BRE BANK SA

Our people make the difference.

BRE Bank SA Group

IFRS Consolidated Financial Statements 2012

Selected financial data

The selected financial data are supplementary information to these Consolidated Financial Statements of BRE Bank SA Group for 2012.

		in PLN '000		in EUR '000	
		Year ended 31.12.2012	Year ended 31.12.2011	Year ended 31.12.2012	Year ended 31.12.2011
I.	Interest income	4 476 800	3 890 573	1 072 647	939 729
II.	Fee and commission income	1 273 953	1 279 172	305 241	308 971
III.	Net trading income	356 542	347 412	85 428	83 914
IV.	Operating profit	1 472 103	1 467 127	352 718	354 370
V.	Profit before income tax	1 472 103	1 467 127	352 718	354 370
VI.	Net profit attributable to Owners of BRE Bank SA	1 203 230	1 134 972	288 295	274 141
VII.	Net profit attributable to non-controlling interests	581	9 463	139	2 286
VIII.	Net cash flows from operating activities	3 551 574	1 594 968	850 962	385 249
IX.	Net cash flows from investing activities	(216 342)	(187 372)	(51 836)	(45 258)
X.	Net cash flows from financing activities	(400 979)	(2 519 401)	(96 075)	(608 536)
XI.	Net increase / decrease in cash and cash equivalents	2 934 253	(1 111 805)	703 051	(268 545)
XII.	Basic earnings per share (in PLN/EUR)	28.57	26.96	6.84	6.51
XIII.	Diluted earnings per share (in PLN/EUR)	28.54	26.94	6.84	6.51
XIV.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

		in PLN '000		in EUR '000	
		As at		As at	
		31.12.2012	31.12.2011	31.12.2012	31.12.2011
I.	Total assets	102 236 046	98 875 647	25 007 594	22 386 263
II.	Amounts due to the Central Bank	-	-	-	-
III.	Amounts due to other banks	21 110 939	27 390 809	5 163 871	6 201 505
IV.	Amounts due to customers	57 983 600	54 244 388	14 183 161	12 281 377
V.	Equity attributable to Owners of BRE Bank SA	9 685 493	8 048 755	2 369 134	1 822 305
VI.	Non-controlling interests	24 491	23 910	5 991	5 413
VII.	Share capital	168 556	168 411	41 230	38 130
VIII.	Number of shares	42 138 976	42 102 746	42 138 976	42 102 746
IX.	Book value per share (in PLN/EUR)	229.85	191.17	56.22	43.28
X.	Capital adequacy ratio	18.73	14.96	18.73	14.96

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 2012 EUR 1 = PLN 4.0882 and 31 December 2011: EUR 1 = PLN 4.4168.
- <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 2012 and 2011: EUR 1 = PLN 4.1736 and EUR 1 = PLN 4.1401 respectively.

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IFRS Consolidated Financial Statements 2012 PLN (000's)

Consolidated income statement

	Note	Year ended 31 December	
		2012	2011
Interest income	6	4 476 800	3 890 573
Interest expense	6	(2 243 168)	(1 723 365)
Net interest income		**2 233 632**	**2 167 208**
Fee and commission income	7	1 273 953	1 279 172
Fee and commission expense	7	(434 073)	(439 200)
Net fee and commission income		**839 880**	**839 972**
Dividend income	8	13 902	15 113
Net trading income, including:	9	356 542	347 412
Foreign exchange result		*324 006*	*328 640*
Other net trading income and result on hedge accounting		*32 536*	*18 772*
Gains less losses from investment securities, investments in subsidiaries and associates	23	44 966	11 985
Other operating income	10	275 721	317 355
Net impairment losses on loans and advances	13	(444 635)	(373 470)
Overhead costs	11	(1 465 788)	(1 471 501)
Amortization and depreciation	24,25	(195 617)	(208 764)
Other operating expenses	12	(186 500)	(178 183)
Operating profit		**1 472 103**	**1 467 127**
Profit before income tax		**1 472 103**	**1 467 127**
Income tax expense	14	(268 292)	(322 692)
Net profit		**1 203 811**	**1 144 435**
Net profit attributable to:			
- Owners of BRE Bank SA		1 203 230	1 134 972
- Non-controlling interests		581	9 463

Net profit attributable to Owners of BRE Bank SA		**1 203 230**	**1 134 972**
Weighted average number of ordinary shares	15	**42 118 904**	**42 093 950**
Basic earnings per share (in PLN)	15	**28.57**	**26.96**
Weighted average number of ordinary shares for diluted earnings	15	**42 158 632**	**42 133 947**
Diluted earnings per share (in PLN)	15	**28.54**	**26.94**

Notes presented on pages 9 – 110 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2012 PLN (000's)

Consolidated statement of comprehensive income

	Note	Year ended 31 December	
		2012	2011
Net profit		**1 203 811**	**1 144 435**
Other comprehensive income net of tax	16	**421 998**	**2 248**
Exchange differences on translating foreign operations (net)		(1 815)	3 451
Available-for-sale financial assets (net)		423 813	(1 203)
Total comprehensive income net of tax, total		**1 625 809**	**1 146 683**
Total comprehensive income (net), attributable to:			
- Owners of BRE Bank SA		1 625 228	1 135 612
- Non-controlling interests		581	11 071

Notes presented on pages 9 – 110 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2012 PLN (000's)

Consolidated statement of financial position

ASSETS	Note	31.12.2012	31.12.2011
Cash and balances with the Central Bank	17	4 819 203	1 038 356
Loans and advances to banks	18	3 944 578	4 008 874
Trading securities	19	1 150 886	1 477 022
Derivative financial instruments	20	2 802 695	1 506 595
Loans and advances to customers	22	67 059 254	67 851 516
Hedge accounting adjustments related to fair value of hedged items	21	2 439	1 924
Investment securities	23	19 993 388	20 551 272
Intangible assets	24	436 123	436 769
Tangible assets	25	773 904	832 455
Current income tax assets		129	4 728
Deferred income tax assets	33	369 821	307 052
Other assets	26	883 626	859 084
Total assets		**102 236 046**	**98 875 647**

LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		-	-
Amounts due to other banks	27	21 110 939	27 390 809
Derivative financial instruments	20	3 476 684	1 862 747
Amounts due to customers	28	57 983 600	54 244 388
Debt securities in issue	29	4 892 275	1 735 988
Hedge accounting adjustments related to fair value of hedged items	21	4 220	-
Subordinated liabilities	30	3 222 295	3 456 200
Other liabilities	31	1 394 845	1 723 856
Current income tax liabilities		226 215	235 568
Deferred income tax liabilities	33	1 662	258
Provisions	32	213 327	153 168
Total liabilities		**92 526 062**	**90 802 982**
Equity			
Equity attributable to Owners of BRE Bank SA		**9 685 493**	**8 048 755**
Share capital:		**3 501 633**	**3 493 812**
- Registered share capital	37	168 556	168 411
- Share premium	38	3 333 077	3 325 401
Retained earnings:	39	**5 700 076**	**4 493 157**
- Profit from the previous years		4 496 846	3 358 185
- Profit for the current year		1 203 230	1 134 972
Other components of equity	40	**483 784**	**61 786**
Non-controlling interests		**24 491**	**23 910**
Total equity		**9 709 984**	**8 072 665**
Total liabilities and equity		**102 236 046**	**98 875 647**

Capital adequacy ratio	47	**18.73**	**14.96**
Book value		**9 685 493**	**8 048 755**
Number of shares		**42 138 976**	**42 102 746**
Book value per share (in PLN)		**229.85**	**191.17**

Notes presented on pages 9 – 110 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2012 PLN (000's)

Consolidated statement of changes in equity

Changes from 1 January to 31 December 2012

	Note	Share capital		Retained earnings					Other components of equity		Equity attributable to Owners of BRE Bank SA, total	Non-controlling interests	Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Available for sale financial assets			
Equity as at 1 January 2012		168 411	3 325 401	2 334 675	81 174	841 953	1 235 355	-	1 921	59 865	8 048 755	23 910	8 072 665
Total comprehensive income	16							1 203 230	(1 815)	423 813	1 625 228	581	1 625 809
Transfer to General Risk Fund		-	-	-	-	104 000	(104 000)	-	-	-	-	-	-
Transfer to reserve capital		-	-	-	10 000	-	(10 000)	-	-	-	-	-	-
Transfer to supplementary capital		-	-	1 018 829	-	-	(1 018 829)	-	-	-	-	-	-
Issue of shares	37, 38	145	-	-	-	-	-	-	-	-	145	-	145
Stock option program for employees	43	-	7 676	-	3 689	-	-	-	-	-	11 365	-	11 365
- value of services provided by the employees		-	-	-	*11 365*	-	-	-	-	-	*11 365*	-	*11 365*
- settlement of exercised options		-	*7 676*	-	*(7 676)*	-	-	-	-	-	-	-	-
Equity as at 31 December 2012		168 556	3 333 077	3 353 504	94 863	945 953	102 526	1 203 230	106	483 678	9 685 493	24 491	9 709 984

Changes from 1 January to 31 December 2011

	Note	Share capital		Retained earnings					Other components of equity		Equity attributable to Owners of BRE Bank SA, total	Non-controlling interests	Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Available for sale financial assets			
Equity as at 1 January 2011		168 347	3 323 465	1 814 954	55 300	778 953	707 138	-	50	61 096	6 909 303	167 982	7 077 285
Total comprehensive income	16							1 134 972	1 871	(1 231)	1 135 612	11 071	1 146 683
Dividends paid		-	-	-	-	-	-	-	-	-	-	(6 978)	(6 978)
Transfer to General Risk Fund		-	-	-	-	63 000	(63 000)	-	-	-	-	-	-
Transfer to reserve capital		-	-	-	17 000	-	(17 000)	-	-	-	-	-	-
Transfer to supplementary capital		-	-	519 721	-	-	(519 721)	-	-	-	-	-	-
Issue of shares	37, 38	64	-	-	-	-	-	-	-	-	64	-	64
Increase of share in consolidated company		-	-	-	(513)	-	(7 034)	-	-	-	(7 547)	(148 165)	(155 712)
Stock option program for employees	43	-	1 936	-	9 387	-	-	-	-	-	11 323	-	11 323
- value of services provided by the employees		-	-	-	*11 323*	-	-	-	-	-	*11 323*	-	*11 323*
- settlement of exercised options		-	*1 936*	-	*(1 936)*	-	-	-	-	-	-	-	-
Equity as at 31 December 2011		168 411	3 325 401	2 334 675	81 174	841 953	100 383	1 134 972	1 921	59 865	8 048 755	23 910	8 072 665

Notes presented on pages 9 – 110 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2012 PLN (000's)

Consolidated statement of cash flows

	Note	Year ended 31 December	
		2012	2011
A. Cash flows from operating activities		3 551 574	1 594 968
Profit before income tax		1 472 103	1 467 127
Adjustments:		*2 079 471*	*127 841*
Income taxes paid		(400 918)	(95 738)
Amortization	10,24,25	247 174	251 412
Foreign exchange (gains) losses related to financing activities		(1 745 708)	3 491 775
(Gains) losses on investing activities		(10 226)	(14 014)
Impairment of investments in subsidiaries		3 113	-
Dividends received	8	(13 902)	(15 113)
Interest income (income statement)	6	(4 476 800)	(3 890 573)
Interest expense (income statement)	6	2 243 168	1 723 365
Interest received		4 857 137	4 269 764
Interest paid		(1 925 626)	(1 299 651)
Changes in loans and advances to banks		(597 811)	(18 627)
Changes in trading securities		(522)	(227 087)
Changes in assets and liabilities on derivative financial instruments		363 992	335 966
Changes in loans and advances to customers		530 104	(9 682 458)
Changes in investment securities		1 052 363	(975 828)
Changes in other assets		(39 754)	15 888
Changes in amounts due to other banks		(1 826 692)	226 158
Changes in amounts due to customers		3 788 701	5 570 805
Changes in debt securities in issue		226 181	(102 893)
Changes in provisions		60 159	(10 605)
Changes in other liabilities		(254 662)	575 295
Net cash generated from operating activities		3 551 574	1 594 968
B.Cash flows from investing activities		(216 342)	(187 372)
Investing activity inflows		50 609	118 865
Disposal of shares in associates		-	1 348
Disposal of shares in subsidiaries, net of cash disposed		13 200	70 013
Disposal of intangible assets and tangible fixed assets		23 507	19 437
Dividends received	8	13 902	15 113
Other investing inflows		-	12 954
Investing activity outflows		266 951	306 237
Acquisition of shares in associates		102	-
Purchase of intangible assets and tangible fixed assets		266 849	306 237
Net cash used in investing activities		(216 342)	(187 372)
C. Cash flows from financing activities		(400 979)	(2 519 401)
Financing activity inflows		7 139 339	4 356 344
Proceeds from loans and advances from other banks		84 254	620 507
Proceeds from other loans and advances		-	1 255 960
Issue of debt securities		7 054 940	2 479 813
Issue of ordinary shares		145	64
Financing activity outflows		7 540 318	6 875 745
Repayments of loans and advances from other banks		3 133 894	4 290 141
Repayments of other loans and advances		10 542	9 732
Redemption of debt securities		4 039 165	2 075 810
Acquisition of shares in subsidiaries		-	107 498
Payments of financial lease liabilities		382	365
Dividends and other payments to shareholders		-	6 978
Interest paid from loans and advances received from other banks and subordinated liabilities		356 335	385 221
Net cash generated from financing activities		(400 979)	(2 519 401)
Net increase / decrease in cash and cash equivalents (A+B+C)		2 934 253	(1 111 805)
Effects of exchange rate changes on cash and cash equivalents		(31 147)	(18 800)
Cash and cash equivalents at the beginning of the reporting period		4 675 211	5 805 816
Cash and cash equivalents at the end of the reporting period	42	7 578 317	4 675 211

Notes presented on pages 9 – 110 constitute an integral part of these Consolidated Financial Statements.

Explanatory notes to the consolidated financial statements

1. Information regarding the Group of BRE Bank SA

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

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

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

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

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

As at 31 December 2012, BRE Bank Group covered by the Consolidated Financial Statements comprised the following companies:

BRE Bank SA, the parent entity

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

According to the Polish Classification of Business Activities, the business of the Bank was classified as 'Other monetary intermediation' under number 6419Z. According to the Stock Exchange Quotation, the Bank is classified as 'Banks' sector as part of the 'Finance' macro-sector.

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

The Bank provides services to Polish and international corporations and individuals, both in the local currency (Polish Zloty, PLN) and in foreign currencies.

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

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

As at 31 December 2012 the headcount of BRE Bank SA amounted to 4 728 FTEs (Full Time Equivalents) and of the Group to 6 138 FTEs (31 December 2011: Bank 4 729 FTEs, Group 6 294 FTEs).

As at 31 December 2012 the employment in BRE Bank SA was 5 703 persons and in the Group 8 034 persons (31 December 2011: Bank 5 683 persons, Group 8 158 persons).

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

Corporates and Financial Markets Segment, including:

Corporates and Institutions

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

The company was founded in November 2007 by BRE Bank as a sole shareholder. The company's assets consists of 100% shares of BRE Leasing Sp. z o.o., 100% shares of BRE Faktoring SA, 75.71% shares of BRE Bank Hipoteczny SA and 79.99% shares of BRE.locum SA.

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

The company's core business is to lease chattels such as: machinery, equipment, technology lines, passenger cars, vans and trucks, tractors, trailers and semi-trailers, buses, vehicles, special equipment, ships, aircraft, rolling stock, office equipment, computer hardware. BRE Leasing's offer for corporate clients includes leasing of real estate, mainly offices, hotels, warehouses and logistics centres, petrol stations, public buildings and municipal infrastructure. The company has a network of offices in the largest cities of Poland. BRE Bank holds indirectly through its subsidiary BRE Holding 100% shares of BRE Leasing.

- **BRE Faktoring SA, subsidiary**

The company operates in Poland and provides factoring services for domestic, export and import transactions. It is a member of the Polish Factors Association and Factors Chain International. BRE Bank holds an indirect stake (through BRE Holding, its subsidiary) of 100% of the share capital and 100% of votes at the General Meeting of the company.

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

The only business of the company is to administer the buildings of a former meat factories located at 101/111 Garbary St. in Poznań.

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

Transfinance a.s. provides factoring services to small and medium-sized enterprises in the Czech Republic. Its services include domestic and international factoring. The core business of the company also includes purchase of collections, letters of credit, bank guarantees, as well as forfeiting. The Bank holds 100% of Transfinance's shares.

- **MLV 35 Sp. z o.o. spółka komandytowo-akcyjna, subsidiary**

In the fourth quarter of 2012, BRE Bank acquired 100% stake in MLV 35 Sp. z o.o. spółka komandytowo-akcyjna for the purpose of restructuring BRE Bank Group's holding in PZU SA shares. The core business of the company's is financial intermediation.

Trading and Investment

- **BRE Bank Hipoteczny SA, subsidiary**

The core business of BRE Bank Hipoteczny SA is to grant mortgage loans to finance commercial real estate, residential development projects and local government investments. The company issues mortgage and public bonds to finance its lending operation.

The Bank holds directly and indirectly, through BRE Holding, its subsidiary, 100% of the shares of the company.

- **BRE Finance France SA, subsidiary**

The core business of the company is to raise funds for the Bank by issuing euro-notes on international financial markets. In October 2012, the company issued Eurobonds with a nominal value of EUR 500 000 thousand with maturity date in 2015. The company did not issue debt securities in 2011.

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

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

Retail Banking Segment (including Private Banking)

- **Aspiro SA, subsidiary**

Aspiro SA offers mBank, MultiBank and third party banks' products. Its offer includes mortgage loans, business products, cash loans, insurance products and leasing. It has a national distribution network comprising 33 Stationary Financial Centres, 33 Mobile Financial Centres, 68 mKiosks, including 6 Partner mKiosks.

- **BRE Wealth Management SA, subsidiary**

The company's core business is to provide comprehensive wealth management services. In 2011, a new business model focused on offering investment related advice was implemented. The Company continues its strategic direction communicated as a change in the offer "From Asset Manager for Wealth Manager." The new model provides advice on all assets, both financial and non-financial, focusing on client business plans and assistance in this regard.

- **BRE Ubezpieczenia TUiR SA, subsidiary, insurer**

The core business of the company is insurance activity within the scope of the second division of underwriting – property and casualty insurance. The company sells its products through the Internet platform developed in cooperation with retail branches of the Bank. Also, typical products known as bancassurance for customers of the Bank are sold via an insurance agent, the company BRE Ubezpieczenia Sp. z o.o. The Bank holds indirectly, through its subsidiary Aspiro SA, 100% of the company's shares.

- **BRE Ubezpieczenia Sp. z o.o., subsidiary, insurance agent**

The core business of the company involves services provided as an insurance agent and services within the scope of settlements due to insurance agreements of insured persons. Its direct parent entity is BRE Ubezpieczenia TUiR SA. The Bank holds indirectly, through its subsidiary Aspiro SA, 100% of the company's shares.

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- **BRE Agent Ubezpieczeniowy Sp. z o.o., subsidiary, insurance agent**

Its core business of the company is to provide services as an insurance agent within the scope of settlements and administration of the low contribution insurance contracts in credits. The Bank holds indirectly, through its subsidiary Aspiro SA, 100% of the company's shares.

Other

- **BRE Centrum Operacji Sp. z o.o., subsidiary**

The core business of the company is i.a. providing services in the field of data and document management, as well as an electronic archive, a traditional archive, business processes and transaction banking.

- **BRE.locum SA, subsidiary**

BRE.locum SA is a property developer operating in the primary market of residential real estate. The company develops and assesses investment projects; arranges, supervises and manages building designs and construction work; acts as a 'substitute investor'; sources funds for investment. The Bank holds indirectly, through BRE Holding, 79.99% of the shares of the company.

Other information concerning companies of the Group

From the first quarter of 2012, the Group started to consolidate its subsidiary entity BRE Agent Ubezpieczeniowy Sp. z o.o.

On 28 June 2012, the share capital of Aspiro SA was increased by PLN 109 342 thousand by way of issuing 109 342 B-series ordinary registered shares. The shares were acquired by BRE Bank in a private placement and covered by a non-financial contribution in the form of 12 941 177 ordinary registered shares of BRE Ubezpieczenia TUiR SA. The transaction resulted from the reorganization of the retail sales network.

Starting from the fourth quarter of 2012, the Group included in the consolidation its subsidiary MLV 35 Sp. z o.o. spółka komandytowo – akcyjna.

In December 2012, the Group ceased to consolidate the subsidiary BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in connection with the redemption of certificates issued by the company. As of 31 December 2012, the Group did not have any certificates issued by BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych.

Information concerning the business conducted by the Group's entities is presented under Note 5 'Business Segments' of these Consolidated Financial Statements.

The consolidated financial statements of the Bank cover the following companies:

Company	31.12.2012		31.12.2011	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro SA	100%	full	100%	full
BRE Agent Ubezpieczeniowy Sp. z o.o.	100%	full	-	-
BRE Bank Hipoteczny SA	100%	full	100%	full
BRE Centrum Operacji Sp. z o.o.	100%	full	100%	full
BRE Faktoring SA	100%	full	100%	full
BRE Holding Sp. z o.o.	100%	full	100%	full
BRE Leasing Sp. z o.o.	100%	full	100%	full
BRE Ubezpieczenia Sp. z o.o.	100%	full	100%	full
BRE Ubezpieczenia TUiR SA	100%	full	100%	full
BRE Wealth Management SA	100%	full	100%	full
Dom Inwestycyjny BRE Banku SA	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full
MLV 35 Sp. z o.o. spółka komandytowo - akcyjna	100%	full	-	-
Transfinance a.s.	100%	full	100%	full
BRE Finance France SA	99.98%	full	99.98%	full
BRE.locum SA	79.99%	full	79.99%	full
BRE GOLD FIZ Aktywów Niepublicznych	-	-	100% of certificates	full

The Management Board of BRE Bank SA approved these Consolidated Financial Statements for issue on 7 March 2013.

