BRE BANK SA

Our people make the difference.

BRE Bank SA

IFRS Condensed Financial Statements for the first half of 2010

Contents

1. Selected financial data

The selected financial data are supplementary information to these condensed financial statements of BRE Bank SA for the first half of 2010.

SELECTED FINANCIAL DATA FOR THE BANK		in PLN'000		in EUR'000	
		Ist half of 2010 the period from 01.01.2010 to 30.06.2010	Ist half of 2009 the period from 01.01.2009 to 30.06.2009	Ist half of 2010 the period from 01.01.2010 to 30.06.2010	Ist half of 2009 the period from 01.01.2009 to 30.06.2009
I.	Interest income	1 456 662	1 458 870	363 784	322 873
II.	Fee and commission income	429 207	372 905	107 189	82 530
III.	Net trading income	213 717	212 289	53 373	46 983
IV.	Operating profit	222 571	19 090	55 584	4 225
V.	Profit before income tax	222 571	19 090	55 584	4 225
VI.	Net profit	171 645	23 949	42 866	5 300
VII.	Net cash flows from operating activities	(4 806 192)	(2 388 465)	(1 200 288)	(528 609)
VIII.	Net cash flows from investing activities	(13 529)	(52 452)	(3 379)	(11 609)
IX.	Net cash flows from financing activities	3 127 675	(195 895)	781 099	(43 355)
X.	Net increase / decrease in cash and cash equivalents	(1 692 046)	(2 636 812)	(422 568)	(583 572)
XI.	Earnings per 1 ordinary share (in PLN/EUR)	5.50	0.81	1.37	0.18
XII.	Diluted earnings per 1 ordinary share (in PLN/EUR)	5.50	0.81	1.37	0.18
XIII.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE BANK		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	81 352 955	72 607 181	71 022 380	19 622 981	17 673 721	15 890 098
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	23 564 063	19 184 949	20 017 301	5 683 840	4 669 916	4 478 544
IV.	Amounts due to customers	43 920 712	42 414 412	38 449 245	10 594 026	10 324 330	8 602 391
V.	Own equity	6 143 437	3 813 626	3 672 899	1 481 846	928 296	821 751
VI.	Share capital	118 764	118 764	118 764	28 647	28 909	26 572
VII.	Number of shares	42 062 082	29 690 882	29 690 882	42 062 082	29 690 882	29 690 882
VIII.	Book value per share (in PLN/EUR)	146.06	128.44	123.70	35.23	31.26	27.68
IX.	Diluted book value per share (in PLN/EUR)	145.91	128.28	123.59	35.19	31.23	27.65
X.	Capital adequacy ratio	11.80	11.73	11.08	11.80	11.73	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 Financial Statements for the first half of 2010 PLN (000's)

2. Condensed Financial Data

Income Statement

	Note	the period from 01.01.2010 to 30.06.2010	the period from 01.01.2009 to 30.06.2009
Interest income		1 456 662	1 458 870
Interest expense		(769 590)	(783 356)
Net interest income		**687 072**	**675 514**
Fee and commission income		429 207	372 905
Fee and commission expense		(189 498)	(182 701)
Net fee and commission income		**239 709**	**190 204**
Dividend income		19 217	37 645
Net trading income, including:		213 717	212 289
Foreign exchange result		*192 830*	*232 522*
Other trading income		*20 887*	*(20 233)*
Gains less losses from investment securities		(65)	924
Other operating income		22 273	46 245
Impairment losses on loans and advances		(361 831)	(578 679)
Overhead costs		(480 173)	(463 430)
Amortization and depreciation		(90 193)	(92 635)
Other operating expenses		(27 155)	(8 987)
Operating profit		**222 571**	**19 090**
Profit before income tax		**222 571**	**19 090**
Income tax expense		(50 926)	4 859
Net profit		**171 645**	**23 949**

Net profit		**171 645**	**23 949**
Weighted average number of ordinary shares	5.22	**31 194 564**	**29 690 882**
Earnings per 1 ordinary share (in PLN)	5.22	**5.50**	**0.81**
Weighted average number of ordinary shares for diluted earnings	5.22	**31 236 432**	**29 717 904**
Diluted earnings per 1 ordinary share (in PLN)	5.22	**5.50**	**0.81**

