)	-	-	854 112	138 650

26. Credit and Loan Guarantees, other Guarantees Granted in Excess of 10% of the Equity

As at 30 June 2010 no exposure under guarantees granted in excess of 10% of the equity occurred in the Group.

27. Other Information which the Issuer Deems Necessary to Assess its Human Resources, Assets, Financial Position, Financial Performance and their Changes as well as Information Relevant to an Assessment of the Issuer's Capacity to Meet its Liabilities

On 2 August 2010 the Supervisory Board of BRE Bank, pursuant to § 23 of the By-laws of BRE Bank SA, released Mr. Mariusz Grendowicz from the Management Board of the Bank and from the function of the President of the Management Board and Chief Executive Officer of the Bank.

As a consequence of the above, with the effect from 1 October 2010 the Supervisory Board appointed Mr. Cezary Stypułkowski to the Management Board of BRE Bank SA and for the post of the President of the Management Board of BRE Bank SA. Taking up by Mr. Cezary Stypułkowski of the function of the President of the Management Board is conditional upon issuing by the Financial Supervision Commission of the relevant consent to this extent.

Until taking up by Mr. Cezary Stypułkowski of above mentioned function, the duties of the President of the Management Board shall be temporarily executed by the current Executive Vice-President, Mr. Wiesław Thor.