2. Description of relevant accounting policies

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

2.1 Accounting basis

These Consolidated Financial Statements of BRE Bank SA Group have been prepared for the 12-month period ended 31 December 2012.

The Consolidated Financial Statements of BRE Bank SA Group have been prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, according to the historical cost method, as modified by the revaluation of available for sale financial assets, financial assets and financial liabilities measured at fair value through the 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 Group. The issues in relation to which a greater degree of judgment is required, more complex issues, or such issues where estimates or judgments are material to the consolidated financial statements are disclosed in Note 4.

2.2 Consolidation

Subsidiaries

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

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction (i.e. transactions with owners in their capacity as owners).

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

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

Consolidation does not cover those companies whose scale of business operations is immaterial in relation to the volume of business of the Group. Those companies were recognised at cost less impairment.

Associates

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

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

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

2.3 Interest income and expenses

All interest income on financial instruments carried at amortised cost using the effective interest rate method is 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 Group estimates the cash flows taking into account all the contractual terms of the financial instrument, but without taking into account 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 takes into account the cash flows resulting from only those embedded derivatives, which are strictly linked to the underlying contract.

Income and expenses related to the interest component of the result on interest rate derivatives and resulting from current calculation of swap points on currency derivatives classified into banking book are presented in the interest results in the position Interest income/expense on derivatives classified into banking book. The banking book includes transactions, which are not concluded for trading purposes i.e. not aimed at generating a profit in a short-term period (up to 6 months) and those that do not constitute hedging a risk arising from the operations assigned into trading book.

Interest income and interest expenses related to the interest measurement component of derivatives concluded as hedging instruments under fair value hedge are presented in the interest result in the position interest income/expense on derivatives concluded under the hedge accounting.

In the current reporting period, the Group has introduced changes in the presentation of operating lease revenue as well as income and expense of the interest component of the result on derivatives. Detailed information concerning above mentioned changes in the presentation of interest income and expenses is presented under Note 2.32 'Comparative Data'.

2.4 Fee and commission income

Income on account of fees and commissions is recognised on the accrual basis, at the time of performance of the respective services. Fees charged for the granting of loans which are likely to be drawn 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 Group has not retained any part of the credit risk on its own account or has retained a part with the same effective interest rate as other participants. Commissions and fees on account of negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the acquisition of shares or other securities, or the acquisition or disposal of an enterprise, are recognised at the time of realisation of the respective transaction. 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.

Fee and commissions collected by the Group on account of issuance, renewal and change in the limit of credit and payment cards, guarantees granted as well as opening, extension and increase of letters of credit are accounted for a straight-line basis.

Fee and commissions collected by the Group on account of cash management operations, keeping of customer accounts, money transfers, brokerage business activities are recognised directly in the income statement.

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

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

2.5 Insurance premium revenue

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

2.6 Compensations and benefits, net

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

2.7 Segment reporting

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

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

In accordance with IFRS 8, the Group has the following business segments: Retail Banking, Corporates and Financial Markets including the sub-segments Corporates and Institutions as well as Trading and Investment Acivity, and the Other business.

2.8 Financial assets

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

Standardised purchases and sales of financial assets at fair value through the income statement, held to maturity and available for sale are recognised on the settlement date – the date on which the Group delivers or receives the asset. Changes in fair value in the period between trade and settlement date with respect to assets carried at fair value is recognised in profit or loss or in other components of equity. Loans are recognised when cash is advanced to the borrowers. Derivative financial instruments are recognised beginning from the date of transaction.

<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 recognition. A financial asset is classified in this category if it was acquired principally for the purpose of short-term resale or if it was classified in this category by the companies of the Group. Derivative instruments are also classified as 'held for trading', unless they were designated for hedging.

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

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

- assets/liabilities are classified as held for trading i.e. they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term, they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making or they are derivatives (except for derivatives that are designated as and being effective hedging instruments),
- upon initial recognition, assets/liabilities are designated by the entity at fair value through the income statement.

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

- the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or

- it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

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

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is properly managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

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

Interest income/expense on financial assets/financial liabilities designated at fair value (Note 2.3), except for derivatives the recognition of which is discussed in Note 2.15, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

Loans and receivables

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

Held to maturity investments

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

In the case of sale by the Group before maturity of a part of assets held to maturity which cannot be deemed insignificant the held to maturity portfolio is tainted, and there with 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 Group.

Available for sale investments

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

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

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 other comprehensive income is now recognised in the income statement. However, interest calculated using the effective interest rate is recognised in the income statement. Dividends on available for sale equity instruments are recognised in the income statement when the entity’s right to receive payment is established.

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

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

2.9 Reinsurance assets

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

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

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

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

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

2.10 Offsetting financial instruments

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

2.11 Impairment of financial assets

Assets carried at amortised cost

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

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

If there is impairment indicator for impairment of loans and receivables or investments held to maturity and recognised at amortised cost, the impairment amount is calculated as the difference between the carrying value in the statement of financial position of the respective asset and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account, and the resulting impairment loss is charged to the income statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

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

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

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

When a loan is uncollectible, it is written off against the related provision for impairment. Before any loan is written off, it is necessary to conduct all the required procedures and to determine the amount of the loss. Subsequent recoveries of amounts previously written off reduce the amount of the provision for loan impairment in the income statement.

If in a subsequent period the impairment loss amount is decreasing and the decrease can be related objectively to an event occurring after the impairment was recognised (e.g., improvement of the debtor's credit rating), then the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the income statement.

Assets measured at fair value

At the end of the reporting period the Group estimates whether there is an objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost resulting from higher credit risk is considered when 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 other comprehensive income and recognised in the income statement. The above indicated difference should be reduced by the impairment concerning the given asset which was previously recognised in the income statement. Impairment losses concerning equity instruments recorded in the income statement are not reversed through the income statement, but through other comprehensive income. If the fair value of a debt instrument classified as available for sale increases in a subsequent period, and such increase can be objectively related to an event occurring after the recording of the impairment loss in the income statement, then the respective impairment loss is reversed in the income statement.

Renegotiated agreements

The Group considers renegotiations on contractual terms of loans and advances as 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 Group makes an assessment whether the impairment should be recognised on either individual or group basis.

2.12 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 amortization recognised in accordance with IAS 18 'Revenue'.

2.13 Cash and cash equivalents

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

2.14 Sell-buy-back, buy-sell-back, reverse repo and repo contracts

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

Securities sold with a repurchase clause (repos/sell buy back) are reclassified in the financial statements as pledged assets if the entity receiving them has the contractual or customary right to sell or pledge them as collateral security. The liability towards the counterparty is recognised as amounts due to other banks, deposits from other banks, other deposits or amounts due to customers, depending on its nature. Securities purchased together with a resale clause (reverse repos/buy sell back) are recognised as loans and advances to other banks or other customers, depending on their nature.

When concluding a repo or reverse repo transaction, BRE Bank Group sells or buys securities with a repurchase or resale clause specifying a contractual date and price. Such transactions are presented in the statement of financial position as financial assets held for trading or as investment financial assets, and also as liabilities in the case of 'sell-buy-back' transactions and as receivables in the case of 'buy-sell-back' transactions.

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

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

2.15 Derivative financial instruments and hedge accounting

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

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If 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, then the Group recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.16.

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: (i), there is no need to separate the prepayment option from the host debt instrument for the needs of consolidated financial statements, because the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument. If the value of prepayment option was not to be closely related to the underlying debt instrument, the option should be separated and fair valued in the consolidated financial statements of the Group; (ii), exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

The assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element of a convertible debt instrument in accordance with IAS 32.

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

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

The Group documents the objectives of risk management and the strategy of concluding hedging transactions, as well as at the time of concluding the respective transactions, the relationship between the hedging instrument and the hedged item. The Group also documents its own assessment of the effectiveness of fair value hedging and cash flow hedging transactions, measured both prospectively and retrospectively from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

Due to the split of derivatives classified into banking book and into trading book, the Group applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 2.3 'Interest income and expenses'. The remaining result from fair value measurement of derivatives is recognised in Net trading income.

Detailed information on the restatement of comparative data related to changes in the presentation of interest income/expense on derivatives classified into banking book and derivatives concluded under the hedge accounting are included in Note 2.32 'Comparative data'.

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 other comprehensive income 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 other comprehensive income. The gain or loss concerning the ineffective part is recognised in the income statement of the current period.

The amounts recognised in other comprehensive income 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 other comprehensive income remain in other comprehensive income 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 other comprehensive income 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 Group holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

2.16 Gains and losses on initial recognition

The best evidence of fair value 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 (without modification) or based on a valuation technique whose variables include only data from observable markets.

The transaction for which the fair value determined using a valuation model (where inputs are both observable and non-observable data) and the transaction price differ, the initial recognition is at the transaction price. The Group assumes that the transaction price is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is amortised over the period of time.

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.

2.17 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.

2.18 Intangible assets

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

Goodwill

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

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.
Goodwill is allocated to cash generating units or groups of cash generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose and identified in accordance with IFRS 8.

Computer software

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

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

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

Development costs

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

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

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

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

2.19 Tangible fixed assets

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

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

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

Land is not depreciated. Depreciation of other fixed assets is accounted for according to the straight line method in order to spread their initial value 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,
- Vehicles 5 years,
- Information technology hardware 3.33-5 years,
- Investments in third party fixed assets 10-40 years or the period of the lease contract,
- Office equipment, furniture 5-10 years.

Land and buildings consist mainly of branch outlets and offices. Residual values and estimated useful life periods are verified at the end of the reporting period and adjusted accordingly as the need arises.

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

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

Gains and losses on account of the disposal of fixed assets are determined by comparing the proceeds from their sale against their carrying value in the statement of financial position and they are recognised in the income statement.

2.20 Inventories

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

2.21 Non-current assets held for sale and discontinued operations

The Group 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 its sale must be highly probable, i.e., the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

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

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

Discontinued operations are a component of the Group that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation or is a subsidiary acquired exclusively with a view to resale.

The classification to this category takes places at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously. Disposal group which is to be taken out of usage may also be classified as discontinued operation.

2.22 Deferred income tax

The Group creates a deferred income tax on the temporary difference arising between the carrying amount of an asset or liability in the statement of financial position and its tax base. A taxable net difference is recognised in liabilities as 'Provisions for deferred income tax'. A deductible net difference is recognised under 'Deferred income tax assets'. Any change in the balance of the deferred tax assets and liabilities 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. Such liabilities or assets are determined by application of the tax rates in force by virtue of law or of actual obligations at the end of the reporting period. According to expectations such tax rates applied will be in force at the time of realisation of the assets or settlement of the liabilities for deferred corporate income tax.

The main temporary differences arise on account of impairment write-offs recognised in relation to the loss of value of credits and granted guarantees of repayment of loans, amortization of fixed assets and intangible assets, finance leases treated as operating leases for tax purposes, 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 to the extent it is probable that there will be sufficient taxable profits to allow them to recover. If the forecast amount of income determined for tax purposes does not allow the realisation of the asset for deferred income tax in full or in part, such an asset is recognised to the respective amount, accordingly. The above described principle also applies to tax losses recorded as part of the deferred tax asset.

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

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

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

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

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

2.23 Assets repossessed for debt

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.

2.24 Prepayments, accruals and deferred income

Prepayments are recorded if the respective expenses concern the months succeeding the month in which they were incurred. Prepayments are presented in the statement of financial position under 'Other assets'.

Accruals include costs of supplies delivered to the Group but not yet resulting in its payable liabilities. Deferred income includes received amounts of future benefits. Accruals and deferred income are presented in the statement of financial position under the item 'Other liabilities'.

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

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

2.25 Leasing

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

In the case of assets in use on the basis of a finance lease agreement, the amount equal to the net investment in the lease is recognised as receivables. The difference between the gross receivable amount and the present value of the receivables is recognised as unrealised financial income.

Revenue from leasing agreements is recognised as follows:

- Interests on finance lease

Revenue from finance lease is recognised on the accruals basis, based on the fixed rate of return calculated on the basis of all the cash flows related to the realisation of a given lease agreement, discounted using the initial effective interest rate.

- Net revenue from operating lease

Revenue from operating lease and the depreciation cost of fixed assets provided by the Group under operating lease, incurred in order to obtain this revenue are recognised in net amount as other operating income in the profit and loss account.

Revenue from operating lease is recognised as income on a straight-line basis over the lease period, unless application of a different systematic method better reflects the time allocation of benefits drawn from the leased asset.

In the current reporting period the Group has introduced changes in the presentation of operating lease revenue and related depreciation cost of fixed assets provided by the Group under operating lease. Detailed information regarding above mentioned adjustments are presented under Note 2.32 'Comparative Data'.

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

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

2.26 Provisions

The value of provisions for contingent liabilities such as unutilised guarantees and (import) letters of credit, as well as for unutilised irreversible unconditionally granted credit limits, is measured in compliance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

According to IAS 37, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

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

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

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

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

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

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

2.27 Retirement benefits and other employee benefits

Retirement benefits

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

Benefits based on shares

The Bank runs programmes 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 programmes. In case of the part of the programme based on shares of the ultimate parent 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.

2.28 Equity

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

Registered share capital

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

- 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 own 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. They reduce the proceeds from the issue recognised in equity.

Retained earnings

Retained earnings include:

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

Other supplementary capital, other reserve capital and general banking risk reserve 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 a given year, which have been approved by the 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.

2.29 Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

Foreign exchange differences arising on account of such non-monetary items as financial assets measured at fair value through the income statement are recognised under gains or losses arising in connection with changes of fair value. Foreign exchange differences on account of such non-monetary assets as equity instruments classified as available for sale financial assets are recognised under other comprehensive income.

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.

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 in other components of equity.

Companies belonging to the Group

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

- assets and liabilities in each presented statement of financial position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period;
- revenues and expenses in each income statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 12 months of each presented periods; whereas
- all resulting foreign exchange differences are recognised as a distinct item of other comprehensive income.

Upon consolidation, foreign exchange differences arising from the conversion of net investments in companies operating abroad are recognised in other comprehensive income. Upon the disposal of a foreign operation, such foreign exchange differences are recognised in the income statement as part of the profit or loss arising upon disposal.

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

Leasing business

Gains and losses on foreign exchange differences from the valuation of liabilities on account of credit financing of purchases of assets under operating leasing schemes are recognised in the income statement. In the operating leasing agreements recognised in the statement of financial position the fixed assets subject to the respective contracts are recognised at the starting date of the appropriate contract as converted to PLN, whereas the foreign currency loans with which they were financed are subject to valuation according to the respective foreign exchange rates.

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

2.30 Trust and fiduciary activities

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

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

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

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

2.31 New standards, interpretations and amendments to published standards

These financial statements comply with all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the interpretations related to them, except for those standards and interpretations listed below which await endorsement of the European Union or which have been endorsed by the European Union but entered or will enter into force after the balance sheet date.

In the period covered by the financial statements, the Group did not decide for early application of the standards and interpretations which have been endorsed by the European Union, but entered or will enter into force after the balance sheet date.

Published standards and interpretations which have been issued and binding for the Group for annual periods beginning on 1 January 2012:

Standards and interpretations endorsed by the European Union:

- ***IFRS 1 (Amended), Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters,*** published by the International Accounting Standards Board on 20 December 2010, binding for annual periods beginning on or after 1 July 2011. Standard was endorsed by the European Union on 11 December 2012.

  The amendment concerning severe hyperinflation provides guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time. In accordance with the amendments, the entities, which make the transition to IFRS on or after the functional currency normalisation date, may elect to measure assets and liabilities at fair value as at the date of transition to IFRS, and use that fair value as the deemed cost of those assets and liabilities.

  The amendment removing fixed dates for first-time adopters of IFRS replaces the date of prospective application of derecognised assets and financial liabilities, i.e. '1 January 2004', with 'the date of transition to IFRS', thus eliminating the need for companies adopting IFRS for the first time to restate the initial ('first day') profit and loss on transactions that occurred before the date of transition to IFRS.

  The Group is of the opinion that the application of the amended standard did not have significant impact on the financial statements in the period of its initial application.

- ***IFRS 7 (Amended), Disclosures - Transfers of Financial Assets,*** published by the International Accounting Standards Board on 7 October 2010, binding for annual periods beginning on or after 1 July 2011. The standard was endorsed by the European Union on 22 November 2011.

  The amendments require additional qualitative and quantitative disclosures for transfers of financial assets in case financial assets are derecognised in their entirety, but the entity retains 'continuing involvement' in them, and when the financial assets are not derecognised in their entirety. In particular, the disclosures pertain to the characteristics, description of risks associated with, and the nature of the Bank's 'continuing involvement'.

  The Group is of the opinion that the application of the amended standard did not have significant impact on the financial statements in the period of its initial application.

- ***IAS 12 (Amended), Deferred Tax: Recovery of Underlying Assets,*** published by the International Accounting Standards Board on 20 December 2010, binding for annual periods beginning on or after 1 January 2012. The standard was endorsed by the European Union on 11 December 2012.

  The amendment clarifies, in particular, the valuation method of assets and provisions relating to deferred tax in the case of investment properties measured using the fair value model under *IAS 40 Investment Property*. As a result of the amendments, *SIC-21 Income Taxes - Recovery of Revalued Non-Depreciable Assets* would no longer apply.

  The Group is of the opinion that the application of the amended standard did not have significant impact on the financial statements in the period of its initial application.

Published standards and interpretations which have been issued, but are not yet binding and have not been applied earlier.

Standards and interpretations endorsed by the European Union:

- ***IFRS 10, Consolidated Financial Statements***, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  IFRS 10 supersedes those parts of *IAS 27 Consolidated and Separate Financial Statements* that address when and how an investor should prepare consolidated financial statements, and eliminates interpretation *SIC-12 Consolidation — Special purpose entities* in its entirety.

  The objective of IFRS 10 is to have a single basis for consolidation for all entities, regardless of the nature of the investee. It was decided that control is such a basis. The principle of control sets out the following three elements of control: power over the investee, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of the investor's return. IFRS 10 provides detailed guidance on how to apply the control principle in a number of situations, including agency relationships and holdings of potential voting rights. An investor should reassess whether it controls an investee if there is a change in facts and circumstances.

  The Group is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- ***IFRS 11, Joint Arrangements,*** published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  IFRS 11 supersedes *IAS 31 Interests in Joint Ventures* and interpretation *SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. The new standard classifies joint agreements as either joint operations (joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or joint ventures (joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement).

  IFRS 11 requires the use of the equity method of accounting for interests in joint ventures, thereby eliminating the proportionate consolidation method. The existence of a separate legal vehicle is no longer the key factor of classification. Transitional provisions vary depending on the joint arrangements classification under IAS 31.

  The Group is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- ***IFRS 12, Disclosure of Interests in Other Entities,*** published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  The new standard requires extensive disclosures relating to a reporting entity's interests in subsidiaries, associates, joint arrangements, and unconsolidated structured entities.

  An entity is also required to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements.

  The Group is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- ***IFRS 13, Fair Value Measurement,*** published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  The new standard clarifies the definition of fair value, sets out a framework for measuring fair value and requires disclosures on fair value measurements. The standard does not specify requirements on when fair value measurement is required. It only prescribes the various valuation techniques that can be used to determine fair value, if required by other standards. The standard applies to both financial and non-financial items measured at fair value.

  The Group is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- ***IAS 19 (Amended), Employee Benefits,*** published by the International Accounting Standards Board on 16 June 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 5 June 2012.

The amendments modify the settlement methods for defined benefit plans and termination benefits. The amendments aim at improving the quality of financial reporting of employee benefits through: introducing a more comprehensible form of presenting changes in liabilities relating to defined benefits and fair value of the plan assets, eliminating certain presentation methods allowed under *IAS 19*, thus improving comparability, clarifying the requirements which previously led to differences in the practices applied, and improving the quality of disclosures about risks arising from defined benefit plans.

The amended standard requires immediate recognition of all estimated changes in liabilities relating to defined benefits and plan assets, which eliminates the corridor method and accelerates the recognition of past service costs.

The Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- ***IAS 27, Separate Financial Statements***, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  IAS 27 and IFRS 10 supersede IFRS 27 Consolidated and Separate Financial Statements. The name of the standard was changed. The amended standard applies only to separate financial statements. The previous guidance and the required disclosures relating to separate financial statements remain unchanged.

  The Group is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- ***IAS 28, Investments in Associates and Joint Ventures,*** published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  It supersedes *IAS 28 Investments in Associates*. The standard was amended to reflect the requirements of IFRS 11 and IFRS 12.

  The standard sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Moreover, the standard incorporates SIC-13 (jointly controlled entities - non-monetary contributions by venturers).

  The disclosure requirements have been removed from the standard and specified in IFRS 12.

  The Group is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- ***Amendments to IAS 1, Presentation of Items of Other Comprehensive Income***, published by the International Accounting Standards Board on 16 June 2011, binding for annual periods beginning on or after 1 July 2012. The amendments were endorsed by the European Union on 5 June 2012.

  The amendments address the grouping of items of other comprehensive income (OCI). The amendments require that items of OCI be divided into:

  - items that would be reclassified into profit or loss in future periods,
  - items that would not be reclassified into profit or loss in future periods.