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

Statement of Comprehensive Income

	the period from 01.01.2010 to 30.06.2010	the period from 01.01.2009 to 30.06.2009
Financial result	**171 645**	**23 949**
Other comprehensive income subject to taxation	**189 541**	**30 265**
Exchange differences on translating foreign operations (net)	(1 082)	3 206
Available-for-sale financial assets (net)	190 623	27 059
Total comprehensive income net of tax, total	**361 186**	**54 214**

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

Statement of Financial Position

ASSETS	30.06.2010	31.12.2009	30.06.2009
Cash and balances with the Central Bank	870 195	3 771 992	4 292 521
Debt securities eligible for rediscounting at the Central Bank	18 268	9 134	12 284
Loans and advances to banks	6 199 323	2 497 397	1 945 098
Trading securities	856 362	1 234 792	1 070 844
Derivative financial instruments	1 854 237	1 931 868	3 507 647
Loans and advances to customers	47 367 583	44 260 700	45 031 342
Investment securities	19 255 639	13 397 725	10 209 373
- Available-for-sale	19 255 639	13 397 725	10 209 373
Pledged assets	3 069 855	3 513 782	2 924 565
Investments in subsidiaries	481 271	480 709	474 393
Intangible assets	367 387	396 121	405 121
Tangible fixed assets	520 004	555 864	593 113
Current income tax assets	-	116 081	-
Deferred income tax assets	87 287	108 975	157 963
Other assets	405 544	332 041	398 116
Total assets	**81 352 955**	**72 607 181**	**71 022 380**
EQUITY AND LIABILITIES			
Amounts due to the Central Bank	2 022 651	2 003 783	1 537 154
Amounts due to other banks	23 564 063	19 184 949	20 017 301
Derivative financial instruments and other trading liabilities	2 063 895	1 933 149	3 865 038
Amounts due to customers	43 920 712	42 414 412	38 449 245
Subordinated liabilities	2 982 103	2 631 951	2 789 358
Other liabilities	542 643	516 443	560 972
Current income tax liabilities	8 343	-	-
Provisions for deferred income tax	80	79	86
Provisions	105 028	108 789	130 327
Total liabilities	**75 209 518**	**68 793 555**	**67 349 481**
Equity			
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:	**2 551 208**	**2 377 239**	**2 342 254**
- Profit for the previous year	2 379 563	2 320 096	2 318 305
- Net profit for the current year	171 645	57 143	23 949
Other components of equity	**104 245**	**(85 296)**	**(191 038)**
Total equity	**6 143 437**	**3 813 626**	**3 672 899**
Total equity and liabilities	**81 352 955**	**72 607 181**	**71 022 380**
Capital adequacy ratio	**11.80**	**11.73**	**11.08**
Book value	**6 143 437**	**3 813 626**	**3 672 899**
Number of shares	**42 062 082**	**29 690 882**	**29 690 882**
Book value per share (in PLN)	**146.06**	**128.44**	**123.70**
Diluted number of shares	**42 103 950**	**29 729 741**	**29 717 904**
Diluted book value per share (in PLN)	**145.91**	**128.28**	**123.59**

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

Statement of Changes in Equity

Changes from 1 January to 30 June 2010

	Share capital			Retained earnings					Other components of equity		Total
	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 as at 1 January 2010	118 764	1 402 919	-	1 603 654	8 442	708 000	57 143	-	(2 609)	(82 687)	3 813 626
- 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	-	1 603 654	8 442	708 000	57 143	-	(2 609)	(82 687)	3 813 626
Total income								171 645	(1 082)	190 623	361 186
Transfer to General Risk Fund	-	-	-	-	-	57 143	(57 143)	-	-	-	-
Issue of shares	-	-	1 979 392	-	-	-	-	-	-	-	1 979 392
Issue expenses	-	-	(13 091)	-	-	-	-	-	-	-	(13 091)
Stock option program for employees	-	-	-	-	2 324	-	-	-	-	-	2 324
- value of services provided by the employees	-	-	-	-	*2 324*	-	-	-	-	-	*2 324*
Equity as at 30 June 2010	118 764	1 402 919	1 966 301	1 603 654	10 766	765 143	-	171 645	(3 691)	107 936	6 143 437

