BRE BANK SA

Our people make the difference.

BRE Bank SA

IFRS Financial Statements 2010

Contents

Selected Financial Data

The selected financial data are supplementary information to these Financial Statements of BRE Bank SA for 2010.

		in PLN '000		in EUR '000	
		Year ended 31.12.2010	Year ended 31.12.2009	Year ended 31.12.2010	Year ended 31.12.2009
I.	Interest income	2 973 672	2 865 773	742 601	660 225
II.	Fee and commission income	894 050	777 932	223 267	179 222
III.	Net trading income	392 518	385 267	98 022	88 759
IV.	Operating profit	681 961	98 878	170 303	22 780
V.	Profit before income tax	681 961	98 878	170 303	22 780
VI.	Net profit	517 724	57 143	129 289	13 165
VII.	Net cash flows from operating activities	(2 616 012)	(2 076 159)	(653 284)	(478 312)
VIII.	Net cash flows from investing activities	(110 819)	(49 500)	(27 674)	(11 404)
IX.	Net cash flows from financing activities	2 143 949	191 435	535 398	44 103
X.	Net increase / decrease in cash and cash equivalents	(582 882)	(1 934 224)	(145 560)	(445 612)
XI.	Earnings per ordinary share (in PLN/EUR)	14.11	1.92	3.52	0.44
XII.	Diluted earnings per ordinary share (in PLN/EUR)	14.10	1.92	3.52	0.44
XIII.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

		in PLN '000		in EUR '000	
		As at		As at	
		31.12.2010	31.12.2009	31.12.2010	31.12.2009
I.	Total assets	83 520 654	72 607 181	21 089 477	17 673 721
II.	Amounts due to the Central Bank	79	2 003 783	20	487 752
III.	Amounts due to other banks	24 880 962	19 184 949	6 282 595	4 669 916
IV.	Amounts due to customers	47 067 347	42 414 412	11 884 793	10 324 330
V.	Equity	6 530 958	3 813 626	1 649 107	928 296
VI.	Share capital	168 347	118 764	42 509	28 909
VII.	Number of shares	42 086 674	29 690 882	42 086 674	29 690 882
VIII.	Book value per share (in PLN/EUR)	155.18	128.44	39.18	31.26
IX.	Capital adequacy ratio	16.91	11.73	16.91	11.73

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

- <u>for items of the Statement of Financial Position</u> – exchange rate announced by the National Bank of Poland as at 31 December 2010 EUR 1 = PLN 3.9603 and exchange rate as at 31 December 2009: EUR 1 = PLN 4.1082.
- <u>for items of the Income Statement</u> – 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 2010 and 2009: 1 EUR = PLN 4.0044 and 1 EUR = PLN 4.3406 respectively.

IFRS Financial Statements 2010 PLN (000's)

Income Statement

	Note	Year ended 31 December	
		2010	2009
Interest income	5	2 973 672	2 865 773
Interest expense	5	(1 440 820)	(1 508 756)
Net interest income		**1 532 852**	**1 357 017**
Fee and commission income	6	894 050	777 932
Fee and commission expense	6	(360 109)	(378 703)
Net fee and commission income		**533 941**	**399 229**
Dividend income	7	19 277	59 738
Net trading income, including:	8	392 518	385 267
Foreign exchange result		*357 027*	*402 115*
Other trading income		*35 491*	*(16 848)*
Gains less losses from investment securities	22	11 362	55 346
Other operating income	9	66 617	68 477
Net impairment losses on loans and advances	12	(561 942)	(966 652)
Overhead costs	10	(1 080 399)	(993 382)
Amortization and depreciation	25,26	(178 692)	(207 942)
Other operating expenses	11	(53 573)	(58 220)
Operating profit		**681 961**	**98 878**
Profit before income tax		**681 961**	**98 878**
Income tax expense	13	(164 237)	(41 735)
Net profit		**517 724**	**57 143**

Net profit		**517 724**	**57 143**
Weighted average number of ordinary shares	14	**36 679 683**	**29 690 882**
Earnings per ordinary share (in PLN)	14	**14.11**	**1.92**
Weighted average number of ordinary shares for diluted earnings	14	**36 709 325**	**29 729 741**
Diluted earnings per ordinary share (in PLN)	14	**14.10**	**1.92**

Notes presented on pages 9 – 88 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2010 PLN (000's)

Statement of Comprehensive Income

	Note	Year ended 31 December	
		2010	2009
Financial result		**517 724**	**57 143**
Other comprehensive income net of tax	15	**227 130**	**136 007**
Exchange differences on translating foreign operations (net)		(1 173)	8 001
Available-for-sale financial assets (net)		228 303	128 006
Total comprehensive income net of tax, total		**744 854**	**193 150**

IFRS Financial Statements 2010 PLN (000's)

Statement of Financial Position

ASSETS	Note	31.12.2010	31.12.2009
Cash and balances with the Central Bank	16	2 340 672	3 771 992
Debt securities eligible for rediscounting at the Central Bank	17	3 686	9 134
Loans and advances to banks	18	3 764 172	2 497 397
Trading securities	19	1 731 030	1 234 792
Derivative financial instruments	20	1 221 565	1 931 868
Loans and advances to customers	21	51 662 336	44 260 700
Investment securities	22	19 195 574	13 397 725
Pledged assets	19, 22, 36	1 828 724	3 513 782
Investments in subsidiaries	23	491 761	480 709
Intangible assets	25	379 981	396 121
Tangible fixed assets	26	534 450	555 864
Current income tax assets		-	116 081
Deferred income tax assets	33	62 291	108 975
Other assets	27	304 412	332 041
Total assets		**83 520 654**	**72 607 181**
EQUITY AND LIABILITIES			
Amounts due to the Central Bank	28	79	2 003 783
Amounts due to other banks	28	24 880 962	19 184 949
Derivative financial instruments and other trading liabilities	20	1 361 907	1 933 149
Amounts due to customers	29	47 067 347	42 414 412
Subordinated liabilities	30	3 010 127	2 631 951
Other liabilities	31	573 450	516 443
Current income tax liabilities		19 689	-
Deferred income tax liabilities	33	77	79
Provisions	32	76 058	108 789
Total liabilities		**76 989 696**	**68 793 555**
Equity			
Share capital:		**3 491 812**	**1 521 683**
- Registered share capital	37	168 347	118 764
- Share premium	38	3 323 465	1 402 919
Retained earnings:	39	**2 897 312**	**2 377 239**
- Profit from the previous years		2 379 588	2 320 096
- Profit for the current year		517 724	57 143
Other components of equity	40	**141 834**	**(85 296)**
Total equity		**6 530 958**	**3 813 626**
Total equity and liabilities		**83 520 654**	**72 607 181**
Capital adequacy ratio	47	**16.91**	**11.73**
Book value		**6 530 958**	**3 813 626**
Number of shares		**42 086 674**	**29 690 882**
Book value per share (in PLN)		**155.18**	**128.44**

Notes presented on pages 9 – 88 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2010 PLN (000's)

Statement of Changes in Equity

Changes in equity from 1 January 2010 to 31 December 2010

		Share capital		Retained earnings					Other components of equity		
	Note	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 translation of foreign operations	Available for sale financial assets	Total equity
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 comprehensive income	15							**517 724**	**(1 173)**	**228 303**	**744 854**
Transfer to General Risk Fund		-	-	-	-	57 143	(57 143)	-	-	-	-
Issue of shares		49 583	1 929 907	-	-	-	-	-	-	-	1 979 490
Issue expenses		-	(13 287)	-	-	-	-	-	-	-	(13 287)
Stock option program for employees	39	-	3 926	-	2 349	-	-	-	-	-	6 275
- value of services provided by the employees		-	-	-	*6 275*	-	-	-	-	-	*6 275*
- settlement of exercised options		-	*3 926*	-	*(3 926)*	-	-	-	-	-	-
Equity as at 31 December 2010		**168 347**	**3 323 465**	**1 603 654**	**10 791**	**765 143**	**-**	**517 724**	**(3 782)**	**145 616**	**6 530 958**

Changes in equity from 1 January 2009 to 31 December 2009

		Share capital		Retained earnings					Other components of equity		
	Note	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 translation of foreign operations	Available for sale financial assets	Total equity
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 comprehensive income	15							**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	39	-	-	-	(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**

Notes presented on pages 9 – 88 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2010 PLN (000's)

Statement of Cash Flows

	Note	Year ended 31 December	
		2010	2009
A. Cash flow from operating activities		**(2 616 012)**	**(2 076 159)**
Profit before income tax		**681 961**	**98 878**
Adjustments:		***(3 297 973)***	***(2 175 037)***
Income taxes paid (negative amount)		(20 614)	(346 752)
Amortisation	25, 26	178 692	207 942
Foreign exchange (gains) losses		2 821 496	5 276
(Gains) losses on investing activities		3 593	(58 107)
Impairment of financial assets		(12 692)	6 632
Dividends received	7	(19 277)	(59 738)
Interest received		(2 163 569)	(2 204 176)
Interest paid		1 479 279	1 545 552
Changes in loans and advances to banks		(1 274 168)	936 880
Changes in trading securities		241 752	3 625 024
Changes in derivative financial instruments		710 303	3 680 445
Changes in loans and advances to customers		(5 391 230)	12 702
Changes in investment securities		(3 593 364)	(8 181 074)
Changes in other assets		27 589	84 584
Changes in amounts due to other banks		844 320	(764 295)
Changes in other trading liabilities		(571 242)	(4 278 167)
Changes in amounts due to customers		3 417 474	3 734 094
Changes in debt securities in issue		-	171
Changes in provisions		(32 731)	18 767
Changes in other liabilities		56 416	(140 797)
Net cash generated from operating activities		**(2 616 012)**	**(2 076 159)**
B.Cash flows from investing activities		**(110 819)**	**(49 500)**
Investing activity inflows		**20 542**	**134 975**
Disposal of shares in subsidiaries, net of cash disposed		-	1 369
Disposal of intangible assets and tangible fixed assets		1 265	1 367
Dividends received	7	19 277	59 738
Other investing inflows		-	72 501
Investing activity outflows		**131 361**	**184 475**
Acquisition of shares in subsidiaries, net of cash acquired		-	11 980
Purchase of intangible assets and tangible fixed assets		131 361	171 751
Other investing outflows		-	744
Net cash used in investing activities		**(110 819)**	**(49 500)**
C. Cash flows from financing activities		**2 143 949**	**191 435**
Financing activity inflows		**3 892 958**	**1 723 058**
Proceeds from loans and advances from other banks		1 727 495	1 514 028
Proceeds from other loans and advances		199 260	209 030
Issue of ordinary shares		1 966 203	-
Financing activity outflows		**1 749 009**	**1 531 623**
Repayments of loans and advances from other banks		1 400 142	1 082 533
Repayments of other loans and advances		9 454	11 506
Redemption of debt securities		-	8 000
Payments of financial lease liabilities		6 947	10 674
Other financing outflows		332 466	418 910
Net cash from financing activities		**2 143 949**	**191 435**
Net increase / decrease in cash and cash equivalents (A+B+C)		**(582 882)**	**(1 934 224)**
Effects of exchange rate changes on cash and cash equivalents		(24 107)	(44 849)
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	42	**5 927 201**	**6 534 190**

Notes presented on pages 9 – 88 constitute an integral part of these Financial Statements.

Explanatory Notes to the Financial Statements

1. Information Regarding BRE Bank SA

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

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

According to the By-laws of the Bank, the scope of its business consists of providing banking services and consulting-advisory services in financial matters, as well as the conducting of business activities within the scope described in its By-laws. The Bank operates within the scope of corporate, institutional and retail banking (including private banking) throughout the whole country and operates trading and investment activity.

The Bank provides services to Polish and international corporations and individuals, both in the local currency (Polish Zloty, PLN) and in foreign currencies. In particular, the Bank supports all kinds of activities leading to the development of exports.

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

Foreign branches of mBank in both the Czech Republic and Slovakia opened business under the retail banking umbrella of BRE Bank.

As at 31 December 2010 the headcount of BRE Bank SA amounted to 4 416 FTEs (Full Time Employees)– 5 300 persons (31 December 2009: 4 051 FTEs – 4 901 persons).

The Management Board of BRE Bank SA approved these Financial Statements for issue on 28 February 2011.

2. Description of Relevant Accounting Policies

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

2.1 Accounting Basis

These Financial Statements of the BRE Bank SA have been prepared for the 12 - month period ended 31 December 2010.

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

The preparation 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 which involve a significant degree of application of estimates or judgments for the purpose of the Financial Statements are disclosed in the Note 4.

The Bank also prepares Consolidated Financial Statements in accordance with IFRSs. BRE Bank SA Group Consolidated Financial Statements for the year 2010 were published on 28 February 2011.

2.2 Interest Income and Expenses

All interest income on 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 expense 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 terms of the financial instrument, but without taking into account the possible future losses on account of non-recovered loans and advances. This calculation takes into account all the fees paid or received between the parties to the contract, 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 considers of the cash flows resulting from only those embedded derivatives which are strictly linked to the underlying contract.

2.3 Fee and Commission Income

Income on account of fees and commissions is basically recognised on the accrual basis, at the time of performance of the respective services. Fees charged for the granting up of loans which are likely to be drown down are deferred (together with the related 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 on a time – apportionate basis. 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.

2.4 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.

<u>Financial assets valued at fair value through the income statement</u>

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

Disposals of debt 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 2.10, 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.

<u>Loans and Receivables</u>

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.

<u>Held to Maturity Investments</u>

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 consolidated financial statements, there were no assets held to maturity at the Bank.

<u>Available for Sale Investments</u>

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 Income Statement or in Comprehensive Income. 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 in Other Comprehensive Income 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 bid prices. If the market for a given financial asset is not an active one, the Bank determines the fair value by applying valuation techniques. These comprise recently conducted transactions concluded according to normal market principles, reference to other instruments, discounted cash flow analysis, as well as valuation models for options and other valuation methods generally applied by market participants.

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

Investments in subsidiaries and associates

Investments in subsidiaries and associates are initially recognised in the Statement of Financial Position at cost less impairment write-offs.

2.5 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.

2.6 Impairment of Financial Assets

Assets Carried at Amortised Cost

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 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 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 of impairment indicator 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.

2.7 Financial Guarantee Contracts

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 amortisation recognised in accordance with IAS 18 Revenue.

2.8 Cash and Cash Equivalents

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

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

2.9 Sell-buy-back, 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. Reverse repos (securities purchased together with a resale clause) are recognised as loans and advances to other banks or other customers, depending on their nature.

When concluding a repo or reverse repo transaction, the Bank sells or buys securities with a repurchase or resale clause specifying a contractual date and price. Such transactions are presented in the 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 a way that they do not qualify for derecognition. Thus, the Bank retains substantially all risks and rewards of ownership of the financial assets.

2.10 Derivative Financial Instruments and Hedge Accounting

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

2.11 Gains and Losses on Initial Recognition

The best evidence of fair value of a financial instrument 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.

A 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 is initially recognised 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 date, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the Income Statement without reversal of deferred day one profits and losses.

2.12 Borrowings and deposits taken

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

2.13 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 amortisation period does not exceed 3 years. Amortisation 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.

2.14 Tangible Fixed Assets

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

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

Accounting principles concerning assets held for liquidation or withdrawal from usage are described under Note 2.15.

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 structures 25-40 years,
- Equipment 5-15 years,
- Transport vehicles 5 years,
- Information technology hardware 3.33-5 years,
- Investments in third party (leased) 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.

2.15 Non-Current Assets Held for Sale and Discontinued Operations

The Bank classifies a 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.

2.16 Deferred Income Tax

The Bank creaates a deffered Income Tax on the temporary difference arising 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 Balance Sheet date. According to expectations such tax rates applied will be in force at the time of realisation of the assets or settlement of the liabilities for deferred 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 deferred income tax provisions netted against each other for each country separately where the Bank conducts its business and is obliged to settle corporate income tax. Such assets and provisions may be netted against each other if the Bank possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

The Bank discloses separately the amount of negative temporary differences (mainly on account of unused tax losses or unutilised tax allowances) in connection with which the deferred 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.

2.17 Assets Repossessed for Debt

Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, financial assets or other assets depending on their nature and the Group's intention in respect of recovery of these assets. In case the fair value of repossessed collateral exceeds the receivable from the debtor, the difference constitutes a liability toward the debtor.

Repossessed assets are subsequently measured and accounted for in accordance with the accounting policies relevant for these categories of assets.

2.18 Prepayments, Accruals and Deferred Income

Prepayments are recorded if the respective expenses concern the months succeeding the month in which they were incurred. Prepayments are presented in the 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'.

2.19 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.

2.20 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.

2.21 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 programs of remuneration based on and settled in own shares as well as based on shares of the ultimate parent of the Bank and settled in cash. These benefits are accounted for in compliance with IFRS 2 Share-based Payment. The fair value of the service rendered by employees in return for options and shares granted increases the costs of the respective period, corresponding to own equity in the case of transactions settled in own shares and liabilities in the case of cash-settled transactions based on shares of the ultimate parent of the Bank. 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 programs. 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.

2.22 Equity

Equity consists of capital and own funds 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.

- Own Shares

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

Share premium

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

- 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.

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.

Dividends for the given year, which have been approved by the Extraordinary 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'.

Other components of equity

Other components of equity result from:

- valuation of available for sale financial instruments,
- exchange differences on translation of foreign operations.

2.23 Valuation of Items Denominated in Foreign Currencies

Functional Currency and Presentation Currency

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

Transactions and Balances

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

2.24 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.

2.25 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 15, Agreements for the Construction of Real Estate, binding for annual periods starting on or after 1 January 2010.
- 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.

The Bank believes that the application of the standards and interpretations mentioned above did not have a significant effect on the financial statements in the period of their first application.

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

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

- IFRS 1 (Revised), Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, binding for annual periods starting on or after 1 July 2011.
- IFRS 7 (Revised), Disclosures - Transfers of financial assets, binding for annual periods starting on or after 1 July 2011.
- IFRS 9, Financial Instruments, binding for annual periods starting on or after 1 January 2013.
- IAS 12 (Revised), Deferred Tax: Recovery of Underlying Assets, binding for annual periods starting on or after 1 January 2012.

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 the other standards and interpretations will not have a significant effect on the financial statements in the period of their first application.

2.26 Comparative Data

Data as at 31 December 2009 are comparable with data introduced in the current financial period so they were not adjusted.

2.27 Business segments

Data concerning business segments were presented in the Consolidated Financial Statements of the BRE Bank SA Group for the year 2010, prepared in compliance with the International Financial Reporting Standards and published on 28 February 2011.

3. Financial Risk Management

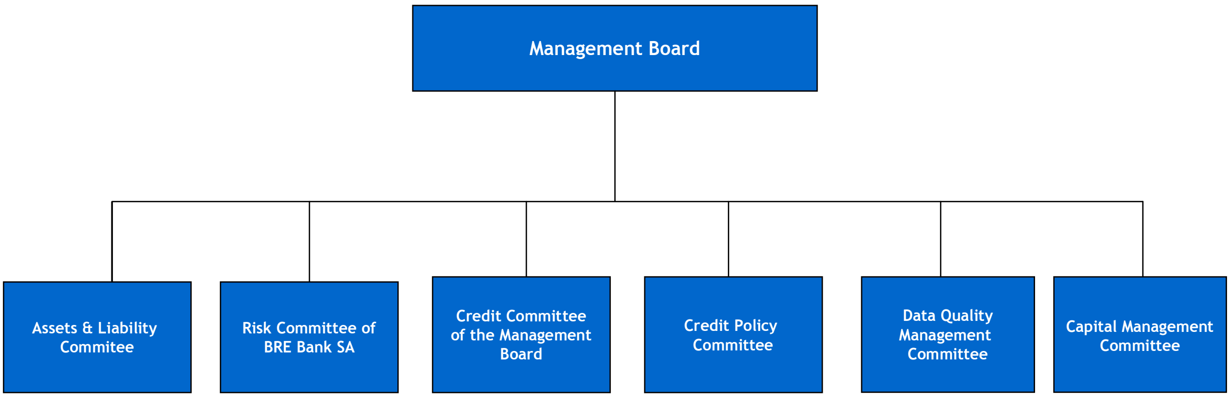
Organisational structure supporting risk management and the division of tasks

Risk management is an inherent element of management in the Bank. Risk management functions and tasks are present at all levels of the organisational structure. The Supervisory Board is responsible for supervising the Bank's risk management strategies and policies. Supervision over the risk management process is the responsibility of the Risk Committee established within the Supervisory Board as a special decision-making body responsible among others for monitoring the Bank's profile of exposure to risks, in particular credit risk, and the Bank's compliance with adopted strategic assumptions contained in the above-mentioned strategies and policies.

The Bank's Management Board Members are responsible for managing different risks of the Bank's business.

- The President of the Management Board of the Bank: risk of the Bank's business strategy, reputation risk and compliance risk.
- The Vice-President, Head of Risk Management: credit risk, market risk, liquidity risk, operational risk, special responsibility for implementation of the Bank's risk management strategy and policies.
- The Management Board Member, Head of Investment Banking & Markets: investment risk.

The Management Board of the Bank has established several Committees to which it has delegated responsibilities for specific elements of the risk management process and defined the organisational structure of the Bank with clearly divided responsibilities of organisational units. The chart below presents the structure of the Committees:



The Assets and Liabilities Management Committee (ALCO): it is responsible for management of the assets and liabilities and the liquidity of the Bank. The main tasks of the Committee are to decide on liquidity and long-term funding, management of the Bank's balance sheet including the transfer pricing system of funds, and to perform regular reviews of the liquidity position and funding structure of the Bank. The Committee consists of the Management Board Member, Head of Investment Banking & Markets who chairs the Committee, the Vice-President of the Management Board, Chief Financial Officer, the President of the Management Board, General Director of the Bank, the Vice-President of the Management Board, Head of Risk Management, the Director of the Controlling and Management Information Department, the Director of the Accounting Department, the Director of the Risk Department, the Director of the Treasury Department.

The Risk Committee of BRE Bank SA: its responsibility is to control and manage financial risk including:

- market risk,
- interest rate risk in banking book,
- liquidity risk,
- portfolio credit risk,
- operational risk.

The responsibilities of the Committee include approval of risk measurement and economic capital calculation methods, setting limits and other measures limiting the Bank's exposure to risk, co-ordination of activities of the Bank's organisational units involved in financial risk controlling and management processes, and monitoring the profile of the Bank's exposure to different risks. The Committee also monitors the compliance of risk profile against internally and externally precautionary measures. The Risk Committee is composed of four Management Board Members, including the Head of Risk Management who chairs the Committee, as well as the directors of units which control and monitor risks, the directors of units which manage risks operationally, and the Director of the Controlling and Management Information Department, the Director of the Strategy Department, and the Director of the Internal Audit Department.

The Credit Committee of Management Board: it is responsible for:

- credit decisions, debt restructuring and enforcement decisions based on limits and transactions which due to their exposure are decided at this level of competence,
- decisions on the Bank's credit policy,
- review of the loan portfolio quality and status of process of monitoring of the financial position of clients.

The Committee consists Vice-President of the Management Board Member, Head of Risk Management who chairs the Committee, the Head of Credit Operations, the Management Board Member, Head of Corporate Banking, the Head of Enterprise Banking and Corporate Banking Management, the Director of the Corporate Loans Department, the Director of the Loans Administration Department, and the Directors of Departments in the corporate banking area as substitutes.

The Credit Policy Committee: The Credit Policy Committee was established in 2010 and is responsible for development of the credit policy and decisions on the Bank's retail banking business. The Committee decides about:

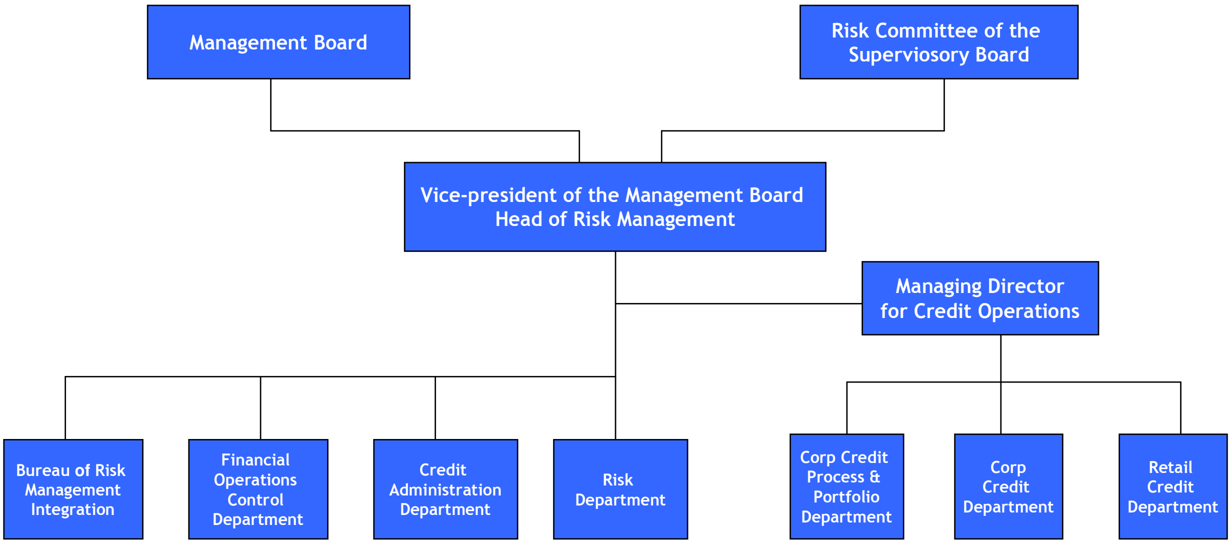
- amendments to the decision-making methodology,
- implementation of new products and modifications to existing credit products impacting credit risk,
- assessment of the impact of marketing factors: distribution channels, target segments, customer communications on the credit risk,
- recalling products.