  The standard allows an entity to present items of OCI either before tax or net of tax. However, if the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified and those that will not be reclassified) must be shown separately. The amendments leave entities the possibility to present their profit or loss and other comprehensive income in a single statement (Statement of profit or loss and other comprehensive income) or in two separate statements.

  The Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- ***Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities,*** published by the International Accounting Standards Board on 16 December 2011, binding for annual periods beginning on or after 1 January 2014. The amendments were endorsed by the European Union on 13 December 2012.

  The amendments aim to eliminate inconsistencies identified in applying some of the offsetting financial assets and liabilities criteria.

  The amendments clarify the criteria that must be met by an entity planning to offset financial assets and financial liabilities in the balance sheet, by:

  - clarifying the meaning of 'currently has a legally enforceable right to set off', and
  - explaining when some gross settlement systems may be considered equivalent to net settlement of financial assets and liabilities.

  The Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- ***Amendments to IFRS 7, Disclosures - Offsetting Financial Assets and Financial Liabilities***, published by the International Accounting Standards Board on 16 December 2011, binding for annual periods beginning on or after 1 January 2013. The amendments were endorsed by the European Union on 13 December 2012.

  The standard sets out the required disclosures to include information that will enable investors and other users of financial statements to evaluate the effect or potential effect of offsetting financial assets and liabilities on an entity's financial position. The standard requires quantitative and qualitative disclosures on the financial assets and liabilities subject to offsetting. At the reporting date, the entity is obliged to disclose detailed quantitative information, separately for financial assets and financial liabilities, in tabular format.

  The Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

Standards and interpretations not yet endorsed by the European Union:

- ***IFRS 9, Financial Instruments Part 1: Recognition and Measurement***, published by the International Accounting Standards Board on 12 November 2009, supersedes the parts of IAS 39 addressing classification and measurement of financial assets. On 28 October 2010, new requirements addressing classification and measurement of financial liabilities were added to IFRS 9. The new standard is binding for annual periods beginning on or after 1 January 2015.

  The standard introduces a single approach to classification of financial assets in only two categories: measurement at amortised cost or fair value. The classification is made on initial recognition and is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial instruments.

  The majority of requirements of IAS 39 addressing the classification and measurement of financial liabilities have been transferred to IFRS 9 unchanged. The key change is the obligation imposed on entities to present the effects of changes in the entity's own credit risk in respect of financial liabilities measured at fair value through income statement, in other comprehensive income.

  The Group is of the opinion that the application of the standard on recognition and measurement of financial instruments will have an impact on the presentation of these instruments in the financial statements.

  The real impact of the IFRS 9 application will be possible to estimate after the publication of the final, complete version of the standard.

- ***Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance***, published by the International Accounting Standards Board on 28 June 2012, binding for annual periods starting on or after 1 January 2013.

  The amendments clarify the date of initial application of IFRS 10 as the beginning of the annual reporting period in which IFRS 10 is applied for the first time. They precise also there is no requirement to adjust comparative periods, if the consolidation conclusion reached at the date of initial application is the same when applying IAS 27/SIC 12. Moreover, the amendments clarify additional relief from adjustment of comparative information for periods prior to the immediately preceding period in transition to IFRS 10, IFRS 11 and IFRS 12.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

- ***Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities***, published by the International Accounting Standards Board on 31 October 2012, binding for annual periods starting on or after 1 January 2014.

  The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

- ***Improvements to IFRS 2009-2011***, modifying 5 standards, published by the International Accounting Standards Board on 17 May 2012, in majority binding for annual periods starting on or after 1 January 2013.

  The amendments are aimed at simplifying the process of transition to IFRS, as well as explanation or elimination accidental inconsistencies in the published standards.

  The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

- ***Government Loans - Amendments to IFRS 1 First-Time Adoption*** of International Accounting Standards concerning government loans were published in March 2012 by the International Accounting Standards Board (IASB) and apply to annual periods starting on 1 January 2013 or after that date.

IFRS Consolidated Financial Statements 2012 PLN (000's)

Amendments concerning government loans and borrowings granted to an entity on preferential terms (interest rate below the market rate) allow releasing those who are adopting the IFRS in financial statements for the first time from presenting full accounting records of these transactions. Therefore, these amendments implement the same exemption for those who are adopting the IFRS in financial statements for the first time as applicable to other.

The Group is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

2.32 Comparative data

Comparative data has been adjusted so, as to reflect for the changes in presentation introduced in the current year.

Beginning from the year 2012, changes were introduced in the presentation of the result on FX swaps as well as in the presentation of the result on IRS transactions concluded under fair value. Following IFRS 7 Appendix B point 5E, the Group decomposed the result on derivatives classified into banking book as well as the result on derivatives held for hedging and distinguished the interest component resulting from the current calculation of swap points and the remaining result from fair value measurement.

After changes described above, the measurement components of derivatives classified into banking book as well as the measurement components of derivatives concluded under the hedge accounting are presented as follows: the result of the current accrual of the interest component, including the swap points, is presented in the interest results as Interest income / expense, and the remaining result from fair value measurement is presented in Net trading income.

The change of presentation relates mainly to changes in the structure of obtaining the financing by BRE Bank Group. In the Group opinion, the above presentation of the interest measurement component of the result on financial derivatives classified into banking book as well as the presentation of the interest measurement component of the result on derivatives concluded under the hedge accounting better reflects the economic nature of transactions concluded for the financing of assets in foreign currencies.

Moreover, beginning from the reporting year, the Group has introduced changes in the presentation of operating lease revenue and related depreciation cost of fixed assets provided by the Group under operating lease. As a result of this change, revenue and depreciation cost from operating lease transactions are presented in net amount as 'Other operating income'. To the end of the year 2011, revenue from lease activities was presented as interest income, while depreciation costs of assets provided by the Group under operating lease were presented as depreciation costs. This change has been introduced in order to present the Group's lease activity concerning operating lease in a better and more transparent way.

In the current reporting period, the Group ceased to present pledged assets in a separate line in the statement of financial position. Debt securities pledged as collaterals were presented within the items: 'Trading securities' or 'Investment securities', according to their classification before establishing the pledge. Information regarding debt securities pledged as collaterals is still available under Notes 19 and 23.

The change had no impact on the profit and equity in the presented comparative data as at 31 December 2011.

The following table presents the impact of the restatement on presented comparative data in the consolidated financial statements.

Changes in BRE Bank Group consolidated income statement for the period from 1 January to 31 December 2011.

	31.12.2011 before adjustments	presentation adjustments	31.12.2011 after adjustments
Interest income	3 871 231	19 342	3 890 573
Interest expense	(1 722 629)	(736)	(1 723 365)
Net interest income	**2 148 602**	**18 606**	**2 167 208**
Net trading income, including:	424 091	(76 679)	347 412
Foreign exchange result	*393 943*	*(65 303)*	*328 640*
Other trading income and result on hedge accounting	*30 148*	*(11 376)*	*18 772*
Other operating income	*301 930*	*15 425*	*317 355*
Amortization and depreciation	(251 412)	42 648	(208 764)
Profit before income tax	1 467 127	-	1 467 127
Net profit	1 144 435	-	1 144 435

IFRS Consolidated Financial Statements 2012 PLN (000's)

Changes in BRE Bank Group consolidated statement of financial position as at 31 December 2011.

	31.12.2011/ 01.01.2012 before adjustments	presentation adjustments	31.12.2011/ 01.01.2012 after adjustments
Trading securities	991 559	485 463	1 477 022
Investments securities	16 697 212	3 854 060	20 551 272
Pledged assets	4 339 523	(4 339 523)	-
Total asstes	98 875 647	-	98 875 647

3. Financial and insurance risk management

The risk management process is an elementary component of the management process of BRE Bank Group. The risk management functions and roles are released on all of the levels of the organizational structure, starting at the level of the Supervisory Board down to each business unit. Risk management is streamlined in unified process run by specialized organizational units.

3.1 Division of responsibilities in the risk management process

Authorities of the Bank:

- **Supervisory Board,** through its **Risk Committee,** exercises constant supervision of the Bank's operations in the risk taking area, which includes approving the Risk Management Strategy and supervising its execution.
- **Management Board of the Bank** develops the Risk Management Strategy and is responsible for establishing and implementing the principles of managing individual risk types and for their coherence with the Risk Management Strategy. Moreover, the Management Board defines the organisational structure of the Bank, ensuring the separation of roles, and allocates the tasks and responsibility to individual units.

Directors of the Bank:

- **Chief Risk Officer** is responsible for organising, developing and implementing the process of identifying, measuring, monitoring and controlling credit risk, market risk, operational risk and liquidity risk in BRE Bank Group.
- **Managing Director for Credit Operations** is responsible for organising the credit process in the scope of the retail loans portfolio and corporate loans portfolio of BRE Bank and BRE Bank Group and for the quality of each credit portfolio.

Committees:

1. **Risk Committee of BRE Bank SA** is responsible, in particular, for establishing the principles of identifying, measuring, monitoring and controlling risk and for setting strategic risk limits.
2. **Assets and Liabilities Committee of the BRE Bank Group (ALCO)** is responsible, in particular, for developing the Bank's strategy on the structure of assets and liabilities, obligations, and off-balance sheet items, with the aim of optimizing funds allocation.
3. **Capital Management Committee** is responsible, in particular, for managing capital, which includes also issuing recommendations for the Management Board of the Bank on measures in respect of capital management, capital level and structure, and on increasing the effectiveness of capital utilisation, and recommendations on the Bank's internal procedures related to capital management and capital planning.
4. **Data Quality Management Committee for the purpose of calculating the Bank's regulatory capital requirement (AIRB)** is responsible, in particular, for creating conditions for the implementation and development of an effective system for managing the quality of credit portfolio data in order to ensure compliance with the requirements of the advanced internal ratings based approach (AIRB), used to calculate the capital requirement for credit risk.
5. **Credit Committee of the Bank's Management Board (KKZB)** is responsible, in particular, for:
   - making credit decisions concerning companies in accordance with the decision-making matrix, depending on the rating and amount of exposure,
   - making decisions on debt conversion into shares, stocks, etc.,

- making decisions on taking over properties in return for debts,
- making any other decisions going beyond the jurisdiction of the lower-level decision-making authorities.

6. **Credit Policy Committee of the Retail Banking (KPK)** is responsible, in particular, for:
   - approving or amending the decision-making methodology for granting credit products of the retail banking,
   - making decisions on admitting credit products to or withdrawing them from sale,
   - monitoring the quality and profitability of the credit products portfolio, and making decisions on measures to be taken in the case of negative occurrences related with the quality or profitability of that portfolio.

7. **Credit Committee of the Retail Banking (KKD)** is responsible, in particular, for:
   - making individual credit decisions concerning retail clients in the case when the total exposure to such a client, the transaction amount or the AIRB risk parameters (PD/LGD/EL) defined for the client/transaction reach a specified threshold set for this decision-making level,
   - making decisions on granting decision-making powers to individual employees of the Bank, or on changing or revoking those powers.

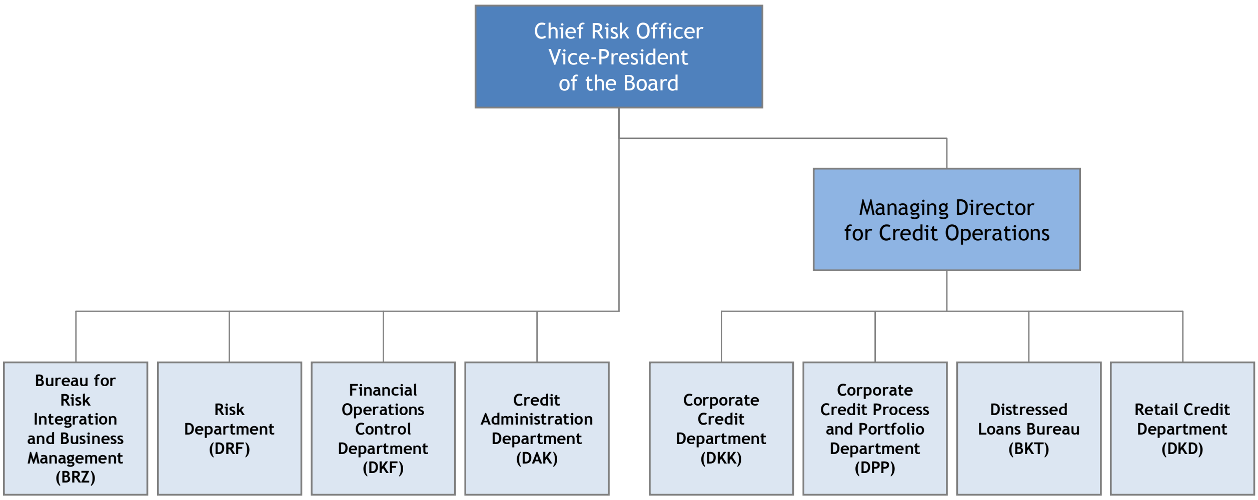
Moreover, in 2012 the Bank decided to establish the **Operational Risk Committee (KRO)** responsible, in particular, for:

- monitoring the level of operational risk in BRE Bank Group based on regular reports received within the operational risk control system,
- analysing areas relevant from the point of view of operational risk, including the structure of operational losses and the operational risk profile of the Bank and BRE Bank Group,
- accepting and monitoring follow-up plans for the major components of operational risk,
- taking decisions and coordinating actions covering the entire Bank aimed at mitigating and managing operational risk, and monitoring the situation in this area in the subsidiaries of BRE Bank Group,
- supervising the course and analysing the results of the methods used at the Bank to control and manage operational risk,
- accepting the methods used at the Bank and in BRE Bank Group to control and manage operational risk.

<u>**Other units:**</u>

1. **Organisational units of the Risk Area**

The function of management at the strategic level and the function of control of credit, market, liquidity and operational risks and risk of models used to quantify the aforesaid risk types are performed in the Risk Area supervised by the Chief Risk Officer. The chart below presents the organisational structure of this area.



The roles played by particular units in the process of identifying, measuring, monitoring and controlling risk, which also includes assessing individual credit risk posed by clients and establishing the client selection rules, have been strictly defined. Within the scope of their powers, the units develop methodologies and systems supporting the aforesaid areas. Furthermore, the risk control units also report on risk and support the major authorities of the Bank.

Corporate Credit Department (DKK):

- developing and implementing the credit policy (excluding the retail banking),
- controlling and managing credit risk of the Bank and the Group, excluding the retail banking area.

Credit Administration Department (DAK):

- defining the process of setting impairment write-offs and provisions, and controlling the correct course of this process,
- administering the back data necessary to parameterize risk models under AIRB in the corporate banking area,
- monitoring the amounts and structure of exposures,
- organising and supervising the operational process of administering credit products.

Corporate Credit Process and Portfolio Department (DPP):

- organising and supervising the credit process in the corporate banking area,
- establishing and implementing the principles governing the operation of the data quality management system for the AIRB purpose in the corporate banking area, and supervising their observance,
- organising the system of preparing and presenting portfolio analyses used for active management of credit risk.

Distressed Loans Bureau (BKT):

- controlling and managing credit risk in the scope of exposures subject to supervision, restructuring and debt collection carried out by the Debt Restructuring and Collection Department,
- early identification of non-default clients at risk of losing their creditworthiness.

Retail Credit Department (DKD):

- defining the credit policy principles,
- reporting on the quality of the credit portfolio and monitoring the quality of data,
- taking credit decisions,
- administering the portfolio of credit transactions,
- collecting overdue debt,
- counteracting credit frauds.

The Department performs the tasks listed above for the retail banking area (individual clients and small enterprises) on the following three markets: Polish, Czech and Slovak.

Risk Department (DRF):

- identifying, measuring and controlling credit risk from the portfolio perspective, as well as market risk, operational risk (strict sense, operational risk components are controlled in accordance with point 2 of this section), financial liquidity risk, and interest rate risk of the banking book,
- ensuing methodological adequacy of the techniques of valuing financial instruments included in the portfolios of the Financial Markets Department and the Treasury Department, and the mezzanine finance transactions of the Structured and Mezzanine Finance Department,
- developing methods for measuring particular risk types, and integrating financial risk control at the Bank and BRE Bank Group, and monitoring model risk,
- organising the following processes:
  - process of admitting to trading the financial instruments concluded by organisational units of the investment banking area,
  - process of assessing the adequacy of internal capital (ICAAP),
  - process of measuring the internal and economic capital,
  - and supervising their execution,
- determining the regulatory capital requirements for particular risk types, and monitoring the capital adequacy of the Bank and BRE Bank Group,
- estimating the portfolio impairment of corporate and retail receivables.

Financial Operations Control Department (DKF):

- independent operational control of the risk generated by the Financial Markets Department and the Treasury Department in the scope of trading in financial instruments,
- reporting in this respect to the Management Board of the Bank and to respective collegial bodies of the Bank.

Bureau for Risk Integration and Business Management (BRZ):

- coordinating and carrying out projects/cases connected with the requirements of consolidated supervision imposed by the main shareholder in the area supervised by the Chief Risk Officer (CRO) arising from the strategy and risk management policy at the Commerzbank Group,
- organising, performing and monitoring tasks related with the risk area and managing them with respect to other organisational units of the Bank – in line with the powers vested in CRO.

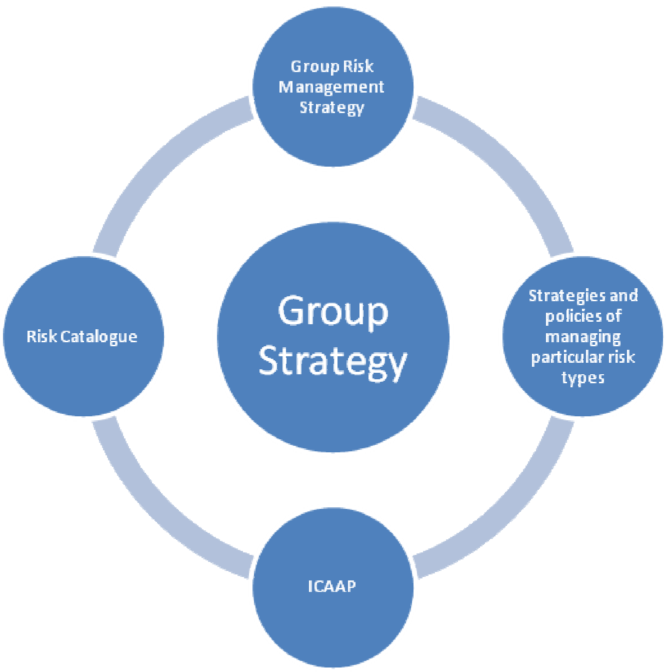
2. **Organizational units outside the Risk Area** are in charge of the management and control of other risks identified in BRE Bank Group's activity (business risk, strategic risk, capital risk, reputational risk, insurance risk, legal risk, IT system risk, personnel and organisational risk, security risk and compliance risk).
3. **Business units** take part in managing particular risk types by means of taking risk into account in business decisions, in preparing the product offer and in the client acquisition process. The units assume the ultimate responsibility for taking risk within the set limits and for developing the Bank's results.

<u>Control units:</u>

1. **Internal Audit Department (DAW)** carries out independent review of the process of identifying, taking, measuring, monitoring and controlling risk as part of its internal control and audit function.
2. **Compliance Department (DC)** is responsible for establishing standards of managing the risk of non-compliance of internal regulations and standards of the Bank's operation with applicable law.

3.2 Structure of the risk management process documentation

The risk management strategy implemented by BRE Bank Group is documented accordingly and linked to the Strategy of BRE Bank Group and Mid-term Plan of BRE Bank Group. The documentation of the risk management strategy is an important component of the documentation of the internal capital adequacy assessment process at the Bank and BRE Bank Group (ICAAP).



<u>ICAAP documentation:</u>

1. **Internal Capital Adequacy Assessment Process (ICAAP) in the BRE Bank SA Group**

The document describes the internal capital adequacy assessment process taking place in the Group and the course of the individual process components, including:

- identification and assessment of risk relevance,
- principles of calculating and aggregating internal capital,
- stress tests,
- limits on risk capital, and
- principles of reviewing the process.

2. **Document establishing the principles of determining capital for other risk types (including hard to measure risks)**

3. **Document describing the risk coverage potential**

4. **Principles of Prudent and Stable Management of BRE Bank SA**

The document describes the principles of prudent and stable management of the Bank within the framework of the strategic planning process, risk management system, internal control system, and capital management.

Strategies and policies for managing particular risk types:

1. **Credit Risk Management Strategy in BRE Bank SA and the BRE Bank Group (ICAAP)**

The document describes the credit risk management process in the Bank and the Group, including its organisation, and the principles of setting the acceptable risk level.

2. **Strategy and Policy of Operational Risk Management in BRE Bank SA**

The document describes the organisation of the operational risk management process in the Bank, and the Bank's policy in respect of individual areas of operational risk.

3. **Market Risk Strategy**

The document describes the market risk management process in the Bank, in particular the setting of the acceptable level and structure of market risk.

4. **Liquidity Risk Management Strategy in BRE Bank SA**

The document describes the liquidity risk management process (both at the strategic and operational level), the principles of limiting risk, and the emergency plans of the Bank.

5. **Compliance Policy in BRE Bank SA**

The document describes the process of organising compliance risk management, including the role of the Bank's authorities in the process, the role of the Compliance Department, and obligations of the Bank's employees in implementing the policy.

6. **Capital Management Policy of the BRE Bank SA Group**

The document describes the capital strategy of BRE Bank Group, including the capital goals, the preferred capital structure, the capital plan for the coming years, and the emergency capital plan.

The documents listed above are subject to annual review in accordance with the principles laid down in "Review of the internal capital adequacy assessment process (ICAAP) in the BRE Bank SA Group".