Changes from 1 January to 31 December 2009

	Share capital		Retained earnings					Other components of equity		Total
	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 as at 1 January 2009	118 764	1 402 919	874 123	12 113	608 000	829 531	-	(10 610)	(210 693)	3 624 147
- 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	874 123	12 113	608 000	829 531	-	(10 610)	(210 693)	3 624 147
Total income							57 143	8 001	128 006	193 150
Transfer to General Risk Fund	-	-	-	-	100 000	(100 000)	-	-	-	-
Transfer to supplementary capital	-	-	729 531	-	-	(729 531)	-	-	-	-
Stock option program for employees	-	-	-	(3 671)	-	-	-	-	-	(3 671)
- value of services provided by the employees	-	-	-	*(3 671)*	-	-	-	-	-	*(3 671)*
Equity as at 31 December 2009	118 764	1 402 919	1 603 654	8 442	708 000	-	57 143	(2 609)	(82 687)	3 813 626

IFRS Condensed 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		Total
	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 as at 1 January 2009	**118 764**	**1 402 919**	**874 123**	**12 113**	**608 000**	**829 531**	**-**	**(10 610)**	**(210 693)**	**3 624 147**
- 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**	**874 123**	**12 113**	**608 000**	**829 531**	**-**	**(10 610)**	**(210 693)**	**3 624 147**
Total income							**23 949**	**3 206**	**27 059**	**54 214**
Transfer to General Risk Fund	-	-	-	-	100 000	(100 000)	-	-	-	-
Transfer to supplementary capital	-	-	729 531	-	-	(729 531)	-	-	-	-
Stock option program for employees	-	-	-	(5 462)	-	-	-	-	-	(5 462)
- value of services provided by the employees	-	-	-	*(5 462)*	-	-	-	-	-	*(5 462)*
Equity as at 30 June 2009	**118 764**	**1 402 919**	**1 603 654**	**6 651**	**708 000**	**-**	**23 949**	**(7 404)**	**(183 634)**	**3 672 899**

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

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	**(4 806 192)**	**(2 388 465)**
Profit before income tax	**222 571**	**19 090**
Adjustments:	***(5 028 763)***	***(2 407 555)***
Income taxes paid (negative amount)	53 884	(264 444)
Amortisation	90 193	92 635
Foreign exchange (gains) losses	506 837	194 739
(Gains) losses on investing activities	286	(1 652)
Dividends received	(19 216)	(37 554)
Interest received	(1 050 773)	(1 143 037)
Interest paid	758 970	868 502
Change in loans and advances to banks	(1 685 976)	734 632
Change in trading securities	183 089	3 488 342
Change in derivative financial instruments	77 631	2 104 666
Change in loans and advances to customers	(2 144 536)	(1 746 421)
Change in investment securities	(5 699 835)	(4 683 445)
Change in other assets	(77 708)	25 012
Change in amounts due to other banks	2 877 408	(88 945)
Change in financial instruments and other trading liabilities	130 746	(2 346 278)
Change in amounts due to customers	932 486	449 705
Change in debt securities in issue	-	171
Change in provisions	(3 761)	40 305
Change in other liabilities	41 512	(94 488)
Net cash from operating activities	**(4 806 192)**	**(2 388 465)**
B.Cash flows from investing activities	**(13 529)**	**(52 452)**
Investing activity inflows	**19 219**	**37 635**
Disposal of intangible assets and tangible fixed assets	3	1 361
Other investing inflows	19 216	36 274
Investing activity outflows	**32 748**	**90 087**
Acquisition of shares in subsidiaries	-	11 980
Purchase of intangible assets and tangible fixed assets	32 748	77 363
Other investing outflows	-	744
Net cash used in investing activities	**(13 529)**	**(52 452)**
C. Cash flows from financing activities	**3 127 675**	**(195 895)**
Financing activity inflows	**3 493 831**	**390 780**
Proceeds from loans and advances from other banks	1 527 530	390 780
Issue of ordinary shares	1 966 301	-
Financing activity outflows	**366 156**	**586 675**
Repayments of loans and advances from other banks	202 850	306 273
Repayments of other loans and advances	4 727	5 753
Redemption of debt securities	-	8 000
Payments of financial lease liabilities	3 420	4 678
Other financing outflows	155 159	261 971
Net cash from financing activities	**3 127 675**	**(195 895)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(1 692 046)**	**(2 636 812)**
(Decrease)/increase 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	6 534 190	8 513 263
Cash and cash equivalents at the end of the reporting period	**4 855 911**	**5 879 144**