The Committee is responsible for periodical reviews of the quality and profitability of the loans portfolio. The Committee consists of the Vice-President of the Management Board, Head of Risk Management who chairs the Committee, the Head of Credit Operations, the Management Board Member, Head of Retail Banking, the Head of Retail Banking Sales and Business Processes, the Director of the Retail Loans Department.

The Data Quality Management Committee: the Committee has been established for the purpose of creating conditions for the introduction and development of an effective system for managing the quality of data used for the purpose of the calculation of the Bank's regulatory capital requirement (AIRB). The quality of data used in management processes has significant impact on the advanced internal ratings based approach used, for example, in credit risk rating. The Committee is composed of the Vice-President of the Management Board, Head of Risk Management who chairs the Committee, the Head of Operations and IT, and representatives of the areas supervised by the Management Board Members appointed by them. The work performed by the Committee is supported by the data quality units located in the retail and corporate part of the risk management area.

The Capital Management Committee: the Committee is responsible for the Bank's and the Group's capital strategy and activities aimed at maintenance of a safe level and optimal structure of capital and its effective use. The Committee is authorised to decide about establishing regulatory and internal capital management rules, approve the internal capital estimation and allocation process, implement capital efficiency measures and limits of capital utilisation by particular business areas of the Bank. The Committee consists of the Vice-President of the Management Board, Chief Financial Officer who chairs the Committee, and Directors in the Finance, Risk, Investment Banking, Corporate Banking and Retail Banking Lines.

Financial risk management process is performed by the organisational units of the Risk Line supervised by the Head of Risk Management.



Credit risk management is an integrated and continuous operational process involving actions and decisions concerning individual transactions and exposures as well as portfolios. The Bank actively manages credit risk in order to optimise risk level. For this purpose, uniform credit risk management rules are applied across the Bank's structure; they are based, among others, on separation of the credit risk rating function and the sales function at all levels up to the Management Board. A a similar approach is applied to administration of credit risk exposures as this function is performed in the risk line and the operating line and is independent from sales functions. The segregation of responsibilities in the process is as follows:

- **The Retail Loans Department** (DKD) is responsible for management of credit risk in retail banking on the domestic markets and in foreign branches (Czech Republic and Slovakia). The main operational responsibilities of DKD include: credit risk rating and credit decision-making for individual exposures and transactions, supervision over the automated credit process, administration of credit agreements concluded with retail clients, monitoring and collecting loan receivables. Furthermore, DKD develops rules of credit risk rating and calculation of retail client exposure limits and is responsible for their implementation in tools supporting the credit decision-making process.
- **The Corporate Loans Department** (DKK) is responsible for management of the quality of the corporate and private banking loans portfolio of the Bank and subsidiaries of BRE Bank Group. DKK's key functions include: decisions on and recommendations for individual exposures and transactions of companies and groups of companies which are clients of the Bank, assessment of and recommendations for large exposures accepted by subsidiaries of BRE Bank Group, monitoring the structure of exposures in the risk portfolio, in particular by sector, and the related concentration risk, calculation of the clients' probability of default (PD) and expected loss (EL) ratings for banks and international financial institutions and related exposure limits and monitoring their utilisation, management of credit risk of exposures by country (setting and monitoring the utilisation of limits). The more extensive scope of credit risk controlling functions at Group level is performed by a dedicated organisational unit: the BRE Bank Group Credit Risk Bureau at the Corporate Loans Department. The main functions of the Bureau include: analysis of credit risk of new exposures of subsidiaries, monitoring credit risk of the largest exposures, analysis of the quality of the risk portfolio, participation in development and modification projects of the risk management strategy, policies and rules in subsidiaries, supervision over plans and methodologies of establishing and releasing provisions, as well as audits of the largest exposures for all liabilities of the Group.
- **The Corporate Credit Process and Portfolio Department** (DPP) is responsible for organisation and supervision of the credit process in the corporate area as well as development, implementation and supervision of the application of the rules of operation of the data quality management system for the purpose of AIRB in the corporate area. Moreover, the Department is developing competences of performing portfolio analyses of credit risk in order to take by the end of 2011.
- **The Loans Administration Department** (DAK) is responsible for administration of credit risk in the corporate banking and private banking area. In particular, DAK is responsible for administration of credit risk provisions and monitoring of concentration risk of large exposures. The Department prepares analyses and reports on lending activities and the risk portfolio for internal and external purposes.
- **The Risk Department** (DRF) is responsible for controlling and evaluating credit risk and monitors its volatility and concentration on portfolio basis. The Department is responsible for the construction and development of scoring and rating models used in the credit risk assessment process and applied in decision-making when approving credit exposures both in the corporate and the retail banking area.

Decision-making for credit exposures in the corporate and private banking area. In the case of exposures to corporate and private banking clients, the Bank has a hierarchical, multi-tier system of credit decision-making (limits and transactions) for separate entities and groups of related entities. Escalation to the relevant decision-making level in the system depends on the following criteria: nominal exposure amount (total exposure) and expected loss rating (EL). A new criterion was implemented in 2010: concentration of exposure to an entity or group of related entities as measured by Credit Value at Risk. Each credit decision on every level is preceded by risk assessment carried out by an experienced analyst. The main purpose of the analysis is to determine the EL rating and to verify the client's current capacity to repay the loans and to maintain this capacity over the planned exposure period based on the terms of the agreement. The decision-making process for private banking client exposures is the same as for corporate exposures.

Decision-making for credit exposures in the retail banking area. Due to a different profile of retail banking clients, the accepted amount of exposure per client and standardisation of products offered to those clients, the credit decision-making process differs from that applied to corporate clients. The decision-making process is automated to a large extent, both in terms of acquiring data on the borrower from internal and external data sources, and in terms of risk assessment by means of scoring techniques and with the application of standardised decision-making criteria. The tasks which are not automated concern mainly the verification of credit documentation and potential derogations when a decision is made with the escalation to the appropriate decision-making level in accordance with the applicable rules. In addition, in case of mortgage loans, the present value of the collateral is established and its compliance with the binding credit policy including acceptable LtV (Loan to Value) is assessed. These functions are performed by operating units located within the Retail Loans Department, i.e., in the Risk Line, in complete separation from sales functions.

Market risk controlling and monitoring. Market risk is controlled and monitored in a single process performed by the Risk Department (DRF) and the Financial Operations Control Department (DKF).

- **The Risk Department** (DRF) is responsible for measurement of exposures to market risk of the Bank's front-office units portfolios by the use of market risk measures: Value at Risk (VaR) and stress tests. DRF controls and monitors on a daily basis utilisation of the limits for these risk measures established by the Risk Committee of BRE Bank and provides daily and periodical reporting on the market risk exposure to managers of the Bank's front-office units, to the Risk Committee of BRE Bank, and directly to the Chief Risk Officer. Moreover, DRF develops market risk measurement methodologies, presettlement counterparty risk of derivative transactions, and establishes valuation models for financial instruments.
- **The Financial Operations Control Department** (DKF) calculates and reconciles daily financial results on transactions carried out by the front-office units and provides daily valuation of financial instruments to the Finance Line. The valuation of derivative transactions with the Bank's clients is also delivered to the business units responsible for managing clients (Investment and Corporate Line). Valuations prepared by DKF are the basis for managing collaterals for concluded transactions on derivative instruments. DKF is responsible for the administration of the front-office IT systems, i.e. decides on users' access rights to the systems and is responsible for market data input to the systems. DKF monitors whether transactions are concluded within established credit limits (pre-settlement, settlement, issuer and country risk limits) imposed on trading activities and escalates if limits are exceeded. Moreover, DKF verifies the market conformity of the transactions concluded by the front-office units and supervises the process of modification and deletion of deals in the front-office systems.

Liquidity risk management aims at ensuring and maintaining the Bank's ability to fulfil both current and future liabilities taking into account the cost of liquidity. The liquidity management process consists of procedures that aim at identification, measurement, controlling, monitoring, reducing and defining the acceptable level of exposure to risks. This process can be divided into two main elements in the operational sense: the part involving all forms of liquidity management and the part of controlling and monitoring liquidity risk. The Assets and Liabilities Management Committee, the BRE Bank Risk Committee and the Management Board of the Bank are responsible for liquidity management on the strategic level. Several organisational units are responsible for liquidity management on the operational level.

- **The Settlement and Custody Department** (DRP) – is responsible for operational supervision over cash flows in accounts.
- **The Treasury Department** (DS) is responsible for providing necessary funds for settlements in the Bank's accounts, implementing strategic recommendations made by the BRE Bank Group Assets and Liabilities Management Committee, calibrating the structure of the future cash flows within the limits imposed by the BRE Bank Risk Committee, maintaining defined securities portfolios kept to secure liquidity within the limits imposed by the BRE Bank Risk Committee and the BRE Bank Group Assets and Liabilities Management Committee. The Treasury Department is supported in these functions by the Financial Institutions Department (DIF), in relation to funding from domestic and foreign banks and international financial institutions, and the Financial Markets Department (DFM), in relation to issues of the Bank's debt securities.

- **The Risk Department** (DRF) is in charge of controlling and monitoring financial liquidity risk of the Bank on the strategic level and reporting to the Head of Risk Management and to the BRE Bank Risk Committee. The Department monitors financial liquidity on a daily basis using methods based on cash flow analysis. Liquidity risk measurement is based on the regulatory model and an internal model, which has been established taking into consideration the specific character of the Bank, the volatility of the deposit base, the level of funding concentration, and the projected development of particular portfolios.

Operational risk controlling and monitoring is performed in BRE Bank and, at the consolidated level, in BRE Bank Group.

- **The Risk Department** (DRF) is responsible for operational risk controlling and monitoring in the Bank and in BRE Bank Group. The results of operational risk controlling and monitoring are regularly reported to the Management Board of the Bank, the BRE Bank Risk Committee, and the Head of Risk Management. As a part of the operational risk control activities, BRE Bank collects data about operational risk events and losses, regularly carries out the operational risk self-assessment process within organisational units, collects and monitors key risk indicators, and develops and performs operational scenario analyses in order to identify exposure to potential high-severity events. At the same time, the function maintains communication channels with all areas of the Bank (business and support areas) for remedial action once the systems spot critical patterns of operational risk in any area. Within the scope of its operational risk control function, the Risk Department closely co-operates with other units and projects within the Bank involved in operational risk, in particular with the Compliance Bureau (BMZ), the Internal Audit Department (DAW) and the Business Continuity Plan (BCP).

Insurance risk management. Insurance risk is concentrated in the subsidiary BRE Ubezpieczenia Towarzystwo Ubezpieczeń i Reasekuracji S.A. A risk management function supervised by a Management Board Member has been separated within the company's structure. The function also manages insurance risk.

3.1 The New Basel Capital Accord

An application for approval of BRE Bank's use of statistical methods of the calculation of the regulatory capital requirement for credit risk (AIRB) was filed with the Polish Financial Supervision Authority and the German regulator BaFin in December 2009. As a result, the Polish Financial Supervision Authority carried out an inspection at the Bank in 2010 in order to verify the Bank's readiness for the application of the AIRB approach in the calculation and reporting of capital requirements. The inspection covered a comprehensive range of processes, models, data quality and IT tools including the AIRB capital requirement calculator for the exposure categories to be covered by AIRB in the first phase of implementation in regulatory reporting of BRE Bank. The Bank is awaiting the final decision of the Polish Financial Supervision Authority and BaFin concerning the AIRB application for regulatory purposes and already benefits of modifications to the credit risk management and controlling process introduced by the AIRB project.

3.2 Credit risk management

3.2.1 Credit policy. The Bank's credit risk management is based on a credit policy defined separately for the retail and the corporate area. The credit policy covers the following elements:

- target customer groups and product groups;
- credit risk acceptance criteria and cut-off levels;
- acceptance criteria for objects of lending and collateral;
- concentration risk restrictions;
- risk of exposure to higher-risk sectors restrictions.

In 2010, despite the first signs of economic recovery after the crisis, demand for corporate loans was however stagnating while corporate risk remained high for companies whose business was associated with Western Europe including Germany through ownership or trade relations. Due to the volatility of fx rates and in the absence of significant economic growth or improvement on the labour market, the Bank pursued a lending policy aiming to ensure limited safe growth of the loans portfolio. The credit policy in corporate banking imposed restrictions applicable to high-risk sectors and implemented mechanisms preventing economically unreasonable concentration to individual entities, groups of entities and sectors, as well as portfolios (Credit Value at Risk). The structure of the Bank's loans portfolio was expanded by adding exposures to municipalities carrying low credit risk. The credit policy in the retail banking area aimed to grow the portfolio of mortgage loans addressed to more affluent borrowers. The Bank applies such rules of evaluating and accepting creditworthiness which historically enabled it to build a loans portfolio characterized by low risk and consequently low impairment provisions. In non-mortgage lending, the Bank's offering was mainly targeted at existing clients of a stronger risk profile: the Bank introduced pre-approved exposure limits available to clients as credit card limits, overdraft limits and cash loan limits. The pursued policy helped to mitigate risks related to the "old" cash loans portfolio (Kredyt Ratalny Plus).

3.2.2 Collateral accepted

Collateral accepted for granted credit products. The collateral policy is an important part of the credit policy. It provides that, in making a decision about granting a credit risk bearing product, the Bank strives to obtain collateral that would be adequate to the accepted risk. The quality of the proposed tangible collateral is assessed according to its liquidity and market value, and the quality of personal collateral is assessed according to the financial situation of the guarantor. Moreover, the impact of collateral on limitation on the impairment of the loan portfolio is a significant factor in the assessment of the collateral's quality. The quality of accepted collateral is correlated to the amount of the product bearing credit risk and the level of risk related to granting such a product. The collateral most frequently accepted by the Bank includes:

a) mortgage on real estate,
b) cession of receivables (cession of rights),
c) registered pledge,
d) transfer of ownership to collateral,
e) monetary deposit,
f) guarantee deposit or cash blocked,
g) bill of exchange,
h) guarantees and warranties,
i) a letter of comfort issued by a company whose reliability and fairness is known on the international financial markets.

In the case of personal collateral (e.g. warranty, guarantee), the situation and reliability of the entity issuing such security is evaluated against the standards applicable to the assessment of borrowers. In the case of tangible collateral, the adopted rules of assessment are applied. The value of fixed assets taken as collateral is determined on the basis of an estimate prepared by an certified expert . These estimates submitted to the Bank is verified by a team of specialists situated in the Risk Line, who verify the correctness of the market value assumptions and assess the liquidity of the collateral from the Bank's point of view. The following factors are taken into account in the verification process:

a) for collateral on real estate:
   - type of real estate
   - legal status
   - designation in the local land development plan
   - technical description of buildings and structures
   - description of land
   - situation on the local market
   - other price-making factors
b) for collateral on plant and machinery:
   - general application and function in the technological process / possibilities of alternative use
   - technical description and parameters
   - exploitation and maintenance conditions
   - availability of similar devices and machinery
   - current market situation
   - forecasts of demand for specific machinery in connection with the situation in the industrial sectors applying such machinery
c) for collateral on inventories:
   - formal and legal requirements related to specific products (e.g., a security certificate "CE" for electrical equipment, permit of UDT (the Office of Technical Inspection) for appliances which operate under pressure, etc.)
   - saleability
   - warehousing conditions required (e.g., for paper materials sensitive to humidity, precise materials sensitive to pollution, etc.)
   - security and insurance of both the warehouse and the goods stored therein.

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Collateral accepted for transactions in derivative instruments. The Bank actively manages the risk of derivative instruments. Credit exposures arising from concluded derivative transactions are managed as a part of clients' general credit limits, taking into account potential impact of changes in market parameters on the value of the exposure. Existing **master agreements** with contractors obligate the Bank to monitor the value of exposure to the client on a daily basis and provide for additional collateral against the exposure to be contributed by the client if the exposure value increases or the limit is exceeded. In case of default, the master agreements provide for early settlement of the transaction with the client.

Collateral on securities resulting from buy-sell-back transactions. The Bank accepts collateral in the form of securities in connection with the buy-sell-back transactions concluded. Depending on the agreement such collateral may be sold or repledged. The total market value of collateral that can be sold or repledged, including the case of lack of default of the customer, as at 31 December 2010 amounted to PLN 4 254 372 thousand (as at 31 December 2009: PLN 710 379 thousand), including the value of taken collaterals which were resold or pledged with another pledge as at 31 December 2010 amounting to PLN 3 279 087 thousand (as at 31 December 2009: PLN 346 537 thousand).

Hedge Accounting. The Group did not use hedge accounting in the reporting periods.

3.2.3 Rating system. The rating system is a key element of the credit risk management process in the corporate area. It consists of two main elements:

- Customer rating (PD-rating) – describes the probability of default (PD),
- Credit rating (EL-rating) –describes expected loss (EL) and takes into consideration both customer risk (PD) and transaction risk (LGD, Loss Given Default – loss resulting from default). EL can be described as PD*LGD. EL indicator is used mainly at the credit decision-making stage.

The rating produces relative credit risk measures, both as percentages (PD%, EL%) and on a conventional scale from 1.0 to 6.5 (PD-rating, EL-rating) for corporations (sales over PLN 30 million) and SMEs (sales below PLN 30 million). PD rating calculation is a strictly defined process which comprises seven steps including: financial analysis of annual reports, financial analysis of interim figures, assessment of timeliness of presenting financial statements, analysis of qualitative risks, warning indicators, level of integration of the debtor's group, and additional qualitative criteria. Credit rating based on expected loss (EL) is created by combining customer risk rating and transaction risk rating which results from the value of exposure (EAD, Exposure At Default) and the character and coverage with collateral for transactions concluded with the client (LGD). EAD represents actual balance sheet exposure increased by the expected level of off-balance sheet items to be converted to balance sheet items at the date of default. LGD, described as % of EAD, is a function of possibly executed value of tangible and financial collateral and depends on the type and the value of the collateral, the type of transaction and the ratio of recovery from sources other than collateral.

The rating system generates the borrower's probability of default directly in the form of a PD ratio, expressed as a percentage on a continuous scale. Rating classes are calculated on the basis of procedures of dividing percentage PD into groups based on geometric stepladder. In external reporting, the Bank maps the internal PD rating scale onto external ratings. The table below presents the mapping system.

<table>
<tr><th>Sub-portfolio</th><th colspan="4">1</th><th colspan="3">2</th><th colspan="2">3</th><th colspan="3">4</th><th colspan="3">5</th><th>6</th><th colspan="2">7</th><th>8</th><th></th></tr>
<tr><td>Rating PD</td><td>1.0 - 1.2</td><td>1.4</td><td>1.6</td><td>1.8</td><td>2</td><td>2.2</td><td>2.4 - 2.6</td><td>2.8</td><td>3</td><td>3.2 - 3.4</td><td>3.6</td><td>3.8</td><td>4</td><td>4.2 - 4.6</td><td>4.8</td><td>5</td><td>5.2 - 5.4</td><td>5.6 - 5.8</td><td>No rating</td><td>6.1 - 6.5</td></tr>
<tr><td rowspan="2">S&P</td><td>AAA</td><td>AA+</td><td>AA, AA-</td><td>A+, A</td><td>A-</td><td>BBB+</td><td>BBB</td><td>BBB-</td><td>BB+</td><td>BB</td><td>BB-</td><td>B+</td><td>B+</td><td>B</td><td>B-</td><td>B-</td><td>CCC+</td><td>CCC down to CC-</td><td>n/a</td><td>C, D-I, D-II</td></tr>
<tr><td colspan="8">Investment Grade</td><td colspan="10">Non-Investment Grade</td><td></td><td>Default</td></tr>
</table>

The following models comprised by the rating system are used in the retail banking area:

- Loss Given Default (LGD) model, which covers the portfolio of retail mortgage exposures. In the model, loss is defined as a function dependent on the level of recovery from clients' own payments and possible value of collateral using real estate collected in enforcement procedures.
- Credit Conversion Factor (CCF) model, which covers the entire retail banking portfolio. The model is based on historical data for 2003-2010. The Credit Conversion Factor is an integral part of EAD (CCF as a level of off-balance sheet items converted to balance sheet items).
- PD model with a modular structure, which integrates application and behavioural models in the retail banking area as well as models which use Credit Information Bureau (BIK) data.

All models are subject to periodical reviews and a process of validation as well as compliance checks with applicable regulations.

3.2.4 Method of calculating the portfolio provision (IBNI – Incurred But Not Identified Losses) **for loans and advances to corporates and retail, based on the rating system**

3.2.4.1 Corporate portfolio

The portfolio provision is formed on the credit portfolio of customers not classified to the default category. The amount of provisions is an estimate of incurred losses resulting from arisen economic events which haven't been identified by Bank at the provisions calculation date.

The probability of disclosure of a loss is modeled by logistic regression based on financial indicators and qualitative data. The model is calibrated on the Bank's internal data, comprising a several years' period of observation of the corporate portfolio. A 9-month-period was established as the average period between the loss event occurrence and its identification by the Bank (loss identification period 'LIP'). Therefore, the Bank performs calculations on the basis of 9-month horizon for probability of default obtained via scaling the original 12-month PD-rating coming from the corporate PD model. The value of incurred loss is calculated based on expected at default event value of exposure (EAD)multiplied by LGD (parameter describing the loss resulting from the lack of loan repayment), calculated by EAD / LGD model for corporates.

In the opinion of the Management Board, the profile of the corporate rating system as a model sensitive to changes in economic cycle (Point-in-Time) as well as recognition of interim financial data and warning indicators as rating assessment drivers should ensure adequate reflection of the amounts of the calculated portfolio provision to the changing market environment.

3.2.4.2 Retail portfolio

For the purpose of calculating the provisions for retail receivables, loan contracts are classified into subportfolios –groups of contracts of similar risk level. Risk parameters are determined for each transaction: probability of default of a client (PD) and loss so arisen (LGD). Values of these parameters are based on historical data for each portfolio and depend on overdue period. Then, the risk parameters and the amortised cost of the exposures are used in the calculation of the retail portfolio LLP.

In case of retail exposures, impairment triggers are identified at the level of a particular transaction, not a customer. Therefore, if an impairment trigger occurs on one obligation, the Bank is not required to treat all other obligations of the debtor as impaired.

If impairment indicator is identified on one exposure of a customer, such debtor is classified to a group of default clients.

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

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

In order to specify a default, the Bank defined loss events. Loss events were divided into definite ('hard') loss events of which occurrence requires that the client be classified into the default category, and indefinite ('soft') loss events of which occurrence may imply that there is a need to classify the client into the default category. In the case of indefinite loss events, credit analist assesses additionally whether the event impacted adversely the obligor's creditworthiness. Indefinite loss events have been introduced so that credit analists who are responsible for identification of default cases pay attention to cases that may potentially increase the credit risk of the debtor, which may result in the loss of the debtor's ability to repay loan the Bank.

The list of definite loss events:

1. The number of days from which any exposure being the obligor's credit obligation becomes overdue is above 90 days and the overdue amount exceeds PLN 3,000 for corporate clients and PLN 500 for clients of Private Banking.
2. The Bank has sold exposures with a significant economic loss related to the change of the debtor creditworthiness.
3. The Bank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:

    a) reduction of financial obligations by remitting part of these obligations, or

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b) postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.

4. Filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.
5. Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.
6. Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.
7. Client's fraud.

The list of required conditions for indefinite loss events is prepared separately for each following entity type:

a) governments and central banks,
b) banks,
c) corporations, including specialised lending,
d) local government units,
e) insurers,
f) PTE, TFI funds.

Defining separately the conditions for indefinite loss events for particular types of entities aimed at reflecting specificity of particular types of entities in identification of loss events.

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

In the Bank's retail division losses for impaired exposures are calculated, similarly to the corporate division, with the usage of the IMPAIRMENT application. Retail exposures are considered impaired when:

a) the exposure exceeds 500 PLN and is more than 90 days past due,
b) the loan has been identified as fraudulent,
c) the contract is restructured.

Restructured and fraudulent contracts are identified based on an individual analysis while other cases of defaulted loans are automatically marked by the system. In the Bank's retail division, the methodology of impairment calculation is based on portfolio approach with the exception of selected mortgage exposures analysed individually.