3.3 Management of Different Types of Risk

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 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 Credit 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, mitigation of operational risk (credit frauds), supervision over the automated credit process, administration of credit agreements concluded with retail clients and their monitoring collection of credit receivables via telephone and legal collection of credit receivables. Furthermore, DKD develops rules of credit risk rating and principles of calculating the creditworthiness of retail clients. Moreover, the Department is responsible for implementing the assessment principles in the tools supporting the credit decision-making process, reports on the quality of the credit portfolio, and monitors the quality of data used in the risk assessment process.

- **The Corporate Credit Department** (DKK) is responsible for management of the quality of the corporate 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 Credit 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. Similar functions of the restructured exposures and subject to a restructuring meets the Distressed Loans Bureau (BKT).

- **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 in the corporate area. The Department creates the analysis of corporate credit risk portfolio as well as analysis and reports on the course and effectiveness of the credit process in this area.

- **The Credit Administration Department** (DAK) supervises the process of setting impairment write-offs and provisions and registers them. DAK coordinates the write-off planning process in BRE Bank Group and monitors its implementation. Moreover, the Department monitors the concentration level of large exposures of particular risks at the Bank and in the Group.

- **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 area. In the case of exposures to corporate 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) as well as the concentration volume for single entity or a group of entities measured using the 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. Decision making process for the private banking exposure is the same as for corporate clients.

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 Credit 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 and the Group's ability to fulfill 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. Below mentioned organisational units are responsible for liquidity management and control.

- **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, in relation to funding from domestic and foreign banks and international financial institutions, and the Financial Markets Department, 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 Chief Risk Officer 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. Operational risk is understood at BRE Bank as the risk of losses resulting from inadequate or faulty internal processes, systems, errors or actions of a Bank employee, and from external events; in particular, operational risk covers legal risk.

- 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 Chief Risk Officer. As a part of the operational risk control activities, BRE Bank collects data about operational risk events and losses of the Group, 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 Department, the Internal Audit Department and the Business Continuity Plan.

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

3.4 Credit risk management

3.4.1 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.

3.4.2 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 (partial or conditional),
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 a 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.

Collateral accepted for transactions in derivative instruments. The Bank 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.

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

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

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

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

Insurance companies, which secure their activities against credit risk, by implementing a policy of safe allocation of all resources and using comprehensive reinsurance, do not have any additional collateral for assets exposed to credit risk.

Hedge Accounting. Starting from 2011, the Group has been applying fair value hedge accounting. The interest rate risk is the only type of risk hedged under hedge accounting. At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk. The Group hedges against the risk of change in fair value of a part of the portfolio of mortgage loans for a fixed interest rate granted by foreign branches of BRE Bank in Czech Republic and fair value hedge accounting of Eurobonds issued BRE Finance France (BFF). The hedged risk results from changes in interest rates. The hedged items are respectively: a part of the portfolio of mortgage loans for a fixed interest rate denominated in CZK and granted by the foreign branches of BRE Bank in Czech Republic and Eurobonds with a nominal value of EUR 500 000 thousand issued by BFF. IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate. Adjustment to the fair value of the hedged assets and the valuation of hedging instruments is recognised in the profit and loss account in the income from trading operation.

3.4.3 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 discretionary 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 of the Bank 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.

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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.

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

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

- Loss Given Default (LGD) model, which covers the entire retail portfolio. 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. The Credit Conversion Factor is an integral part of EAD (CCF as a level of off-balance sheet items converted to balance sheet items at the date of default).
- 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.

All BRE Bank SA Group companies, whose operations are burdened with credit risk, before concluding an agreement and upon its performance, apply a monitoring process to estimate the risk using rating systems. The systems are different for different types of operations, with the exception of all factoring companies, which use the same solution, moreover lease contracts and mortgage loans are concluded on the basis of individual systems. The common feature is a two-stage methodology: at the first stage the customer rating is assigned and at the second stage the rating of the transaction/portfolio is established. Both above-mentioned ratings constitute credit risk rating. Quantitative indicators and qualitative features with material impact on the risk are evaluated. Particular risk classifications (client/transaction) are emphasized differently depending on the nature of the operations and the evaluated product.

Rating systems that are used by the Group's companies were created either on the basis of BRE Bank's systems or by an application of quantitative and expert based approach.

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

3.4.4.1 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. On the basis of the monitoring period existing in the Bank, a 9-month-period was established as the average period between the loss event occurrence and the possibility of 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 assumed at the level of the expected value of exposure in case of default (EAD) multiplied by LGD (parameter describing the loss resulting from the lack of loan repayment), calculated by corporate LGD/EAD model and multiplied by PD.

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.

3.4.4.2 Retail portfolio

For the purpose of calculating the provisions, the retail exposures are classified into homogeneous portfolios with similar risk specificity. For each portfolio risk parameters are determined: probability of default (PD) and the value of potential loss so arisen (LGD). Values of these parameters are calculated 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.

3.4.4.3 Measurement of impairment of corporate portfolio

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 (loss events) 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).

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.

<u>The list of definite loss events:</u>

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
   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.

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

a) governments and central banks,
b) banks,
c) corporations, including specialised lending,
d) local government units,
e) insurers,
f) pension fund managing companies, investment fund managing companies.

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.

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In order to assess if the impairment loss has occurred, identification of credit exposures with premises for impairment is carried out. Subsequently the comparison of the gross balance sheet credit exposure with the value of estimated future cash flows discounted at the original effective interest rate is carried out, results in the ascertainment whether the impairment loss has occurred. If the discounted value of future cash flow is higher than the gross balance sheet value, the impairment charge is not recognised.

3.4.4.4 Measurement of impairment of retail portfolio

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 PLN 500 and it is more than 90 days past due,
b) the loan has been identified as fraudulent,
c) the contract is restructured,
d) the credit receivable has been sold at a considerable economic credit loss,
e) the Bank applies for instigating enforcement proceedings, bankruptcy proceedings or reorganisation proceedings (resulting in a potential discontinuation of or delay in payments) against the debtor related with a particular credit receivable,
f) the debtor intends to challenge his credit obligation in court.

All the identified cases of impairment are automatically marked in the system, except for the restructured and sold contracts, frauds and operational cases which are identified based on an individual analysis. The methodology of impairment calculation is based on portfolio approach. The exception are selected mortgage exposures in case of which there occurred events determining the classification of exposure to individual analysis, in accordance with the applicable procedures of the Bank.

The table below shows the percentage of the Group'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 Group's internal rating categories (description of the rating model is given above).

Sub-portfolio	31.12.2012		31.12.2011	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	34.96	0.09	38.22	0.08
2	23.88	0.16	22.02	0.11
3	11.18	0.29	10.73	0.37
4	15.31	0.25	15.68	0.40
5	3.49	1.28	2.18	1.19
6	0.17	1.10	0.28	2.03
7	0.66	3.74	0.83	8.39
8	5.48	0.67	4.75	0.63
other *)	-	-	0.45	15.89
Default category	4.87	51.73	4.86	50.31
Total	**100.00**	**2.77**	**100.00**	**2.80**

*) position 'other' concerns these entities, which do not use the same systems as BRE Bank SA

58.84% 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 2011: 60.24%);

In order to reflect the credit risk embedded in derivative instruments the Group uses correction to fair value that takes into account the element of credit risk of the counterparty. Write off due to credit risk of contractor is based on expected loss until maturity of the contract and is calculated on customer level. The value of the write off affects income statements and is reported as a correction to the total value of derivatives.

The table below presents the percentage of derivatives which constitute the component of financial assets and percentage of correction to fair value due to credit risk of the counterparty in the total carrying value for each of the Group's internal rating categories (description of the rating model is given above).

Sub-portfolio	31.12.2012		31.12.2011	
	Fair value	Provision coverage (%)	Fair value	Provision coverage (%)
1	44.77	0.01	33.14	0.01
2	17.31	0.15	23.89	0.11
3	35.65	0.31	18.73	0.57
4	1.85	2.82	7.05	2.31
5	0.24	0.65	1.74	2.42
6	0.05	0.15	0.29	1.66
7	0.03	0.11	0.06	0.12
8	0.10	-	15.01	-
Default category	-	-	0.09	-
Total	**100.00**	**0.19**	**100.00**	**0.34**

3.4.6 Maximum exposure to credit risk

The Group has no financial instruments which maximum exposure to credit risk would differ from their net carrying amounts with the exception of off-balance sheet exposures, which are described under Note 35.

3.4.7 Loans and advances to customers and banks

Loans and advances to customers	31.12.2012		31.12.2011	
	exposure in PLN '000	share/coverage (%)	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	62 852 295	90.32	63 557 620	90.49
Past due but not impaired	3 103 233	4.46	3 395 420	4.83
Impaired	3 632 259	5.22	3 286 760	4.68
Total, gross	**69 587 787**	**100.00**	**70 239 800**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(2 528 533)	3.63	(2 388 284)	3.40
Total, net	**67 059 254**	**96.37**	**67 851 516**	**96.60**

The table below shows amounts due from banks:

Loans and advances to banks	31.12.2012		31.12.2011	
	exposure in PLN '000	share/coverage (%)	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	3 945 137	100.00	4 009 901	100.00
Past due but not impaired	-	-	-	-
Impaired	-	-	-	-
Total, gross	**3 945 137**	**100.00**	**4 009 901**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(559)	0.01	(1 027)	0.03
Total, net	**3 944 578**	**99.99**	**4 008 874**	**99.97**

The total impairment provision for loans and advances is PLN 2 529 092 thousand (as at 31 December 2011: PLN 2 389 311 thousand) of which PLN 2 329 821 thousand (as at 31 December 2011: PLN 2 175 894 thousand) represents the individually impaired loans and advances to customers and the remaining amount of PLN 199 271 thousand represents the portfolio provision (as at 31 December 2011 PLN 213 417 thousand). Further information on the impairment allowance for loans and advances to banks and to customers is provided in Notes 18 and 22.

90.32% of the loans and advances portfolio is considered to be neither past due nor impaired (31 December 2011: 90.49%);

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Loans and advances neither past due nor impaired

31 December 2012	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: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Other				
1	699 317	26 204 232	26 034 920	12 778	2 803	546 739	-	-	517 873	312	27 984 054	1 119 061
2	2 062 372	4 599 260	1 323 522	916 451	2 171 809	1 237 972	-	-	1 521 217	-	12 509 081	1 832 615
3	743 067	-	-	736 639	1 693 227	2 148 616	-	842 475	366 180	-	6 530 204	635 871
4	35 645	86 960	86 960	1 771 063	665 008	7 134 590	-	-	253 701	-	9 946 967	52 954
5	-	-	-	257 609	749 299	1 238 912	-	-	18 362	-	2 264 182	106 266
6	-	-	-	8 398	738	109 900	-	-	-	-	119 036	-
7	-	-	-	26 144	14 980	345 317	-	-	-	-	386 441	-
8	-	-	-	-	-	10	2 024 380	-	-	666 434	2 690 824	40 826
other *)	-	-	-	-	-	-	-	293 496	-	581	294 077	157 544
Default category	3 056	11 047	3 972	7 227	9 969	96 130	-	-	-	-	127 429	-
Total	**3 543 457**	**30 901 499**	**27 449 374**	**3 736 309**	**5 307 833**	**12 858 186**	**2 024 380**	**1 135 971**	**2 677 333**	**667 327**	**62 852 295**	**3 945 137**

31 December 2011	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: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Other				
1	589 056	27 760 863	27 588 173	58 438	25 188	310 221	-	-	867 451	-	29 611 217	3 785 720
2	1 479 983	4 285 616	1 659 808	596 085	2 772 590	1 193 124	-	-	1 621 423	-	11 948 821	12 076
3	1 108 757	452 828	147 732	757 995	887 315	1 901 757	-	880 751	384 133	-	6 373 536	4 235
4	74 013	53 472	53 472	1 445 886	1 054 542	7 064 045	-	-	268 564	-	9 960 522	-
5	-	-	-	231 280	16 149	1 083 711	-	-	22 240	-	1 353 380	-
6	-	-	-	13 785	1 606	122 315	-	-	-	-	137 706	-
7	-	-	-	35 467	10 022	312 554	-	-	-	-	358 043	-
8	6	-	-	741	1 052 374	754 337	1 153 508	-	-	480 790	3 441 756	-
other *)	-	-	-	-	-	-	-	316 139	-	-	316 139	207 870
Default category	69	8 225	2 932	20 235	-	27 971	-	-	-	-	56 500	-
Total	**3 251 884**	**32 561 004**	**29 452 117**	**3 159 912**	**5 819 786**	**12 770 035**	**1 153 508**	**1 196 890**	**3 163 811**	**480 790**	**63 557 620**	**4 009 901**

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

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 2012	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Other				
Past due up to 30 days	341 145	1 063 435	858 689	23 322	60 413	418 816	-	-	6 311	-	1 913 442	-
Past due 31 - 60 days	44 433	327 103	255 778	7 937	-	160 135	-	-	3 363	-	542 971	-
Past due 61 - 90 days	16 634	108 552	87 898	1 631	-	13 514	-	-	-	-	140 331	-
Past due over 90 days	70 709	93 143	39 606	11 130	-	319 965	-	-	11 542	-	506 489	-
Total	**472 921**	**1 592 233**	**1 241 971**	**44 020**	**60 413**	**912 430**	**-**	**-**	**21 216**	**-**	**3 103 233**	**-**

31 December 2011	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Other				
Past due up to 30 days	292 020	981 582	765 880	55 344	1 133	532 636	-	-	14 545	-	1 877 260	-
Past due 31 - 60 days	30 048	262 319	220 307	20 959	-	159 378	-	-	-	-	472 704	-
Past due 61 - 90 days	2 271	136 350	117 450	2 146	-	65 589	-	-	-	-	206 356	-
Past due over 90 days	60 711	97 300	35 506	26 573	-	654 516	-	-	-	-	839 100	-
Total	**385 050**	**1 477 551**	**1 139 143**	**105 022**	**1 133**	**1 412 119**	**-**	**-**	**14 545**	**-**	**3 395 420**	**-**

Loans and advances individually impaired

Loans and advances individually impaired amounted to PLN 1 302 438 thousand (as at 31 December 2011: PLN 1 110 866 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.

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	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Other				
31 December 2012												
Loans and advances with impairment	584 167	722 231	480 482	474 763	489 462	1 269 574	-	92 062	-	-	3 632 259	-
Provisions for loans and advances with impairment	(542 771)	(438 949)	(268 146)	(392 585)	(285 785)	(602 891)	-	(66 840)	-	-	(2 329 821)	-
31 December 2011												
Loans and advances with impairment	496 134	517 356	351 163	530 161	569 332	1 087 883	-	84 517	-	1 377	3 286 760	-
Provisions for loans and advances with impairment	(478 863)	(296 802)	(174 044)	(405 208)	(303 371)	(618 427)	-	(71 846)	-	(1 377)	(2 175 894)	-

The Group is characterized by a conservative approach in the area of verification of collateral value and setting of acceptable LtV levels. The policy, in this respect, imposes 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 estate (localized on not well developed markets).

Financial effect of collaterals

As at 31 December 2012	Gross amount	Provisions created	Provisions without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	3 945 137	(559)	(3 998)	3 439
Loans and advances to customers, including:	69 587 787	(2 528 533)	(4 100 921)	1 640 028
Loans to individuals:	37 816 508	(1 057 789)	(1 461 859)	404 070
- Current accounts	4 600 545	(586 189)	(616 467)	30 278
- Term loans, including:	33 215 963	(471 600)	(845 392)	373 792
housing and mortgage loans	29 171 827	(284 004)	(548 397)	264 393
Loans to corporate clients:	25 152 990	(1 390 778)	(2 616 968)	1 226 190
- Current accounts	4 255 092	(410 255)	(472 030)	61 775
- Term loans:	20 897 898	(980 523)	(2 144 938)	1 164 415
corporate & institutional enterprises	5 857 708	(313 738)	(363 961)	50 223
medium & small enterprises	15 040 190	(666 785)	(1 780 977)	1 114 192
Loans and advances to public sector	2 698 549	(12 326)	(22 094)	9 768
Total balance sheet data	73 532 924	(2 529 092)	(4 104 919)	1 643 467
Off-balance sheet data:				
Loan commitments and other commitments	14 843 972	(25 614)	(47 509)	21 895
Guarantees, banker's acceptances, documentary and commercial letters of credit	2 549 874	(20 848)	(35 438)	14 590
Total off-balance sheet data:	17 393 846	(46 462)	(82 947)	36 485

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As at 31 December 2011	Gross amount	Provisions created	Provisions without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	4 009 901	(1 027)	(5 228)	4 201
Loans and advances to customers, including:	70 239 800	(2 388 284)	(3 698 325)	1 374 044
Loans to individuals:	38 688 979	(861 377)	(1 142 109)	280 732
– Current accounts	4 133 068	(523 086)	(547 735)	24 649
– Term loans, including:	34 555 911	(338 291)	(594 374)	256 083
housing and mortgage loans	30 942 423	(200 789)	(390 527)	189 738
Loans to corporate clients:	25 455 383	(1 459 196)	(2 544 269)	1 085 073
– Current accounts	3 795 095	(324 262)	(374 193)	49 931
– Term loans:	21 660 288	(1 134 934)	(2 170 076)	1 035 142
corporate & institutional enterprises	6 390 251	(337 438)	(374 715)	37 277
medium & small enterprises	15 270 037	(797 496)	(1 795 361)	997 865
Loans and advances to public sector	3 178 356	(3 708)	(11 947)	8 239
Total balance sheet data	74 249 701	(2 389 311)	(3 703 553)	1 378 245
Off-balance sheet data:				
Loan commitments and other commitments	14 200 226	(26 963)	(96 510)	69 547
Guarantees, banker's acceptances, documentary and commercial letters of credit	2 967 250	(3 943)	(20 211)	16 268
Total off-balance sheet data:	17 167 476	(30 906)	(116 721)	85 815

Other financial assets

	31.12.2012	31.12.2011
Gross other financial assets, including:	338 193	378 876
- Not past due	321 926	367 380
- Past due over 90 days	16 267	11 496
- Provisions for impaired assets (negative amount)	(20 025)	(18 710)
Net other financial assets (Note 27)	318 168	360 166

The above note presents quality of other financial assets included in Note 26 'Other assets'.

3.4.8 Debt Instruments: treasury bonds and other eligible debt securities

31 December 2012	Trading securities			Investment debt securities	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	-	-
AA- to AA+	-	-	-	491 500	491 500
A- to A+	805 778	319	163 002	19 105 039	20 074 138
BBB+ to BBB-	-	-	46 301	103 226	149 527
BB+ to BB-	-	-	94 284	20 673	114 957
B+ to B-	-	-	-	-	-
Lower than B-	-	-	-	-	-
Unrated	-	-	-	2	2
Total	805 778	319	303 587	19 720 440	20 830 124

31 December 2011	Trading securities			Investment debt securities	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	-	-
AA- to AA+	-	-	115 769	499 331	615 100
A- to A+	1 019 425	148	92 376	19 697 637	20 809 586
BBB+ to BBB-	-	-	50 941	176 535	227 476
BB+ to BB-	-	-	172 325	-	172 325
B+ to B-	-	-	12 275	-	12 275
Lower than B-	-	-	-	2	2
Unrated	-	-	-	-	-
Total	1 019 425	148	443 686	20 373 505	21 836 764

98.73% of the investments in debt securities is rated at least on A- credit rating (31 December 2011: 98.11%). Information about impairment allowance for investment debt securities occurs under Note 23.

3.4.9 Repossessed collateral

The Group classifies repossessed collaterals as assets repossessed for debt and measures them in accordance with the adopted accounting policies described in paragraph 2.23. 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 units managing the collection process for individual types of repossessed collaterals.

The policy of the companies of the Group is to sell repossessed assets or - in the case of leases - lease them out again to another customer. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Group companies' urgent need, and must at each time be approved by their Management Boards. In 2012, the Group did not have any repossessed collaterals that were difficult to sell. As at 31 December 2012, value of repossessed collaterals was PLN 79 355 thousand (31 December 2011: PLN 29 803 thousand) included mainly real estate which constitute collaterals for mortgage loans and leasing assets.

3.5 Concentration of assets, liabilities and off-balance sheet items

Geographic concentration risk

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

- 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, the Group 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.

Sector concentration risk

If the exposure of the Bank is concentrated in a specific sector, the Group monitors its share in the financing of the whole sector and the standing of each customer of the Group vs. the rest of the sector. For this purpose, the Group uses a statistical database, in which each financial parameter of each of the Bank's customers is mapped onto a decile grid of the parameter for the whole industry. This enables the Group 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 Bank's regulations, in quarterly reporting periods. Monitoring and analysis covers all the sectors in which the Bank's exposure exceeds 5% of the total amount of exposures at the end of a given reporting period, the so-called "sensitive sectors" and sectors additionally indicated by the Chief Risk Officer. Unless the Bank's Management Board Credit Committee decides otherwise, an exposure limit is set for the Group in any sector on a level not higher than:

- 12% of the gross loan portfolio in the prior reporting period for low risk sectors;
- 10% of the gross loan portfolio in the prior reporting period for medium risk sectors;
- 5% 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 table below presents the structure of concentration of BRE Bank SA Group's exposures in particular sectors.