3. Description of Relevant Accounting Policies

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

3.1. Accounting Basis

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

The presented Condensed 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 of the Group, which constitute an integral part of the condensed financial statements, are publicly available together with the condensed financial statements. These condensed financial statements should be read in conjunction with the condensed consolidated financial statements of the Group to obtain a complete understanding of result and financial position of the issuer.

The Condensed Financial Statements for the first half of 2010 should be read in conjunction with the BRE Bank SA Financial Statements 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 Bank. 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 Financial Statements are disclosed in the Note 4.

3.2. Interest Income and Expenses

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

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

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

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

Interest income, including interest on loans, is recognised in the 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.

3.3. Fee and Commission Income

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

Commissions comprise payments collected by the Bank on account of cash management operations, keeping of customer accounts, managing bank transfers and providing letters of credit.

3.4. Financial Assets

The Bank 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 Bank. 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 Bank 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 Bank 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 Bank 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 3.10, 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 Bank supplies monetary assets, goods or services directly to the debtor without any intention of trading the receivable.

Held to Maturity Investments

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

In the case of sale by the Bank 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 Financial Statements, there were no assets held to maturity at the Bank.

Available for Sale Investments

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

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

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

Investments in associates are initially recognised at cost and settled using the equity method of accounting.

3.5. 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.

3.6. Impairment of Financial Assets

<u>Assets Carried at Amortised Cost</u>

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

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

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

If there is impairment indicator for 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 Bank.

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

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

When a loan is uncollectible, it is written off against the related provision for impairment. Before any loan is written off, it is necessary to conduct all the required procedures and to determine the amount of the loss. Subsequent recoveries of amounts previously written off 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 Bank 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 Bank 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 Bank makes an assessment whether the impairment should be recognised on either individual or group basis.

3.7. Financial Guarantee Contracts

In accordance with an amendment to IAS 39, which came into force at 1 January 2006, the Bank 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'.

3.8. Cash and Cash Equivalents

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

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

3.9. 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 Bank up 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 Bank 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 Bank, financial assets are transferred in such way that they do not qualify for derecognition. Thus, the Bank retains substantially all risks and rewards of ownership of the financial assets.

3.10. Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments are recognised at fair value from the date of transaction. Fair value is determined based on prices of instruments listed on active markets, including recent market transactions, and on the basis of valuation techniques, including models based on discounted cash flows and options pricing models, depending on which method is appropriate in the particular case. All derivative instruments with a positive fair value are recognised in the 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 Bank recognises the respective gains or losses from the first day.

Embedded derivative instruments are treated as separate derivative instruments if the risks attached to them and their characteristics are not strictly linked to the risks and characteristics of the underlying contract and the underlying contract is not measured at fair value through the 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 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 financial statements of the Bank.

The method of recognising the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item. The Bank designates some derivative instruments either as (1) fair value hedges against a recognised asset or liability or against a binding contractual obligation (fair value hedge), or as (2) 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 Bank 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 Bank documents the objectives of risk management and the strategy of concluding hedging transactions, as well as at the time of concluding the respective transactions, the relationship between the hedging instrument and the hedged item. The Bank also documents its own assessment of 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.

Fair Value Hedges

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.

Cash Flow Hedges

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

Derivative Instruments Not Fulfilling the Criteria of Hedge Accounting

Changes of the fair value of derivative instruments that do not meet the criteria of hedge accounting are recognised in the Income Statement of the current period.

The Bank 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.

3.11. Gains and Losses on Initial Recognition

The best evidence of fair value at initial recognition is the transaction price (i.e., the fair value of the 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 Bank 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.

3.12. Borrowings

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

3.13. Intangible Assets

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

<u>Computer software</u>

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

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

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

<u>Development costs</u>

The Bank identifies development costs as intangible asset as the asset will generate probable future economic benefits and fulfil the following requirements described in IAS 38, i.e., the Bank 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 Bank shows separately additions from internal development and separately those acquired through business combinations.