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

Sub-portfolio	31.12.2010		31.12.2009	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	5.28	0.40	40.83	0.05
2	55.29	0.05	20.27	0.09
3	10.09	0.23	11.82	0.31
4	12.58	0.69	13.20	0.75
5	4.37	1.83	6.07	1.85
6	0.31	3.42	0.13	4.36
7	0.72	10.68	0.68	17.14
8	5.99	-	2.37	-
Default category	5.37	55.00	4.63	57.09
Total	**100.00**	**3.28**	**100.00**	**3.05**

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3.2.6 Maximum Exposure to Credit Risk - before taking account of the adopted collateral

	31.12.2010	31.12.2009
Credit risk exposures relating to on-balance sheet assets:		
Debt securities eligible for rediscounting at the Central Bank	**3 686**	**9 134**
Loans and advances to banks	**3 764 172**	**2 497 397**
Loans and advances to customers	**51 662 336**	**44 260 700**
Loans to individuals:	32 546 675	28 063 197
- Current accounts	3 541 703	3 649 451
- Term loans, including:	29 004 972	24 413 746
housing and mortgage loans	26 082 976	22 319 761
Loans to corporate clients:	17 051 373	14 639 756
- Current accounts	2 779 165	2 851 535
- Term loans:	10 933 891	11 434 413
corporate & institutional enterprises	4 442 230	4 687 884
medium & small enterprises	6 491 661	6 746 529
- Reverse repo / buy-sell-back transactions	3 338 317	353 808
Loans and advances to public sector	1 396 173	741 226
Other receivables	668 115	816 521
Trading securities		
- Debt securities	1 731 030	1 232 198
Derivative financial instruments	**1 221 565**	**1 931 868**
Investment securities		
- Debt securities	18 939 606	13 271 099
Pledged assets	**1 828 724**	**3 513 782**
Other assets	**234 643**	**248 988**
Total exposures relating to on-balance sheet assets	**79 385 762**	**66 965 166**
Credit risk exposures relating to off-balance sheet items:		
Loan commitments and other commitments	11 026 611	9 672 273
Guarantees, banker's acceptances, documentary and commercial letters of credit	2 463 498	2 358 668
Total exposures relating to off-balance sheet items	**13 490 109**	**12 030 941**
Total on-balance sheet assets and off-balance sheet items	**92 875 871**	**78 996 107**

The above table shows the maximum exposure to credit risk as at 31 December 2010 and 31 December 2009 without taking account of any collateral held or credit enhancements attached. Balance Sheet exposures set out above are based on net carrying amounts.

As shown above, 69.82% of the total maximum balance sheet exposure is derived from loans and advances to banks and customers (31 December 2009: 69.82%); 23.86% represents investments in debt securities (31 December 2009: 19.82%).

Risk Management System is aimed at sustaining minimal exposure of credit risk of the Bank resulting from both its loan and advances portfolio and debt securities which is characterised by the following trends:

- 61.57% of the loans and advances portfolio for balance sheet and off-balance sheet exposures is categorised in the top two grades of the internal rating system (31 December 2009: 61.10%);
- 91.17% of the loans and advances portfolio is considered to be neither past due nor impaired (31 December 2009: 92.01%);
- 95.41% of the investments in debt securities is rated at least on A- credit rating (31 December 2009: 93.11%).

3.2.7 Loans and Advances to Customers and Banks

Loans and advances to customers	31.12.2010		31.12.2009	
	exposure in PLN '000	share/coverage (%)	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	49 076 538	91.17	42 258 923	92.01
Past due but not impaired	1 948 856	3.62	1 582 022	3.44
Impaired	2 804 912	5.21	2 089 544	4.55
Total, gross	**53 830 306**	**100.00**	**45 930 489**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(2 167 970)	4.03	(1 669 789)	3.64
Total, net	**51 662 336**	**95.97**	**44 260 700**	**96.36**

The table below shows amounts due from banks:

Loans and advances to banks	31.12.2010		31.12.2009	
	exposure in PLN '000	share/coverage (%)	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	3 734 029	98.30	2 448 657	96.58
Past due but not impaired	-	0.00	0	0.00
Impaired	64 390	1.70	86 827	3.42
Total, gross	**3 798 419**	**100.00**	**2 535 484**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(34 247)	0.90	(38 087)	1.50
Total, net	**3 764 172**	**99.10**	**2 497 397**	**98.50**

The total impairment provision for loans and advances is PLN 2 202 217 thousand (as at 31 December 2009: PLN 1 707 876 thousand) of which PLN 2 014 346 thousand (as at 31 December 2009: PLN 1 502 307 thousand) represents provisions for loans and advances to customers and banks individually impaired and the remaining amount of PLN 187 871 thousand represents the portfolio provision (as at 31 December 2009: PLN 205 569 thousand). Further information on the impairment allowance for loans and advances to banks and to customers is provided in Notes 18 and 21.

In 2010, the amount of loans and advances granted to the Bank's customers increased by 17.2% compared to 2009 as a result of expansion in the market of retail and corporate loans and advances. For the purpose of minimising potential increase of exposure to credit risk, the Bank focused on corporate enterprises and retail customers who provide sufficient collateral.

Loans and advances neither past due nor impaired

31 December 2010	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
Sub-portfolio	Current accounts	Term loans	including:	Current accounts	Term loans		Reverse repo / buy-sell-back transactions	Other				
			housing and mortgage loans		corporate & institutional enterprises	medium & small enterprises						
1	446 203	153 504	6 622	41 545	33 100	159 012	-	-	111 701	-	945 065	1 961 814
2	1 462 611	27 004 913	24 958 637	473 488	824 491	629 413	-	-	742 925	-	31 137 841	1 418 457
3	519 121	621 279	99 846	459 512	1 762 773	1 269 203	-	-	225 752	-	4 857 640	229 138
4	743 889	-	-	1 211 045	907 515	2 230 606	-	-	190 409	-	5 283 464	82 393
5	-	-	-	372 331	474 691	1 328 054	-	-	130 420	-	2 305 496	2 597
6	-	-	-	21 321	88 035	64 274	-	-	-	-	173 630	18 946
7	-	259	259	37 020	2 701	104 337	-	-	-	-	144 317	20 684
8	39	-	-	-	-	-	3 338 317	-	-	668 115	4 006 471	-
Default category	594	8 223	3 172	43 198	61 665	108 934	-	-	-	-	222 614	-
Total	**3 172 457**	**27 788 178**	**25 068 536**	**2 659 460**	**4 154 971**	**5 893 833**	**3 338 317**	**-**	**1 401 207**	**668 115**	**49 076 538**	**3 734 029**

31 December 2009	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
Sub-portfolio	Current accounts	Term loans	including:	Current accounts	Term loans		Reverse repo / buy-sell-back transactions	Other				
			housing and mortgage loans		corporate & institutional enterprises	medium & small enterprises						
1	367 844	20 263 367	20 160 404	31 483	49 774	82 771	-	-	495 167	-	21 290 406	1 514 561
2	1 854 364	2 543 201	1 364 885	326 207	971 374	1 234 111	-	-	25 211	-	6 954 468	602 918
3	618 157	702 509	67 067	664 842	1 750 361	866 661	-	-	-	-	4 602 530	155 707
4	-	-	-	1 293 807	1 245 506	2 642 573	-	-	17 375	-	5 199 261	35 434
5	410 349	-	-	345 257	464 963	1 264 613	-	-	206 098	-	2 691 280	32 882
6	-	-	-	18 727	3 078	39 180	-	-	-	-	60 985	-
7	-	-	-	34 953	1 201	34 101	-	-	-	-	70 255	12 125
8	-	207	-	59	-	-	353 808	-	-	816 521	1 170 595	95 030
Default category	327	18 884	2 239	27 550	-	172 382	-	-	-	-	219 143	-
Total	**3 251 041**	**23 528 168**	**21 594 595**	**2 742 885**	**4 486 257**	**6 336 392**	**353 808**	**-**	**743 851**	**816 521**	**42 258 923**	**2 448 657**

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Loans and advances past due but not impaired

Gross amounts of loans and advances which were past due but not impaired are presented below by classes of assets. No impairment is recognised in respect of loans and advances past due for less than 90 days, unless other available information indicates their impairment.

31 December 2010	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including:	Current accounts	Term loans		Reverse repo / buy-sell-back transactions	Other				
			housing and mortgage loans		corporate & institutional enterprises	medium & small enterprises						
Past due up to 30 days	297 289	811 609	708 809	-	-	5 161	-	-	-	-	1 114 059	-
Past due 31 - 60 days	48 100	152 583	133 442	-	-	122 755	-	-	-	-	323 438	-
Past due 61 - 90 days	49 849	134 983	74 888	-	-	326 527	-	-	-	-	511 359	-
Total	395 238	1 099 175	917 139	-	-	454 443	-	-	-	-	1 948 856	-

31 December 2009	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including:	Current accounts	Term loans		Reverse repo / buy-sell-back transactions	Other				
			housing and mortgage loans		corporate & institutional enterprises	medium & small enterprises						
Past due up to 30 days	335 270	601 747	510 243	2 033	653	42 124	-	-	-	-	981 827	-
Past due 31 - 60 days	70 197	113 380	102 607	319	-	4 675	-	-	-	-	188 571	-
Past due 61 - 90 days	60 654	108 822	57 189	2 302	-	239 846	-	-	-	-	411 624	-
Total	466 121	823 949	670 039	4 654	653	286 645	-	-	-	-	1 582 022	-

As at 31 December 2010 the fair value of received collaterals for mortgage loans to retail customers amounted to PLN 693 339 thousand (31 December 2009: PLN 535 226 thousand) for the group of loans past due but not impaired.

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

Loans and advances individually impaired

Loans and advances individually impaired amounted to PLN 854 956 thousand (as at 31 December 2009: PLN 674 064 thousand). Gross amounts of loans and advances individually impaired (i.e., before taking into consideration the cash flows from collateral held and expected repayments) are presented below by classes of assets, together with the corresponding fair value of collateral.

	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including:	Current accounts	Term loans		Reverse repo / buy-sell-back transactions	Other				
			housing and mortgage loans		corporate & institutional enterprises	medium & small enterprises						
31 December 2010												
Loans and advances with impairment	791 245	351 611	215 228	488 055	454 537	719 464	-	-	-	-	2 804 912	64 390
Fair value of collateral	34 519	152 274	119 496	29 715	104 193	185 246	-	-	-	-	505 947	-
31 December 2009												
Loans and advances with impairment	519 064	183 083	95 207	438 820	309 386	639 191	-	-	-	-	2 089 544	86 827
Fair value of collateral	19 562	77 803	55 778	21 309	38 247	115 859	-	-	-	-	272 780	-

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

The Bank is characterised by conservative approach in the area of verification of collateral value and setting of acceptable LtV levels. The policy, in this respect, impose particularly significant restrictions in case of transactions with probability of default higher than average (non-purpose loans and consolidation loans) and/or secured on low-liquid real estates (localised on not well developed markets).

As at 31 December 2010, impairment of exposures to banks amounted to PLN 33 181 thousand (31 December 2009: PLN 36 238 thousand).

Renegotiated loans and advances

The renegotiations of contractual terms of loans and advances is an evidence of impairment unless it is not caused by the situation of a debtor and it was carried out in normal business conditions. The restructuring processes consists in changing the agreements through extension of payments, recognised reparation plans, modification and delay of repayment of the customer's debt, which as a result of the process is classified into the default portfolio. The restructuring procedures and practice are based on ratios and criteria which, in the opinion of the Management Board, show that payments will most probably be made on time. The restructuring procedures require regular reviews. Most frequently, restructuring is carried out in respect of term loans. In connection with established accounting principles, renegotiated loans are impaired if the change of contractual terms was caused by higher credit risk. As at 31 December 2010 renegotiated loans and advances not impaired amounted to PLN 25 808 thousand (31 December 2009: PLN 90 724 thousand).

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3.2.8 Debt Instruments: treasury bonds and other eligible debt securities

31 December 2010	Trading securities and pledged assets			Investment debt securities and pledged assets	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	49 201	-	49 201
AA- to AA+	-	-	-	-	-
A- to A+	1 120 056	1 100 918	198 876	18 996 943	21 416 793
BBB+ to BBB-	-	-	67 423	752 727	820 150
BB+ to BB-	-	-	49 780	-	49 780
B+ to B-	-	-	-	-	-
Lower than B-	-	-	-	2	2
Unrated	-	-	163 434	-	163 434
Total	**1 120 056**	**1 100 918**	**528 714**	**19 749 672**	**22 499 360**

31 December 2009	Trading securities and pledged assets			Investment debt securities and pledged assets	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	-	-
AA- to AA+	-	-	6 935	-	6 935
A- to A+	1 003 082	227 557	180 127	15 357 317	16 768 083
BBB+ to BBB-	-	-	264 036	661 251	925 287
BB+ to BB-	-	-	47 652	-	47 652
B+ to B-	-	-	-	-	-
Lower than B-	-	-	-	-	-
Unrated	-	-	269 122	-	269 122
Total	**1 003 082**	**227 557**	**767 872**	**16 018 568**	**18 017 079**

In 2010, the amount of debt securities with ratings A- to A+ includes securities issued by the Central Bank of PLN 7 993 922 thousand (2009: PLN 6 564 063 thousand).

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

3.2.9 Repossessed Collateral

In 2010 and 2009, the Bank did not take over and sell any assets established as collateral.

The Bank classifies repossessed collaterals as assets repossessed for debt and measures them in accordance with the adopted accounting policies described in Note 2.17. Repossessed collaterals classified as assets held for sale shall be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified by the Restructuring and Collection Department for individual types of repossessed collaterals. The policy of the Bank is to sell repossessed assets. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Bank's urgent need, and must each time be approved by the Management Board. In 2010, the Bank did not have any repossessed collaterals that were difficult to sell.

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

Geographic concentration risk

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

- complies with the formal procedures aimed at identifying, measurement and monitoring this risk.
- complies with the formal limits mitigating the risk by country and the procedures to be followed when the limits are exceeded.
- uses a management reporting system which enables monitoring the risk level by country and supports the decision-making process related to management.
- maintains contacts with a selected group of the largest banks with good ratings, which are active in handling foreign transactions. On some markets, where the risk is difficult to estimate, BRE Bank avails itself of the services of its foreign correspondent banks, e.g. Commerzbank and insurance in the Export Credit Insurance Corporation ('KUKE') which covers the economic and political risk.

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

Sector concentration risk

If the exposure of the Bank is concentrated in an industry, the Bank monitors its share in the financing of the whole industry and the standing of each customer of the Bank vs. the rest of the industry. For this purpose, the Bank uses a statistical database, in which each parameter of financing each of the Bank's customers is mapped onto a decile grid of the parameter for the whole industry. This enables the Bank to monitor its industry-related risk to its portfolio when the standing of the whole industry undergoes rapid changes under the influence of external factors.

Sector limits are set for sectors defined by the Bank in accordance with the internal regulations of the Bank, in quarterly reporting periods. Monitoring and analysis covers all the sectors in which the Bank's exposure exceeds PLN 800 million, and additionally those indicated by the Chief Risk Officer of the Bank. Unless the Bank's Management Board Credit Committee decides otherwise, an exposure limit is set for the Bank in any sector on a level not higher than:

- 10% of the gross loan portfolio in the prior reporting period for low risk sectors;
- 8% of the gross loan portfolio in the prior reporting period for medium risk sectors;
- 6% of the gross loan portfolio in the prior reporting period for high risk sectors.

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

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

The structure of concentration of exposure of BRE Bank SA

No.	Sectors	Principal exposure (in PLN millions) 31.12.2010	%	Principal exposure (in PLN millions) 31.12.2009	%
1.	Household customers	33 597 905	62.41%	28 771 426	62.64%
2.	Leasing and renting	1 521 166	2.83%	1 358 266	2.96%
3.	Public administration	1 297 175	2.41%	248 342	0.54%
4.	Real estate management	1 063 495	1.97%	1 044 231	2.27%
5.	Metals	962 531	1.79%	1 046 517	2.28%
6.	Liquid fuels and natural gas	931 103	1.73%	916 667	2.00%
7.	Building industry	872 600	1.62%	750 290	1.63%
8.	Timber and furniture	854 057	1.59%	772 106	1.68%
9.	Transport and travel agencies	616 527	1.14%	446 938	0.97%
10.	Wholesale trade	564 578	1.05%	664 515	1.45%
11.	Management, consulting, advertising	553 070	1.03%	922 106	2.01%
12.	Motorization	538 105	1.00%	588 722	1.28%
13.	Meat processing industry	474 263	0.88%	421 950	0.92%
14.	Groceries	468 155	0.87%	555 236	1.21%
15.	Power industry and heat engineering	449 742	0.84%	800 439	1.74%
16.	Building materials	439 804	0.82%	543 330	1.18%
17.	Chemistry and plastic processing	438 829	0.82%	457 879	1.00%
18.	Financial agencies	424 326	0.79%	450 101	0.98%
19.	Pharmacy and health care	314 964	0.58%	280 440	0.61%

In 2010 the total exposure of the Bank in the above sectors (excluding household customers) amounts to 23.76% (2009: 26.71%) of the credit portfolio. According to the newest (for 2010) study of the Institute for Market Economics as well as on the basis of recommendations of trade analysts from the Bank, the risk of investing in these sectors (in a 5-point scale, i.e., small, medium, increased, large and very large) was assessed as follows:

Leasing and renting	- medium
Public administration	- lower
Real estate management	- medium
Metals	- very large
Liquid fuels and natural gas	- medium
Building industry	- large

Timber and furniture	- very large
Transport and travel agencies	- large
Wholesale trade	- medium
Management, consulting, advertising	- increased
Motorization	- large
Meat processing industry	- medium
Groceries	- medium
Power industry and heat engineering	- medium
Building materials	- increased
Chemistry and plastic processing	- medium
Financial agencies	- lower
Pharmacy and health care	- medium

Large exposures concentration risk

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

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

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

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

The level of exposure to credit risk is managed by regular reviews of the existing and potential borrowers' ability to repay principal and interest; if necessary, credit limits are changed. The level of exposure to credit risk is also managed by accepting collaterals and guarantees.

3.4 Market risk

Definition of market risk. The Bank is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of the Bank's open positions in interest rate, foreign currency and equity instruments, which are exposed to market changes in the values of the appropriate risk factors, in particular interest rates, foreign exchange rates, stock share prices and indices, and implied volatilities of relevant options. Market risk is covered by a single management system which is applied both to the trading book and positions belonging to the banking book. Market risk is managed operationally in the Bank's front office units – the Treasury Department (DS), which is responsible mainly for banking book positions, and the Financial Markets Department (DFM), which mainly manages trading book positions. Market risk resulting from transactions concluded by other units of the Bank is transferred, in principle, to the Treasury Department or the Financial Markets Department in line with the type of risk.

The strategic management of market risk, including independent monitoring and controlling, is performed by the Bank's units which are functionally independent of the front office units – particularly by the Risk Department, while decisions relating to strategic market risk management are made by the BRE Bank Risk Committee. Acting on behalf of the Management Board, the Committee sets the VaR and stress tests limits whose utilisation is monitored and reported on a daily basis by DRF.

The management of market risk is performed in accordance with the strategy and the policy of market risk management approved by the Supervisory Board of BRE Bank.

The level of exposure to market risk. According to the methodology adopted by the Bank, market risk is quantified mainly by the following risk measures: value at risk (VaR) and stress tests values.

Value at Risk. Value at Risk (VaR) is the basic standard measure of market risk applied to the trading book portfolios and the banking book portfolios. VaR is a statistical measure which expresses potential loss to which a portfolio is exposed in a specified period, for a specified confidence level, in normal market conditions, in connection with changes in risk factors, such as interest rates, foreign exchange rates, stock share prices / stock indices values and implied volatilities of relevant options. The potentiality of this loss means that with a predetermined high probability (i.e. at the given confidence level) at which value at risk is determined, in a specified holding period, a loss lower than VaR can occur. In the Bank value at risk is determined using historical simulation method, based on time series of 254 (1 year) observed values of all the risk factors to which the Bank's portfolios are exposed. The Bank monitors value at risk at 97.5% confidence level for the one-day holding period.

In the process of determining value at risk the Bank applies full valuation methods for pricing financial instruments, and this ensures in Bank's opinion, that monitored VaR reflects market risk of these instruments, in particular non-linear instruments (e.g. options). The model for determining value at risk is subjected to historical back tests on an ongoing basis.

The table below presents the picture of the structure of market risk of the Bank's positions measured by value at risk (at 97.5% confidence level for the one day holding period). The average, the lowest and the greatest values of value at risk presented in the table were computed on the yearly samples of the daily value at risk figures in 2010 and 2009 relatively.

PLN 000's	2010				2009			
	31.12.2009	Mean	Maximum	Minimum	31.12.2008	Mean	Maximum	Minimum
VaR IR	9 529	7 242	10 411	3 895	6 496	7 278	8 847	4 881
VaR FX	222	651	2 786	178	2 293	2 778	4 310	1 139
VaR EQ	25	184	906	2	163	152	694	1
VaR	**9 423**	**7 314**	**10 375**	**3 951**	**7 685**	**9 396**	**14 657**	**6 485**

The utilisation of VaR limits in 2010 amounted to 16.61% on average for the Financial Markets Department (DFM) portfolio, whereas for the Treasury Department (DS) 48.15%.

The level of VaR was driven mainly by portfolios of instruments sensitive to interest rates (predominantly PLN rates), such as debt securities, interest rate swaps and secondly, by portfolios of instruments sensitive to foreign exchange rates, such as currency options and currency exchange transactions. The remaining groups of risk factors had a relatively smaller impact on VaR.

Stress testing. Stress tests are additional measures of market risk, supplementing the measurement of value at risk. The tests show the hypothetical changes in the current valuation of the Bank's portfolios, which would take place as a result of realisation of the so-called stress scenarios – i.e. market situations at which the risk factors would reach specified extreme values in a one-day period. The Bank applies two methods for carrying out stress tests: in one, the scenarios of changes in risk factors have been constructed on the basis of large changes in market parameters observed during past market crisis situations, and in the other, the scenarios are composed of large changes in risk factors - perfectly correlated and having the same magnitude in each risk factor group. The value of the stress test is subject to a limit treated as the control number. The average value of a stress test (based on observed crisis situations in the past) in 2010 was for the Financial Markets Department portfolio - PLN 11.7 million (in 2009 – PLN 12 million), and for the Treasury Department - PLN 72.0 million (in 2009 – PLN 44 million).

3.5 Currency Risk

The Bank is exposed to changes in currency exchange rates. The following table present the exposure of the Bank to currency risk as at 31 December 2010 and 31 December 2009. The table present assets and liabilities of the Bank at balance sheet carrying amount, for each currency:

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31.12.2010	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	2 246 879	38 595	5 577	117	469	49 035	2 340 672
Debt securities eligible for rediscounting at the Central Bank	3 686	-	-	-	-	-	3 686
Loans and advances to banks	1 361 878	1 734 630	304 095	2 020	14 266	347 283	3 764 172
Trading securities	1 729 667	1 100	263	-	-	-	1 731 030
Derivative financial instruments	1 038 838	99 766	62 728	3 632	-	16 601	1 221 565
Loans and advances to customers	21 873 025	5 107 488	1 511 968	21 864 363	26 121	1 279 371	51 662 336
Investment securities	19 100 913	80 560	14 101	-	-	-	19 195 574
Pledged assets	1 828 724	-	-	-	-	-	1 828 724
Investments in subsidiaries	427 345	37 959	-	-	-	26 457	491 761
Intangible assets	378 581	370	-	-	-	1 030	379 981
Tangible fixed assets	514 663	7 517	-	-	-	12 270	534 450
Other assets, including tax assets	353 142	5 341	22	297	10	7 891	366 703
Total assets	50 857 341	7 113 326	1 898 754	21 870 429	40 866	1 739 938	83 520 654
LIABILITIES							
Amounts due to the Central Bank	-	79	-	-	-	-	79
Amounts due to other banks	2 997 018	2 178 680	1 126 648	18 578 614	2	-	24 880 962
Derivative financial instruments and other trading liabilities	1 255 071	59 520	39 939	1 687	-	5 690	1 361 907
Amounts due to customers	38 729 480	4 964 688	708 047	37 826	81 009	2 546 297	47 067 347
Subordinated liabilities	-	-	-	3 010 127	-	-	3 010 127
Other liabilities including tax liabilities	553 774	11 408	2 771	296	1	24 966	593 216
Provisions	67 424	3 490	4 875	-	19	250	76 058
Total liabilities	43 602 767	7 217 865	1 882 280	21 628 550	81 031	2 577 203	76 989 696
Net on-balance sheet position	7 254 574	(104 539)	16 474	241 879	(40 165)	(837 265)	6 530 958
Loan commitments and other commitments	10 050 146	726 950	118 902	81	4 319	126 213	11 026 611
Guarantees, banker's acceptances, documentary and commercial letters of credit	1 692 302	604 575	158 038	137	46	8 400	2 463 498

31.12.2009	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	3 672 075	31 391	4 825	106	287	63 308	3 771 992
Debt securities eligible for rediscounting at the Central Bank	9 134	-	-	-	-	-	9 134
Loans and advances to banks	902 681	238 867	143 151	407	932	1 211 359	2 497 397
Trading securities	1 232 928	-	1 864	-	-	-	1 234 792
Derivative financial instruments	1 799 707	40 802	64 236	3 004	-	24 119	1 931 868
Loans and advances to customers	18 373 160	3 524 005	1 475 285	19 957 174	25 947	905 129	44 260 700
Investment securities	13 301 930	82 392	13 403	-	-	-	13 397 725
Pledged assets	3 513 782	-	-	-	-	-	3 513 782
Investments in subsidiaries	414 652	39 377	-	-	-	26 680	480 709
Intangible assets	394 439	568	-	-	-	1 114	396 121
Tangible fixed assets	532 282	9 535	-	-	-	14 047	555 864
Other assets, including tax assets	549 652	2 702	19	1	8	4 715	557 097
Total assets	44 696 422	3 969 639	1 702 783	19 960 692	27 174	2 250 471	72 607 181
LIABILITIES							
Amounts due to the Central Bank	2 003 440	343	-	-	-	-	2 003 783
Amounts due to other banks	1 511 696	996 680	288 302	16 375 201	-	13 070	19 184 949
Derivative financial instruments and other trading liabilities	1 764 596	120 885	41 893	-	-	5 775	1 933 149
Amounts due to customers	33 511 549	4 614 057	698 748	24 881	53 852	3 511 325	42 414 412
Subordinated liabilities	-	-	-	2 631 951	-	-	2 631 951
Other liabilities including tax liabilities	477 457	6 122	3 134	-	1	29 808	516 522
Provisions	95 042	10 044	113	-	-	3 590	108 789
Total liabilities	39 363 780	5 748 131	1 032 190	19 032 033	53 853	3 563 568	68 793 555
Net on-balance sheet position	5 332 642	(1 778 492)	670 593	928 659	(26 679)	(1 313 097)	3 813 626
Loan commitments and other commitments	8 628 591	762 317	177 805	1 024	4 150	98 386	9 672 273
Guarantees, banker's acceptances, documentary and commercial letters of credit	1 385 764	807 349	164 490	52	739	274	2 358 668

3.6 Interest Rate Risk

Interest rate risk at BRE Bank is managed on the basis of the following key interest rate risk measures: reprising date misfit gap and interest earnings at risk (EaR) based on the former. The Bank also performs stress test analyses based on these methods.