<u>The structure of concentration of carrying amounts of exposure of the Group</u>

No.	Sectors	Principal exposure (in PLN million)	%	Principal exposure (in PLN million)	%
		31.12.2012		31.12.2011	
1.	Household customers	37 816 508	54.34%	38 688 979	55.08%
2.	Real estate management	4 674 458	6.72%	4 279 605	6.09%
3.	Public administration	2 177 125	3.13%	2 508 575	3.57%
4.	Building industry	2 084 143	2.99%	2 277 683	3.24%
5.	Transport and travel agencies	1 737 725	2.50%	1 975 109	2.81%
6.	Power industry and heat engineering	1 474 800	2.12%	716 907	1.02%
7.	Liquid fuels and natural gas	1 392 174	2.00%	2 051 906	2.92%
8.	Metals	1 223 564	1.76%	1 260 732	1.79%
9.	Other wholesale trade	888 033	1.28%	909 508	1.29%
10.	Motorization	880 978	1.27%	809 103	1.15%
11.	Groceries	855 409	1.23%	614 850	0.88%
12.	Building materials	742 360	1.07%	706 057	1.01%
13.	Chemistry and plastic processing	719 518	1.03%	851 016	1.21%
14.	Pharmaceuticals and health care	680 846	0.98%	314 964	0.45%
15.	Wood and furniture	632 047	0.91%	774 043	1.10%
16.	Telecomunication	618 089	0.89%	525 987	0.75%
17.	Meat processing industry	593 134	0.85%	528 178	0.75%
18.	Leasing and renting	429 591	0.62%	745 406	1.06%
19.	Management, consulting, advertising	404 098	0.58%	947 286	1.35%

In 2012, the total exposure of the Group in the above sectors (excluding household customers) amounts to 31.93% of the credit portfolio (2011: 32.44%). The risk of investing in these sectors (in a 3-point scale, i.e., low, medium, high) estimated by the Bank's credit risk advisors as at the end of 2012, was assessed as follows:

Real estate management	- medium
Public administration	- low
Building industry	- high
Transport and travel agencies	- medium
Power industry and heat engineering	- medium
Liquid fuels and natural gas	- medium
Metals	- high
Other wholesale trade	- medium
Motorization	- high
Groceries	- medium
Building materials	- medium
Chemistry and plastic processing	- medium
Pharmacy and health care	- medium
Wood and furniture	- high
Telecommunication	- medium
Meat processing industry	- medium
Leasing and renting	- medium
Management, consulting, advertising	- n/a

As at the end of 2011, the risk of above sectors was as follows:

Real estate management	- medium
Public administration	- low
Building industry	- medium
Transport and travel agencies	- medium
Power industry and heat engineering	- medium
Liquid fuels and natural gas	- medium
Metals	- high
Other wholesale trade	- medium
Motorization	- high
Groceries	- n/a

Building materials	- medium
Chemistry and plastic processing	- medium
Pharmacy and health care	- n/a
Wood and furniture	- high
Telecommunication	- medium
Meat processing industry	- n/a
Leasing and renting	- medium
Management, consulting, advertising	- n/a

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 regulatory limits in companies of the Group:

- 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 Group concerning the approval of 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.

3.6 Market risk

In the process of organisation of the market risk management, the Bank follows rules and requirements set forth in Polish Financial Supervision Authority (KNF) regulations and recommendations, in particular in Recommendations A and I.

The fundamental principle applied in the organisation of the market risk management in the Bank is the separation of risk control and monitoring functions from structures undertaking and operationally managing Bank's risk positions. Monitoring and controlling of the market risk is performed by the Risk Department and the Financial Operations Control Department, both units in the Risk Area of the Bank under supervision of the Chief Risk Officer, while the market risk positions are operationally managed by Financial Markets Department, Brokerage Bureau and Treasury Department reporting to the Management Board member in charge of investment banking. The Brokerage Bureau is a new organisational unit of the Bank separated from the Financial Markets Department. The Bureau started its operations in June 2012. Moreover, the investment positions sensitive to market risk factors (e.g. prices of shares listed on the Warsaw Stock Exchange) are managed in the Structured and Mezzanine Finance Department (DFS) operating in the Corporate Banking area.

In the course of Bank's operations, 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 due to changes of the appropriate market risk factors, in particular interest rates, foreign exchange rates, stock share prices and indices, and implied volatilities of relevant options. The Bank identifies market risk primarily on the trading book positions valuated at fair value (either directly to market prices or via models) and as such may lead to losses reported in Bank's financial results. Furthermore, the Bank assigns market risk to its banking positions independently of the accounting rules of calculating financial results on these positions. In particular, in order to reflect the interest rate risk of the retail and corporate banking products with unspecified interest revaluation dates or rates administered by the Bank, the Bank uses the so-called replicating portfolio models. Market risk measures applicable to interest rate banking book positions are based on net present value (NPV) models. Exposure to market risk is quantified by measurement of the value at risk (VaR), stress tests values, and scenario analyses based on markets behaviour during the past financial crises. Market risk, in particular interest rate risk of the banking book is also quantified by calculation of the earning at risk (EaR) measure for the banking portfolio.

In order to mitigate market risk exposure BRE Bank Risk Committee establishes VaR limits and limits (management action triggers) on stress test for respective Bank portfolios.

Value at Risk

In 2012, Bank's market risk exposure, as measured by the value at risk (VaR, for one day holding period, at 97.5% confidence level), was in relation to the established limits on moderate level. The average utilisation of VaR limit for Financial Markets Department, whose positions consist primarily of trading book portfolios, amounted to 29% (PLN 1.6 million), for the Brokerage Bureau (BM) 18% (PLN 0.4 million), while for the Treasury Department, whose positions are classified solely to the banking book, it was 65% (PLN 10.4 million). The average utilisation of the VaR limit for the position of the Structured and Mezzanine Finance Department (DFS) in shares listed in the Warsaw Stock Exchange accounted for 49% (PLN 0.5 million) in the period by November 2012. From November 2012, due to restructuring of BRE Bank Group's holding in PZU SA shares, as a result of which the Bank took over the PZU shares to the DFS portfolio, the average VaR on the DFS portfolio amounted to PLN 4.6 million. By November 2012, the VaR figures for BRE Bank's portfolio ware driven mainly by portfolios of instruments sensitive to interest rates – the banking book T-bonds portfolios managed by Treasury Department and the trading book portfolios and interest rate exchange positions managed by Financial Markets Department. The DFM portfolios of instruments sensitive to changes in exchange rates had a relatively low impact on the Bank's risk profile, while the exposure of BM and DFS portfolios to equity price risk and risk of implied variability of options traded on the Warsaw Stock Exchange was even lower. However, starting from November 2012, equity price risk (in particular, PZU shares) became the second relevant type of market risk for the Bank's positions

BRE Bank VaR

The tables below present VaR statistics from two perspectives. The first table compares the 2012 data with 2011 figures (the values presented in the table were calculated for the Bank's portfolio excluding the DFS positions).

PLN 000's	2012				2011			
	31.12.2012	Mean	Maximum	Minimum	31.12.2011	Mean	Maximum	Minimum
VaR IR	6 162	11 146	14 368	6 162	12 157	11 166	14 480	8 219
VaR FX	132	506	2 004	76	229	258	719	29
VaR EQ	274	245	815	0	3	30	160	0
VaR	**6 171**	**11 241**	**14 885**	**6 131**	**12 217**	**11 118**	**14 238**	**8 118**

The table below presents analogous VaR statistics for the Bank's portfolio including the DFS positions, and takes into account the PZU shares transferred to DFS on November 2012.

PLN 000's	2012			
	31.12.2012	Mean	Maximum	Minimum
VaR IR	6 162	11 146	14 368	6 162
VaR FX	132	506	2 004	76
VaR EQ	4 750	925	4 801	1
VaR	**9 879**	**11 588**	**14 779**	**8 059**

Stress testing

Stress tests are additional measures of market risk, supplementing the measurement of the 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 are composed of large changes in risk factors - perfectly correlated and having the same magnitude in each risk factor group, and in the other, 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.

The values of the stress tests calculated by the second method for the portfolios of the Treasury Department and the Financial Markets Department were subject to the limits treated as management action triggers. The average utilisation of these limits in 2012 was 32% (PLN 39.4 million) for the Treasury Department portfolio (DS) (in 2011: 83% or PLN 103.6 million), and 20% (PLN 15.2 million) for the Financial Markets Department portfolio (in 2011: 19% or PLN 14.3 million). Among scenarios used in these tests, the highest potential loss was due to large changes of interest rates (mostly PLN rates). For the scenario of 15% increase of interest rates, average potential change of the valuation of BRE Bank's portfolios would amount to PLN 38.1 million in 2012. Realisation of such a scenario, would negatively impact (in the part corresponding to the banking book portfolios of the Treasury Department including debt instruments classified as available for sale) on the Bank's funds, and to lesser extent, it would affect the Bank's financial results. For this scenario the average potential change of the valuation of the Treasury Department portfolio would amount to PLN 38.5 million in 2012.

The average value of a stress test (based on observed crisis situations in the past) in 2012 was PLN 17.6 million for the Financial Markets Department portfolios (in 2011: PLN 14.6 million), and PLN 48.5 million for the Treasury Department portfolios (in 2011: PLN 102.4 million).

Market risk of BRE Bank Group

The main sources of market risk of the BRE Bank Group are the Bank's positions. The table below shows VaR statistics (at 97.5% confidence level for a one-day holding period) for BRE Bank Group (i.e. BRE Bank, BRE Bank Hipoteczny, BRE Leasing, Dom Inwestycyjny BRE Banku and BRE Gold FIZAN) in 2012 for individual members of the Group in which market risk positions were identified and their decomposition to the VaRs corresponding to the main risk factor types – interest rate risk (VaR IR), foreign exchange risk (VaR FX), and equity prices risk (VaR EQ).

The table below presents VaRs for BRE Bank including the DFS positions together with the PZU shares transferred from BRE Gold FIZAN.

PLN 000's	BRE Group	BRE	BRE BH	BRE Leasing	DI BRE	BRE GOLD
VaR IR	11 162	11 146	108	287	20	0
VaR FX	526	506	78	238	3	0
VaR EQ	5 955	925	0	0	117	5 839
VaR Mean	14 800	11 588	111	299	119	6 900
VaR Maximum	18 125	14 779	192	461	237	4 345
VaR Minimum	9 914	8 059	61	201	55	0
VaR	9 999	9 879	129	253	58	0

For comparison, at the end of 2011 VaR for the BRE Bank Group was PLN 16 132 thousand (with an indirect position in PZU shares resulting from the shares in BRE Gold FIZAN), with VaR of BRE Bank at PLN 12 217 thousand, BRE Bank Hipoteczny – PLN 146 thousand, BRE Leasing – PLN 373 thousands, Dom Inwestycyjny BRE Banku – PLN 91 thousand, and BRE Gold FIZAN – PLN 5 842 thousand.

3.7 Currency risk

The Group is exposed to changes in currency exchange rates. The following tables present the exposure of the Group to currency risk as at 31 December 2012 and 31 December 2011. The tables present assets and liabilities of the Group at balance sheet carrying amount, for each currency:

31.12.2012	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	3 721 979	1 061 004	7 342	174	1 057	27 647	4 819 203
Loans and advances to banks	1 651 761	921 416	556 109	2 915	103 030	709 347	3 944 578
Trading securities	1 150 886	-	-	-	-	-	1 150 886
Derivative financial instruments	2 645 456	120 777	33 657	63	-	2 742	2 802 695
Loans and advances to customers	31 744 869	10 784 676	1 551 447	21 116 206	45 971	1 816 085	67 059 254
Hedge accounting adjustments related to fair value of hedged items	-	-	-	-	-	2 439	2 439
Investment securities	19 485 400	415	10 353	-	-	497 220	19 993 388
Intangible assets	431 379	209	-	-	-	4 535	436 123
Tangible fixed assets	761 009	4 017	-	-	-	8 878	773 904
Other assets, including tax assets	1 199 291	37 371	4 773	1	8	12 132	1 253 576
Total assets	62 792 030	12 929 885	2 163 681	21 119 359	150 066	3 081 025	102 236 046
LIABILITIES							
Amounts due to other banks	2 477 937	929 036	862 762	16 567 536	1 157	272 511	21 110 939
Derivative financial instruments	3 323 575	120 287	29 366	-	-	3 456	3 476 684
Amounts due to customers	44 762 732	8 575 021	1 416 809	76 836	137 439	3 014 763	57 983 600
Debt securities in issue	2 803 068	2 089 207	-	-	-	-	4 892 275
Hedge accounting adjustments related to fair value of hedged items - debt securities in issue	-	4 220	-	-	-	-	4 220
Subordinated liabilities	-	-	-	3 222 295	-	-	3 222 295
Other liabilities including tax liabilities	1 431 460	93 599	32 643	1 602	2 035	61 383	1 622 722
Provisions	187 939	10 652	10 135	4 545	-	56	213 327
Total liabilities	54 986 711	11 822 022	2 351 715	19 872 814	140 631	3 352 169	92 526 062
Net on-balance sheet position	7 805 319	1 107 863	(188 034)	1 246 545	9 435	(271 144)	9 709 984
Loan commitments and other commitments	12 989 302	1 314 325	314 653	-	61 907	163 785	14 843 972
Guarantees, banker's acceptances, documentary and commercial letters of credit	1 884 894	472 397	81 236	-	1 640	109 707	2 549 874

31.12.2011	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	935 433	57 240	9 160	118	1 729	34 676	1 038 356
Loans and advances to banks	1 916 184	1 230 760	648 415	37 732	29 087	146 696	4 008 874
Trading securities	1 473 176	-	3 846	-	-	-	1 477 022
Derivative financial instruments	1 400 522	71 353	24 603	1 355	-	8 762	1 506 595
Loans and advances to customers	28 141 033	11 330 484	2 495 507	23 981 722	49 564	1 853 206	67 851 516
Hedge accounting adjustments related to fair value of hedged items	-	-	-	-	-	1 924	1 924
Investment securities	20 036 026	351	7 991	-	-	506 904	20 551 272
Intangible assets	425 145	377	-	-	-	11 247	436 769
Tangible fixed assets	813 034	6 956	-	-	-	12 465	832 455
Other assets, including tax assets	1 108 170	44 050	1 623	1 799	14	15 208	1 170 864
Total assets	56 248 723	12 741 571	3 191 145	24 022 726	80 394	2 591 088	98 875 647
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	-
Amounts due to other banks	4 113 503	2 456 373	1 224 000	19 183 950	171	412 812	27 390 809
Derivative financial instruments	1 766 612	67 474	22 743	638	-	5 280	1 862 747
Amounts due to customers	42 572 602	7 382 918	1 475 994	47 291	99 690	2 665 893	54 244 388
Debt securities in issue	1 735 988	-	-	-	-	-	1 735 988
Subordinated liabilities	-	-	-	3 456 200	-	-	3 456 200
Other liabilities including tax liabilities	1 582 605	240 482	76 584	5 826	2 768	51 417	1 959 682
Provisions	135 785	2 639	10 590	4 081	20	53	153 168
Total liabilities	51 907 095	10 149 886	2 809 911	22 697 986	102 649	3 135 455	90 802 982
Net on-balance sheet position	4 341 628	2 591 685	381 234	1 324 740	(22 255)	(544 367)	8 072 665
Loan commitments and other commitments	12 883 476	1 029 183	116 544	-	13 239	157 784	14 200 226
Guarantees, banker's acceptances, documentary and commercial letters of credit	2 133 969	577 717	143 941	-	56	111 567	2 967 250

3.8 Interest rate risk

BRE Bank SA

In the process of managing interest rate risk of the banking book, the risk monitoring and control functions are performed by the Risk Department supervised by the Chief Risk Officer, whereas operational management of risk positions takes place in the Treasury Department supervised by the Head of Investment Banking. This way the Bank ensures independence of risk measurement, monitoring and control functions from operational activity, which gives rise to the positions taken by the bank.

Interest rate risk results from the threat to the bank's financial result and capital posed by adverse influence of interest rate fluctuations. Guided by the KNF recommendations, in particular Recommendation G, the Bank monitors the banking book structure in terms of repricing gap as well as basis risk, yield curve risk and customer option risk.

The basic measures used to control interest rate risk in the banking book are the repricing gap and the net interest income exposed to risk calculated on its basis (Earning at Risk). Moreover, the Bank performs also stress test analyses aimed to estimate the impact of adverse interest rate fluctuations on net interest income and the economic value of the banking portfolio. Interest rate risk of the banking book is also quantified using market risk measures: Value at Risk and stress tests.

Based on a decision of the Risk Committee of BRE Bank SA, the exposure to interest rate risk is limited for the banking portfolio by means of repricing gap limits and market risk limits imposed on the value at risk (VaR) and stress tests. The utilisation of all those limits is monitored and controlled on a daily basis.

Interest income subject to risk

As at 31 December 2012 and 31 December 2011, a sudden, lasting and unfavorable shift 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:

31.12.2012		31.12.2011	
in PLN million	currency	in PLN million	currency
90.26	PLN	35.06	PLN
10.89	EUR	2.19	EUR
2.17	USD	4.50	USD
14.45	CHF	18.90	CHF
8.30	CZK	7.63	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.

Stress tests

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 2012 would change by PLN 58 million (at the end of 2011: PLN 375 million), out of which PLN 324 million (at the end of 2011: PLN 333 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 less than or equal to zero.

The risk measures in 2012 (net interest income exposed to risk and changes in the economic value of the banking portfolio as a result of stress tests), were affected by a change in the methodology. From the beginning of the year, successive groups of products have been gradually covered by the replicating portfolios approach in order to better reflect the reaction of their interest to fluctuations in market interest rates.

BRE Bank Hipoteczny SA

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

As at 31 December 2012 and 31 December 2011 a sudden, lasting and disadvantageous change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income by the following amounts:

31.12.2012		31.12.2011	
in PLN million	currency	in PLN million	currency
5.00	PLN	4.00	PLN
0.09	EUR	0.49	EUR
0.01	USD	0.01	USD

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

BRE Leasing Sp. z o.o.

BRE Leasing Sp. z o.o. performs risk analysis based on the following risk factors:

- interest rates;
- fx rates.

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

As at 31 December 2012 and 31 December 2011 a sudden, lasting and disadvantageous change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income by the following amounts:

31.12.2012		31.12.2011	
in PLN million	currency	in PLN million	currency
3.10	PLN	1.50	PLN
1.60	EUR	1.40	EUR
0.00	USD	0.20	USD
0.01	CHF	1.10	CHF
0.01	JPY	0.10	JPY

Group interest rate risk

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

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31.12.2012	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	1 857 284	-	-	-	-	2 961 919	4 819 203
Loans and advances to banks	3 680 988	57 318	42 735	-	-	163 537	3 944 578
Trading and investment securities	15 019 697	69 955	1 159 942	4 031 169	669 958	193 553	21 144 274
Loans and advances to customers	58 943 756	4 449 053	2 349 164	508 665	25 653	782 963	67 059 254
Other assets and derivative financial instruments	382 705	627 111	1 333 906	474 354	25 034	843 211	3 686 321
Total assets	79 884 430	5 203 437	4 885 747	5 014 188	720 645	4 945 183	100 653 630
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	-
Amounts due to other banks	11 089 295	9 847 354	173 021	-	-	1 269	21 110 939
Amounts due to customers	44 332 686	5 704 981	7 442 917	78 425	266 207	158 384	57 983 600
Debt securities in issue	675 248	505 256	1 663 639	2 048 132	-	-	4 892 275
Subordinated liabilities	578 765	2 643 530	-	-	-	-	3 222 295
Other liabilities and derivative financial instruments	458 655	640 483	1 762 420	615 477	32 089	1 362 405	4 871 529
Total liabilities	57 134 649	19 341 604	11 041 997	2 742 034	298 296	1 522 058	92 080 638
Total interest repricing gap	22 749 781	(14 138 167)	(6 156 250)	2 272 154	422 349		

31.12.2011	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	818 199	-	-	-	-	220 157	1 038 356
Loans and advances to banks	3 663 434	129 128	117 183	-	-	99 129	4 008 874
Trading and investment securities	12 283 888	426 025	4 888 368	3 186 329	1 052 154	191 530	22 028 294
Loans and advances to customers	59 351 360	4 487 765	2 629 225	594 810	29 800	758 556	67 851 516
Other assets and derivative financial instruments	247 112	376 782	680 893	260 730	14 497	785 665	2 365 679
Total assets	76 363 993	5 419 700	8 315 669	4 041 869	1 096 451	2 055 037	97 292 719
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	-
Amounts due to other banks	14 126 055	13 126 153	132 096	-	-	6 505	27 390 809
Amounts due to customers	47 316 524	5 109 449	1 090 733	147 939	400 891	178 852	54 244 388
Debt securities in issue	571 665	369 080	795 243	-	-	-	1 735 988
Subordinated liabilities	1 238 818	2 217 382	-	-	-	-	3 456 200
Other liabilities and derivative financial instruments	330 761	353 811	952 524	329 095	18 760	1 601 652	3 586 603
Total liabilities	63 583 823	21 175 875	2 970 596	477 034	419 651	1 787 009	90 413 988
Total interest repricing gap	12 780 170	(15 756 175)	5 345 073	3 564 835	676 800		

3.9 Liquidity risk

BRE Bank SA

The objective of liquidity risk management is to ensure and maintain the Bank's ability to fulfil both current and future commitments. The Bank achieves this objective by diversifying stable funding sources in terms of client, product and currency groups, and at the same time, optimizes its balance sheet in terms of profitability. Long-term activities of BRE Bank are organised around growth determined by funding opportunities and business profitability.

In 2012, the liquidity situation was closely monitored and kept at a level adequate to the Bank's needs by adjusting the deposit base and securing additional funding sources depending on the development of lending activity and other funding needs.