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

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

3.14. Tangible Fixed Assets

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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Any other expenses incurred on repairs and maintenance are expensed to the 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 3.15.

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 Bank 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.

3.15. Non-Current Assets Held for Sale and Discontinued Operation

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

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

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

- its carrying amount 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 Bank that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation 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.

3.16. Deferred Income Tax

The Bank forms a provision for the temporary difference on account of deferred corporate income tax arising due to the discrepancy between the timing of recognition of income as earned and of costs as incurred according to accounting regulations and according to legal regulations concerning corporate income taxation. A positive net difference is recognised in liabilities as "Provisions for deferred income tax". A negative net difference is recognised under "Deferred income tax assets". Any change in the balance of the deferred tax 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 Bank 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 Bank 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 Bank discloses separately the amount of negative temporary differences (mainly on account of unused tax losses or unutilised tax allowances) in connection with which the deferred 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 Bank 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 Bank and it is possible that the difference will not reverse in the foreseeable future.

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

3.17. 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.

3.18. Prepayments, Accruals and Deferred Income

Prepayments are recorded if the respective expenses concern the months succeeding the month in which they were incurred. Prepayments are presented in the Statement of Financial Position under "Other assets".

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

3.19. Leasing

BRE Bank SA as a Lessee

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

In the case of finance lease contracts, under which the Bank holds leased assets, subject of such lease agreement is recognised as a fixed asset and a liability is recognised in the amount equal to present value of minimum lease payments as of the date of commencement of the lease. Lease payments are recognised as financial costs in the Income Statement and simultaneously they reduce the balance of the liability. Fixed assets which are the basis of the finance lease contract are depreciated in the manner defined for the Bank's fixed assets.

3.20. 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 Bank has a present legal or constructive obligation as a result of past events, it is more likely that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

3.21. Retirement Benefits and Other Employee Benefits

Retirement Benefits

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

Benefits Based on Shares

The Bank runs a program of remuneration based on and settled in own shares and shares of the ultimate parent of the Bank. 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 Bank (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 Bank 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 Bank 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.

3.22. 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.

3.23. Valuation of Items Denominated in Foreign Currencies

Functional Currency and Presentation Currency

The items contained in financial reports of particular entities of the Bank, including foreign branches 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 such 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.

3.24. 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.

3.25. New Standards, Interpretations and Amendments to Published Standards

Published Standards and Interpretations which have been issued and binding of the Bank 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 Bank is considering the implications of the IFRS 9, the impact on the Bank and the timing of its adoption by the Bank. The Bank 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.

3.26. 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.

3.27. Business segments

Data concerning business segments were presented in the Condensed Consolidated Financial Statements of the BRE Bank SA Group for the first half of 2010, prepared in compliance with the International Financial Reporting Standards.

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

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

Impairment of loans and advances

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

Significant and prolonged declines in fair values of available for sale financial debt instruments below their acquisition cost would result in estimated impairment of the portfolio of these instruments in the amount of PLN 10.1 million, which would be charged to the Income Statement of the Bank in correspondence with revaluation reserve. For the purpose of the analysis, the declines in particular securities ratings that decreased by four rating classes were assumed to be significant and prolonged declines in fair values of available for sale financial debt instruments.

5. Selected explanatory information

5.1. Compliance with International Financial Reporting Standards

The presented condensed 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.

5.2. Consistency of Accounting Principles and Calculation Methods Applied to the Drafting of the First Half of 2010 Report and the Last Annual Financial Statements

A detailed description of the accounting policy principles of the Bank is presented in the Note 3 of these Condensed Financial Statements for the first half of 2010. The accounting policies were applied consistently over all the periods presented in the financial statements.

5.3. Seasonal or Cyclical Nature of the Business

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

5.4. 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.

5.5. 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.

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

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 5.4 of 'Selected Explanatory Information'.

5.7. 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.

5.8. Income and Profit by Business Segment

Income and profit by business segment within the Bank are presented on the consolidated level in the Note 4 of the Condensed Consolidated Financial Statements for the first half of 2010.

5.9. 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

5.10. 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.