As at 31 December 2010 and 31 December 2009 a sudden, lasting and unfavourable shift change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income within 12 months after the year end date by the following amounts:

31.12.2010		31.12.2009	
in PLN millions	currency	in PLN millions	currency
35.83	PLN	7.47	PLN
4.56	EUR	0.13	EUR
0.12	USD	1.46	USD
16.28	CHF	14.18	CHF
5.49	CZK	5.09	CZK

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

In addition to the above analyses, the structure of the banking book is monitored regarding basic risk, yield curve risk, and client's options risk.

The Bank runs also other analyses of the changes of the economic value of the banking book under stress test scenarios. Under the stress test, which assumes unfavorable shift of the interest rates for respective currencies by 200 bps, the economic value of the banking book at the end of 2010 would change by PLN 293 million, out of which PLN 310 million due to available for sale instruments. During the calculation of these values no correlation between currencies was taken into account and it was assumed that taking into account small interest rate values after the negative shift cannot become negative.

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

31.12.2010	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	2 173 759	-	-	-	-	166 913	2 340 672
Debt securities eligible for rediscounting at the Central Bank	-	3 686	-	-	-	-	3 686
Loans and advances to banks	2 671 553	630 608	415 383	-	-	46 628	3 764 172
Securities (trading securities, investment securities and pledged assets)	11 798 892	2 098 104	2 492 252	5 118 756	991 355	747 730	23 247 089
Loans and advances to customers	48 421 374	1 538 264	654 002	378 696	931	669 069	51 662 336
Other assets and derivative financial instruments	254 484	225 102	464 130	179 176	16 517	386 568	1 525 977
Total assets	65 320 062	4 495 764	4 025 767	5 676 628	1 008 803	2 016 908	82 543 932
LIABILITIES							
Amounts due to the Central Bank	79	-	-	-	-	-	79
Amounts due to other banks	10 980 806	13 302 957	595 685	-	-	1 514	24 880 962
Amounts due to customers	42 098 059	2 984 969	1 125 640	191 279	615 657	51 743	47 067 347
Subordinated liabilities	1 079 035	1 931 092	-	-	-	-	3 010 127
Other liabilities and derivative financial instruments	273 201	225 693	629 090	196 416	18 164	592 793	1 935 357
Total liabilities	54 431 180	18 444 711	2 350 415	387 695	633 821	646 050	76 893 872
Total interest repricing gap	10 888 882	(13 948 947)	1 675 352	5 288 933	374 982		

31.12.2009	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	1 039 161	-	-	-	-	2 732 831	3 771 992
Debt securities eligible for rediscounting at the Central Bank	-	9 134	-	-	-	-	9 134
Loans and advances to banks	743 067	1 292 782	168 775	-	-	292 773	2 497 397
Securities (trading securities, investment securities and pledged assets)	11 131 153	3 433 514	2 668 109	29 755	754 548	609 929	18 627 008
Loans and advances to customers	40 703 173	1 461 000	406 382	869 669	3 215	817 261	44 260 700
Other assets and derivative financial instruments	292 130	429 677	725 552	301 955	25 656	605 020	2 379 990
Total assets	53 908 684	6 626 107	3 968 818	1 201 379	783 419	5 057 814	71 546 221
LIABILITIES							
Amounts due to the Central Bank	2 003 440	-	-	-	-	343	2 003 783
Amounts due to other banks	7 633 390	10 796 283	619 129	-	-	136 147	19 184 949
Amounts due to customers	34 290 934	5 098 847	2 324 377	128 892	343 421	227 941	42 414 412
Subordinated liabilities	472 965	2 158 986	-	-	-	-	2 631 951
Other liabilities and derivative financial instruments	262 239	454 189	760 657	305 544	25 816	641 147	2 449 592
Total liabilities	44 662 968	18 508 305	3 704 163	434 436	369 237	1 005 578	68 684 687
Total interest repricing gap	9 245 716	(11 882 198)	264 655	766 943	414 182		

3.7 Liquidity Risk

The objective of liquidity risk management (funding) is to ensure and maintain the Bank's ability to fulfil both current and future commitments, taking into account the costs of liquidity.

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

- liquidity risk management, i.e. taking preventive actions for the purposes of not allowing the occurrence the threat of losing liquidity,
- monitoring liquidity situation of the Bank,

The Bank's liquidity risk management process contains two stages:

- strategic stage that enables to ensure financial liquidity in the long term and includes a prognostic point of view,
- operational which allows to observe exposure to liquidity risk for the purpose of protecting immediate and current liquidity.

Financial liquidity risk management at the strategic level in the Bank is executed via ALCO and the Risk Committee decisions and concerns, among others:

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

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

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

The Bank monitors financial liquidity daily, using methods based on cash flows analyses. The measurement of liquidity risk is based on the regulatory model and an internal model created on the basis of analyses of the Bank's specificity, deposit base variability, concentration of funding and developments planned for each item. The following are monitored daily: value of mismatch in specific time intervals (gap), the level of liquidity reserves of the Bank, and the rate of usage of internal liquidity limits. The Bank systematically estimates liquidity as well as probability of its worsening, using scenario methods, including stress tests.

The Bank also monitors on an on-going basis concentration of funding, in particular in the deposit base, and the liquidity reserves.

For the purpose of securing liquidity, the Bank establishes resources of current and immediate reinforcement of liquidity which are liquidity reserves. The Bank holds its own procedures concerning emergency actions against material worsening of financial liquidity of the Bank.

For the purpose of current monitoring of liquidity, the Bank establishes values of realistic, cumulated gap of cash flows misfit. The gap is calculated on the basis of contractual cash flows (Note 3.7.1). Cash flows in portfolios of non-banking customers' deposits, overdrafts and term loans are mainly amended (stability assumption). In assessing its liquidity position the Bank takes into account the low liquidity of securities at the time of crisis and the tendency of banks not to lend to other banks on the money market. As a result it is assumed that only NBP remain the most certain source of cash (by pledging securities in lombard credit).

Value of realistic, cumulative gap of cash flows misfit (in PLN millions)		
Time range	31.12.2010	31.12.2009
up to 3 working days	8 854	5 405
up to 7 calendar days	16 905	2 686
up to 15 calendar days	17 218	11 223
up to 1 month	18 765	12 336
up to 2 months	18 941	13 421
up to 3 months	19 125	14 119
up to 4 months	18 637	14 241
up to 5 months	18 948	14 329
up to 6 months	19 131	14 368
up to 7 months	19 231	13 115
up to 8 months	19 309	13 253
up to 9 months	19 370	13 268
up to 10 months	19 667	11 887
up to 11 months	19 361	11 942
up to 12 months	17 812	12 475

The liquidity of the Bank was maintained on the safe level in the periods presented. The above values should be interpreted as liquidity surplus in relevant time ranges.

Analysing the liquidity situation of the Bank in the period of the financial market crisis, it should be underlined that:

- the funding structure was stable. The biggest position in this structure was the current and term customers deposit portfolio. The second biggest source of funding, with a growing share in the funding structure, were long-term borrowings from banks (over 1 year), especially from Commerzbank (Note 28). Borrowings and subordinated loans (Note 30) were the main sources of financing the mortgage loan portfolio in CHF. BRE Bank's dependency on money market funding was low (< 2,5 % of total funding), and fully resulted from the market maker's operations on the interbank market,
- BRE Bank, which analyses liquidity risk on a daily basis , increased, during the crisis, the number and the range of scenario analysis, especially in stress test scenarios. The results of these scenarios were regularly presented and discussed at ALCO, Risk Committee and Management Board meetings. A very detailed stability analysis applied to loan and deposit portfolios. ALCO established a Working Group responsible for analysing the Bank's deposit base and preparing recommendations for ALCO and the Management Board on the pricing policy, the product and currency structure under observation of first symptons of 'war for deposits'. It proposed actions necessary to prevent – if applicable - outflow of funds from term accounts and to stabilise and increase the deposit base. The initiated actions were following the expected effects. Additionally, the securities portfolio, which is an important source of funding in time of a crisis, was precisely analysed,
- the Management Board of the Bank agreed with a main shareholder (Commerzbank) on a strategy of funding the CHF mortgage loans portfolio. Considering the continued confidence crisis on the interbank market, it was decided that long-term CHF assets will continue to be funded with direct credit lines within the group. Maturing funds were gradually replaced with new long-term borrowings,
- in 2010, the Bank maintained a high level of liquid securities assuming that the only source of cash from debt securities arises from lombard credit with NBP. These steps were taken in the context of rapidly drying liquidity on the interbank market, uncertainty of future depositor's decisions and materialising credit risk in the banking sector.

3.7.1 Cash Flows from Transactions in Non-derivative Financial Instruments

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

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Liabilities (by contractual maturity dates) as at 31.12.2010

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to the Central Bank	79	-	-	-	-	79
Amounts due to other banks	3 775 812	74 072	2 805 425	12 033 597	7 492 253	26 181 159
Amounts due to customers	42 012 328	2 577 968	1 267 229	339 072	1 323 278	47 519 875
Subordinated liabilities	1 083 167	6 779	19 045	101 181	1 976 002	3 186 174
Other liabilities	379 239	58	458	666	70	380 491
Total liabilities	47 250 625	2 658 877	4 092 157	12 474 516	10 791 603	77 267 778
Assets (by remaining contractual maturity dates)						
Total assets	19 980 485	3 113 249	13 528 460	23 209 714	37 487 849	97 319 757
Net liquidity gap	(27 270 140)	454 372	9 436 303	10 735 198	26 696 246	20 051 979

Liabilities (by contractual maturity dates) as at 31.12.2009

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to the Central Bank	2 007 327	-	-	-	-	2 007 327
Amounts due to other banks	1 602 898	45 776	3 156 035	14 799 367	-	19 604 076
Amounts due to customers	34 184 201	4 972 824	2 493 075	297 266	709 986	42 657 352
Subordinated liabilities	-	5 803	17 732	94 205	2 693 870	2 811 610
Other liabilities	367 991	78	590	1 229	81	369 969
Total liabilities	38 162 417	5 024 481	5 667 432	15 192 067	3 403 937	67 450 334
Assets (by remaining contractual maturity dates)						
Total assets	14 858 463	4 769 719	10 718 942	16 218 834	38 161 367	84 727 325
Net liquidity gap	(23 303 954)	(254 762)	5 051 510	1 026 767	34 757 430	17 276 991

The assets which ensure the payment of all the liabilities and lending commitments comprise cash in hand, cash at the Central Bank, cash in transit and treasury bonds and other eligible bonds; amounts due from banks; loans and advances to customers.

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

Moreover, a part of debt securities and treasury bonds were pledged as collateral for liabilities. The Bank could ensure cash for unexpected net outflows by selling securities and availing itself of other sources of financing, such as the market of securities secured with assets.

3.7.2 Cash Flows from Derivatives

Derivative financial instruments settled in net amounts

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

- Futures;
- Forward Rate Agreements (FRA);
- Options;
- Warrants;
- Interest rate swaps (IRS);
- Cross currency interest rate swaps (CIRS);
- Security forwards.

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

31.12.2010

Derivatives settled on a net basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	3 532	5 593	5 330	754	-	15 209
Overnight Index Swaps (OIS)	4 695	997	1 632	-	-	7 324
Interest Rate Swaps (IRS)	41 583	86 467	196 608	413 249	45 403	783 310
Cross Currency Interest Rate Swaps (CIRS)	-	6 107	110 851	139 222	-	256 180
Options	11 364	24 021	70 707	3 221	9 904	119 217
Futures contracts	-	445	-	-	-	445
Other	602	-	-	-	-	602
Total derivatives settled on a net basis	61 776	123 630	385 128	556 446	55 307	1 182 287

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31.12.2009

Derivatives settled on a net basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	18 217	31 061	11 807	548	-	61 633
Overnight Index Swaps (OIS)	124	3 045	362	-	-	3 531
Interest Rate Swaps (IRS)	84 240	183 592	370 135	423 876	48 210	1 110 053
Cross Currency Interest Rate Swaps (CIRS)	-	9 880	83 055	172 852	-	265 787
Options	24 720	47 360	158 629	22 999	11 805	265 513
Futures contracts	-	68	21	-	-	89
Other	1 678	-	-	-	-	1 678
Total derivatives settled on a net basis	128 979	275 006	624 009	620 275	60 015	1 708 284

Derivative financial instruments settled in gross amounts

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

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

31.12.2010

Derivatives settled on a gross basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
-outflows	5 549 902	2 991 684	2 940 830	105 999	-	11 588 415
-inflows	5 514 714	2 994 451	2 915 314	103 342	-	11 527 821

31.12.2009

Derivatives settled on a gross basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
-outflows	5 222 095	2 653 672	2 857 443	335 315	-	11 068 525
-inflows	5 181 306	2 694 342	2 890 730	346 182	-	11 112 560

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

The amounts presented in the table above are nominal cash flows of currency derivatives which have not been settled, while the Note 20 shows contractual nominal values of all open by derivative transactions.

Detailed data concerning liquidity risk related to off-balance sheet items are presented in the Note 35.

3.8 Fair Value of Financial Assets and Financial Liabilities

Fair value is on amount, for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in a direct transaction other than a forced sale or liquidation. The market price, if available, is the best reflection of fair value.

Following market practices the Bank values open positions in financial instruments using either mark-to-market method or pricing models well established in market practice (mark-to-model method) which use as inputs market prices or market parameters, and in few cases parameters estimated internally by the Bank. All open positions in derivatives (currency or interest rates) are valued by relevant market models using prices or observable by market. Domestic commercial papers are mark-to-model (by discounting cash flows), which in addition to market interest rate curve uses credit spreads estimated internally.

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

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

The following table presents a summary of balance sheet and fair values for each group of financial assets and liabilities not recognised in the Statement of Financial Position of the Bank at their fair values.

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	31.12.2010		31.12.2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and advances to banks	3 764 172	3 764 171	2 497 397	2 497 398
Loans and advances to customers	51 662 336	51 653 552	44 260 700	44 289 751
Loans and advances to individuals	32 546 675	32 546 419	28 063 197	28 063 634
current accounts	3 541 703	3 541 703	3 649 451	3 649 451
term loans including:	29 004 972	29 004 716	24 413 746	24 414 183
- housing and mortgage loans	26 082 976	26 082 846	22 319 761	22 319 862
Loans and advances to corporate entities	17 051 373	17 043 966	14 639 756	14 667 335
current accounts	2 779 165	2 779 165	2 851 535	2 851 535
term loans	10 933 891	10 926 484	11 434 413	11 461 992
- corporate & institutional enterprises	4 442 230	4 436 751	4 687 884	4 691 938
- medium & small enterprises	6 491 661	6 489 733	6 746 529	6 770 054
reverse repo / buy sell back transactions	3 338 317	3 338 317	353 808	353 808
Loans and advances to public sector	1 396 173	1 395 052	741 226	742 261
Other receivables	668 115	668 115	816 521	816 521
Financial liabilities				
Amounts due to other banks	24 880 962	24 881 459	19 184 949	19 185 040
Amounts due to customers	47 067 347	47 042 843	42 414 412	42 539 929

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

Amounts due from banks. The fair values of variable interest deposits and fixed interest deposits with less than 1 year to maturity is equal to its carrying amounts.

Loans and advances to customers are disclosed at net values adjusted for impairment write-offs. The fair value of fixed interest rate loans and advances granted to customers with more than 1 year to maturity was calculated as value of expected future cash flows of principal and interest discounted on the basis of zero-coupon curve, including credit spread. It was assumed that credits and loans would be repaid on dates set in agreements. The fair values of impaired loan are equal to their carrying amounts which take into account of all impairment indicators. So estimated fair value of loans and receivables reflect changes in credit risk starting from the grant of each credit/loan and changes in interest rates for fixed rate credits.

Available for sale financial assets. Listed available for sale financial instruments held by the Bank are valued at fair value. The fair value of debt securities unlisted at an active market is calculated by the use of zero-coupon curve (including credit spread). The model of spread determination in the case of illiquid commercial papers was extended in order to reflect the costs of unexpected loss component of the credit spread more precisely. Since November 2008 the above element has been a product of portfolio CVAR risk contribution (modelled by enhanced CR+ at 99,90% confidence level) of given issuance as a measure of UL and estimation of required return on risk capital (based on CAPM model) as a measure of alternative risk costs.

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

- Contracted borrowings;
- Deposits.

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

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

Credit risk exposures related to off-balance sheet items. As at 31 December 2010, the fair value of financial guarantees amounted to PLN 4 242 thousand (31 December 2009: PLN 7 506 thousand).

The following table presents the hierarchy of fair values of financial assets and liabilities recognised in the Statement of Financial Position of the Bank at their fair values.

IFRS Financial Statements 2010 PLN (000's)

31.12.2010	Including:	Level 1 Quoted prices in active markets for identical instruments	Level 2 Valuation techniques based on observable market data	Level 3 Value measurements for inputs that are not based on observable market data
Financial assets				
Trading securities	2 749 688	2 220 974	-	528 714
Debt*	2 749 688	2 220 974	-	528 714
Derivative financial instruments	1 221 565	48 940	1 172 625	-
Investment securities	20 005 640	11 015 350	8 236 327	753 963
Debt*	19 749 672	11 003 023	7 993 922	752 727
Equity	255 968	12 327	242 405	1 236
Total financial assets	23 976 893	13 285 264	9 408 952	1 282 677
Financial liablitities				
Derivative financial instruments and other trading liabilities	1 361 907	600	1 361 307	-
Total financial liablitities	1 361 907	600	1 361 307	-

* the amount include pledged assets

Transfers between levels	Transfers into Level 1	Transfers out of Level 1	Transfers into Level 2	Transfers out of Level 2
Investment securities	589	-	113 919	-
Debt	-	-	-	-
Equity	589	-	113 919	-

In 2010, there was transfer of PZU shares into Level 1 connected with it enter listing as well as transfer of investment certificates of BRE GOLD FIZ Aktywów Niepublicznych into Level 2.

Assets Measured at Fair Value Based on Level 3	Debt trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	767 872	661 251	115 755
Gains and losses for the period:	1 744	11 448	-
Recognised in profit or loss	*1 744*	-	-
Recognised in other comprehensive income	-	*11 448*	-
Purchases	10 417 252	629 159	-
Sales	(10 669 525)	(549 485)	-
Settlements	11 371	354	*(11)*
Transfers out of Level 3	-	-	*(114 508)*
As at the end of the period	528 714	752 727	1 236

31.12.2009	Including:	Level 1 Quoted prices in active markets for identical instruments	Level 2 Valuation techniques based on observable market data	Level 3 Value measurements for inputs that are not based on observable market data
Financial assets				
Trading securities	2 001 105	1 233 233	-	767 872
Debt*	1 998 511	1 230 639	-	767 872
Equity	2 594	2 594	-	-
Derivative financial instruments	1 931 868	8 757	1 923 111	-
Investment securities	16 145 194	8 804 125	6 564 063	777 006
Debt*	16 018 568	8 793 254	6 564 063	661 251
Equity	126 626	10 871	-	115 755
Total financial assets	20 078 167	10 046 115	8 487 174	1 544 878
Financial liablitities				
Derivative financial instruments and other trading liabilities	1 933 149	5 746	1 927 403	-
Total financial liablitities	1 933 149	5 746	1 927 403	-

* the amount include pledged assets

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Assets Measured at Fair Value Based on Level 3	Debt trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	1 243 917	287 870	75 241
Gains and losses for the period:	(3 721)	(159)	75 232
Recognised in profit or loss	(3 721)	-	-
Recognised in other comprehensive income	-	(159)	75 232
Purchases	11 045 891	373 200	193 595
Settlements	(11 518 215)	340	(228 313)
As at the end of the period	767 872	661 251	115 755

According to the fair value methodology applied by the Bank, financial assets and liabilities are classified as follows:

- Level 1: prices quoted on active markets for the same instrument (without modification);
- Level 2: valuation techniques based on observable market data;
- Level 3: valuation methods for which at least one significant input data is not based on observable market data.

Level 1

At level 1 of the hierarchy of values, the Bank shows the fair values of government bonds and T-bills held for trading in amount of PLN 2 220 974 thousand (see Note 19) and the fair values of investment government bonds and T-bills in amount of PLN 10 875 174 thousand (31 December 2009 respectively: PLN 1 230 639 thousand, PLN 8 697 785 thousand). Level 1 also includes the fair values of bonds issued by foreign banks in amount of PLN 94 346 thousand (31 December 2009: 95 469 thousand) and fair value of local government bonds in amount PLN 33 503 thousand (31 December 2009: PLN 0).

These instruments are classified as level 1 because their valuation involves the direct application of present market prices of such instruments on active and liquid financial markets.

Level 2

Level 2 of the hierarchy includes the fair values of monetary bills issued by NBP in the amount of PLN 7 993 922 thousand (31 December 2009: PLN 6 564 063 thousand) whose valuation is based on an NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

Moreover, Level 2 includes the valuation of derivative financial instruments bored on models consistent with market standards and practices, using parameters taken directly from the markets (e.g., foreign exchange rates, implied volatilities of fx options, stock prices and indices) or parameters which transform quotations taken directly from active and liquid financial markets (e.g., interest rate curves).

In addition, Level 2 includes in 2010 investment certificates issued by BRE GOLD FIZ Aktywów Niepublicznych in the fair value of PLN 242 405 thousand (31 December 2009: PLN 113 919 thousand) which in 2009 were presented in Level 3.

The value of investment certificates was determined by Towarzystwo Funduszy Inwestycyjnych Ipopema SA, the fund manager of BRE GOLD FIZ Aktywów Niepublicznych, based on the valuation of PZU SA shares, which are the only significant asset of BRE GOLD FIZ Aktywów Niepublicznych. The valuation of PZU SA shares was prepared by an independent consultancy on the basis of PZU SA financial data, market prices of insurance companies in PZU SA's peer group, and other available data concerning PZU SA.

Level 3

Level 3 of the hierarchy shows the fair values of commercial debt securities issued by local banks and companies (notes, mortgage bonds, certificates of deposit) in the amount of PLN 1 281 441 thousand (31 December 2009: PLN 1 429 123 thousand).

The above mentioned debt instruments are classified as level 3 because in addition to parameters which transform quotations taken directly from active and liquid financial markets (interest rate curves), their valuation uses credit spread estimated by the Bank by means of an internal credit risk model. The model uses parameters (e.g., rate of recovery from collateral, rating migrations, default ratio volatilities) which are not observed on active markets and hence were generated by statistical analysis.

If credit spread used in the valuation increased by 20 basis points, the value of commercial debt securities would decrease by PLN 2.1 million.

3.9 Other Business

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

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

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

Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the 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. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly veryfied. If the current value of estimated cash flows for portfolio of loans and advances which are individually impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 58.3 million or increase by PLN 96.3 million respectively. This estimation was performed for portfolio of loans and advances individualy assessed for impairment on the basis 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, in the models observable market data originating from an active market are used. Changes in market conditions on valuation of the trading book of the Bank (containing inter alia derivatives) are presented in the Note 3.4.

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5. Net Interest Income

	Year ended 31 December	
	2010	2009
Interest income		
Loans and advances including the unwind of the impairment provision discount	2 003 143	2 051 630
Investment securities	793 803	543 863
Cash and short-term placements	112 666	145 954
Trading debt securities	54 511	113 791
Other	9 549	10 535
Total interest income	**2 973 672**	**2 865 773**
Interest expense		
Arising from amounts due to banks and customers	(1 386 512)	(1 448 219)
Other borrowed funds	(50 157)	(58 116)
Arising from issue of debt securities	-	(171)
Other	(4 151)	(2 250)
Total interest expense	**(1 440 820)**	**(1 508 756)**

In 2010, interest income related to the impaired financial assets amounted to PLN 187 175 thousand (PLN 83 519 thousand in 2009).