The strategic assumptions concerning the diversification of funding sources and profitable structure of the balance sheet are reflected in the business and financial goals of BRE Bank Group defined by appropriate measures, e.g. L/D ratio (Loans to Deposits). The Bank assumes a specific relation of loans to deposits in order to maintain a stable structure of its balance sheet. In 2012, liquidity measured by L/D ratio improved from 125.1% to 115.7% The Bank aims at building a stable deposit base using deposit and investment products, regular and specific-purpose savings offerings, as well as operating deposits of the subsidiaries. Liabilities to clients constitute the major funding source for the Bank's business. The second largest funding source is the portfolio of long-term loans from banks (with maturities over 1 year), in particular from Commerzbank (Note 27). The loans together with subordinated loans (Note 30) are the core funding source for the portfolio of mortgage loans in CHF. Owing to the suspension of mortgage loans in CHF, the receivables in this currency have been decreasing successively along with credit repayments. The funds obtained from the repayment of the said loans are used to reduce the Bank's debt in CHF owed to Commerzbank, BRE Bank's main shareholder. In 2012, the debt was reduced by CHF 430 million as the maturing loans had not been renewed.

Moreover, in order to secure funding (also in foreign currencies) the Bank uses mid-term and long-term instruments, including credit line facilities within Commerzbank Group and on the international market as well as FX swap transactions. In H2 2012, the Bank issued Eurobonds worth EUR 500 million under the Euro Medium Term Note Programme (EMTN).

In addition, the Bank has the option to raise up to PLN 5 billion under the Banking Debt Securities Issue Programme. In November 2012, the Bank issued debt securities worth PLN 450 million with a 3-year maturity. When making funding-related decisions, the Bank takes into consideration the supervisory liquidity measures and limits, as well as the internal risk limits, in order to match the term structure of its funding sources with the structure of long-term assets. Liquid assets are expected to remain at a level necessary to ensure the safety of business as measured by satisfactory liquidity ratios.

In order to ensure that the liquidity risk management process is effective, the Management Board of the Bank lies down an adequate organizational structure and delegates powers to dedicated units and Committees. The existing process covers the liquidity risk management area at both the strategic and operational level, and the liquidity risk measurement and control area.

As part of liquidity risk management, a range of risk measures are being analysed. The basic measure reflecting the Bank's liquidity situation is the mismatch account of future cash flows, and the mismatch gap related with it. It covers all the assets, liabilities and off-balance sheet items of the Bank in all the currencies and time-bands set by the Bank. The aim to secure liquidity is realized by active management of the structure of future cash flows and in maintaining sufficient liquidity buffer. In 2012, the Bank held high liquidity surplus, adequate to the liquidity needs arising from the Bank's activity and current market situation, in the form of a portfolio of liquid treasury and money market securities that may be pledged or sold at any time without any considerable loss in value. In accordance with KNF Resolution No. 386/2008 on establishing liquidity measures binding on banks, the Bank calculates the supervisory liquidity measures. In 2012, the supervisory limits on short-term and long-term liquidity measures were not exceeded. Moreover, in line with the Resolution, the Bank conducts an in-depth analysis of long-term liquidity and sets internal limits on involvement in long-term assets. There are analysed the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts. Additionally, the Bank analyses the variability of the balance sheet and off-balance sheet items, in particular the open credit line facilities and current account overdraft facilities.

The ongoing analysis covers not only liquidity under normal conditions, but also on the assumption of a potential liquidity loss. In order to determine the Bank's resistance to major unfavourable events, the Bank conducts scenario analyses covering extreme assumptions on the operation of financial markets and behavioral events relative to the Bank's clients. The Bank has also adequate procedures in case BRE Bank SA is threatened with financial liquidity loss.

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 3.9.1). Cash flows in portfolios of non-banking customers' deposits, overdrafts and term loans are mainly amended. In the calculation of the liquidity measures the Bank takes into account the possibilities of raising the funds by selling or pledging the debt securities from Bank's Liquidity Reserves.

Value of realistic, cumulative gap of cash flows misfit (in PLN million)		
Time range	31.12.2012	31.12.2011
up to 3 working days	11 559	7 065
up to 7 calendar days	11 425	11 222
up to 15 calendar days	10 478	11 148
up to 1 month	11 500	12 339
up to 2 months	12 488	12 011
up to 3 months	13 399	12 280
up to 4 months	13 767	12 705
up to 5 months	14 048	13 073
up to 6 months	13 849	12 658
up to 7 months	13 072	12 741
up to 8 months	13 029	12 851
up to 9 months	12 798	11 851
up to 10 months	12 332	12 110
up to 11 months	11 239	12 134
up to 12 months	11 292	12 259

The above values should be interpreted as liquidity surplus in relevant time ranges.

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BRE Bank Hipoteczny SA

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

Sources of funding are subject to diversification, however, are obtained mainly in cooperation with BRE Bank. The Bank finances long-term assets in the first place with mortgage bonds of long-term maturity and with long-term deposits taken from BRE Bank and fulfils its current demand for funding in the interbank market by means of issues of short-term bonds and accepted deposits.

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

In 2012, the liquidity ratios up to 1 month were between 23.10% and 70.19% and the average liquidity ratio was 38.70%. As at 31 December 2012, this ratio was 39.15%. The liquidity ratio up to 1 month at 39.15% results from including unconditional stand-by lines of credit in the total amount of PLN 200 million (2011: PLN 200 million).

BRE Leasing Sp. z o.o.

The purpose of liquidity management policy in BRE Leasing is a maintenance of balance sheet structure and off balance sheet transactions, which ensure a constant cash flows of the Company including the nature of business and needs that may arise as a result of changes in the financial markets or arising from creditors and customers behaviour. Ensuring of continued liquidity concerns both normal, stable operating conditions and the conditions of higher probability of loss.

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

Liquidity risk management policy covers the basic principles of risk management and methods of measurement and control as well as ways to deal with the threat of liquidity. Parallel to the liquidity risk control performed by the Management Board, the independent liquidity risk control is carried out by BRE Bank.

The base method of analysis and risk measurement is contractual approach, i.e. mismatch calculation of future cash flows, commonly known as "gap mismatch". Using this method the contractual cash flows for all currencies and all balance sheet and off-balance sheet items are determined.

The Company also uses the real financial cash flows method, based on scenarios. Real cash flows are created in two versions: basic and stress test. Assumptions for each scenario are based on sales plans prepared by sales departments, based on an analysis of liquidity and substitutability of the leasing portfolios and loans and debt instruments.

3.9.1 Cash flows from transactions in non-derivative financial instruments

The table below shows cash flows the Group is required to settle, resulting from financial liabilities. The cash flows have been presented as at the 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.

Liabilities (by contractual maturity dates)	as at 31.12.2012					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to other banks	3 311 374	74 657	3 656 870	11 526 046	2 562 206	21 131 153
Amounts due to customers	43 623 285	4 850 738	7 511 785	320 690	1 671 209	57 977 707
Debt securities in issue	350 547	157 069	93 241	4 499 556	205 894	5 306 307
Subordinated liabilities	4 878	-	-	1 761 136	1 456 324	3 222 338
Technical-insurance provisions	14 540	14 220	37 115	17 800	837	84 512
Other liabilities	967 434	28 301	192 642	9 577	6 789	1 204 743
Total liabilities	48 272 058	5 124 985	11 491 653	18 134 805	5 903 259	88 926 760
Assets (by remaining contractual maturity dates)						
Total assets	19 503 953	5 137 621	12 444 037	29 306 634	49 274 820	115 667 065
Net liquidity gap	(28 768 105)	12 636	952 384	11 171 829	43 371 561	26 740 305

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Liabilities (by contractual maturity dates)	as at 31.12.2011					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to other banks	3 799 535	414 236	4 407 931	14 042 491	5 582 306	28 246 499
Amounts due to customers	46 276 544	4 300 180	794 412	383 866	2 434 292	54 189 294
Debt securities in issue	372 455	71 607	882 060	1 465 838	205 986	2 997 946
Subordinated liabilities	7 851	7 028	19 887	105 652	3 473 819	3 614 237
Technical-insurance provisions	12 835	14 305	32 884	20 199	641	80 864
Other liabilities	1 190 066	27 452	219 509	10 529	3 829	1 451 385
Total liabilities	51 659 286	4 834 808	6 356 683	16 028 575	11 700 873	90 580 225
Assets (by remaining contractual maturity dates)						
Total assets	15 739 695	4 179 751	18 782 019	30 263 305	50 757 444	119 722 214
Net liquidity gap	(35 919 591)	(655 057)	12 425 336	14 234 730	39 056 571	29 141 989

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, were pledged as collateral for liabilities. The Group could ensure cash for unexpected net outflows by selling securities and availing itself of other sources of financing, such as the market of securities secured with assets.

3.9.2 Cash flows from derivatives

Derivative financial instruments settled in net amounts

Derivative financial instruments settled in net amounts by the Group 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 Group, which will be settled on a net basis, grouped by appropriate remaining maturities as at the Balance Sheet date. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the Balance Sheet date.

The amounts disclosed in the table are discounted contractual outflows.

31.12.2012

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)	10 668	48 145	125 781	49 644	-	234 238
Overnight Index Swaps (OIS)	247	999	4 417	-	-	5 663
Interest Rate Swaps (IRS), including:	265 516	304 016	599 662	1 456 714	396 415	3 022 323
Cross Currency Interest Rate Swaps (CIRS)	-	8 870	130 793	1 039	-	140 702
Options	479 988	3 456	90 410	8 812	19	582 685
Other	2 211	734	1 172	83	-	4 200
Total derivatives settled on a net basis	758 630	366 220	952 235	1 516 292	396 434	3 989 811

31.12.2011

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)	8 207	15 169	26 359	2 638	-	52 373
Overnight Index Swaps (OIS)	663	1 470	8 809	-	-	10 942
Interest Rate Swaps (IRS)	49 963	251 924	195 245	631 053	134 439	1 262 624
Cross Currency Interest Rate Swaps (CIRS)	-	820	696	199 777	-	201 293
Options	5 351	28 403	143 895	12 942	-	190 591
Futures contracts	-	1	-	-	-	1
Other	399	-	631	-	-	1 030
Total derivatives settled on a net basis	64 583	297 787	375 635	846 410	134 439	1 718 854

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Derivative financial instruments settled in gross amounts

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

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

31.12.2012

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	9 824 900	2 691 334	2 052 585	159 335	-	14 728 154
-inflows	9 853 242	2 762 336	2 059 865	157 772	-	14 833 215

31.12.2011

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	9 118 645	3 956 735	5 610 332	258 135	-	18 943 847
-inflows	9 130 609	3 891 088	5 634 221	271 787	-	18 927 705

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 nominal values of all open derivative transactions.

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

3.10 Insurance risk management

The risk connected with insurance contracts is the possibility of occurrence of the insurance event and the uncertainty of the amount of the resulting claim the insurer is to pay by virtue of this event. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For the portfolio of insurance contracts where for creating new products, calculating premiums as well as producing financial plans for subsequent periods the theory of probability is applied, the basi risk is the risk of discrepancy between actual claims and their expected values.

As loss ratio-based estimates are usually based on historic values, there is the risk that their actual realisation will differ from their expected realisation with regard to factors changing over the period such as:

- demographic structure of insured persons upon collective health insurance,
- regulations of the law concerning the insurance market,
- other regulations of the law affecting the insurance market.

Too small insurance portfolio, which does not enable the Law of Great Numbers to function but also does not provide sufficient statistical information for proper risk management is also a factor increasing the risk of discrepancy between loss ratio-based estimates and their actual realisation.

In order to decrease this risk, the Group concentrates primarily on increasing given insurance risk portfolios while limiting the risk as well as the amount of individual risks insured on the Group's share by application of profound reinsurance.

Another source of insurance risk is insurance fraud, which occurs in a higher or lesser degree in most of insurance products. This phenomenon consists in fraudulent claims for compensations or benefits, which are not due actually.

Methods limiting the results of occurrence of the above indicated phenomenon include among others: preventive actions taken up by insurance companies (registers etc.) as well as procedures preventing acceptance of such risk for insurance and relevant procedures of claims handling.

In 2012, the Group offered short-term property and personal insurance contracts both in individual and collective models. However, the collective model is applied to the insurance portfolio known as bancassurance.

The Group also offers individual agreements in co-insurance with other insurers.

Individual agreements are usually concluded for one year with the possibility of renewal with the exception of tourist insurance agreements which are concluded for the duration of the trip, i.e., from 1 to 90 days. Once a year the Group has the right to propose new conditions while renewing the agreement or may not propose such renewal at all.

Collective agreements are concluded in perpetuity. However, the Group has the right to propose new conditions at any time with a three-month notice with the exception of financial agreements where the agreement conditions can be changed by mutual agreement or with a twelve-month notice.

The Group reinsures insurance contracts upon reinsurance agreements.

Concentration of insurance risk is presented in accordance with the breakdown by the groups and the scope of risks defined by the Polish Financial Supervision Authority as well as according to the individual and collective sale model.

The concentration of insurance risk stated in provisions for compensations and benefits

Gross risk	31.12.2012	share %	31.12.2011	share %
casualty	13 120	13%	8 151	10%
disease	11 562	11%	12 649	16%
casco of land vehicles	3 897	4%	3 778	5%
damages caused by elements	5 568	5%	4 787	6%
other material damages	5 413	5%	4 079	5%
civil liability due to owing and usage of land vehicles	38 393	37%	23 727	30%
civil liability	766	1%	560	1%
loan	16 875	17%	16 592	21%
guarantee	697	1%	1 147	1%
different financial risks	353	0%	417	1%
protection by law	178	0%	178	0%
providing help	5 728	6%	3 344	4%
Gross provision for compensations and benefits	102 550	100%	79 409	100%

Risk on own share	31.12.2012	share %	31.12.2011	share %
casualty	13 120	25%	8 158	19%
disease	11 562	22%	12 648	29%
casco of land vehicles	809	2%	777	2%
damages caused by elements	3 755	7%	2 079	5%
other material damages	4 498	8%	3 372	8%
civil liability due to owing and usage of land vehicles	7 678	14%	4 888	11%
civil liability	560	1%	407	1%
loan	8 583	16%	8 501	20%
guarantee	697	1%	1 147	3%
different financial risks	353	1%	417	1%
protection by law	178	0%	178	0%
providing help	1 376	3%	640	1%
Provisions for compensations and benefits on own share	53 169	100%	43 212	100%

Gross risk	31.12.2012	share %	31.12.2011	share %
individual	54 031	53%	37 913	48%
group	48 519	47%	41 496	52%
Provisions for compensations and benefits	102 550	100%	79 409	100%
Risk on own share	31.12.2012	share %	31.12.2011	share %
individual	16 031	30%	12 765	30%
group	37 138	70%	30 447	70%
Provisions for compensations and benefits on own share	53 169	100%	43 212	100%

Sensitivity analysis of provisions for damages

With regard to the accepted methodology of calculation of the IBNR provision ('Naive Loss Ratio' and 'Bornhuetter-Ferguson'), total provisions for compensations and benefits together with costs of claims handling are generally linearly dependent on the assumed loss-based ratio, ULR ('Ultimate Loss Ratio'), accepted for calculation of the IBNR provision with the exception of situations when the ratio calculated only on the basis of damages claimed in a given group of insurance exceeds the accepted value of ULR.

However, the IBNR provision alone is sensitive to changes of assumed loss-based ratios.

Sensitivity analysis was carried out simultaneously for all insured risks of the portfolio, through a change of predicted IBNR ratios with other parameters of the model being unchanged.

The following table presents changes of the IBNR provision depending on changes of parameters of predicted ULR ratios.

Change of ULR ratio (%)		Change of IBNR provision (%)		IBNR provision (PLN '000)		Change of the value of IBNR provision (PLN '000)		The impact on profit after reinsurance (PLN '000)	
31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
(20)	(20)	(26)	(26)	58 975	45 049	(21 218)	(16 191)	11 852	8 838
(10)	(10)	(13)	(13)	69 486	53 101	(10 708)	(8 139)	6 009	4 457
10	10	14	14	91 038	69 695	10 845	8 455	(6 140)	(4 773)
20	20	27	28	101 988	78 197	21 794	16 957	(12 385)	(9 592)

Provisions adequacy analysis

The Group carried out a provisions adequacy analysis, which showed that technical-insurance provisions (reduced by deferred acquisition costs) as at 31 December 2012 were created at a level sufficient to cover commitments arising from insurance agreements till 31 December 2012.

Capital management

Since the start of business of BRE Ubezpieczenia TUiR SA, i.e., 15 January 2007, capital management in insurance companies is connected with the aspiration for maintenance of regular adequacy. The purpose of the Group within the scope of capital management is the maintenance of the capacity of insurance companies of the Group for continuance of business and maintenance of an optimal structure of capital in order to reduce costs of capital.

For this purpose, the Group constantly monitors the value of its own resources in relation to the margin of solvency and guarantee capital in accordance with capital requirements imposed by regulations binding in Poland (Insurance Activity Act and Accounting Act with relevant decrees).

In accordance with these regulations, the company BRE Ubezpieczenia TUiR SA is obliged to hold own resources in the value not lower than the margin of solvency and not lower than the guarantee capital. The guarantee capital equals the bigger of: one-third of the margin of solvency or minimum value of the guarantee capital.

The Decree of Minister of Finance, which takes into account the necessity of ensuring solvency of companies conducting insurance activities, determines the manner of calculation of the solvency margin and minimum value of the guarantee capital.

Own resources of the company are the assets of the insurance company, excluding:

- assets assigned for coverage of all expected commitments,
- intangible assets other than DAC (Deferred Acquisition Cost),
- own shares held by the insurance company,
- deferred income tax assets.

The company BRE Ubezpieczenia TUiR SA is guided only by the law requirements in calculating the solvency margin and the minimum guarantee capital.

Insurance companies check the compliance of capital with law requirements as at the end of each reporting period. Within the whole year 2012 and 2011 the law requirements were met.

The following table presents own resources of the company BRE Ubezpieczenia TUiR SA and coverage of the solvency margin and the guarantee capital as at 31 December 2012 and 31 December 2011.

PLN '000	31.12.2012	31.12.2011
Own resources	107 860	66 732
Margin of solvency	17 257	14 226
Minimal guarantee capital	15 624	14 323
1/3rd of margin of solvency	5 752	4 742
Own resources surplus for coverage of margin of solvency	90 603	52 506
Guarantee capital	15 624	14 323
Own resources surplus for coverage of guarantee capital	92 236	52 409

Capital adequacy of the Group is presented under Note 47.

3.11 Fair value of financial assets and liabilities

Fair value is an 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 Group 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 Group. 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 Group estimated that the fair value of variable rate and short-term (less than 1 year) fixed rate financial instruments were equal to the balance sheet values of such items.

In addition, the Group 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 Group at their fair values.

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	31.12.2012		31.12.2011	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and advances to banks	3 944 578	3 944 578	4 008 874	4 008 872
Loans and advances to customers	67 059 254	67 072 653	67 851 516	67 859 684
Loans and advances to individuals	36 758 785	36 758 662	37 827 602	37 827 553
current accounts	4 014 356	4 014 356	3 609 982	3 609 982
term loans including:	32 744 429	32 744 306	34 217 620	34 217 571
- housing and mortgage loans	28 887 889	28 887 889	30 741 634	30 741 585
Loans and advances to corporate entities	26 946 919	26 965 242	26 367 099	26 378 804
current accounts	3 968 531	3 968 531	3 470 833	3 470 833
term loans	19 784 972	19 803 295	20 525 354	20 537 059
- corporate & institutional enterprises	5 546 428	5 563 210	6 052 813	6 063 910
- medium & small enterprises	14 238 544	14 240 085	14 472 541	14 473 149
reverse repo / buy sell back transactions	2 024 380	2 024 380	1 153 508	1 153 508
other	1 169 036	1 169 036	1 217 404	1 217 404
Loans and advances to public sector	2 686 223	2 681 422	3 174 648	3 171 160
Financial liabilities				
Amounts due to other banks	21 110 939	21 110 939	27 390 809	27 390 809
Amounts due to customers	57 983 600	58 198 717	54 244 388	54 282 928
Debt securities in issue	4 892 275	4 892 275	1 735 988	1 735 988

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

Loans and advances to 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 all impairment indicators. So estimated fair value of loans and receivables reflects 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 Group 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.

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

- Contracted borrowings;
- Liabilities resulting from the issue of securities;
- 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 Group assumed that the fair values of such variable interest rate instruments or fixed interest rate instruments with less than 1 year to maturity was equal to the carrying amounts of the instruments.

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

Credit risk exposures relating to off-balance sheet items. As at 31 December 2012, the fair value of financial guarantees amounted to PLN 10 181 thousand (31 December 2011: PLN 4 711 thousand). The fair values of other off-balance sheet items are equal to their carrying amounts.

The following table presents the hierarchy of fair values of financial assets and liabilities recognised in the statement of financial position of the Group at their fair values at 31 December 2012 and 31 December 2011.