5.11. 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 Bank. There was no single case of granting of guarantees or any other contingent liability of any material value for the Bank.

5.12. 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 Bank.

5.13. 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 Bank.

5.14. Reversals of Provisions Against Restructuring Costs

The above indicated events did not occur in the Bank.

5.15. 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.

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

The above indicated events did not occur in the Bank.

5.17. Corrections of Errors from Previous Reporting Periods

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

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

The above indicated events did not occur in the Bank.

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5.19. 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).

5.20. 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			4					

* date of registration of shares in National Securities Deposit (KDPW SA)
** as at the end of the reporting period

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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'.

5.21. 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.

5.22. Earnings per share (stand alone data)

Earnings per share for 6 months

the period	from 01.01.2010 to 30.06.2010	from 01.01.2009 to 30.06.2009
Basic:		
Net profit	171 645	23 949
Weighted average number of ordinary shares	31 194 564	29 690 882
Net basic profit per share (in PLN per share)	**5.50**	**0.81**
Diluted:		
Net profit attributable to the shareholders, applied for calculation of diluted earnings per share	171 645	23 949
Weighted average number of ordinary shares in issue	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)	**5.50**	**0.81**

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.

5.23. 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 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.

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.

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5.24. 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	**14 140 073**	**12 911 686**	**15 362 703**
Commitments granted	**12 959 338**	**12 227 183**	**14 852 115**
- financing	10 292 754	9 575 808	12 065 909
- guarantees and other financial facilities	1 916 868	2 358 668	2 536 206
- other commitments	749 716	292 707	250 000
Commitments received	**1 180 735**	**684 503**	**510 588**
- financing	688 237	260 410	41 580
- guarantees	492 498	424 093	469 008
Derivative financial instruments (nominal value of contracts)	**333 416 697**	**316 358 096**	**469 006 080**
Interest rate derivatives	275 669 034	257 415 716	384 615 348
Currency derivatives	55 530 980	57 291 137	82 506 601
Market risk derivatives	2 216 683	1 651 243	1 884 131
Total off-balance sheet items	**347 556 770**	**329 269 782**	**484 368 783**

5.25. 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's) as at 30 June 2010

No.	Company's name	Statement of Financial Position		Separate Income Statement				Contingent commitments granted and received	
		Receivables	Liabilities	Interest income	Interest cost	Commission income	Commission cost	Commitments granted	Commitments received
	Subsidiaries								
1	AMBRESA Sp. z o.o.	-	633	-	(10)	1	-	-	-
2	Aspiro (previously emFinanse Sp. z o.o.)	4 687	28 040	-	-	-	(51 854)	-	-
3	BRE Bank Hipoteczny SA *)	1 817 590	12 514	31 417	-	-	-	19 645	-
4	BRE GOLD FIZ Aktywów Niepublicznych	-	26 393	-	-	-	-	-	-
5	BRE Leasing Sp. z o.o. *)	930 543	31 520	23 623	-	-	-	91 895	-
6	BRE.locum SA	119 804	-	3 476	-	-	-	40 000	-
7	BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	-	12 530	-	(32)	-	-	-	-
8	BRE Systems Sp. z o.o.	535	72	14	(2)	8	-	465	-
9	BRE Ubezpieczenia TUiR SA	12 203	29 908	-	-	45 589	(3 633)	-	-
10	BRE Wealth Management SA	-	11 578	-	-	-	-	-	-
11	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	22 780	16 368	-	-	-	(13 392)	-	-
12	Dom Inwestycyjny BRE Bank SA	6 346	486 630	-	(7 920)	5 840	(2 882)	30 673	-
13	Garbary Sp. z o.o.	2 400	-	-	-	-	-	5 100	-
14	Polfactor SA *)	303 712	-	7 989	-	-	-	86 288	-
15	Tele-Tech Investment Sp. z o.o.	60 702	-	2 805	-	-	-	-	-
	Ultimate Parent Group								
	Commerzbank AG Capital Group	1 127 063	22 165 297	7 402	(150 681)	-	-	756 586	584 456

* BRE Bank holds shares in the companies through BRE Holding Sp. z o.o., a 100% subsidiary.