Net interest income per clients is as follows:

	Year ended 31 December	
	2010	2009
Interest income		
From banking sector	430 375	289 236
From clients, including:	2 543 297	2 576 537
- individual clients	1 181 660	1 209 010
- corporate clients	774 059	831 560
- public sector	587 578	535 967
Total interest income	**2 973 672**	**2 865 773**
Interest expense		
From banking sector	(392 769)	(450 851)
From clients, including:	(1 048 051)	(1 057 734)
- individual clients	(648 333)	(656 795)
- corporate clients	(372 746)	(358 191)
- public sector	(26 972)	(42 748)
From debt securities in issue	-	(171)
Total interest expense	**(1 440 820)**	**(1 508 756)**

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6. Net Fee and Commission Income

	Year ended 31 December	
	2010	2009
Fee and commission income		
Credit-related fees and commissions	223 683	186 262
Payment cards-related fees	321 626	289 104
Commissions from bank accounts	102 740	84 704
Commissions from money transfers	78 409	72 914
Commissions due to guarantees granted and trade finance commissions	39 952	45 220
Commissions on trust and fiduciary activities	11 972	10 171
Other	115 668	89 557
Fee and commission income	**894 050**	**777 932**

Fee and commission expense		
Payment cards-related fees	(187 586)	(188 796)
Commissions paid to external entities for sale of the Bank's products	(86 434)	(111 400)
Discharged brokerage fees	(4 493)	(5 004)
Other discharged fees	(81 596)	(73 503)
Total fee and commision expense	**(360 109)**	**(378 703)**

7. Dividend Income

	Year ended 31 December	
	2010	2009
Trading securities	-	92
Securities available for sale	19 277	59 646
Total dividend income	**19 277**	**59 738**

8. Net Trading Income

	Year ended 31 December	
	2010	2009
Foreign exchange result	**357 027**	**402 115**
Net exchange differences on translation	437 799	(392 955)
Net transaction gains/(losses)	(80 772)	795 070
Other net trading income	**35 491**	**(16 848)**
Interest-bearing instruments	17 546	(24 760)
Equity instruments	2 173	1 683
Market risk instruments	15 772	6 229
Total net trading income	**392 518**	**385 267**

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

In 2010, credit risk of currency derivatives measurement, resulted in a gain of PLN 4 493 thousand included under the item 'Net transaction gains and losses' (in 2009 loss of PLN 31 629 thousand).

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9. Other Operating Income

	Year ended 31 December	
	2010	2009
Income from services provided	23 013	23 653
Income due to release of provisions for future commitments	16 791	25 655
Income from sale or liquidation of fixed assets, intangible assets and assets held for sale	1 327	2 246
Compensations, penalties and fines received	157	2 496
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	23	86
Other	25 306	14 341
Total other operating income	**66 617**	**68 477**

Income from services provided are earned on non-banking activities.

10. Overhead Costs

	Year ended 31 December	
	2010	2009
Staff-related expenses	(550 430)	(453 149)
Material costs	(485 094)	(495 369)
Taxes and fees	(19 839)	(19 561)
Contributions and transfers to the Bank Guarantee Fund	(20 473)	(21 867)
Contributions to the Social Benefits Fund	(4 563)	(3 436)
Total overhead costs	**(1 080 399)**	**(993 382)**

'Material costs' consist of tangible assets operating lease payment costs (mainly real estate) of PLN 26 012 thousand (2009: PLN 28 130 thousand).

Below are presented staff-releted expenses for the year ended 2010 and 2009.

	Year ended 31 December	
	2010	2009
Wages and salaries	(449 542)	(377 829)
Social security expenses	(63 697)	(47 612)
Remuneration concerning share-based payments, including:	(8 807)	(2 388)
- share-based payments settled in BRE Bank SA shares	(6 275)	(1 791)
- cash-settled share-based payments	(2 532)	(597)
Other staff expenses	(28 384)	(25 320)
Staff-related expenses, total	**(550 430)**	**(453 149)**

Cash-settled share-based payments relate to the cost of 2008 incentive program for the Management Board Members of the Bank in its part based on Commerzbank shares. In 2010, cash compensation in the amount of PLN 794 736 paid as a settlement concerning the bonus for 2008 to Mr. Mariusz Grendowicz, who acted as the President of the Bank till 2 August 2010, was included under this caption. Additionally, in 2009 the Bank recognized other operating income in the amount of PLN 5 462 thousand due to the fact that the actually awarded remunerations concerning share-based payments for 2008 appeared to be lower that the original estimates. Detailed information regarding incentive programs, to which share-based payments relate, is included under the Note 39 'Retained earnings'.

As at 31 December 2010 the headcount of BRE Bank SA amounted to 4 416 FTEs – 5 300 persons (31 December 2009: 4 051 FTEs – 4 901 persons).

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11. Other Operating Expenses

	Year ended 31 December	
	2010	2009
Provisions for future commitments	(22 320)	(33 982)
Donations made	(3 105)	(2 930)
Costs arising from sale or liquidation of fixed assets, intangible assets and assets held for resale	(1 868)	(1 477)
Compensations, penalties and fines paid	(1 513)	(556)
Costs arising from impairment provisions created for other receivables (excluding loans and advances)	(623)	(580)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(21)	(23)
Costs arising from impairment provisions created for tangible fixed assets and intangible assets	-	(4 838)
Other operating costs	(24 123)	(13 834)
Total other operating expenses	(53 573)	(58 220)

In 2010, provisions for future commitments include provisions for legal proceedings of PLN 19 058 thousand (Note 32).

In 2009 provisions created for future commitments include the amount of PLN 31 854 thousand of provisions for future liabilities of the Bank arising from signed contracts and liabilities arising from court decisions concerning excessive fees charged for bridge insurance of mortgage loans.

12. Impairment Losses on Loans and Advances

	Year ended 31 December	
	2010	2009
Net impairment losses on amounts due from other banks (Note 18)	(11 318)	(19 950)
Net impairment losses on off-balance sheet contingent liabilities due to other banks (Note 32)	-	542
Net impairment losses on loans and advances to customers (Note 21)	(572 211)	(957 437)
Net impairment losses on off-balance sheet contingent liabilities due to customers (Note 32)	21 587	10 193
Total net impairment losses on loans and advances	(561 942)	(966 652)

13. Income Tax Expense

	Year ended 31 December	
	2010	2009
Current tax	(156 383)	(16 526)
Deferred income tax (Note 33)	(7 854)	(25 209)
Total income tax	(164 237)	(41 735)

Profit before tax	681 961	98 878
Tax calculated at Polish current tax rate (19%)	(129 573)	(18 787)
Income not subject to tax	8 475	16 291
Costs other than tax deductible costs	(25 446)	(17 165)
Other positions affecting income tax	(7 013)	106
Losses of foreign branches of the Bank	(10 680)	(22 180)
Income tax expense	(164 237)	(41 735)

Effective tax rate calculation		
Profit before income tax	681 961	98 878
Income tax	(164 237)	(41 735)
Effective tax rate	24.08%	42.21%

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In 2009, the effective tax rate of 42.21% was mainly a result of losses incurred by the Bank's foreign branches, costs not deductible for tax purposes and costs of provisions and write-offs not allowed for tax purposes.

Further information about deferred income tax is presented in the Note 33. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

14. Earnings per Share

Earnings per share for 12 months

	Year ended 31 December	
	2010	2009
Basic:		
Net profit	517 724	57 143
Weighted average number of ordinary shares	36 679 683	29 690 882
Net basic profit per share (in PLN per share)	**14.11**	**1.92**
Diluted:		
Net profit applied for calculation of diluted earnings per share	517 724	57 143
Weighted average number of ordinary shares	36 679 683	29 690 882
Adjustments for:		
- share options	29 642	38 859
Weighted average number of ordinary shares for calculation of diluted earnings per share	36 709 325	29 729 741
Diluted earnings per share (in PLN per share)	**14.10**	**1.92**

According to IAS 33, the Bank prepares a calculation of the 'diluted earnings per share' taking into account contingently issuable shares as part of the incentive programs is described in the Note 39. The calculations did not include those elements of the incentive programs which were antidilutive for the presented periods that could potencially dilute basic earnings per share in the future.

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

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares as if all possible ordinary shares causing the dilution were replaced with shares. The Bank has one category of potential ordinary shares causing the dilution: share options. The number of diluting shares is computed as the number of shares that would be issued if all share options were executed at the market price, determined as the average annual closing price of the Bank's shares.

15. Other Comprehensive Income

	Year ended 31 December 2010			Year ended 31 December 2009		
Disclosure of tax effects relating to each component of other comprehensive income	Before-tax amount	Tax (expense) benefit	Net amount	Before-tax amount	Tax (expense) benefit	Net amount
Exchange differences on translating foreign operations	(1 173)	-	(1 173)	8 001	-	8 001
Available-for-sale financial assets	267 133	(38 830)	228 303	150 568	(22 562)	128 006
Total other comprehensive income	**265 960**	**(38 830)**	**227 130**	**158 569**	**(22 562)**	**136 007**

Detailed information concerning other comprehensive income for the years 2010 and 2009 is presented bellow:

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	Year ended 31 December	
	2010	2009
Exchange differences on translating foreign operations	(1 173)	8 001
Unrealized gains (positive differences) arising during the year (net)	12 409	9 914
Unrealized losses (negative differences) arising during the year (net)	(13 582)	(1 913)
Available-for-sale financial assets	228 303	128 006
Unrealized gains on debt instruments arising during the year (net)	151 267	67 867
Unrealized losses on debt instruments arising during the year (net)	(28 819)	-
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	1 079	(799)
Unrealized gains on equity instruments arising during the year (net)	104 776	110 304
Reclassification adjustments of gains (losses) on equity instruments to the income statement (net)	-	(49 366)
Total other comprehensive income (net)	227 130	136 007

Amount of unrealised profits on debt instruments for 2010 results from the increase of valuation of the securities portfolio available for sale in 2010 against the valuation at the end of 2009. The main factor that affected the valuation growth was the growth of value of variable coupon treasury securities held by the Bank. The growth of variable coupon treasury securities was a result of decreasing risk premium for Polish market in the assessment of investors. Another valuation growth factor was a positive valuation of fixed coupon bonds in the portfolio. At the end of 2009, the Bank's treasury bills, which were repurchased in 2010, were valued positively. Decrease of the positive valuation of treasury bills in other components of equity as a result of their repurchase was compensated by a positive valuation of zero-coupon bonds held in the portfolio at the end of 2010.

In 2010, revaluation of investment certificates of BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych acquired by the Bank, had significant impact on changes in other comprehensive income (unrealised gains on equity instruments recognised in amount of PLN 104 075 thousand).

The main items under unrealised gains on equity instruments at the end of 2009 include the revaluation of PZU SA shares to fair value (unrealised gains on equity instruments arising during the year in the net amount of PLN 59 889 thousand). Additionally on 5 November 2009, 651 660 PZU SA shares were transferred to BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in exchange for acquired investment certificates, and subsequently on 31 December 2009 part of the certificates were redeemed (Reclassification adjustments for gains on equity instruments included in the income statement in the net amount of PLN 49 366 thousand).

In 2009, the net gain of PLN 50 165 thousand representing a net increase/decrease in the value of securities (Investment Certificates, Bonds, Treasury Bills and Stocks) sold in 2009 was released from the other components of equity and recognised in the Income Statement.

16. Cash and Balances with Central Bank

	31.12.2010	31.12.2009
Cash in hand	166 841	149 152
Current account	2 173 831	3 622 840
Total cash and balances with the Central Bank (Note 42)	2 340 672	3 771 992
Including: mandatory reserve deposit	1 394 282	1 039 065

On the basis of the National Bank of Poland Act dated 29 August 1997, BRE Bank SA holds a mandatory reserve deposit. The mandatory reserve is held in an account with the Central Bank and in the Bank's hand. As at 31 December 2010, the former part of the reserve bore 3.38% interest (31 December 2009: 3.38%).

17. Debt Securities Eligible for Rediscounting at the Central Bank

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

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18. Loans and Advances to Banks

	31.12.2010	31.12.2009
Current accounts	136 414	270 136
Placements with other banks	1 225 455	1 252 289
Included in cash equivalents (Note 42)	**1 361 869**	**1 522 425**
Loans and advances	1 111 373	517 537
Term placements	242 009	80 281
Reverse repo / buy-sell-back transactions	919 553	357 161
Other receivables	163 615	58 080
Total (gross) loans and advances to banks	**3 798 419**	**2 535 484**
Provisions created for loans and advances to banks (negative amount)	(34 247)	(38 087)
Total (net) loans and advances to banks	**3 764 172**	**2 497 397**

Short-term (up to 1 year)	2 792 074	2 326 239
Long-term (over 1 year)	972 098	171 158

The following table presents receivables from Polish and foreign banks:

	31.12.2010	31.12.2009
Loans and advances to Polish banks (gross)	2 654 171	734 617
Provisions created for loans and advances to Polish banks	(159)	(331)
Loans and advances to foreign banks (gross)	1 144 248	1 800 867
Provisions created for loans and advances to foreign banks	(34 088)	(37 756)
Total (net) loans and advances to banks	**3 764 172**	**2 497 397**

As at 31 December 2010, the variable rate loans to banks amounted to PLN 1 109 184 thousand and the fixed rate loans to banks amounted to PLN 2 189 thousand (as at 31 December 2009 – variable rate loans to banks amounted to PLN 507 214 thousand and fixed rate loans to PLN 10 323 thousand). An average deposit interest rate for deposits in other banks and loans granted to banks amounted to 1.92% (31 December 2009: 2.97%).

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

	31.12.2010	31.12.2009
Provisions for loans and advances to banks as at the beginning of the period	**38 087**	**31 014**
Increase (due to)	21 856	26 405
- provisions created (Note 12)	20 821	26 405
- foreign exchange differences	1 035	-
Decrease (due to)	(25 696)	(19 332)
- release of provisions (Note 12)	(9 503)	(6 455)
- write-offs	(16 193)	(10 565)
- foreign exchange differences	-	(2 312)
Provisions for loans and advances to banks as at the end of the period	**34 247**	**38 087**

As at 31 December 2010, provisions for loans and advances to banks impaired on individual basis, amounted to PLN 33 181 thousand (2009: PLN 36 238 thousand).

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19. Trading Securities and Pledged Assets

	31.12.2010	31.12.2009
Debt securities:	2 749 688	1 998 511
Government bonds included in cash equivalents and pledged government bonds (sell-buy-back/repo transactions) (Note 42), including:	1 120 056	1 003 082
- pledged government bonds (sell-buy-back/repo transactions) (Note 36)	1 011 107	766 313
Treasury bills included in cash equivalents and pledged treasury bills (sell-buy-back/repo transactions) (Note 42), including:	1 100 918	227 557
- pledged treasury bills (sell-buy-back/repo transactions) (Note 36)	7 551	-
Other debt securities:	528 714	767 872
Equity securities:	-	2 594
- listed	-	2 594
Debt and equity securities, including:	2 749 688	2 001 105
- *Trading securities*	*1 731 030*	*1 234 792*
- *Pledged assets (Note 36)*	*1 018 658*	*766 313*

Government Bonds include securities used to secure sell-buy-back/repo transactions with customers, the market value of which as at 31 December 2010 amounted to PLN 1 011 107 thousand (31 December 2009: PLN 766 313 thousand). The bonds are disclosed separately within the 'Pledged assets' in the Statement of Financial Position.

In 2010 Treasury bills includ bills used to secure sell-buy-back/repo transactions with customers, the market value of which as at 31 December 2010 amounted to PLN 7 551 thousand. The bills are disclosed separately within the 'Pledged assets' in the Statement of Financial Position.

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

The note above does not include pledged assets, which have been classified as investment securities (Note 22).

20. Derivative Financial Instruments and Other Trading Liabilities

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

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

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

Currency and interest rate options are agreements, pursuant to which the selling party grants the buying party the right, but not an obligation, to purchase (call option) or sell (put option) a specific quantity of a foreign currency or a financial instrument at a predefined price on or by a specific date or within an agreed period. In return for accepting currency or interest rate risk, the buyer offers the seller a premium. An option can be either a public instrument traded at a stock exchange or a private instrument negotiated between the Bank and a customer (private transaction). The Bank is exposed to credit risk related to purchased options only up to the balance sheet value of such options, i.e. the fair value of the options.

Market risk transactions include futures contracts as well as commodity options, stock options and index options.

Face values of certain types of financial instruments provide a basis for comparing them to instruments disclosed in the Statement of Financial Position but they may not be indicative of the value of the future cash flows or of the present fair value of such instruments. For this reason, the face values do not indicate the level of the Bank's exposure to credit risk or price change risk. Derivative instruments can have positive value (assets) or negative value (liabilities), depending on market interest or currency exchange rate fluctuations. The aggregate fair value of derivative financial instruments may be subject to strong variations.

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

	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2010				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	8 740 446	8 904 306	32 557	70 013
- Currency swaps	7 436 717	7 442 983	86 604	102 922
- Cross-currency interest rate swaps	3 884 774	3 994 746	149 500	254 830
- OTC currency options bought and sold	3 039 570	3 067 923	115 196	59 007
Total OTC derivatives	**23 101 507**	**23 409 958**	**383 857**	**486 772**
- Currency futures	1 251	1 264	12	-
- Stock exchange traded currency options - bought and sold	-	-	-	42 412
Total foreign exchange derivatives	**23 102 758**	**23 411 222**	**383 869**	**529 184**
Interest rate derivatives				
- Interest rate swap, OIS	88 074 793	88 074 793	744 718	791 993
- Forward rate agreements	36 350 000	42 380 000	13 472	14 734
- OTC interest rate options	387 944	452 344	10 046	9 686
Total OTC interest rate derivatives	**124 812 737**	**130 907 137**	**768 236**	**816 413**
Total interest rate derivatives	**124 812 737**	**130 907 137**	**768 236**	**816 413**
Market risk transactions	**737 037**	**1 164 126**	**69 460**	**16 310**
Total derivative assets / liabilities held for trading	**148 652 532**	**155 482 485**	**1 221 565**	**1 361 907**
Total recognised derivative assets/ liabilities	**148 652 532**	**155 482 485**	**1 221 565**	**1 361 907**
Total recognised derivative assets/ liabilities and other trading liabilities	**148 652 532**	**155 482 485**	**1 221 565**	**1 361 907**
Short-term (up to 1 year)	102 552 072	109 748 964	636 615	744 422
Long-term (over 1 year)	46 100 460	45 733 521	584 950	617 485

	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2009				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	9 834 886	9 946 489	114 341	65 713
- Currency swaps	8 143 028	8 131 581	148 035	141 841
- Cross-currency interest rate swaps	5 794 847	5 941 004	142 688	274 383
- OTC currency options bought and sold	4 679 412	4 819 890	352 161	250 895
Total OTC derivatives	**28 452 173**	**28 838 964**	**757 225**	**732 832**
Total foreign exchange derivatives	**28 452 173**	**28 838 964**	**757 225**	**732 832**
Interest rate derivatives				
- Interest rate swap, OIS	97 585 601	97 585 601	1 079 516	1 118 545
- Forward rate agreements	26 136 492	35 190 000	62 547	52 152
- OTC interest rate options	462 575	455 447	11 568	10 773
Total OTC interest rate derivatives	**124 184 668**	**133 231 048**	**1 153 631**	**1 181 470**
Total interest rate derivatives	**124 184 668**	**133 231 048**	**1 153 631**	**1 181 470**
Market risk transactions	**853 602**	**797 641**	**21 012**	**18 847**
Total derivative assets / liabilities held for trading	**153 490 443**	**162 867 653**	**1 931 868**	**1 933 149**
Total recognised derivative assets/ liabilities	**153 490 443**	**162 867 653**	**1 931 868**	**1 933 149**
Total recognised derivative assets/ liabilities and other trading liabilities	**153 490 443**	**162 867 653**	**1 931 868**	**1 933 149**
Short-term (up to 1 year)	103 209 762	113 052 308	1 263 683	1 232 352
Long-term (over 1 year)	50 280 681	49 815 345	668 185	700 797

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

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Under financial derivative instruments the Bank presented derivative instruments in the amount of PLN 9 924 thousand (liabilities), which have been separated from structured investment deposits (31 December 2009: PLN 13 486 thousand).

As at 31 December 2010 and 31 December 2009 the Bank did not have any other financial assets or liabilities initially recognised in the category priced at fair value through the Income Statement.

21. Loans and Advances to Customers

	31.12.2010	31.12.2009
Loans and advances to individuals:	33 597 904	28 771 426
- current accounts	4 358 940	4 236 226
- term loans, including:	29 238 964	24 535 200
housing and mortgage loans	26 200 903	22 359 841
Loans and advances to corporate entities:	18 163 080	15 598 691
- current accounts	3 147 515	3 186 359
- term loans:	11 677 248	12 058 524
corporate & institutional enterprises	4 609 508	4 796 296
medium & small enterprises	7 067 740	7 262 228
- reverse repo / buy-sell-back transactions	3 338 317	353 808
Loans and advances to public sector	1 401 207	743 851
Other receivables	668 115	816 521
Total (gross) loans and advances to customers	53 830 306	45 930 489
Provisions for loans and advances to customers (negative amount)	(2 167 970)	(1 669 789)
Total (net) loans and advances to customers	51 662 336	44 260 700

Short-term (up to 1 year)	19 653 855	14 416 882
Long-term (over 1 year)	32 008 481	29 843 818

As at 31 December 2010, variable rate credits amounted to PLN 50 090 652 thousand and fixed rate credits amounted to PLN 3 739 654 thousand (as at 31 December 2009: PLN 45 388 289 thousand and PLN 542 200 thousand respectively). The values mentioned above relate to loans granted to individual clients, corporate clients and budget sector. An average interest rate for loans granted to customers (excluding reverse repos) amounted to 4.28% (31 December 2009: 4.58%).

The Bank accepted exchange-listed equity securities at the fair value of PLN 1 429 828 thousand (31 December 2009: PLN 1 634 789 thousand) as collateral for commercial loans.

Provisions for Loans and Advances

	31.12.2010	31.12.2009
Incurred but not identified losses		
Gross balance sheet exposure	51 025 394	43 840 945
Impairment provisions for exposures analysed according to portfolio approach	(186 805)	(203 720)
Net balance sheet exposure	50 838 589	43 637 225

Receivables with impairment		
Gross balance sheet exposure	2 804 912	2 089 544
Provisions for receivables with impairment	(1 981 165)	(1 466 069)
Net balance sheet exposure	823 747	623 475

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Movements in provisions for loans and advances

	31.12.2010	31.12.2009
INDIVIDUALS		
Current Accounts		
As at the beginning of the period	**586 775**	**205 998**
increase (due to)	232 779	384 952
- provisions created	232 756	384 952
- reclassification & foreign exchange differences	23	-
release (due to)	(2 317)	(4 175)
- release of provisions	(2 066)	(804)
- write-offs	(251)	(3 371)
As at the end of the period	**817 237**	**586 775**
Term Loans		
As at the beginning of the period	**121 454**	**86 685**
increase (due to)	116 417	57 858
- provisions created	112 058	57 759
- reclassification of provisions & foreign exchange differences	4 359	99
release (due to)	(3 879)	(23 089)
- release of provisions	(3 763)	(4 196)
- write-offs	(116)	(18 893)
As at the end of the period	**233 992**	**121 454**
including:		
Housing and Mortgage Loans		
As at the beginning of the period	**40 080**	**33 710**
increase (due to)	78 403	24 477
- provisions created	73 897	24 477
- reclassification of provisions & foreign exchange differences	4 506	-
release (due to)	(556)	(18 107)
- release of provisions	(556)	(663)
- write-offs	-	(17 444)
As at the end of the period	**117 927**	**40 080**
TOTAL - INDIVIDUALS		
As at the beginning of the period	**708 229**	**292 683**
increase (due to)	349 196	442 810
- provisions created	344 814	442 711
- reclassification of provisions & foreign exchange differences	4 382	99
release (due to)	(6 196)	(27 264)
- release of provisions	(5 829)	(5 000)
- write-offs	(367)	(22 264)
As at the end of the period	**1 051 229**	**708 229**

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CORPORATE ENTITIES		
Current Accounts		
As at the beginning of the period	**334 824**	**108 033**
increase (due to)	339 721	643 086
- provisions created	339 721	570 199
- reclassification of provisions & foreign exchange differences	-	72 887
release (due to)	(306 195)	(416 295)
- release of provisions	(265 858)	(405 267)
- reclassification of provisions & foreign exchange differences	(1 634)	(9 253)
- write-offs	(38 703)	(1 775)
As at the end of the period	**368 350**	**334 824**
Term Loans		
As at the beginning of the period	**624 111**	**272 958**
increase (due to)	634 388	538 221
- provisions created	627 127	537 335
- reclassification of provisions & foreign exchange differences	7 261	886
release (due to)	(515 142)	(187 068)
- release of provisions	(470 214)	(184 976)
- reclassification of provisions & foreign exchange differences	-	(588)
- write-offs	(44 928)	(1 504)
As at the end of the period	**743 357**	**624 111**
including:		
Corporate & Institutional Enterprises		
As at the beginning of the period	**108 412**	**31 006**
increase (due to)	171 358	111 760
- provisions created	171 307	110 874
- reclassification of provisions & foreign exchange differences	51	886
release (due to)	(112 492)	(34 354)
- release of provisions	(112 066)	(34 354)
- write-offs	(426)	-
As at the end of the period	**167 278**	**108 412**
Medium & Small Enterprises		
As at the beginning of the period	**515 699**	**241 952**
increase (due to)	463 030	426 461
- provisions created	455 820	426 461
- reclassification of provisions & foreign exchange differences	7 210	-
release (due to)	(402 650)	(152 714)
- release of provisions	(358 148)	(150 622)
- reclassification of provisions & foreign exchange differences	-	(588)
- write-offs	(44 502)	(1 504)
As at the end of the period	**576 079**	**515 699**
TOTAL - CORPORATE ENTITIES		
As at the beginning of the period	**958 935**	**380 991**
increase (due to)	974 109	1 181 307
- provisions created	966 848	1 107 534
- reclassification of provisions & foreign exchange differences	7 261	73 773
release (due to)	(821 337)	(603 363)
- release of provisions	(736 072)	(590 243)
- reclassification of provisions & foreign exchange differences	(1 634)	(9 841)
- write-offs	(83 631)	(3 279)
As at the end of the period	**1 111 707**	**958 935**

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PUBLIC SECTOR		
As at the beginning of the period	**2 625**	**190**
increase (due to)	11 090	2 447
- provisions created	11 090	2 447
release (due to)	(8 681)	(12)
- release of provisions	(8 640)	(12)
- reclassification of provisions & foreign exchange differences	(41)	-
As at the end of the period	**5 034**	**2 625**
TOTAL - MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS		
As at the beginning of the period	**1 669 789**	**673 864**
increase (due to)	1 334 395	1 626 564
- provisions created (Note 12)	1 322 752	1 552 692
- reclassification of provisions & foreign exchange differences	11 643	73 872
release (due to)	(836 214)	(630 639)
- release of provisions (Note 12)	(750 541)	(595 255)
- reclassification of provisions & foreign exchange differences	(1 675)	(9 841)
- write-offs	(83 998)	(25 543)
As at the end of the period	**2 167 970**	**1 669 789**

22. Investment Securities and Pledged Assets

	31.12.2010	31.12.2009
Debt securities	**19 749 672**	**16 018 568**
Listed, including:	19 659 927	16 018 568
- pledged government bonds (sell-buy-back/repo transactions)	-	2 188 251
- government bonds pledged under the Bank Guarantee Fund	176 542	145 323
- pledged government bonds (loan collateral)	613 757	374 397
- Treasury bills pledged under the Bank Guarantee Fund	19 767	39 498
Unlisted	89 745	-
Equity securities	**255 968**	**126 626**
- listed	12 327	10 871
- unlisted	243 641	115 755
Total investment securities and pledged assets, including:	**20 005 640**	**16 145 194**
- Available for sale securities	*19 195 574*	*13 397 725*
- Pledged assets (Note 38)	*810 066*	*2 747 469*

Short-term (up to 1 year)	10 457 575	9 291 510
Long-term (over 1 year)	9 548 065	6 853 684

The fair values of equity securities presented above includes impairment of PLN 125 thousand (31 December 2009: PLN 125 thousand).