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31.12.2012	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	1 150 886	817 083	30 199	303 604
Debt	1 109 684	806 097	-	303 587
Equity	41 202	10 986	30 199	17
Derivative financial instruments, including:	2 802 695	1 307	2 801 292	96
Investment securities	19 993 388	11 760 578	7 993 893	238 917
Debt	19 720 440	11 534 654	7 981 754	204 032
Equity	272 948	225 924	12 139	34 885
Total financial assets	23 946 969	12 578 968	10 825 384	542 617
Financial liabilities				
Derivative financial instruments, including:	3 476 684	150	3 476 534	-
derivative hedging instruments	6 198	-	6 198	-
Total financial liabilities	3 476 684	150	3 476 534	-

Transfers between levels in 2012	Transfers into Level 1	Transfers out of Level 1	Transfers into Level 2	Transfers out of Level 2
Trading securities	27	-	-	-
Equity	27	-	-	-

Assets Measured at Fair Value Based on Level 3 - changes in 2012	Debt trading securities	Equity trading securities	Derivative financial instruments	Debt investment securities	Equity investment securities
As at the beginning of the period	443 686	-	-	327 811	11 864
Gains and losses for the period:	3 135	-	96	904	2 935
Recognised in profit or loss	*3 135*	-	*96*	-	*2 008*
Recognised in other comprehensive income	-	-	-	*904*	*927*
Purchases	1 729 714	17	-	102 073	50 160
Redemptions	(1 139 116)	-	-	-	(467)
Sales	(14 080 426)	-	-	(353 854)	(26 403)
Issues	13 330 780	-	-	123 900	-
Settlements	15 814	-	-	3 198	(3 177)
Transfers out of Level 3	-	-	-	-	(27)
As at the end of the period	303 587	17	96	204 032	34 885

31.12.2011	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	1 477 022	1 023 052	10 284	443 686
Debt	1 463 259	1 019 573	-	443 686
Equity	13 763	3 479	10 284	-
Derivative financial instruments	1 506 595	6 680	1 499 915	-
Investment securities	20 551 272	13 690 762	6 520 835	339 675
Debt	20 373 505	13 534 206	6 511 488	327 811
Equity	177 767	156 556	9 347	11 864
Total financial assets	23 534 889	14 720 494	8 031 034	783 361
Financial liabilities				
Derivative financial instruments	1 862 747	296	1 862 451	-
Total financial liabilities	1 862 747	296	1 862 451	-

Transfers between levels in 2011	Transfers into Level 1	Transfers out of Level 1	Transfers into Level 2	Transfers out of Level 2
Investment securities	-	-	7	-
Equity	-	-	7	-

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Assets Measured at Fair Value Based on Level 3 - changes in 2011	Debt trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	263 259	89 745	15 087
Gains and losses for the period:	2 854	24 679	36
Recognised in profit or loss	*2 854*	*5 484*	*-*
Recognised in other comprehensive income	*-*	*19 195*	*36*
Purchases	1 248 162	260 352	550
Redemptions	(584 062)	(46 100)	(100)
Sales	(9 445 052)	(569 965)	(3 702)
Issues	8 943 395	570 107	-
Settlements	15 130	(1 007)	-
Transfers out of Level 3	-	-	(7)
As at the end of the period	443 686	327 811	11 864

According to the fair value methodology applied by the Group, 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

As at 31 December 2012, at Level 1 of the hierarchy of values, the Group has presented the fair values of government bonds and treasury bills held for trading in the amount of PLN 806 097 thousand (see Note 19) and the fair values of investment government bonds and treasury bills in the amount of PLN 11 496 866 thousand (31 December 2011 respectively: PLN 1 019 573 thousand, PLN 13 500 591 thousand). Level 1 also includes the fair value of local government bonds in amount of PLN 37 788 thousand (31 December 2011: PLN 33 615 thousand).

Moreover, as at 31 December 2012 Level 1 includes PZU shares with a value of PLN 206 775 thousand (31 December 2011: PLN 146 210 thousand).

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 7 981 754 thousand (31 December 2011: PLN 6 511 488 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

In addition, to Level 2 the Group includes the valuation of derivative financial instruments borne 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).

As at 31 December 2012, Level 2 also includes the value of the option on the index WIG 20, listed on the Stock Exchange due to changes in the valuation of these options with the direct method, it means from valuation based on market quotations to the method of valuation of its own model. Change in valuation was due to the limited liquidity of the market in which these options are listed.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies (bonds and deposit certificates) in the amount of PLN 507 619 thousand (31 December 2011: PLN 771 497 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 2.4 million.

Moreover, Level 3 covers mainly the fair value of equity securities amounting to PLN 22 373 thousand valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

3.12 Other business

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

4. Major estimates and judgments made in connection with the application of accounting policy principles

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

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows for portfolio of loans and advances which are impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 62.73 million or increase by PLN 128.2 million respectively. This estimation was performed for portfolio of loans and advances individually 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, observable market data originating from an active market are used in the models. Changes in market conditions on valuation of the trading book of the Group (containing inter alia derivatives) are presented in Note 3.6.

Technical-insurance provisions

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

As at the end of 2012, provisions for claims incurred but not reported to the insurer (IBNR) were calculated using the actuarial methods (Naive Loss Ratio and Bornhuetter-Ferguson). The expected loss ratios are composed on the basis of available market studies concerning loss arising from the given group of risks.

5. Business segments

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

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

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

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

- The Corporates and Financial Markets segment, which is divided into two sub-segments:
  - *Corporates and Institutions* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing and factoring services. The Corporates and Institutions sub-segment includes the results of the following subsidiaries:, BRE Leasing Sp. z o.o., BRE Faktoring SA, BRE Holding Sp. z o.o., Transfinance a.s., Garbary Sp. z o.o. as well as as well as net profit of BRE Gold Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych up to the date of redemption of certificates issued by the fund. Starting from the fourth quarter of 2012, this sub-segment also includes subsidiary entity MLV 35 Sp. z o.o. spółka komandytowo-akcyjna. In 2011, this business line includes the financial results achieved by Intermarket Bank AG and Magyar Factor zRt. till the date of sale of their shares held by the Group.
  - *The Trading and Investment* sub-segment (business line) consists primarily of treasury, financial markets, and financial institutions operations, manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments, debt origination for financial institutions. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by KUKE to support the Polish export market. This sub-segment also includes the results of BRE Finance France SA, BRE Bank Hipoteczny SA and Dom Inwestycyjny BRE Banku SA.
- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under 'Other'. This segment includes the results of BRE.locum SA and BRE Centrum Operacji Sp. z o.o.

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

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

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

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

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

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

The business operations of particular companies of the Group are attributed to business segments (including consolidation adjustments).

At the beginning of 2012 certain activities that are presented in the segment Corporates and Markets were reassigned between its two sub-segments. The reassignment comprised a shift of Financial Institutions area from Trading and Investment Activity to Corporates and Institutions. The amendment was made in order to better reflect requirements of performance measurement.

According to above-mentioned change, the comparative data concerning business segments of the Group were restated to reflect changes in presentation made to the current financial year.

Presentation of segments' results changed also due to including, from the start of 2012, internal settlements regarding long-term funding costs in net interest income of segments.

The primary basis used by the Group in the segment reporting is business line division. Additionally, the Group's activity is presented by geographical areas reporting broken down into Poland and foreign countries. Foreign countries segment include activity of mBank's foreign branches in Czech Republic and Slovakia as well as activity of foreign subsidiaries Transfinance a.s. and BRE Finance France SA (in 2011 additionally Intermarket Bank AG and Magyar Factor zRt.).

Business segment reporting on the activities of BRE Bank Group
for the period from 1 January to 31 December 2012
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates & Institutions	Trading & Investment					
Net interest income	727 168	202 427	1 316 659	(13 371)	749	2 233 632	2 233 632
- sales to external clients	594 238	935 414	704 327	(347)	-	2 233 632	
- sales to other segments	132 930	(732 987)	612 332	(13 024)	749	-	
Net fee and commission income	309 460	37 830	479 283	(2 739)	16 046	839 880	839 880
- sales to external clients	287 611	55 161	499 847	(2 739)	-	839 880	
- sales to other segments	21 849	(17 331)	(20 564)	-	16 046	-	
Dividend income	11 045	223	62	2 572	-	13 902	13 902
Trading income	184 315	41 072	131 671	(516)	-	356 542	356 542
Gains less losses from investment securities, investments in subsidiaries and associates	(974)	33 557	2 008	10 375	-	44 966	44 966
Other operating income	78 543	5 395	116 508	119 667	(44 392)	275 721	275 721
Net impairment losses on loans and advances	(166 661)	(41 643)	(236 324)	(7)	-	(444 635)	(444 635)
Overhead costs	(510 327)	(162 591)	(783 186)	(37 281)	27 597	(1 465 788)	(1 465 788)
Amortization and depreciation	(79 350)	(15 380)	(97 797)	(3 090)	-	(195 617)	(195 617)
Other operating expenses	(40 492)	(5 239)	(64 464)	(76 305)	-	(186 500)	(186 500)
Gross profit of the segment	512 727	95 651	864 420	(695)	-	1 472 103	1 472 103
Income tax						(268 292)	(268 292)
Net profit attributable to Owners of BRE Bank SA						1 203 230	1 203 230
Net profit attributable to non-controlling interests						581	581
Assets of the segment	30 231 135	42 864 351	38 064 586	1 065 414	(9 989 440)	102 236 046	102 236 046
Liabilities of the segment	25 549 157	39 455 841	34 825 520	987 204	(8 291 660)	92 526 062	92 526 062
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(112 233)	(24 152)	(86 477)	(1 834)	-	(224 696)	
Other costs/ income without cash outflows/ inflows*	6 137	59 832	5 934	133	(6 460)	65 576	
- other non-cash costs	*(877)*	*(2 236 978)*	*-*	*-*	*(6 460)*	*(2 244 315)*	
- other non-cash income	*7 014*	*2 296 810*	*5 934*	*133*	*-*	*2 309 891*	

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

Business segment reporting on the activities of BRE Bank Group
for the period from 1 January to 31 December 2011
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates & Institutions	Trading & Investment					
Net interest income	604 166	311 286	1 266 027	(12 456)	(1 815)	2 167 208	2 167 208
- sales to external clients	932 540	408 936	825 919	(187)	-	2 167 208	
- sales to other segments	(328 374)	(97 650)	440 108	(12 269)	(1 815)	-	
Net fee and commission income	340 209	63 684	414 269	(1 317)	23 127	839 972	839 972
- sales to external clients	321 807	79 354	440 003	(1 192)	-	839 972	
- sales to other segments	18 402	(15 670)	(25 734)	(125)	23 127	-	
Dividend income	12 257	114	36	2 706	-	15 113	15 113
Trading income	152 156	46 078	148 055	1 123	-	347 412	347 412
Gains less losses from investment securities, investments in	13 768	(1 923)	-	140	-	11 985	11 985
Other operating income	56 689	5 949	122 977	176 215	(44 475)	317 355	317 355
Net impairment losses on loans and advances	(209 327)	(6 142)	(157 998)	(3)	-	(373 470)	(373 470)
Overhead costs	(546 492)	(169 618)	(673 493)	(105 061)	23 163	(1 471 501)	(1 471 501)
Amortization and depreciation	(108 671)	(29 207)	(108 688)	37 802	-	(208 764)	(208 764)
Other operating expenses	(26 353)	(5 320)	(37 264)	(109 246)	-	(178 183)	(178 183)
Gross profit of the segment	288 402	214 901	973 921	(10 097)	-	1 467 127	1 467 127
Income tax						(322 692)	(322 692)
Net profit attributable to Owners of BRE Bank SA						1 134 972	1 134 972
Net profit attributable to non-controlling interests						9 463	9 463
Assets of the segment	29 415 149	36 199 274	38 963 556	958 640	(6 660 972)	98 875 647	98 875 647
Liabilities of the segment	28 426 171	39 555 893	27 461 286	783 474	(5 423 842)	90 802 982	90 802 982
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(224 359)	(27 390)	(103 745)	(3 753)	-	(359 247)	
Other costs/ income without cash outflows/ inflows*	1 469	19 523	3 922	(193)	(59)	24 662	
- other non-cash costs	*(2 210)*	*(1 858 655)*	*-*	*(193)*	*(4 732)*	*(1 865 790)*	
- other non-cash income	*3 679*	*1 878 178*	*3 922*	*-*	*4 673*	*1 890 452*	

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

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Geographical areas reporting on the acivities of BRE Bank Group for the period from 1 January to 31 December	2012			2011		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	2 153 853	79 779	2 233 632	2 084 127	83 081	2 167 208
Net fee and commission income	820 318	19 562	839 880	804 341	35 631	839 972
Dividend income	13 902	-	13 902	15 113	-	15 113
Trading income	352 828	3 714	356 542	348 347	(935)	347 412
Gains less losses from investment securities, investments in subsidiaries and associates	44 966	-	44 966	(15 450)	27 435	11 985
Other operating income	270 590	5 131	275 721	315 511	1 844	317 355
Net impairment losses on loans and advances	(430 487)	(14 148)	(444 635)	(359 405)	(14 065)	(373 470)
Overhead costs	(1 387 658)	(78 130)	(1 465 788)	(1 370 646)	(100 855)	(1 471 501)
Amortization and depreciation	(190 779)	(4 838)	(195 617)	(202 985)	(5 779)	(208 764)
Other operating expenses	(177 385)	(9 115)	(186 500)	(169 389)	(8 794)	(178 183)
Gross profit of the segment	1 470 148	1 955	1 472 103	1 449 564	17 563	1 467 127
Income tax			(268 292)			(322 692)
Net profit attributable to Owners of BRE Bank SA			1 203 230			1 134 972
Net profit attributable to non-controlling interests			581			9 463
Assets of the segment, including:	100 024 122	2 211 924	102 236 046	96 784 964	2 090 683	98 875 647
- tangible assets	1 171 098	38 929	1 210 027	1 263 923	5 301	1 269 224
- deferred income tax assets	365 955	3 866	369 821	302 965	4 087	307 052
Liabilities of the segment	85 741 819	6 784 243	92 526 062	86 792 697	4 010 285	90 802 982

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6. Net interest income

	Year ended 31 December	
	2012	2011
Interest income		
Loans and advances including the unwind of the impairment provision discount	3 220 247	2 842 310
Investment securities	870 692	799 132
Cash and short-term placements	127 562	130 681
Trading debt securities	70 854	85 011
Interest income on derivatives classified into banking book	172 733	19 342
Other	14 712	14 097
Total interest income	**4 476 800**	**3 890 573**
Interest expense		
Arising from amounts due to banks	(353 037)	(457 194)
Arising from amounts due to customers	(1 611 479)	(1 094 080)
Arising from issue of debt securities	(182 356)	(84 886)
Other borrowed funds	(62 941)	(56 387)
Interest expense on derivatives concluded under the hedge accounting	(945)	(736)
Other	(32 410)	(30 082)
Total interest expense	**(2 243 168)**	**(1 723 365)**

In 2012, interest income related to impaired financial assets amounted to PLN 195 224 thousand (31 December 2011: PLN 197 176 thousand).

Net interest income per client groups is as follows:

	Year ended 31 December	
	2012	2011
Interest income		
From banking sector	568 469	352 542
From clients, including:	3 908 331	3 538 031
- corporate clients	1 514 013	1 368 915
- individual clients	1 535 372	1 388 711
- public sector	858 946	780 405
Total interest income	**4 476 800**	**3 890 573**
Interest expense		
From banking sector	(377 491)	(594 237)
From clients, including:	(1 643 372)	(1 124 753)
- corporate clients	(799 067)	(503 509)
- individual clients	(807 684)	(582 792)
- public sector	(36 621)	(38 452)
From debt securities in issue	(222 305)	(4 375)
Total interest expense	**(2 243 168)**	**(1 723 365)**

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7. Net fee and commission income

	Year ended 31 December	
	2012	2011
Fee and commission income		
Payment cards-related fees	393 837	351 819
Credit-related fees and commissions	216 304	230 017
Commissions from insurance activity	179 354	167 441
Commissions from bank accounts	127 574	111 509
Commissions from money transfers	87 793	89 070
Fees from brokerage activity	76 654	114 515
Commission for agency service regarding selling products of external financial entities	62 524	68 782
Commissions due to guarantees granted and trade finance commissions	36 879	39 739
Commissions on trust and fiduciary activities	17 469	16 525
Fees from portfolio management services and other management-related fees	9 677	12 634
Other	65 888	77 121
Fee and commission income	**1 273 953**	**1 279 172**
Fee and commission expense		
Payment cards-related fees	(182 739)	(176 594)
Commissions paid to external entities for sale of the Bank's products	(68 882)	(82 849)
Discharged brokerage fees	(23 966)	(29 893)
Insurance activity-related fees	(10 471)	(17 741)
Other discharged fees	(148 015)	(132 123)
Total fee and commision expense	**(434 073)**	**(439 200)**

	Year ended 31 December	
	2012	2011
Fee and commission income from insurance contracts		
- Income from insurance intermediation	158 993	151 108
- Income from insurance policies administration	20 361	16 333
Total fee and commission income from insurance contracts	**179 354**	**167 441**

8. Dividend income

	Year ended 31 December	
	2012	2011
Trading securities	162	85
Securities available for sale	13 740	15 028
Total dividend income	**13 902**	**15 113**

9. Net trading income

	Year ended 31 December	
	2012	2011
Foreign exchange result	**324 006**	**328 640**
Net exchange differences on translation	218 907	361 154
Net transaction gains/(losses)	105 099	(32 514)
Other net trading income and result on hedge accounting	**32 536**	**18 772**
Interest-bearing instruments	24 002	20 730
Equity instruments	3 077	(4 090)
Market risk instruments	4 118	1 575
Result on hedge accounting, including:	1 339	557
- Net profit on hedged items	(3 705)	1 924
- Net profit on hedging instruments	5 044	(1 367)
Total net trading income	**356 542**	**347 412**

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

The Group applies fair value hedge accounting for part of the portfolio of fixed interest rate mortgage loans granted by foreign branches of the Bank in the Czech Republic. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate.

In addition, from October 2012 the Group applies fair value hedge accounting of Eurobonds issued by BRE Finance France SA, subsidiary of BRE Bank. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate.

In both cases described above, the risk of changes in interest rates is the only type of risk hedged within hedge accounting applied by the Group. The result of the valuation of hedged items and hedging instruments is presented in the above note.

Beginning from the year 2012, the interest component of the result on derivatives classified into banking book and derivatives concluded under the hedge accounting is presented in the interest results in the position Interest income/expense, while the remaining result from fair value measurement is presented in this note in the position Interest – bearing instruments.

In connection with the above mentioned, the comparative data presented in these financial statements was respectively restated. Detailed information on the impact of changes in the presentation of the result on derivatives classified into banking book and on transactions concluded under the hedge accounting are included in Note 2.15 'Derivative financial instruments' and in Note 2.32 'Comparative data'.

10. Other operating income

	Year ended 31 December	
	2012	2011
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	84 831	119 314
Income from insurance activity net	71 574	82 577
Income from services provided	32 553	24 544
Net income from operating lease	20 680	15 425
Income due to release of provisions for future commitments	11 393	24 209
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	96	1 710
Income from compensations, penalties and fines received	494	972
Release of impairment provisions for tangible fixed assets and intangible assets	12 300	43
Other	41 800	48 561
Total other operating income	**275 721**	**317 355**

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

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

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

Net income from operating lease consists of income from operating lease and related depreciation cost of fixed asset provided by the Group under operating lease, incurred to obtain revenue.

In 2012, as a result of the analysis of tangible fixed assets, the Group had made write-offs of investments in real estate and leasehold improvements (Note 12) and reversal of write-offs created in the previous reporting periods. The total impact of write-offs and reversal of write-offs was negative and amounted to PLN 3 087 thousand.

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Net income from insurance activity generated in 2012 and 2011 respectively, is presented below.

	Year ended 31 December	
	2012	2011
Income from premiums		
- Premiums attributable	174 414	140 862
- Change in provision for premiums	473	3 460
Premiums earned	**174 887**	**144 322**
Reinsurer's shares		
- Gross premiums written	(74 135)	(56 378)
- Change in unearned premiums reserve	5 910	12 291
Reinsurer's share in premiums earned	**(68 225)**	**(44 087)**
Net premiums earned	**106 662**	**100 235**
Claims and benefits		
- Claims and benefits paid out in the current year including costs of liquidation before tax	(60 519)	(35 236)
- Change in provision for claims and benefits paid out in the current year including costs of liquidation before tax	(23 214)	(17 019)
- Reinsurer's share in claims and benefits paid out in the current year including costs of liquidation	40 334	29 429
- Change in provision for reinsurer's share of claims and benefits paid out in the current year including costs of liquidation	13 184	7 780
Claims and benefits net	**(30 215)**	**(15 046)**
- Other costs net of reinsurance	(4 515)	(2 276)
- Other operating income	(67)	75
- Costs of expertise and certificates concerning underwriting risk	(291)	(411)
Total net income from insurance activity	**71 574**	**82 577**

Net income from operating lease generated in 2012 and 2011 respectively, is presented below.

	Year ended 31 December	
	2012	2011
Net income from operating lease, including:		
- Income from operating lease	72 237	58 073
- Depreciation cost of fixed assets provided under operating lease	(51 557)	(42 648)
Total net income from operating lease	**20 680**	**15 425**

11. Overhead costs

	Year ended 31 December	
	2012	2011
Staff-related expenses	(808 499)	(810 253)
Material costs	(564 399)	(573 666)
Taxes and fees	(25 069)	(29 410)
Contributions and transfers to the Bank Guarantee Fund	(60 454)	(49 305)
Contributions to the Social Benefits Fund	(6 511)	(6 380)
Other	(856)	(2 487)
Total overhead costs	**(1 465 788)**	**(1 471 501)**

'Material costs' consist of tangible assets operating lease payment costs (mainly real estate) of PLN 27 433 thousand (2011: PLN 26 720 thousand).

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Staff-related expenses in 2012 and 2011 are presented below.

	Year ended 31 December	
	2012	2011
Wages and salaries	(661 772)	(663 345)
Social security expenses	(94 718)	(92 899)
Retirement benefit expenses	(119)	(576)
Remuneration concerning share-based payments, including:	(12 216)	(13 021)
- share-based payments settled in BRE Bank SA shares	(11 365)	(11 323)
- cash-settled share-based payments	(851)	(1 698)
Other staff expenses	(39 674)	(40 412)
Staff-related expenses, total	**(808 499)**	**(810 253)**

Cash-settled share-based payments relate to the cost of 2008 incentive programme for the Management Board Members of the Bank in its part based on Commerzbank shares. Detailed information regarding incentive programmes functioning in BRE Bank, to which share-based payments relate, is included under Note 43 'Share-based incentive programmes'. Moreover, these payments also include the cost of the incentive programme operating in BRE Bank Hipoteczny (BBH), based on BBH shares and paid for in cash in amount of PLN 318 thousand.