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

No.	Company's name	Statement of Financial Position		Separate Income Statement				Contingent commitments granted and received	
		Receivables	Liabilities	Interest income	Interest cost	Commission income	Commission cost	Commitments granted	Commitments received
	Subsidiaries								
1	AMBRESA Sp. z o.o.	-	688	-	-	2	-	-	-
2	Aspiro (previously emFinanse Sp. z o.o.)	4 451	19 879	-	-	-	(41 311)	-	-
3	BRE Bank Hipoteczny SA *)	940 697	6 765	52 386	-	-	-	268 679	-
4	BRE Corporate Finance SA	-	-	-	-	-	-	-	-
5	BRE Finance France SA	-	-	-	(1 517)	-	-	-	-
6	BRE Holding Sp. z o.o.	-	2 621	-	-	-	-	-	-
7	BRE Leasing Sp. z o.o. *)	995 364	33 279	12 879	(2 658)	-	-	120 655	-
8	BRE.locum SA	116 676	-	7 941	-	-	-	68 000	-
9	BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	-	775	-	(3)	1	-	-	-
10	BRE Systems Sp. z o.o.	-	2 469	17	(2)	30	-	1 000	-
11	BRE Ubezpieczenia TUiR SA	11 254	26 148	-	-	65 204	(8 949)	-	-
12	BRE Wealth Management SA	-	6 947	-	-	-	-	-	-
13	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	22 780	16 578	-	-	-	(26 353)	-	-
14	Dom Inwestycyjny BRE Bank SA	15 095	514 156	-	(22 403)	13 266	(7 853)	30 673	-
15	Garbary Sp. z o.o.	-	-	-	-	-	-	6 300	-
16	Polfactor SA *)	382 191	48 726	15 495	-	-	-	82 565	-
17	Tele-Tech Investment Sp. z o.o.	57 274	-	6 460	-	-	-	-	-
	Ultimate Parent Group								
	Commerzbank AG Capital Group	311 900	19 394 631	13 019	(314 090)	-	-	782 779	171 656

* BRE Bank holds shares in the companies through BRE Holding Sp. z o.o., a 100% subsidiary.

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

No.	Company's name	Statement of Financial Position		Separate Income Statement				Contingent commitments granted and received	
		Receivables	Liabilities	Interest income	Interest cost	Commission income	Commission cost	Commitments granted	Commitments received
	Subsidiaries								
1	AMBRESA Sp. z o.o.	-	770	-	-	1	-	-	-
2	BRE Bank Hipoteczny SA *)	988 089	182 193	22 635	-	-	-	270 404	-
3	BRE Corporate Finance SA	-	1 596	-	-	-	-	1 573	-
4	BRE Finance France SA	-	17 447	-	-	-	-	31 623	-
5	BRE Holding Sp. z o.o.	-	2 670	-	-	-	-	-	-
6	BRE Leasing Sp. z o.o. *)	129 154	73 474	1 744	-	-	-	29 808	-
7	BRELINVEST Sp. z o.o. Fly 2 Commandite Company	-	1 393	-	(2)	-	-	-	-
8	BRE.locum SA	144 291	-	-	-	-	-	35 000	-
9	BRE Systems Sp. z o.o.	615	264	10	(1)	9	-	385	-
10	BRE Ubezpieczenia TU SA	10 569	29 779	-	-	33 212	(7 473)	-	-
11	BRE Wealth Management SA	-	4 443	-	-	-	-	-	-
12	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	22 780	13 826	-	-	-	(13 705)	-	-
13	Dom Inwestycyjny BRE Bank SA	5 160	1 060 122	-	(9 969)	6 351	(1 650)	10 673	-
14	emFinanse Sp. z o.o.	-	10 276	-	-	-	-	-	-
15	Garbary Sp. z o.o.	-	-	-	-	-	-	6 300	-
16	Polfactor SA *)	368 480	4 775	7 885	-	-	-	39 883	-
17	Tele-Tech Investment Sp. z o.o.	59 170	-	3 534	-	-	-	-	-
	Ultimate Parent Group								
	Commerzbank AG Capital Group	566 547	20 025 584	11 048	(175 849)	-	-	854 112	138 650

* BRE Bank holds shares in the companies through BRE Holding Sp. z o.o., a 100% subsidiary.

5.26. 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 Bank.

5.27. 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.