As at 31 December 2010, the carrying values of debt securities with fixed interest rates amounted to PLN 14 108 005 thousand and debt securities with variable interest rates PLN 5 641 667 thousand respectively (31 December 2009 respectively: PLN 9 878 933 thousand and PLN 6 139 635 thousand).

The above includes Government Bonds and Treasury Bills under the Bank Guarantee Fund, Investment Government Bonds pledged as sell-buy-back transactions and Government Bonds pledged as collateral for the loan received from the European Investment Bank, which are presented in the Statement of Financial Position in a separate position 'Pledged assets' (see Note 36).

In accordance with the Bank Guarantee Fund Law of 14 December 1994, the Bank held PLN 196 309 thousand, at face value PLN 203 000 thousand of treasury securities (bonds and bills) disclosed in its Statement of Financial Position as at 31 December 2010 (face value as at 31 December 2009: PLN 185 000 thousand). The bills were used as security under the Bank Guarantee Fund and they were deposited in a separate account at the National Bank of Poland.

Gains and Losses from Investment Securities:

	Year ended 31 December	
	2010	2009
Sale/redemption of the financial assets available for sale	(1 330)	61 979
Impairment of investment in subsidiaries	12 692	(6 633)
Total gains and losses from investment securities	11 362	55 346

In 2009 the biggest material impact on the value of sale/redemption of financial assets available for sale came from the result on the cancellation of part of investment certifications of BRE GOLD FIZ Aktywów Niepublicznych in the amount of PLN 60 946 thousand.

Movements in investment securities and pledged assets:

	31.12.2010	31.12.2009
Investment securities and pledged assets		
As at the beginning of the period	16 145 194	7 845 376
Exchange differences	(2 431)	(1 474)
Additions	357 351 180	72 770 009
Disposals (sale, redemption and forfeiture)	(353 754 160)	(64 680 231)
Gains / (losses) from changes in fair value	265 857	211 514
As at the end of the period	20 005 640	16 145 194

Changes in provisions for impairment losses on investment securities and pledged assets:

	31.12.2010	31.12.2009
Impairment of equity securities		
Listed		
As at the beginning of the period	(125)	(125)
As at the end of the period	(125)	(125)
Total impairment of available for sale securities		
As at the beginning of the period	(125)	(125)
As at the end of the period	(125)	(125)

23. Investments in Subsidiaries

31 December 2010 (in PLN 000's)

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held	Carrying value
1.	AMBRESA Sp. z o.o.	Poland	593	5	20	(97)	100.00	588
2.	Aspiro Sp. z o.o.	Poland	39 795	22 536	113 107	7 546	100.00	22 900
3.	BRE Bank Hipoteczny SA	Poland	4 100 931	3 732 564	226 747	30 855	100.00	52 103
4.	BRE Corporate Finance SA	Poland	4 276	1 112	9 196	1 402	100.00	3 532
5.	BRE Finance France SA	France	737	93	-	(74)	99.98	891
6.	BRE Holding Sp. z o.o.	Poland	370 769	27	876	523	100.00	193 334
7.	BRE Systems Sp. z o.o.	Poland	170	137	3 578	(1 946)	100.00	50
8.	BRE Ubezpieczenia TUiR SA	Poland	192 656	139 931	212 080	31 269	100.00	26 353
9.	BRE Wealth Management	Poland	22 650	3 936	20 996	8 649	100.00	12 000
10.	BRELINVEST Sp. z o.o. Fly 2 Commandite company	Poland	12 679	2	13 558	11 679	99.84	2 260
11.	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	Poland	96 961	61 400	46 022	2 898	100.00	31 072
12.	Dom Inwestycyjny BRE Banku SA	Poland	784 045	711 571	140 262	29 849	100.00	26 719
13.	Garbary Sp. z o.o.	Poland	46 501	2 781	208	(2 136)	100.00	56 384
14.	Intermarket Bank AG	Austria	1 010 925	864 228	69 693	5 706	56.24	37 068
15.	Magyar Factor zRt.	Hungary	160 767	133 596	17 149	2 075	78.12	7 813
16.	Tele -Tech Investment Sp. z o.o.	Poland	61 081	60 984	4 611	(174)	100.00	50
17.	TRANSFINANCE a.s.	Czech Republic	321 558	281 660	22 578	(6 578)	78.12	18 644
								491 761

31 December 2009 (in PLN 000's)

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held	Carrying value
1.	AMBRESA Sp. z o.o.	Poland	691	6	-	(159)	100.00	685
2.	Aspiro Sp. z o.o.	Poland	24 352	14 639	48 976	(1 077)	100.00	11 880
3.	BRE Bank Hipoteczny SA	Poland	4 464 942	4 127 135	267 328	25 297	100.00	52 103
4.	BRE Corporate Finance SA	Poland	2 105	342	5 410	(1 330)	100.00	1 763
5.	BRE Finance France SA	France	968	224	1 517	(166)	99.98	924
6.	BRE Holding Sp. z o.o.	Poland	187 890	41	16 796	16 669	100.00	171 083
7.	BRE Systems Sp. z o.o.	Poland	4 697	2 543	24 987	713	100.00	50
8.	BRE Ubezpieczenia TUiR SA	Poland	129 088	107 632	143 894	32 597	100.00	26 353
9.	BRE Wealth Management	Poland	11 991	1 926	13 784	4 888	100.00	12 000
10.	BRE.locum SA	Poland	374 824	271 846	122 854	36 937	79.99	22 251
11.	BRELINVEST Sp. z o.o. Fly 2 Commandite company	Poland	43 554	42 557	5 150	(663)	99.84	2 260
12.	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	Poland	69 680	37 017	41 388	776	100.00	31 072
13.	Dom Inwestycyjny BRE Banku SA	Poland	739 995	683 167	147 888	34 203	100.00	26 719
14.	Garbary Sp. z o.o.	Poland	47 157	1 301	233	(1 889)	100.00	56 384
15.	Intermarket Bank AG	Austria	1 034 645	888 362	84 294	(15 135)	56.24	38 453
16.	Magyar Factor zRt.	Hungary	130 575	103 737	20 691	1 906	78.12	8 342
17.	Tele -Tech Investment Sp. z o.o.	Poland	57 593	57 322	6 460	(207)	100.00	50
18.	TRANSFINANCE a.s.	Czech Republic	323 915	278 221	24 209	336	78.12	18 337
								480 709

Changes in investments in subsidiaries:

	31.12.2010	31.12.2009
As at the beginning of the period	480 709	457 305
Increase due to:	35 348	32 486
- purchase	22 252	32 486
- foreign exchange differences	307	-
- release of impairment	12 789	-
Decrease due to:	(24 296)	(9 082)
- sale	(22 252)	(1 369)
- impairment	(97)	(6 632)
- foreign exchange differences	(1 947)	(1 081)
As at the end of the period	491 761	480 709

In 2010, 'purchase and sale' concerns an increase in the share capital of BRE Holding Sp. z o.o. by the contribution in kind of BRE.locum's share.

24. Investments in associates

As at the end of 2010 and 2009 the Bank had no investments in associates.

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25. Intangible Assets

	31.12.2010	31.12.2009
Development costs	1 369	1 910
Patents, licences and similar assets, including:	305 414	339 150
- computer software	252 063	274 374
Other intangible assets	9 907	1
Intangible assets under development	63 291	55 060
Total intangible assets	**379 981**	**396 121**

Movements in intangible assets:

Movements in intangible assets from 1 January to 31 December 2010	Development costs	Acquired concessions, patents, licences and other similar assets	including: acquired computer software	Other intangible assets	Intangible assets under development	Total intangible assets
Gross value of intangible assets as at the beginning of the period: 01.01.2010	**31 774**	**666 514**	**518 789**	**4 816**	**55 060**	**758 164**
Increase (due to)	**-**	**55 569**	**42 774**	**9 999**	**59 800**	**125 368**
- purchase	-	5 468	414	9 999	48 693	64 160
- transfer from fixed assets under construction	-	178	-	-	-	178
- transfer from intangible assets under development	-	49 923	42 360	-	35	49 958
- development costs	-	-	-	-	10 862	10 862
- other increases	-	-	-	-	210	210
Decrease (due to)	**-**	**(17 753)**	**(15 267)**	**-**	**(51 569)**	**(69 322)**
- liquidation	-	(17 244)	(14 864)	-	-	(17 244)
- transfer to intangible assets given to use	-	-	-	-	(49 958)	(49 958)
- other decreases	-	(509)	(403)	-	(1 611)	(2 120)
Gross value of intangible assets as at the end of the period: 31.12.2010	**31 774**	**704 330**	**546 296**	**14 815**	**63 291**	**814 210**
Accumulated amortization as at the beginning of the period: 01.01.2010	**(29 864)**	**(327 364)**	**(244 415)**	**(4 815)**	**-**	**(362 043)**
Amortization for the period (due to)	**(541)**	**(71 552)**	**(49 818)**	**(93)**	**-**	**(72 186)**
- amortization	(541)	(88 806)	(64 682)	(93)	-	(89 440)
- liquidation	-	17 244	14 864	-	-	17 244
- other decreases	-	10	-	-	-	10
Accumulated amortization as at the end of the period: 31.12.2010	**(30 405)**	**(398 916)**	**(294 233)**	**(4 908)**	**-**	**(434 229)**
Net value of intangible assets as at the end of the period: 31.12.2010	**1 369**	**305 414**	**252 063**	**9 907**	**63 291**	**379 981**

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Movements in intangible assets:

Movements in intangible assets from 1 January to 31 December 2009	Development costs	Acquired concessions, patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Total intangible assets
			including: acquired computer software			
Gross value of intangible assets as at the beginning of the period: 01.01.2009	**31 774**	**653 668**	**517 457**	**6 147**	**42 841**	**734 430**
Increase (due to)	**-**	**93 131**	**66 476**	**5**	**81 752**	**174 888**
- purchase	-	22 756	278	5	81 738	104 499
- transfer from intangible assets under development	-	69 039	66 198	-	-	69 039
- other increases	-	1 336	-	-	14	1 350
Decrease (due to)	**-**	**(80 285)**	**(65 144)**	**(1 336)**	**(69 533)**	**(151 154)**
- liquidation	-	(80 268)	(65 144)	-	-	(80 268)
- transfer to intangible assets given to use	-	-	-	-	(69 039)	(69 039)
- other decreases	-	(17)	-	(1 336)	(494)	(1 847)
Gross value of intangible assets as at the end of the period: 31.12.2009	**31 774**	**666 514**	**518 789**	**4 816**	**55 060**	**758 164**
Accumulated amortization as at the beginning of the period: 01.01.2009	**(29 142)**	**(294 118)**	**(221 959)**	**(4 810)**	**-**	**(328 070)**
Amortization for the period (due to)	**(722)**	**(33 246)**	**(22 456)**	**(5)**	**-**	**(33 973)**
- amortization	(722)	(113 115)	(87 168)	(5)	-	(113 842)
- liquidation	-	79 836	64 712	-	-	79 836
- other decreases	-	33	-	-	-	33
Accumulated amortization as at the end of the period: 31.12.2009	**(29 864)**	**(327 364)**	**(244 415)**	**(4 815)**	**-**	**(362 043)**
Net value of intangible assets as at the end of the period: 31.12.2009	**1 910**	**339 150**	**274 374**	**1**	**55 060**	**396 121**

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26. Tangible Fixed Assets

	31.12.2010	31.12.2009
Tangible fixed assets, including:	495 340	515 695
- land	1 733	1 733
- buildings and structures	190 757	189 382
- equipment	104 477	111 330
- vehicles	36 661	37 332
- other tangible fixed assets	161 712	175 918
Fixed assets under construction	39 110	40 169
Total tangible fixed assets	**534 450**	**555 864**

Movements in tangible fixed assets:

Movements in tangible fixed assets from 1 January to 31 December 2010	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2010	1 733	308 473	471 971	48 837	373 354	40 305	1 244 673
Increase (due to)	-	7 913	35 090	7 775	21 254	44 978	117 010
- purchase	-	-	16 773	-	3 891	43 336	64 000
- transfer from fixed assets under construction	-	7 913	18 235	-	17 332	-	43 480
- other increases	-	-	82	7 775	31	1 642	9 530
Decrease (due to)	-	(5 214)	(25 229)	(1 780)	(8 046)	(46 037)	(86 306)
- sale	-	(5 214)	(523)	-	(845)	-	(6 582)
- liquidation	-	-	(24 626)	-	(6 758)	(204)	(31 588)
- transfer to fixed assets	-	-	-	-	-	(43 480)	(43 480)
- transfer to intangible assets	-	-	-	-	-	(178)	(178)
- other decreases	-	-	(80)	(1 780)	(443)	(2 175)	(4 478)
Gross value of tangible fixed assets as at the end of the period: 31.12.2010	1 733	311 172	481 832	54 832	386 562	39 246	1 275 377
Accumulated depreciation as at the beginning of the period: 01.01.2010	-	(64 285)	(360 466)	(11 505)	(194 718)	-	(630 974)
Depreciation for the period (due to)	-	(4 444)	(16 889)	(6 666)	(30 001)	-	(58 000)
- depreciation charge	-	(5 708)	(41 781)	(7 409)	(34 354)	-	(89 252)
- other increases	-	-	(3)	-	(27)	-	(30)
- sale	-	1 264	484	-	717	-	2 465
- liquidation	-	-	24 395	-	3 554	-	27 949
- other decreases	-	-	16	743	109	-	868
Accumulated depreciation as at the end of the period: 31.12.2010	-	(68 729)	(377 355)	(18 171)	(224 719)	-	(688 974)
Impairment losses as at the beginning of the period: 01.01.2010	-	(54 806)	(175)	-	(2 718)	(136)	(57 835)
- decrease	-	3 120	175	-	2 587	-	5 882
Impairment losses as at the end of the period: 31.12.2010	-	(51 686)	-	-	(131)	(136)	(51 953)
Net value of tangible fixed assets as at the end of the period: 31.12.2010	1 733	190 757	104 477	36 661	161 712	39 110	534 450

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Movements in tangible fixed assets:

Movements in tangible fixed assets from 1 January to 31 December 2009	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2009	1 733	332 701	440 207	62 481	347 046	38 068	1 222 236
Increase (due to)	-	69	42 166	4 758	31 837	45 448	124 278
- purchase	-	69	27 780	-	4 460	45 439	77 748
- transfer from fixed assets under construction	-	-	14 386	-	27 371	-	41 757
- other increases	-	-	-	4 758	6	9	4 773
Decrease (due to)	-	(24 297)	(10 402)	(18 402)	(5 529)	(43 211)	(101 841)
- sale	-	(24 292)	(5 922)	(6 410)	(1 303)	-	(37 927)
- liquidation	-	(5)	(4 426)	(1 261)	(2 956)	-	(8 648)
- transfer to fixed assets	-	-	-	-	-	(41 757)	(41 757)
- other decreases	-	-	(54)	(10 731)	(1 270)	(1 454)	(13 509)
Gross value of tangible fixed assets as at the end of the period: 31.12.2009	1 733	308 473	471 971	48 837	373 354	40 305	1 244 673
Accumulated depreciation as at the beginning of the period: 01.01.2009	-	(62 976)	(324 832)	(14 306)	(165 476)	-	(567 590)
Depreciation for the period (due to)	-	(1 309)	(35 634)	2 801	(29 242)	-	(63 384)
- depreciation charge	-	(6 329)	(45 261)	(8 374)	(34 136)	-	(94 100)
- other increases	-	-	-	(25)	(11)	-	(36)
- sale	-	5 019	5 312	6 446	1 357	-	18 134
- liquidation	-	1	4 237	447	2 390	-	7 075
- other decreases	-	-	78	4 307	1 158	-	5 543
Accumulated depreciation as at the end of the period: 31.12.2009	-	(64 285)	(360 466)	(11 505)	(194 718)	-	(630 974)
Impairment losses as at the beginning of the period: 01.01.2009	-	(52 730)	-	-	(131)	(136)	(52 997)
- increase	-	(2 076)	(175)	-	(2 587)	-	(4 838)
Impairment losses as at the end of the period: 31.12.2009	-	(54 806)	(175)	-	(2 718)	(136)	(57 835)
Net value of tangible fixed assets as at the end of the period: 31.12.2009	1 733	189 382	111 330	37 332	175 918	40 169	555 864

The entire value of vehicles is related to finance lease agreement

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

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27. Other Assets

	31.12.2010	31.12.2009
Assets taken over and held for resale	-	-
Other, including:	304 412	332 041
- debtors	211 519	233 778
- interbank balances	1 292	360
- other accruals	65 364	79 909
- accrued income	23 124	15 210
- inventories	3 113	2 685
- other	-	99
Total other assets	304 412	332 041

Short-term (up to 1 year)	220 328	246 312
Long-term (over 1 year)	84 084	85 729

28. Amounts due to Other Banks

	31.12.2010	31.12.2009
Current accounts	1 133 692	743 985
Term deposits	1 149 498	64 250
Loans and advances received	20 360 624	17 594 180
Repo / sell-buy-back transactions	2 047 864	632 927
Liabilities in respect of cash collaterals	167 782	148 072
Payables to be settled	1 514	1 535
Other	19 988	-
Amounts due to other banks	24 880 962	19 184 949

Short-term (up to 1 year)	6 319 805	4 572 182
Long-term (over 1 year)	18 561 157	14 612 767

As at 31 December 2010 the fixed rate term deposits accepted from other banks amounted to PLN 356 439 thousand and variable rate term deposits amounted to PLN 793 059 thousand.. The average interest rate for loans and deposits obtained from banks in 2010 amounted to 1.46% (31 December 2009: 1.76%).

BRE Bank did not provide collateral related to loans from other banks. The Bank did not note any violations of contractual terms related to liabilities in respect of loans received.

As at 31 December 2010, apart from amounts due to other banks, the Bank holds amounts due to the Central Bank in the amount of PLN 79 thousand (31 December 2009: 2 003 783, including the amount of PLN 2 003 440 thousand arising from repo transactions with average interest rate of 3.81%).

29. Amounts due to Customers

	31.12.2010	31.12.2009
Individual customers:	**24 308 392**	**24 768 842**
Current accounts	14 938 701	16 516 483
Term deposits	9 339 901	8 206 679
Other liabilities:	29 790	45 680
- liabilities in respect of cash collaterals	23 984	35 981
- other	5 806	9 699
Corporate customers:	**21 832 056**	**17 398 729**
Current accounts	10 075 280	8 598 194
Term deposits	8 144 431	7 215 809
Loans and advances received	473 606	289 691
Repo transactions	2 708 164	881 157
Other liabilities:	430 575	413 878
- liabilities in respect of cash collaterals	375 208	376 008
- other	55 367	37 870
Public sector customers:	**926 899**	**246 841**
Current accounts	896 406	139 446
Term deposits	22 141	106 063
Other liabilities:	8 352	1 332
- other	8 352	1 332
Total amounts due to customers	**47 067 347**	**42 414 412**

Short-term (up to 1 year)	45 544 668	41 393 035
Long-term (over 1 year)	1 522 679	1 021 377

As at 31 December 2010 the majority of the deposits from individual and corporate customers bore fixed interest rates. An average interest rate for amounts due to customers (excluding repos) amounted to 2.43% (31 December 2009: 2.82%).

As at 31 December 2010 the balance of loans and advances received included a loan received from European Investment Bank amounting to PLN 396 030 thousand (31 December 2009: 205 410 thousand). The loan was collateralized with Treasury bonds which were disclosed in the Statement of Financial Position under the line 'Pledged assets' (Note 36).

30. Subordinated Liabilities

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2010						
- Commerzbank AG	400 000	CHF	3M LIBOR + 0.7%*	0.87	08.03.2017	1 266 293
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	1.57	not defined	253 244
- Commerzbank AG	120 000	CHF	3M LIBOR + 1.5%***	1.67	18.12.2017	379 879
- Commerzbank AG	170 000	CHF	3M LIBOR + 2.2%****	2.38	not defined	540 776
- Commerzbank AG	90 000	CHF	3M LIBOR + 4.0%	4.17	not defined	285 015
- Commerzbank AG	90 000	CHF	3M LIBOR + 2.5%	2.67	24.06.2018	284 920
						3 010 127

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2009						
- Commerzbank AG	400 000	CHF	3M LIBOR + 0.7%*	0.95	08.03.2017	1 107 143
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	1.65	not defined	221 400
- Commerzbank AG	120 000	CHF	3M LIBOR + 1.5%***	1.75	18.12.2017	332 158
- Commerzbank AG	170 000	CHF	3M LIBOR + 2.2%****	2.49	not defined	472 965
- Commerzbank AG	90 000	CHF	3M LIBOR + 4.0%	4.25	not defined	249 184
- Commerzbank AG	90 000	CHF	3M LIBOR + 2.5%	2.75	24.06.2018	249 101
						2 631 951

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* margin amounting to 0.7% is in force within the period of first five years. Within the period of next five years it will be equal to 1.2%.
** margin amounting to 1.4% is in force within the period of first ten years. Within the period of next years it will be equal to 3.4%.
*** margin amounting to 1.5% is in force within the period of first five years. Within the period of next years it will be equal to 2.0%.
**** margin amounting to 2.2% is in force within the period of first ten years. Within the period of next years it will be equal to 4.2%.

In 2010 and 2009, the Bank did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

Subordinated liabilities include the amount of issued subordinated debt securities with an indefinite maturity term. In the calculation of capital adequacy ratio the funds raised through these issues were used in the Bank's own funds calculation. The Bank obtained the approvals of KNF for the inclusion of the funds obtained from the issues into the Bank's supplementary capital.

Movements in Subordinated Liabilities:

	31.12.2010	31.12.2009
As at the beginning of the period	**2 631 951**	**2 669 453**
increase (due to)	429 398	58 534
- interest on subordinated loan	50 153	58 116
- foreign exchange differences	379 245	418
release (due to)	(51 222)	(96 036)
- interest repayment	(51 222)	(62 311)
- foreign exchange differences	-	(33 725)
Subordinated liabilities as at the end of the period	**3 010 127**	**2 631 951**

Short-term (up to 1 year)	4 422	4 156
Long-term (over 1 year)	3 005 705	2 627 795

31. Other Liabilities

	31.12.2010	31.12.2009
Special Funds	**1 484**	**2 543**
- Social Benefits Funds	1 484	2 543
Other liabilities	**571 966**	**513 900**
- tax liabilities	8 891	13 266
- interbank settlements	80 132	83 322
- creditors	146 453	185 583
- accrued expenses	152 422	103 273
- deferred income	75 727	79 093
- accrual of pension benefits	2 928	2 499
- accrual of holiday equivalents	1 195	1 664
- accrual of other employee benefits	104 218	45 084
- other	-	116
Total special funds and other liabilities	**573 450**	**516 443**

As at 31 December 2010, the presented note includes financial liabilities of PLN 397 007 thousand (31 December 2009: PLN 372 178 thousand), which liquidity was presented under the Note 3.7.1. The other components of presented liabilities, except for part of accrual of pension benefits calculated on actuarial basis and finance lease contracts, as a rule are short term liabilities.

In 2010 liabilities from creditors include the value of financial lease amounted to PLN 39 185 thousand (in 2009: PLN 39 393 thousand).

32. Provisions

	31.12.2010	31.12.2009
For off-balance sheet granted contingent liabilities *	39 378	61 323
For legal proceedings	19 058	2 088
Other	17 622	45 378
Total provisions	**76 058**	**108 789**

* includes valuation of financial guarantees

Provision policies for granted off-balance sheet commitments are described in Note 3.2.4. Estimated dates of granted contingent liabilities are presented in Note 35.

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The estimated cash flow due to created provisions for legal proceedings and other provisions is expected to crystallise over 1 year.

Movements in the Provisions:

	31.12.2010	31.12.2009
As at the beginning of the period (by type)	108 789	90 022
For off-balance sheet granted contingent liabilities	61 323	73 229
For legal proceedings	2 088	2 692
Other	45 378	14 101
increase (due to)	199 744	151 119
- increase of provisions, due to:	199 744	151 119
for off-balance-sheet granted contingent liabilities (Note 12)	179 909	118 984
for legal proceedings	18 656	620
other	1 179	31 515
decrease (due to)	(232 475)	(132 352)
- charge-offs	(9 531)	(276)
- release of provisions, due to:	(210 665)	(130 667)
for off-balance-sheet granted contingent liabilities (Note 12)	(201 496)	(129 719)
for legal proceedings	(778)	(948)
other	(8 391)	-
- utilization	-	(238)
- reclassification	(11 668)	-
- foreign exchange differences	(611)	-
- other	-	(1 171)
As at the end of the period (by type)	76 058	108 789
For off-balance sheet granted contingent liabilities	39 378	61 323
For legal proceedings	19 058	2 088
Other	17 622	45 378

Provisions for Off-balance Sheet Granted Contingent Liabilities

	31.12.2010	31.12.2009
Incurred but not identified losses		
Off-balance sheet contingent liabilities	13 447 574	11 944 734
Provisions for off-balance sheet contingent liabilities analysed according to portfolio approach (negative amount)	(32 288)	(28 165)
Net off-balance sheet contingent liabilities	13 415 286	11 916 569

Off-balance sheet granted contingent liabilities with impairment		
Off-balance sheet contingent liabilities	42 535	86 207
Provisions for off-balance sheet contingent liabilities analysed individually (negative amount)	(7 090)	(33 158)
Net off-balance sheet contingent liabilities	35 445	53 049

33. Assets and Provisions for Deferred Income Tax

Assets and provisions for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate of 19% in 2010 and 2009.

Changes in assets and provisions for deferred income tax are presented below:

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	31.12.2010	31.12.2009
As at the beginning of the period	108 896	156 666
Deferred income tax included in the financial result for the period (Note 13)	(7 854)	(25 209)
Deferred income tax included in equity, including:	(38 830)	(22 562)
- valuation of available for sale securities (Note 15)	(38 830)	(22 562)
Other changes	2	1
As at the end of the period	62 214	108 896

Interest payable on bank deposits	8 526	5 885
Interest payable on customer deposits	15 711	18 327
Valuation of derivatives	47 722	63 604
Valuation of financial instruments held for trading	670	1 405
Valuation of financial instruments available for sale	7 872	20 027
Provisions for impairment of loans and off-balance sheet exposures	153 973	178 871
Provisions for bonuses, pensions and holiday accrual	19 788	8 822
Other provisions	3 689	4 773
Accruals	27 981	17 925
Other negative temporary differences	12 286	12 666

Interest receivable on loans and advances granted to banks	(1 062)	(3 019)
Interest receivable on loans granted to customers	(33 380)	(28 052)
Valuation of derivatives	-	(19 631)
Valuation of financial instruments held for trading	(1 052)	(2 805)
Valuation of financial instruments available for sale	(96 010)	(42 478)
Investment tax relief	(18 657)	(28 111)
Difference between the amortization and depreciation for tax and accounting purposes	(32 860)	(39 268)
Other positive temporary differences *	(52 983)	(60 045)
Total net deferred income tax assets	62 291	108 975
Total net deferred income tax liabilities	77	79

	31.12.2010	31.12.2009
Deferred income tax included in the profit and loss account		
Interest	(3 346)	(16 363)
Provisions for impairment of loans and guarantees determined individually	(24 898)	114 863
Valuation of derivatives	3 749	(105 554)
Valuation of financial instruments held for trading	1 018	5 391
Valuation of financial instruments available for sale	(26 857)	15 194
Investment tax relief	9 454	1 375
Provisions for pensions, holiday equivalents, jubilee and other bonuses	10 966	(16 653)
Other provisions	(1 084)	4 773
Accruals and prepayments	10 056	(1 737)
Difference between the amortization and depreciation for tax and accounting purposes	6 408	6 987
Other temporary differences	6 680	(33 485)
Total deferred income tax included in the profit and loss account (Note 13)	(7 854)	(25 209)

* The other positive temporary differences comprise mainly interest and commissions received in advance, amortized at effective interest rate.

Due to the improbability of occurrence of taxable income enabling to use tax losses incurred in Foreign Branches, the Bank does not include those losses in the deferred tax asset calculation. The unused tax losses not included in deferred tax asset calculation amount to PLN 223 439 thousand on 31 December 2010 and PLN 180 830 thousand on 31 December 2009.

Deferred income tax assets were recognised, because it is probable that there will be sufficient taxable income in the future.

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

As at 31 December 2010, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries which represent at least 10% of the Bank'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 as at 31 December 2010 also was not greater than 10% of the issuer's equity.

Report on major proceedings concerning contingent liabilities of 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 40.0 million transleted at the average exchange rate of the National Bank of Poland as at 31 December 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. On 16 September 2010, the District Court in Poznań dismissed the claim in whole; the decision is not legally valid. On 19 October 2010, BPH filed an appeal against the ruling in question. The case is pending.

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.

   In its reply to the claim, the Bank petitioned the Court for dismissing the claim on the grounds of there being no legal basis for allowing the claim. On 1 December 2009, the Court decided to suspend the case until the completion of Pozmeat's bankruptcy proceedings. On 26 January 2011, the court has decided to reinstate suspendand procedings be casue of closing the insolvency procedure.

4. Claims of clients of Interbrok

   Up to 25 February 2011, 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, up to 25 February 2011, 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 the 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 the Bank did not create provisions for the above claims. The District Court in Warsaw settled the aforementioned court cases and dismissed actions in all cases. As a consequence of the Court of Appeal verdict on 4th March 2010, one of the judgments becomes final and valid. The next ruling was revoked by the Court of Appeal on 21 December

2010 and the case was referred back to the District Court in Warsaw. The rulings made in the remaining 6 cases by the District Court in Warsaw are not legally valid.

5. Class action against BRE Bank

On 4 of February 2011 BRE Bank SA received a class action brought to the Dictrict Court in Łódź on 20 December 2010 by the Municipial Ombudsman who represents the group of 835 persons – BRE Bank's retail clients.

The petitioners demand that a responsibility of the Bank is determined for improper performance of mortgage credit agreements. In particular, it was indicated that the Bank had been improperly applied provisions of the agreements concerning interest rates adjustment, namely that the Bank had not been reducing interest rates on the loans, although, according to the petitioners, it should have.

The Bank rejects the above reasoning. On 18 February 2011 the Bank submitted a formal answer to the court, in which it applied for a dismissal of the claim as a whole.

As at 31 December 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 which represent at least 10% of the issuer's equity. The total value of claims concerning receivables of the issuer or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2010 also was not greater than 10% of the issuer's equity.

Taxes

On 19 July 2010 officers of the Tax Control Office (Urząd Kontroli Skarbowej) 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. The audit is pending.

Within the period from 20 March to 8 April 2009, officers of the Tax Office (Pierwszy Mazowiecki Urząd Skaarbowy) carried out tax audits, concerning calculation, reporting and withholding of the personal income tax for the period from 1 January to 31 December 2007. The audit 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.

35. Off-balance Sheet Liabilities

Off-balance sheet liabilities of the Bank comprise:

- Loan commitments

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

- Guarantees and other financial facilities

Guarantees are presented in the table below based on the earliest contractual maturity date.

- Operating lease liabilities

The following table presents the Bank's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions of the Bank as at 31 December 2010 and 31 December 2009.

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	31.12.2010	Up to 1 year	1 - 5 years	Over 5 years	Total
I	Contingent liabilities granted and received	11 454 380	2 039 848	1 254 891	14 749 119
	Commitments granted	11 104 885	1 709 464	845 099	13 659 448
	1. Financing	9 570 833	957 491	667 626	11 195 950
	a) Loan commitments	9 550 844	877 838	597 929	11 026 611
	b) Operating lease commitments	19 989	79 653	69 697	169 339
	2. Guarantees and other financial facilities	1 534 052	751 973	177 473	2 463 498
	a) Banker's acceptances	6 801	-	-	6 801
	b) Guarantees and standby letters of credit	1 342 355	751 973	177 473	2 271 801
	c) Guarantees of issue	41 500	-	-	41 500
	d) Documentary and commercial letters of credit	143 396	-	-	143 396
	Commitments received	349 495	330 384	409 792	1 089 671
	1. Financial commitments received	130	-	-	130
	2. Guarantees received	349 365	330 384	409 792	1 089 541
II	Derivative financial instruments (nominal value of contracts)	212 301 036	83 552 418	8 281 563	304 135 017
	1. Interest rate derivatives	168 549 603	78 938 186	8 232 085	255 719 874
	2. Currency derivatives	41 933 525	4 530 977	49 478	46 513 980
	3. Market risk derivatives	1 817 908	83 255	-	1 901 163
	Total off-balance sheet items	223 755 416	85 592 266	9 536 454	318 884 136

	31.12.2009	Up to 1 year	1 - 5 years	Over 5 years	Total
I	Contingent liabilities granted and received	10 693 933	1 543 428	674 325	12 911 686
	Commitments granted	10 383 878	1 406 220	437 085	12 227 183
	1. Financing	8 496 516	666 986	412 306	9 575 808
	a) Loan commitments	8 475 859	584 358	319 349	9 379 566
	b) Operating lease commitments	20 657	82 628	92 957	196 242
	2. Guarantees and other financial facilities	1 594 655	739 234	24 779	2 358 668
	a) Banker's acceptances	8 883	-	-	8 883
	b) Guarantees and standby letters of credit	1 315 336	739 234	24 779	2 079 349
	c) Guarantees of issue	103 000	-	-	103 000
	d) Documentary and commercial letters of credit	167 436	-	-	167 436
	3. Other commitments	292 707	-	-	292 707
	Commitments received	310 055	137 208	237 240	684 503
	1. Financial commitments received	55 000	-	205 410	260 410
	2. Guarantees received	255 055	137 208	31 830	424 093
II	Derivative financial instruments (nominal value of contracts)	216 262 070	91 226 670	8 869 356	316 358 096
	1. Interest rate derivatives	172 725 258	75 910 819	8 779 639	257 415 716
	2. Currency derivatives	42 026 771	15 174 649	89 717	57 291 137
	3. Market risk derivatives	1 510 041	141 202	-	1 651 243
	Total off-balance sheet items	226 956 003	92 770 098	9 543 681	329 269 782

The above operating lease liabilities relate to the lease of buildings.

The leasing agreement for the Bank's headquarters is the most important leasing agreement concluded by the Bank. According to the agreement, the leasing period ends on 30 June 2019. The agreement has been concluded for a definite period and, in principal, is not subject to early termination. The agreement provides for the possibility of purchasing the leased object upon a written application of the lessee at least 6 moths and no more than 12 months prior to the termination of the leasing agreement, as well as the pre-emptive right under the conditions specified in the agreement. Under the agreement the Bank shall ensure proper maintenance of the object of leasing.

The nominal values of derivatives are presented in the Note 20.

As at 31 December 2010, the list of issues underwritten by BRE Bank SA was as follows:

	Issuer	Type of guaranteed securities	Amount of guarantee in PLN	Financial, organizational and personal relationships	Liquidity
1.	BRE.locum	Bonds	41 500 000	The Bank holds 79.99% of shares in the company.Two Members of the Supervisory Board of the company are related to the BRE Bank Group	Liquid

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

As at 31 December 2010 BRE Bank SA received commitments in the amount of PLN 1 089 671 thousand, including unused loans granted by foreign banks in the amount of PLN 130 thousand and guarantees received as collateral in the amount of PLN 1 089 541 thousand.

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36. Pledged Assets

Assets are pledged as collaterals in sell-buy-back agreements made with other banks and deposits are held as collateral for futures and options contracts and in relation to the membership in stock exchanges. Deposits are held in the Central Bank, representing obligatory reserves required by the law.

	31.12.2010	31.12.2009
Pledged assets, including:	1 828 724	3 513 782
- Trading securities (Note 19)	1 018 658	766 313
- Investment securities (Note 22)	810 066	2 747 469
Liabilities arising from pledged assets, including:	8 217 133	4 026 319
- Sell-buy-back transactions (Note 28, 29), including	4 756 028	3 517 524
sell-buy-back transactions on securities which are subject to buy-sell-back transaction	3 279 087	346 537
- Funds guaranteed under the Bank Guarantee Fund	182 018	162 258

37. Registered Share Capital

The total number of ordinary shares as at 31 December 2010 was 42 086 674 shares (31 December 2009: 29 690 882 shares) of PLN 4 nominal value each (31 December 2009: PLN 4 each). All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE)						
Share type	Type of preference	Type of restrictions	Number of shares	Series / issue value	Paid up	Year of registration
ordinary bearer*	-	-	9 978 500	39 914 000	fully paid in cash	1986
ordinary registered*	-	-	21 500	86 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
Total number of shares			42 086 674			
Total registered share capital				168 346 696		
Nominal value per share		4				

* As at the end of the reporting period

There was no change in the structure of material share packages of the Bank in 2010.

On 16 July 2010 the Bank's share capital increase of PLN 49 485 thousand up to a total amount of PLN 168 248 thousand was registered in the National Court Register. The total income from shares' issue - decreased by issue costs in the amount of PLN 13 287 thousand - was PLN 1 966 167 thousand.

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.

On 5 August and 20 December 2010 the National Depository for Securities ('KDPW') made a registration of respectively: 15 695 and 8 897 shares of BRE Bank SA which were issued as part of the conditional increase in the share capital of the Bank pursuant to the resolution No. 21 of the 21st Ordinary General Meeting of the Bank of 14 March 2008 on the issuance of bonds with pte-emptive right to acquire shares of BRE Bank SA and the conditional increase of the share capital by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the long term incentive programme to take up shares in BRE Bank SA, on application for admission of the shares to trading on the regulated market and on dematerialisation of the shares.

Commerzbank Auslandsbanken Holding AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 December 2010 it held 69.7439% of the share capital and votes at the General Meeting of BRE Bank SA (as at 31 December 2009 – 69.7847%).

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38. Share Premium

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

The increase of share premium in 2010 results from shares' issue in Q2, Q3 and Q4 2010.

39. Retained Earnings

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

Other supplementary capital, other reserve capital and general risk fund are created from profit for the current year and their aim is described in the By-laws or in other regulations of the law.

	31.12.2010	31.12.2009
Other supplementary capital	1 603 654	1 603 654
Other reserve capital	10 791	8 442
General Risk Fund	765 143	708 000
Profit for the current year	517 724	57 143
Total retained earnings	**2 897 312**	**2 377 239**

According to the Polish legislation, each bank is required to allocate 8% of its net profit to a statutory undistributable other supplementary capital until this supplementary capital reaches 1/3 of the share capital.

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

2008 Incentive Program for the Management Board Members of the Bank

On 14 March 2008, the Ordinary General Meeting of BRE Bank adopted a resolution approving an incentive program for Management Board Members of the Bank. Under the program, the Management Board Members can acquire bonds with the pre-emptive right to acquire shares of the Bank and, as originally planned, shares of the ultimate parent of the Group, Commerzbank AG. In 2010 the program was amended in the part comprising Commerzbank shares so that the Management Board Members can aquire the right to receive a cash equivalent of the value of the respective number of Commerzbank shares.

As a result of the program in the part comprising BRE Bank shares, the share capital of the Bank will be increased conditionally by PLN 2 200 000 through an issue of 550 000 ordinary shares. As a result of settlement of the program, the Bank will issue 550 000 bonds with the pre-emptive right to acquire shares of the Bank in 10 series (C1 to C10), 55 000 bonds in each series, with an issue price of PLN 0.01. Bonds can be acquired by entitled persons in 2010 – 2018 provided that their employment continues, however in special cases C1 series bonds can be acquired in 2009. The bonds' pre-emptive right to acquire shares from the conditional capital increase can be exercised by entitled persons in the period from the acquisition of bonds until 31 December 2018. The issue price of each share acquired under the program will be equal to the nominal price at PLN 4.

The right to acquire bonds and the number of bonds will depend on the degree of fulfilment of the following conditions: individual assessment of the entitled person by the Supervisory Board, net return on equity (ROE) net in the financial year for which shares are granted, performance of the financial year's consolidated profit before tax of the BRE Bank Group or consolidated profit before tax of a BRE Bank Group business line.

In addition, under the incentive program it was originally planned that the Management Board Members of the Bank could acquire shares of Commerzbank AG. Shares were to be transferred to the Management Board Members by BRE Bank. The right to acquire shares and the value of shares transferred would also depend on the degree of fulfilment of the above mentioned conditions. The number of granted Commerzbank shares would depend on the market price of the shares within 30 days before their allocation date in 2010 – 2018. In 2010 the program was amended and based on the agreements signed between the Bank and the Management Board Members included in the program, it was agreed that the right to receive Commerzbank shares will be replaced by the right to receive cash equivalent of the value of Commerzbank shares calculated on the basis of the average stock exchange price of Commerzbank shares from the day, when the right to the equivalent existed.

Starting from 2009 the cost of implementation of the program has been calculated by the Bank on the basis of the expected value of the program for the period for which the Management Board is appointed. The cost of the program is charged into the income statements of the respective reporting periods in line with the estimated scheme of acquiring rights in the particular years in correspondence with other reserve capital (the part of the program comprising BRE Bank shares) or other liabilities (the part of the program comprising Commerzbank shares). The cost is estimated starting from the date of taking up the office by a Management Board Member on the basis of the expected fulfillment of the conditions which enable an entitled person to gain rights to acquire BRE Bank shares and cash equivalent of the value of Commerzbank shares. The estimation of the cost is updated at the end of each year on the basis of actual fulfillment of the conditions and potential changes in assessed fulfillment of these conditions in the coming years.

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The choice of the valuation technique has been significantly influenced by the conditions of the program.

The table below presents the number and weighted average exercise prices of shares options related to the 2008 incentive program for the Management Board Members of the Bank.

	31.12.2010		31.12.2009	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	47 077	4	-	-
Granted during the period	10 871	4	47 077	4
Forfeited during the period	-	-	-	-
Exercised during the period*	24 592	4	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	33 356	4	47 077	4
Exercisable at the end of the period	-	-	-	-

* In 2010 the weighted average share price at the date of option exercise amounted to PLN 266.92.

Options outstanding as at the end of 2009 and at the end of 2010 expire on 31 December 2018.

The 2008 incentive program for the Management Board Members of the Bank does not include Mr. Cezary Stypułkowski, President of the Management Board of the Bank, appointed to the Management Board with effect from 1 October 2010.

<u>2008 Incentive Program for key managers of BRE Bank Group</u>

On 27 October, the Extraordinary General Meeting of the Bank approved an incentive program for key managers of BRE Bank Group.

The goal of the program is to tie a large part of remuneration of the key managers with the value of the Bank and the interest of the shareholders by means of building long-term value of the Bank, improvement of the effectiveness of the business of the Bank and the Group, and stabilization of management through the introduction of a long-term element of the remuneration package with lasting value both at the time of a market downtrend and uptrend.
The scheme participants include:

- Members of the Management Boards of the key subsidiaries of BRE Bank Group;
- Bank Directors;
- Representatives of key management.

These officers are responsible for decisions which materially impact the implementation of the strategy defined by the Management Board of the Bank, the results of the Group, the viability and safety of business, and the development and creation of added value of the organisation.

The maximum size of the program is 700 000 shares. The lifetime of the programme is 10 years (2009-2019).

In 2010 the Management Board of the Bank took the decision to launch the program and approved the list of participants for Tranche III. Not granted options from Tranche I and II may be granted in the future years of the program execution. There were 12,650 options granted from Tranche III which will allow participants to purchase the Bank shares with an issue price of PLN 4 per share. Realisation of rights stemming from Tranche III is conditional and the options will be exercisable between 1 May 2012 and 31 December 2019. The right to acquire shares is conditional upon the achievement of the following conditions: being employed over the period of the tranche, achievement of the economic factor set by Management Board for BRE Bank Group and achievement of the individual yearly assessment grade in each year of the tranche.

The fair value of options granted was determined as at 23 August 2010 using the Monte-Carlo simulation and amounted to PLN 245.9. The valuation model was selected mainly due to the terms of the program, particularly its length and flexibility given to the participants in setting the exercise dates for vested options. The volatility of BRE Bank shares was calculated based on historical data for the period adequate to the length of the program (data from 12 April 2001 up to 23 August 2010). Calculations were based on a standard deviation of daily share price changes in the given period as well as the yield curve based on zero-coupon rates as at the valuation date.

The table below presents the number and weighted average exercise prices of share options related to the 2008 incentive program for key managers of BRE Bank Group.

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	31.12.2010		31.12.2009	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	-	-	-	-
Granted during the period	12 650	4	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	12 650	4	-	-
Exercisable at the end of the period	-	-	-	-

Options outstanding at the end of 2010 expire on 31 December 2019.

The table below presents changes in other reserve capital generated by the above mentioned incentive programs.

	31.12.2010	31.12.2009
Incentive programs		
As at the beginning of the period	8 442	12 113
- value of services provided (Note 11)	6 275	(3 671)
- settlement of exercised options	(3 926)	-
As at the end of the period	10 791	8 442

The incentive program for the Management Board of the Bank in the part comprising Commerzbank shares has no impact on other reserves as its cost is taken to the Income Statement in correspondence with liabilities. The value of provided services associated with this part of the program was PLN 1 738 thousand in 2010 (31 December 2009: PLN 597 thousand) (Note 10). As at 31 December 2010, liabilities due to this program amounted to PLN 2 925 thousand (31 December 2009: PLN 2 814 thousand).

40. Other components of equity

	31.12.2010	31.12.2009
Exchange differences on translating foreign operations	(3 782)	(2 609)
Unrealized gains (positive differences)	6 645	20 227
Unrealized losses (negative differences)	(10 427)	(22 836)
Available-for-sale financial assets	145 616	(82 687)
Unrealized gains on debt instruments	19 447	12 679
Unrealized losses on debt instruments	(43 966)	(174 977)
Unrealized gains on equity instruments	206 472	77 118
Deferred income tax	(36 337)	2 493
Total other components of equity	141 834	(85 296)

The increased amount of unrealised gains on debt instruments in 2010, when compared to 2009, was due to the higher valuation of floating rate treasury securities resulting from decreasing premium for Polish risk in the assessment of investors. Another reason for valuation growth was a positive valuation of a fixed coupon treasury bonds. The treasury bonds, which had positive valuation as at the end of 2009, were repurchased in 2010. Decrease of the positive valuation of treasury bills in other equity items as a result of their repurchase was compensated by a positive valuation of zero-coupon bonds held in the portfolio at the end of 2010.

The 2010, increase of revaluation of equity investments, classified as available for sale, was mainly related to revaluation of investment certificates of BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych acquired by the Bank. The amount of unrealised gains on equity instruments increased in 2010 due to revaluation of certificates in the net amount of PLN 104 075 thousand.

In 2009, the net gain of PLN 50 165 thousand representing a net revaluation of securities (investment certificates, bonds, treasury bills and stocks) sold in 2009 was released from the other components of equity and recognised in the Income Statement (Note 15 and 22).

The main items under unrealised gains on equity instruments at the end of 2009 include the revaluation of PZU SA shares to fair value in the Q4 2009, contribution of 651 660 PZU SA shares to BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in exchange for acquired investment certificates on 5 November 2009 and subsequent redemption of part of these certificates on 31 December 2009 as well as the valuation of the remaining certificates at 31 December 2009. As a result of these events, unrealised net gains on equity instruments increased by PLN 59 889 thousand in 2009.

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41. Dividend per Share

On 28 February 2011, the Management Board of BRE Bank SA passed a resolution on submitting to the 24th Ordinary General Meeting a motion concerning non-payment of dividend for the year 2010 to the shareholders. The Management Board's motion will be presented for opinion to the Supervisory Board of the Bank.

42. Cash and Cash Equivalents

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

	31.12.2010	31.12.2009
Cash and balances with the Central Bank (Note 16)	2 340 672	3 771 992
Debt securities eligible for rediscounting at the Central Bank	3 686	9 134
Loans and advances to banks (Note 18)	1 361 869	1 522 425
Trading securities (Note 19)	2 220 974	1 230 639
Total cash and cash equivalents	**5 927 201**	**6 534 190**

43. 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% subsidiary of Commerzbank AG.

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

The most important transactions with related entities in 2010:

- 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) with Commerzbank AG. Detailed information regarding the Agreement are presented under the Note 44.
- From 26 April to 26 July 2010 BRE Bank concluded the underwriting of four agreements with BRE Bank Hipoteczny SA ('BBH') of total value of PLN 450 000 thousand. These agreements include:
  - a) an underwriting agreement of 26 July 2010, under which the Bank acquired on 28 July 2010, 200 000 4-year mortgage bonds issued by BBH, in the total amount of PLN 200 000.
  - b) a stand-by credit agreement of 22 July 2010 for the period of 12 months, under which the Bank is obliged to place a deposit in BBH in the amount up to PLN 200 000 thousand.

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

The amounts of transactions with related entities, i.e., assets, liabilities and related cost and income as at 31 December 2010 and 31 December 2009 and for the respective periods then ended were as follows:

Numerical data concerning transactions with related entities (in PLN 000's) as at 31 December 2010

No.	Company's name	Statement of Financial Position		Separate Income Statement						Contingent liabilities granted and received	
		Assets	Liabilities	Interest income	Interest expense	Commission income	Commission expense	Other operating income	Overhead costs amortization and depreciation and other operating expenses	Commitments granted	Commitments received
	Subsidiaries										
1	AMBRESA Sp. z o.o.	-	593	-	(12)	2	-	-	-	-	-
2	Aspiro SA	4 546	25 795	-	-	-	(91 929)	11 797	-	-	-
3	BRE Bank Hipoteczny SA *)	1 988 393	13 415	66 838	-	-	-	-	-	218 307	-
4	BRE Corporate Finance SA	-	3 425	-	(28)	34	-	-	-	1 828	-
5	BRE GOLD FIZ Aktywów Niepublicznych	-	75 053	-	-	-	-	-	-	-	-
6	BRE Holding Sp. z o.o.	-	-	-	-	-	-	-	-	-	-
7	BRE Leasing Sp. z o.o. *)	1 141 246	46 523	47 887	(1 763)	-	-	-	-	37 476	-
8	BRE.locum SA	123 463	3 616	7 615	-	-	-	-	-	41 500	-
9	BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	-	12 693	-	(213)	1	-	-	-	-	-
10	BRE Systems Sp. z o.o.	-	106	21	(2)	12	-	-	-	-	-
11	BRE Ubezpieczenia TUiR SA	11 845	37 863	-	-	100 380	(4 530)	-	-	-	-
12	BRE Wealth Management SA	-	16 169	-	-	-	-	-	-	-	-
13	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	46 102	45 348	-	-	-	(28 233)	-	(5 960)	-	-
14	Dom Inwestycyjny BRE Bank SA	2 224	482 365	-	(15 807)	13 174	(3 990)	-	-	30 673	-
15	Garbary Sp. z o.o.	2 700	-	-	-	-	-	-	-	4 800	-
16	Intermarket Bank AG	196 035	-	-	-	-	-	-	-	-	-
17	Polfactor SA *)	382 741	-	14 850	-	-	-	-	-	57 229	-
18	Tele-Tech Investment Sp. z o.o.	60 978	118	5 801	-	3	-	-	-	-	-
19	Transfinance a.s.	41 575	-	-	-	-	-	-	-	-	-
	Commerzbank AG Capital Group (Ultimate Parent Group)	390 441	23 934 174	9 947	(320 112)	-	-	6 367	(20 768)	748 003	809 258

* 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 liabilities granted and received	
		Assets	Liabilities	Interest income	Interest expense	Commission income	Commission expense	Other operating income	Overhead costs amortization and depreciation and other operating expenses	Commitments granted	Commitments received
	Subsidiaries										
1	AMBRESA Sp. z o.o.	-	688	-	-	2	-	-	-	-	-
2	Aspiro SA (previously emFinanse Sp. z o.o.)	4 451	19 879	-	-	-	(41 311)	5 735	-	-	-
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)	3 041	(5 564)	-	-
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	-	-	-	-	-	-	-
	Commerzbank AG Capital Group (Ultimate Parent Group)	311 900	19 394 631	13 019	(314 090)	-	-	58	(17 288)	782 779	171 656

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

The Bank Group provides standard financial services to the Bank's key management personnel, Members of the Supervisory Board of the Bank and close members of their families, which comprise i.a.: maintaining bank accounts, taking deposits, granting loans or other financial services. In the Bank's opinion these transactions are concluded on market terms and conditions.

Pursuant the Banking Law, the extension of a loan, cash advance, bank guarantee or other guarantee to the Members of the Management Board and Supervisory Board of the Bank, persons holding managerial positions at the Bank as well as at entities related financially or organisationally therewith, is governed by the By-Laws adopted by the Supervisory Board of BRE Bank SA.

The By-Laws set out detailed rules and debt limits for loans, cash advances, bank guarantees, and other guarantees in relation to aforementioned persons and entities which are consistent with the Bank's internal regulations defining the competences of granting credit decisions concerning retail and corporate clients of the Bank. A decision to grant a loan, cash advances, bank guarantee or other guarantee to a Member of the Management Board and Supervisory Board of the Bank, person holding managerial position at the Bank or an entity related financially or organisationally therewith in excess of the limits set by the Banking Law is taken by the resolution of the Management Board and by the resolution of the Supervisory Board.

The terms and conditions of such loans, cash advances, bank guarantees or other guarantees, including in particular those related to interest rates as well as fees and commissions, cannot be more advantageous than the terms and conditions offered by the Bank to its retail or corporate clients, respectively.

The table below presents the values of transactions between the Bank and companies of BRE Bank Group and: the Members of the Management Board of the Bank and key executive management of the Bank.

(in PLN '000)	Directors and key management personnel of the Bank	
As at the end of the period	31.12.2010	31.12.2009
Loans outstanding	6 318	4 262
Deposits received	12 676	18 146
Interest expense on deposits	(379)	(451)
Interest, fee and commission income (related to loans and deposits)	75	92
Directors and key management remuneration	27 330	31 460

The table below presents the values of transactions between the Bank and the Members of the Supervisory Board of the Bank.

(in PLN '000)	Members of the Supervisory Board of BRE Bank	
As at the end of the period	31.12.2010	31.12.2009
Loans outstanding	82	79
Deposits received	591	896
Interest expense on deposits	(18)	(22)
Interest, fee and commission income (related to loans and deposits)	12	10

In 2010 and 2009 no provisions were created in connection with credits granted to related entities.

Management Board Remuneration

The composition of the Management Board of BRE Bank which consists of seven persons was as follows at the end of 2010:

1. Cezary Stypułkowski – President of the Management Board, General Director of the Bank,
2. Karin Katerbau – Vice-president of the Management Board, Chief Financial Officer,
3. Wiesław Thor – Vice-president of the Management Board, Chief Risk Officer,
4. Przemysław Gdański – Member of the Management Board, Head of Corporate Banking,
5. Hans-Dieter Kemler – Member of the Management Board, Head of Investment Banking,
6. Jarosław Mastalerz – Member of the Management Board, Head of Retail Banking,
7. Christian Rhino – Member of the Management Board, Chief Operation and IT Officer.

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 from the function of the President of the Management Board.

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

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Board of BRE Bank SA and since that day, designated Mr Cezary Stypułkowski as acting President of the Management Board of the Bank.

On 27 October 2010 the Polish Financial Supervision Authority granted the consent to the appointment of Cezary Stypułkowski as President of the Management Board of BRE Bank SA.

From 2 August 2010 to 1 October 2010 the duties of the President of the Management Board where temporarily executed by the Vice-President of the Management Board, Mr. Wiesław Thor.

Information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2010, as at 31 December 2010 and 31 December 2009, is presented below.

		Remuneration paid in 2010 (in PLN)			
		Basic salary	Other benefits	Bonus for 2009	Cash settlement of the incentive program based on Commerzbank shares*
1.	Cezary Stypułkowski	494 529	4 916	-	-
2.	Karin Katerbau	1 500 000	88 200	250 000	80 623
3.	Wiesław Thor	1 500 464	151 106	250 000	311 716
4.	Przemysław Gdański	1 200 000	123 346	150 000	-
5.	Hans-Dieter Kemler	1 200 000	306 917	117 260	-
6.	Jarosław Mastalerz	1 200 238	123 535	200 000	314 429
7.	Christian Rhino	1 200 000	130 718	200 000	200 191
	Total	8 295 231	928 738	1 167 260	906 959

* The settlement relates to 2008 incentive program for the Management Board Members of the Bank in the part based on Commerzbank shares. In 2010, the entitled Management Board Members received cash equivalent for Commerzbank shares as a settlement of the first tranche of the incentive program for 2008.

Remuneration of the former Management Board Members paid in the year 2010.

		Remuneration paid in 2010 (in PLN)			
		Basic salary	Other benefits, payoff and compensations	Bonus for 2009	Cash settlement of the incentive program based on Commerzbank shares*
Remuneration of the former Management Board Members who ceased performing their functions in the year 2010					
1.	Mariusz Grendowicz	1 179 409	4 524 961	225 000	151 205
Remuneration of the former Management Board Members who ceased performing their functions in the year 2008					
1.	Andre Carls	-	-	-	112 093
	Total	1 179 409	4 524 961	225 000	263 298

* The settlement relates to 2008 incentive program for the Management Board Members of the Bank in the part based on Commerzbank shares. In 2010, the entitled former Management Board Members received cash equivalent for Commerzbank shares as a settlement of the first tranche of the incentive program for 2008.

Remuneration of the Management Board Members paid in the year 2009.

No.		Remuneration paid in 2009 (in PLN)		
		Basic salary	Other benefits	Bonus for 2008
1.	Mariusz Grendowicz	1 800 000	236 696	2 400 000
2.	Karin Katerbau	1 275 000	208 751	223 068
3.	Wiesław Thor	1 508 186	148 430	862 500
4.	Przemysław Gdański	1 200 000	143 661	1 000 000
5.	Hans-Dieter Kemler	569 565	760 098	-
6.	Jarosław Mastalerz	1 200 000	167 408	870 000
7.	Christian Rhino	1 200 000	101 878	553 890
	Total	8 752 751	1 766 922	5 909 458

Remuneration of the former Management Board Members paid in the year 2009.

No.		Remuneration paid in 2009 (in PLN)		
		Basic salary	Other benefits	Bonus for 2008
Remuneration of the former Management Board Members who ceased performing their functions in the year 2009				
1.	Bernd Loewen	600 000	71 043	1 270 000
Remuneration of the former Management Board Members who ceased performing their functions in the year 2008				
1.	Andre Carls	-	-	310 146
2.	Sławomir Lachowski	-	1 225 337	-
3.	Janusz Wojtas	-	726 168	-
4.	Rainer Ottenstein	-	-	600 000
	Total	600 000	2 022 548	2 180 146

Additionally, due to the fact that the effects of a one-off transaction were excluded from the basis for the calculation of the bonus for 2008, Members of the Management Board, Mrs. Karin Katerbau and Mr. Christian Rhino, signed additional agreements with the Bank. The agreements foresee payment of an additional amount in cash and transfer of additional shares of BRE Bank and Commerzbank in case the employee is dismissed from the Management Board Member function on or before 16 March 2012 due to ownership changes in the Commerzbank Group, which could theoretically result in excluding the Bank from the Commerzbank Group (i.e. 50% or more of voting rights at the General Meeting would be transferred outside the Commerzbank Group). In case such hypothetical event took place, Mrs. Karin Katerbau would be entitled to an additional cash payment amounting to PLN 96 987 as well as additional 1 534 BRE Bank shares and 4 263 Commerzbank shares whereas Mr. Christian Rhino would be entitled to an additional cash payment amounting to PLN 240 822 as well as additional 3 807 BRE Bank shares and 10 586 Commerzbank shares.

In both cases, the Bank would be entitled to pay cash compensation to the employees in exchange for BRE Bank and Commerzbank shares. Cash compensation should be calculated on the basis of the market price of BRE Bank shares and Commerzbank shares prevailing one day before the execution of the appropriate payment on the Warsaw Stock Exchange and Xetra stock exchange in Frankfurt, respectively.

Members of the Management Board, Mr. Wiesław Thor and Mr. Jarosław Mastalerz, have been negotiating similar agreements with the Bank.

Mr. Mariusz Grendowicz, who acted as the President of the Bank till 2 August 2010, received in 2010 the cash compensation in the amount of PLN 794 736 and an additional right to acquire 6 527 BRE Bank bonds with the pre-emptive right to acquire shares of the Bank as a settlement under the bonus for 2008. These bonds were acquired and then converted into Bank shares in November 2010.

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

The above mentioned benefits are short-term employee benefits.

In accordance with the Bank's remuneration system in force, the members of the Management Board of the Bank may be entitled to receive bonuses for the year 2010, which would be paid out in 2011. The final decision concerning the level of the bonus will be taken by the Executive Committee of the Supervisory Board by 30 March 2011.

In 2010 and 2009, the members of the Management Board of BRE Bank SA did not receive compensation for their role as members of the management boards and supervisory boards of the Bank's related entities.

The total amount of remuneration received in 2010 by Bank's Management Board members was PLN 17 378 763 (2009: PLN 18 370 174).

Supervisory Board Compensation

The composition of the Supervisory Board at the end of 2010 was as follows:

1. Maciej Leśny – Chairman of the Supervisory Board, Chairman of the Executive Committee, Member of the Risk Committee, Member of the Audit Committee,
2. Andre Carls – Deputy Chairman of the Supervisory Board, Member of the Executive Committee, Member of the Risk Committee, Member of the Audit Committee,
3. Sascha Klaus – Member of the Supervisory Board, Member of the Executive Committee, Chairman of the Risk Committee,
4. Martin Zielke – Member of the Supervisory Board, Chairman of the Audit Committee,
5. Jan Szomburg – Member of the Supervisory Board, Member of the Executive Committee, Member of the Audit Committee,
6. Waldemar Stawski – Member of the Supervisory Board, Member of the Risk Committee,
7. Achim Kassow – Member of the Supervisory Board, Member of the Executive Committee,
8. Teresa Mokrysz – Member of the Supervisory Board,
9. Marek Wierzbowski – Member of the Supervisory Board,
10. Stefan Schmittmann – Member of the Supervisory Board.

On 1 April 2010, due to resignation on 31 March 2010 from membership of the Bank's Supervisory Board and membership of the Executive Committee by Mr. Michael Schmid, the Supervisory Board appointed Mr. Sascha Klaus as a new member.

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Information about the Supervisory Board members' salaries, bonuses and benefits paid as at 31 December 2010 and 31 December 2009 is presented below.

No.		Remuneration paid in 2010 (in PLN)	Remuneration paid in 2009 (in PLN)
1.	Maciej Leśny	318 557	315 000
2.	Andre Carls	273 000	273 000
3.	Sascha Klaus	173 250	-
4.	Martin Zielke	198 000	198 000
5.	Jan Szomburg	234 557	231 000
6.	Achim Kassow	132 000	181 500
7.	Waldemar Stawski	201 557	198 000
8.	Teresa Mokrysz	134 927	132 000
9.	Marek Wierzbowski	132 000	132 000
10.	Stefan Schmittmann	-	-
	Michael Schmid*	57 750	206 250
	Total	**1 855 598**	**1 866 750**

* On 31 March 2010 Mr. Michael Schmid resigned from the office.

In accordance with the wording of paragraph 11(j) of the By-laws of BRE Bank SA the General Meeting determines remuneration for members of the Supervisory Board in a resolution. Remuneration of the Management Board members is determined by the Supervisory Board (paragraph 22.1(e) of the By-laws of BRE Bank SA).

Information regarding proprietary position in Bank shares by the Members of the Management Board and by the Members of the Supervisory Board

As at 31 December 2010, Bank shares were held by two Members of the Management Board: Vice-president, Mrs. Karin Katerbau – 1 176 shares and Member of the Management Board, Mr. Christian Rhino – 2 919 shares.

As at 31 December 2009, the Members of the Management Board had no Bank shares.

As at 31 December 2010, one Member of the Supervisory Board of BRE Bank SA held shares of BRE Bank SA, Mr. Andre Carls - 1 635 shares.

As at 31 December 2010, the other Members of the Supervisory Board of BRE Bank SA had no Bank shares.

44. Acquisitions and Disposals

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'). The sale took place on 9 November 2010. On the same day, the ownership of the Banking Enterprise of the Branch was assigned to the Bank. The selling price of the Branch totalled PLN 10 000 thousand and was based on evaluation made by an independent expert. The transaction was settled and accounted for as a purchase of assets.

45. Information about the Registered Audit Company

The registered audit company with whom BRE Bank SA signed an agreement is PricewaterhouseCoopers Sp. z o.o. The agreement to conduct an audit of stand-alone financial statements of BRE Bank SA and consolidated financial statements of BRE Bank SA Group was signed on 4 July 2008.

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to the audit and review of stand-alone financial statements and consolidated financial statements of BRE Bank SA was PLN 3 029 thousand in 2010 (2009: PLN 2 919 thousand).

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to consulting services for BRE Bank SA was PLN 2 351 thousand in 2010 (2009: PLN 781 thousand).

46. Capital Adequacy Ratio / Capital Adequacy

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

- are consistent with valid external regulations and internal regulations of the Bank,

- assure safe continuation of accomplishment of financial targets providing a suitable level of return for shareholders,
- enable to maintain a stable capital base which is the basis for growth of business.

The capital management policy in BRE Bank is based on:

1. Maintenance of an optimal level and structure of own funds with the application of available methods and means (retention of net profit, subordinated loan, issue of shares, etc.);
2. Effective utilisation of existing capital among others through application of a set of measures of effective utilisation of the capital, limitation of activities that do not provide an expected rate of return, development of products with lower capital absorption.

Effective utilisation of capital is an integral part of the capital management policy oriented at reaching an optimal rate of return on capital and, as a result, forming a stable basis of reinforcement of the capital base in future periods, which enables to maintain the capital adequacy ratio at least on the level required by the supervision authority (the Polish Financial Supervision Authority, 'KNF'). The capital adequacy ratio is calculated as a quotient of own funds to the total capital requirement multiplied by 12.5, and it has to be 8% at least.

Own funds comprise:

- core funds including:
  - principal funds (paid and registered share capital, supplementary capital and reserve funds excluding any liabilities due to preference shares),
  - additional items of core funds (general risk fund for unidentified banking business risk, retained earnings, profit under approval by shareholders and net profit for the current reporting year, calculated in accordance with valid accounting principles, less any expected costs and dividends in the amounts not greater than the profit verified by auditors, other balance sheet items determined by KNF),
  - items reducing core funds – own shares held by the Bank, valued at carrying amount and reduced by releted impairment losses, intangible assets at their carrying amount, loss from previous years, loss under approval by shareholders, net loss for the current year, other decreases of core funds of the Bank determined by KNF (including missing provisions for banking business risk and exposure to securitisation items),
- supplementary funds including:
  - revaluation reserve resulting from valuation of tangible fixed assets – formed on the basis of separate regulations,
  - balance sheet items whose inclusion is conditional on KNF decisions (including subordinated liabilities, liabilities due to securities with unlimited maturities and other similar instruments),
  - items determined by KNF for the purpose of ensuring business safety and proper risk management within the Bank,
  - decreases of supplementary funds, determined by KNF.

The total capital requirement comprises:

- credit risk,
- market risk capital requirement comprising: foreign exchange risk capital requirement, commodity risk capital requirement, specific risk of equity instrument prices capital requirement, specific risk of debt instrument prices capital requirement, general interest rate risk capital requirement,
- settlement risk capital requirement, delivery risk capital requirement and counterparty risk capital requirement,
- capital requirement due to the risk of exceeding the limit of concentration of exposures and the risk of exceeding the limit of concentration of large exposures,
- capital requirement due to the risk of exceeding the level of capital concentration,
- operational risk capital requirement.

The Bank adjusts the own funds to the level and kind of the risk it is exposed to and to the character, scale and complexity of its business activity. For that purpose, the Bank prepared and implemented ICAAP process (Internal Capital Adequacy Assessment Process). The aim of this process it to have the own funds at the level adequate to the risk profile and the risk level of the Bank's activities, to ensure the safety of the business of BRE Bank SA.

Internal capital is estimated by the Bank as a capital level needed to cover all identified, material types of risk within the Bank’s activity, including so-called permanent material risks and other material risks not fully quantifiable. The permanent material risks are to be covered by the economic capital, while other risks are to be covered by the capital for coverage of risks not fully quantifiable.

The process of internal capital adequacy assessment of the Bank is performed on an on-going basis and is based on the following tasks completed by the organisational units of the Bank:

- identification and determining of the materiality of risks occurring in the business of the Bank,
- calculation of capital to cover each of the material risks,
- aggregation of capital to cover risks,
- allocation of capital to business lines and the Group’s companies,
- monitoring containing permanent identification of the risks prsented in the business activities of the Bank and analysis of the level of consumed capital related the material risks.

The process of internal capital adequacy assessment is approved by the Supervisory Board of the Bank.

The calculation of the Bank’s capital adequacy ratio and own funds is made on the following basis:

- Banking Act dated 29 August 1997 (Dz.U. from the year 2002 No 72, item 665, as amended),
- Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 (Dz. Urz. KNF from the year 2010 No 2 item 11) with later amendments,
- Resolution No. 367/2010 of the Polish Financial Supervision Authority dated 12 October 2010 (Dz. Urz. KNF from the year 2010 No 8 item 36),
- Resolution No. 382/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 36),
- Resolution No. 383/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 37),
- Resolution No. 384/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 38),
- Resolution No. 387/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 41),

The capital adequacy ratio of BRE Bank amounted to 16.91% as at 31 December 2010.

Due to significant trading activity full calculation of the capital requirements is being made. The total capital requirement of the Bank amounted to PLN 3 864 756 thousand as at 31 December 2010, including PLN 3 494 179 thousand of credit capital requirement (31 December 2009 respectively: 3 639 569 thousand and PLN 3 253 167 thousand).

Due to the fact that total capital requirement of the BRE Bank calculated according to Resolution No. 76/2010 is higher than the internal capital calculated according to Resolution No. 383/2008, the BRE Bank own funds were kept as at 31 December 2010 at a level not lower than the total capital requirement calculated according to Resolution No. 76/2010.

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Capital adequacy	31.12.2010	31.12.2009
Own funds:		
- Share capital	168 347	118 764
- Supplementary fund	4 927 119	3 006 573
- Reserve fund	775 934	716 442
- Revaluation reserve arising from valuation of non-current and financial assets available for sale	130 734	(132 550)
- Profit for the current year	-	23 949
- Investments in financial institutions	(459 104)	(459 071)
- Intangible assets	(379 981)	(396 121)
- Subordinated liabilities	3 005 705	2 460 664
I. Total own funds	**8 168 754**	**5 338 650**
Risk weighted off-balance sheet assets and liabilities:		
- applying a 20% risk weight	744 514	298 274
- applying a 35% risk weight	544 822	458 866
- applying a 50% risk weight	1 950 063	2 036 431
- applying a 75% risk weight	23 336 476	20 299 914
- applying a 100% risk weight	16 897 159	17 756 555
- applying a 150% risk weight	743 134	438 385
II. Total risk weighted assets and off-balance sheet liabilities	**44 216 168**	**41 288 425**
III. Credit risk	**3 494 179**	**3 253 167**
IV. Foreign exchange risk	**-**	**-**
V. Equity instruments price risk	**279**	**184**
VI. Specific risk for debt instruments	**26 306**	**35 778**
VII. General interest rate risk	**21 467**	**21 035**
VIII. Settlement, delivery and counterparty credit risk	**42 988**	**49 909**
IX. Commodities risk	**-**	**-**
X. Operational risk	**279 537**	**279 496**
XI. Total capital charge	**3 864 756**	**3 639 569**
XII. Capital adequacy ratio (%)	**16.91%**	**11.73%**

47. Events after the Balance Sheet Date

- On 31 January 2011, under the agreement concluded on 26 January 2011 between BRE Holding, a 100% subsidiary of BRE Bank SA, and Commerz Real, a 100% subsidiary of Commerzbank AG, BRE Holding acquired 49.9% of shares of BRE Leasing from Commerz Real. The purchase price of the shares amounted to EUR 17 144 thousand (equivalent of PLN 66 876 thousand). After this transaction, BRE Bank Group holds 100% shares in BRE Leasing.

  In connection with this transaction, the capital of BRE Holding was increased by the amount of PLN 67 276 thousand on 27 January 2011. All new shares in BRE Holding were taken up by BRE Bank SA.

- On 22 February 2010 the Bank was informed by Commerzbank AG, the majority shareholder of the Bank, that in view of BRE Bank Group's sustainable core capital and earnings strength and in accordance with international standards, the existing letters of comfort issued to BRE Bank and its subsidiaries BRE Bank Hipoteczny and BRE Leasing would expire by the end of March 2011. In the information delivered to the Bank, Commerzbank AG confirmed that BRE Bank is a strategic core investment of Commerzbank Group in its second home market Central and Eastern Europe, and together with its subsidiaries part of the funding pool of Commerzbank Group.