12. Other operating expenses

	Year ended 31 December	
	2012	2011
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(64 167)	(95 076)
Provisions for future commitments	(51 603)	(31 213)
Costs arising from provisions created for other receivables (excluding loans and advances)	(6 491)	(10 736)
Donations made	(2 764)	(3 296)
Costs of sale of services	(1 597)	(2 117)
Impairment losses on non-financial assets	-	(1 260)
Compensation, penalties and fines paid	(1 303)	(616)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(137)	(38)
Impairment provisions created for tangible fixed assets and intangible assets	(15 387)	(57)
Other operating costs	(43 051)	(33 774)
Total other operating expenses	**(186 500)**	**(178 183)**

In 2012, as a result of the analysis of tangible fixed assets the Group had made write-offs of investments in real estate and leasehold improvements and reversal of write-offs created in the previous reporting periods (Note 10). The total impact of write-offs and reversal of write-offs was negative and amounted to PLN 3 087 thousand.

Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories comprise primarily the expenses incurred by BRE.locum in connection with its developer activity.

In 2012, provisions for future commitments include provisions for legal proceedings of PLN 22 950 thousand (2011: PLN 6 508 thousand) (Note 32).

Costs of services provided concern non-banking services.

13. Net impairment losses on loans and advances

	Year ended 31 December	
	2012	2011
Net impairment losses on amounts due from other banks (Note 18)	437	8 257
Net impairment losses on loans and advances to customers (Note 22)	(429 115)	(390 804)
Changes in provisions on off-balance sheet items (Note 32)	(15 957)	9 077
Total net impairment losses on loans and advances	**(444 635)**	**(373 470)**

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14. Income tax expense

	Year ended 31 December	
	2012	2011
Current tax	(397 126)	(315 214)
Deferred income tax (Note 33)	128 834	(7 478)
Total income tax	**(268 292)**	**(322 692)**
Profit before tax	**1 472 103**	**1 467 127**
Tax calculated at Polish current tax rate (19%)	(279 700)	(278 754)
Effect of different tax rates in other countries	(1)	(2 025)
Income not subject to tax	3 865	7 858
Costs other than tax deductible costs	(20 131)	(45 346)
Other positions affecting income tax *	29 209	151
Non-activated tax losses **	(1 534)	(4 576)
Income tax expense	**(268 292)**	**(322 692)**
Effective tax rate calculation		
Profit before income tax	1 472 103	1 467 127
Income tax	(268 292)	(322 692)
Effective tax rate	**18.23%**	**21.99%**

* In 2012, the amount include tax relief for new technologies in accordance with the Article 18b of the Corporate Income Tax Act

** The amounts include tax losses incurred by Bank's foreign branches in the Czech Republic and Slovakia.

Lower effective tax rate compared to the previous year is a result of i.a.: a positive result of retail branch in the Czech Republic in 2012 and application of tax relief for new technologies regulated in the Article 18b of the Corporate Income Tax Act of 15 February 1992.

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

15. Earnings per share

Earnings per share for 12 months

	Year ended 31 December	
	2012	2011
Basic:		
Net profit attributable to Owners of BRE Bank SA	1 203 230	1 134 972
Weighted average number of ordinary shares	42 118 904	42 093 950
Net basic profit per share (in PLN per share)	**28.57**	**26.96**
Diluted:		
Net profit attributable to Owners of BRE Bank SA, applied for calculation of diluted earnings per share	1 203 230	1 134 972
Weighted average number of ordinary shares	42 118 904	42 093 950
Adjustments for:		
- share options	39 728	39 997
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 158 632	42 133 947
Diluted earnings per share (in PLN per share)	**28.54**	**26.94**

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 programmes described in the Note 43. The calculations did not include those elements of the incentive programmes, which were antidilutive for the presented periods that could potentially dilute basic earnings per share in the future.

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

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The diluted earnings per share are 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.

16. Other comprehensive income

Disclosure of tax effects relating to each component of other comprehensive income	Year ended 31 December 2012			Year ended 31 December 2011		
	Before-tax amount	Tax (expense) benefit	Net amount	Before-tax amount	Tax (expense) benefit	Net amount
Exchange differences on translating foreign operations	(1 815)	-	(1 815)	3 451	-	3 451
Available-for-sale financial assets	490 873	(67 060)	423 813	(500)	(703)	(1 203)
Total other comprehensive income	489 058	(67 060)	421 998	2 951	(703)	2 248

The table below presents detailed information concerning other comprehensive income for the years 2012 and 2011.

	Year ended 31 December	
	2012	2011
Exchange differences on translating foreign operations	(1 815)	3 451
Unrealised gains (positive differences) arising during the year (net)	2 678	6 833
Unrealised losses (negative differences) arising during the year (net)	(4 493)	(1 415)
Reclassification adjustments for gains (losses) included in the income statement (net)	-	(1 967)
Available-for-sale financial assets	423 813	(1 203)
Unrealised gains on debt instruments arising during the year (net)	438 560	71 384
Unrealised losses on debt instruments arising during the year (net)	(23 979)	(53 121)
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	(26 818)	462
Unrealised gains on equity instruments arising during the year (net)	37 201	9 221
Unrealised losses on equity instruments arising during the year (net)	(1 021)	(30 237)
Reclassification adjustments of gains (losses) on equity instruments to the income statement (net)	(130)	1 088
Total other comprehensive income (net)	421 998	2 248

In 2012, a change in the valuation of treasury bonds had a considerable impact on other components of equity. In the fourth quarter of 2012, the market for treasury bonds, especially those with the longest maturities, rose by 5.47%, whereas bonds with an average maturity over 5 years (including all issues) grew by 8.89% on average.

In 2012, the unrealized gains on equity instruments include positive valuation of shares in PZU SA in amount of PLN 33 848 thousand, (in 2011, the unrealized loss of PLN 22 002 thousand).

17. Cash and balances with central bank

	31.12.2012	31.12.2011
Cash in hand	197 635	213 888
Current account	4 621 568	682 556
Term placements	-	141 912
Total cash and balances with the Central Bank (Note 42)	4 819 203	1 038 356

On the basis of the Act on the National Bank of Poland of August 29,1997, BRE Bank and BRE Bank Hipoteczny hold a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve which BRE Bank and BRE Bank Hipoteczny were obliged to maintain during a given period in the current account with NBP amounted to:

- PLN 1 857 076 thousand for the period from 31 December 2012 to 30 January 2013,
- PLN 1 447 092 thousand for the period from 30 November 2011 to 1 January 2012.

As at 31 December 2012, the former part of the reserve bore 4.05% interest (31 December 2011: 4.28%).

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18. Loans and advances to banks

	31.12.2012	31.12.2011
Current accounts	366 562	318 703
Placements with other banks (up to 3 months)	1 586 455	2 296 421
Included in cash equivalents (Note 42)	**1 953 017**	**2 615 124**
Loans and advances	292 554	389 633
Term placements with other banks	13 567	11 960
Reverse repo / buy-sell-back transactions	887 433	574 506
Other receivables	798 566	418 678
Total (gross) loans and advances to banks	**3 945 137**	**4 009 901**
Provisions created for loans and advances to banks (negative amount)	(559)	(1 027)
Total (net) loans and advances to banks	**3 944 578**	**4 008 874**

Short-term (up to 1 year)	3 896 317	3 936 565
Long-term (over 1 year)	48 261	72 309

The following table presents receivables from Polish and foreign banks:

	31.12.2012	31.12.2011
Loans and advances to Polish banks (gross)	1 478 905	1 088 849
Provisions created for loans and advances to Polish banks	(79)	(181)
Loans and advances to foreign banks (gross)	2 466 232	2 921 052
Provisions created for loans and advances to foreign banks	(480)	(846)
Total (net) loans and advances to banks	**3 944 578**	**4 008 874**

As at 31 December 2012, the variable rate loans to banks amounted to PLN 290 160 thousand and the fixed rate loans to banks amounted to PLN 2 394 thousand (as at 31 December 2011 – variable rate loans to banks amounted to PLN 324 494 thousand and fixed rate loans to PLN 65 139 thousand).

As at 31 December 2012 and 31 December 2011, the term placements with other banks were fixed rated and amounted to PLN 1 600 022 thousand and PLN 2 308 381 thousand respectively. An average deposit interest rate for deposits in other banks and loans granted to banks amounted to 2.16% (31 December 2011: 1.93%).

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

	31.12.2012	31.12.2011
Provisions for loans and advances to banks as at the beginning of the period	**(1 027)**	**(34 247)**
Provisions created (Note 13)	(3 793)	(3 068)
Release of provisions (Note 13)	4 230	11 325
Foreign exchange differences	31	860
Write-offs	-	24 103
Provisions for loans and advances to banks as at the end of the period	**(559)**	**(1 027)**

As at 31 December 2012 and 31 December 2011, the amount of provisions for loans and advances to banks relates in total to receivables without loss.

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19. Trading securities

	31.12.2012			31.12.2011		
	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities
Debt securities:	**550 040**	**559 644**	**1 109 684**	**977 796**	**485 463**	**1 463 259**
Issued by government	246 453	559 644	806 097	534 110	485 463	1 019 573
- government bonds	246 134	559 644	805 778	533 962	485 463	1 019 425
- treasury bills	319	-	319	148	-	148
Other debt securities	303 587	-	303 587	443 686	-	443 686
- bank's bonds	231 196	-	231 196	134 710	-	134 710
- deposit certificates	26 459	-	26 459	171 134	-	171 134
- corporate bonds	45 932	-	45 932	137 842	-	137 842
Equity securities:	**41 202**	**-**	**41 202**	**13 763**	**-**	**13 763**
- listed	10 986	-	10 986	3 479	-	3 479
- unlisted	30 216	-	30 216	10 284	-	10 284
Total debt and equity securities:	**591 242**	**559 644**	**1 150 886**	**991 559**	**485 463**	**1 477 022**

Trading securities include securities used to secure sell-buy-back transactions with customers, the market value of which as at 31 December 2012 amounted to PLN 559 644 thousand (31 December 2011: PLN 485 463 thousand).

20. Derivative financial instruments

The Group has the following derivative instruments:

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 FRA 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., cross-currency CIRS). With the exception of specific currency swap contracts, such transactions do not result in swaps of capital. The credit risk of the Group consists of the potential cost of replacing swap contracts if the parties fail to discharge their liabilities. This risk is monitored daily by reference to the current fair value, proportion of the face value of the contracts and market liquidity. The Group evaluates the parties to such contracts using the same methods as for its credit business, to control the level of its credit exposure.

Due to the application of fair value hedge accounting for part of the portfolio of fixed interest rate mortgage loans granted by foreign branches of the Bank in the Czech Republic and fair value hedge accounting of Eurobonds issued by BRE Finance France SA within interest rate swaps, the Group distinguished instruments that hedge the risk of changes in interest rate. Result from valuation of the hedged item and hedging instruments is presented in this consolidated financial statements in item 'Net income from other trading operations and hedge accounting' in Note 9.

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

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 Group's exposure to credit risk or price change risk. Derivative instruments can have positive value (assets) or negative value (liabilities), depending on market interest or currency exchange rate fluctuations. The aggregate fair value of derivative financial instruments may be subject to strong variations.

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

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	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2012				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	6 427 429	6 549 214	33 375	44 309
- Currency swaps	10 273 010	10 139 218	161 491	39 651
- Cross-currency interest rate swaps	1 496 784	1 599 126	41 264	140 748
- OTC currency options bought and sold	1 197 331	1 171 726	15 301	13 785
Total OTC derivatives	19 394 554	19 459 284	251 431	238 493
- Currency futures	34 638	34 789	-	-
Total foreign exchange derivatives	19 429 192	19 494 073	251 431	238 493
Interest rate derivatives				
- Interest rate swap, OIS	174 878 240	174 878 239	2 163 782	2 992 790
- Forward rate agreements	103 150 000	145 700 000	373 249	223 150
- OTC interest rate options	541 564	562 933	6 279	5 534
Total OTC interest rate derivatives	278 569 804	321 141 172	2 543 310	3 221 474
Total interest rate derivatives	278 569 804	321 141 172	2 543 310	3 221 474
Market risk transactions	488 455	398 752	7 954	10 519
Total derivative assets / liabilities held for trading	298 487 451	341 033 997	2 802 695	3 470 486
Derivatives held for hedging				
Derivatives designated as fair value hedges	2 148 380	2 148 380	-	6 198
- Interest rate swaps	2 148 380	2 148 380	-	6 198
Total derivatives held for hedging	2 148 380	2 148 380	-	6 198
Total recognised derivative assets/ liabilities	300 635 831	343 182 377	2 802 695	3 476 684
Total recognised derivative assets/ liabilities and other trading liabilities	300 635 831	343 182 377	2 802 695	3 476 684
Short-term (up to 1 year)	194 166 841	229 965 235	1 084 201	1 585 715
Long-term (over 1 year)	106 468 990	113 217 142	1 718 494	1 890 969

	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2011				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	6 771 792	6 779 318	103 249	35 680
- Currency swaps	13 950 800	14 019 609	156 807	279 717
- Cross-currency interest rate swaps	1 457 145	1 517 730	140 256	199 518
- OTC currency options bought and sold	1 489 253	1 145 147	46 545	5 945
Total OTC derivatives	23 668 990	23 461 804	446 857	520 860
- Stock exchange traded currency options - bought and sold	-	-	-	18 213
Total foreign exchange derivatives	23 668 990	23 461 804	446 857	539 073
Interest rate derivatives				
- Interest rate swap, OIS	133 746 967	133 746 967	986 123	1 260 260
- Forward rate agreements	57 100 000	116 975 000	54 715	54 742
- OTC interest rate options	198 779	351 143	1 505	1 400
Total OTC interest rate derivatives	191 045 746	251 073 110	1 042 343	1 316 402
Total interest rate derivatives	191 045 746	251 073 110	1 042 343	1 316 402
Market risk transactions	523 888	729 506	17 395	5 034
Total derivative assets / liabilities held for trading	215 238 624	275 264 420	1 506 595	1 860 509
Derivatives held for hedging				
Derivatives designated as fair value hedges	92 553	92 553	-	2 238
- Interest rate swaps	92 553	92 553	-	2 238
Total derivatives held for hedging	92 553	92 553	-	2 238
Total recognised derivative assets/ liabilities	215 331 177	275 356 973	1 506 595	1 862 747
Total recognised derivative assets/ liabilities and other trading liabilities	215 331 177	275 356 973	1 506 595	1 862 747
Short-term (up to 1 year)	141 954 417	192 079 497	684 541	892 977
Long-term (over 1 year)	73 376 760	83 277 476	822 054	969 770

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In both 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.

Under financial derivative instruments the Group presented derivative instruments in the amount of PLN 3 073 thousand (liabilities), which have been separated from the structured investment deposits (31 December 2011: PLN 1 215 thousand).

As at 31 December 2012 and 31 December 2011, the Group did not have any financial assets and liabilities designated upon initial recognition as at fair value through the income statement.

21. Hedge accounting

Starting from 2011, the Group has been applying fair value hedge accounting. The interest rate risk is the only type of risk hedged for which hedge accounting is applied.

At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk.

Description of the hedging relation

The Group hedges against the risk of change in fair value:

- a part of the portfolio of mortgage loans for a fixed interest rate granted by foreign branches of BRE Bank in Czech Republic. The hedged risk results from changes in interest rates,
- fixed interest rate Eurobonds issued by BRE Finance France SA, subsidiary of BRE Bank. The hedged risk results from changes in interest rates.

Hedged items

The hedged items are:

- a part of the portfolio of mortgage loans for a fixed interest rate denominated in CZK and granted by foreign branches of BRE Bank in Czech Republic,
- fixed interest rate Eurobonds issued by BRE Finance France SA with a nominal value of EUR 500 000 thousand.

Hedging instruments

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of the hedged assets and liabilities as well as valuation of the hedging instruments are recognised in the income statement as the income from trading operation.

22. Loans and advances to customers

	31.12.2012	31.12.2011
Loans and advances to individuals:	**37 816 508**	**38 688 979**
- current accounts	4 600 545	4 133 068
- term loans, including:	33 215 963	34 555 911
housing and mortgage loans	29 171 827	30 942 423
Loans and advances to corporate entities:	**28 405 403**	**27 890 298**
- current accounts	4 255 092	3 795 095
- term loans:	20 897 898	21 660 288
corporate & institutional enterprises	5 857 708	6 390 251
medium & small enterprises	15 040 190	15 270 037
- reverse repo / buy-sell-back transactions	2 024 380	1 153 508
- other	1 228 033	1 281 407
Loans and advances to public sector	**2 698 549**	**3 178 356**
Other receivables	667 327	482 167
Total (gross) loans and advances to customers	**69 587 787**	**70 239 800**
Provisions for loans and advances to customers (negative amount)	(2 528 533)	(2 388 284)
Total (net) loans and advances to customers	**67 059 254**	**67 851 516**
Short-term (up to 1 year)	22 895 700	22 756 309
Long-term (over 1 year)	44 163 554	45 095 207

As at 31 December 2012, variable rate credits amounted to PLN 68 603 360 thousand and fixed rate credits amounted to PLN 984 427 thousand (as at 31 December 2011 respectively: PLN 69 384 566 thousand and PLN

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855 234 thousand). The values mentioned above relate to loans granted to individual clients, corporate clients and the budget sector. An average interest rate for loans granted to customers (excluding reverse repos) amounted to 4.60% (31 December 2011: 4.47%).

The above note includes debt securities eligible for rediscounting at the Central Bank, whose value is cash equivalents included in the Note 42.

Provisions for loans and advances:

	31.12.2012	31.12.2011
Incurred but not identified losses		
Gross balance sheet exposure	65 955 528	66 953 040
Impairment provisions for exposures analysed according to portfolio approach	(198 712)	(212 390)
Net balance sheet exposure	**65 756 816**	**66 740 650**
Receivables with impairment		
Gross balance sheet exposure	3 632 259	3 286 760
Provisions for receivables with impairment	(2 329 821)	(2 175 894)
Net balance sheet exposure	**1 302 438**	**1 110 866**

Movements in provisions for loans and advances

MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS - YEAR 2012	Provisions as at 1 January 2012	Provisions created	Release of provisions	Reclassification and foreign exchange differences	Write-offs	Other	Provisions as at 31 December 2012
Loans and advances to individuals	(861 377)	(750 522)	515 164	14 487	24 525	-	(1 057 723)
Current accounts	(523 086)	(334 510)	245 064	5 757	20 586	-	(586 189)
Term loans, including:	(338 291)	(416 012)	270 100	8 730	3 939	-	(471 534)
Housing and mortgage loans	(200 789)	(254 823)	163 143	8 079	452	-	(283 938)
Loans and advances to corporate entities	(1 523 199)	(806 517)	621 174	23 528	226 530	-	(1 458 484)
Current accounts	(324 262)	(322 549)	252 259	18 506	89 485	-	(286 561)
Term loans, including:	(1 134 934)	(470 563)	365 502	1 880	125 189	-	(1 112 926)
Corporate & institutional enterprises	(337 438)	(114 426)	123 065	17 519	-	-	(311 280)
Medium & small enterprises	(797 496)	(356 137)	242 437	(15 639)	125 189	-	(801 646)
Other	(64 003)	(13 405)	3 413	3 142	11 856	-	(58 997)
Loans and advances to public sector	(3 708)	(57 417)	49 003	(204)	-	-	(12 326)
Total movements for loans and advances to customers	(2 388 284)	(1 614 456)	1 185 341	37 811	251 055	-	(2 528 533)

MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS - YEAR 2011	Provisions as at 1 January 2011	Provisions created	Release of provisions	Reclassification and foreign exchange differences	Write-offs	Other *	Provisions as at 31 December 2011
Loans and advances to individuals	(1 052 933)	(169 861)	10 974	(1 078)	351 521	-	(861 377)
Current accounts	(817 237)	(40 261)	1 545	4	332 863	-	(523 086)
Term loans, including:	(235 696)	(129 600)	9 429	(1 082)	18 658	-	(338 291)
Housing and mortgage loans	(119 631)	(86 147)	1 122	(1)	3 868	-	(200 789)
Loans and advances to corporate entities	(1 391 648)	(1 012 428)	779 007	(29 085)	98 801	32 154	(1 523 199)
Current accounts	(376 993)	(296 277)	325 133	(774)	24 649	-	(324 262)
Term loans, including:	(930 148)	(706 211)	453 061	(23 067)	71 431	-	(1 134 934)
Corporate & institutional enterprises	(167 278)	(300 211)	141 543	(17 923)	6 431	-	(337 438)
Medium & small enterprises	(762 870)	(406 000)	311 518	(5 144)	65 000	-	(797 496)
Other	(84 507)	(9 940)	813	(5 244)	2 721	32 154	(64 003)
Loans and advances to public sector	(5 190)	(5 356)	6 860	(22)	-	-	(3 708)
Total movements for loans and advances to customers	(2 449 771)	(1 187 645)	796 841	(30 185)	450 322	32 154	(2 388 284)

* The presented amount relates in total to decrease of provisions connected with the sale of shares of Intermarket Bank AG and Magyar Factor zRt.

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Loans and advances include receivables under finance leases.

	31.12.2012	31.12.2011
Gross investment in finance leases, receivable:	4 003 756	4 500 266
- not later than 1 year	1 386 863	1 882 373
- later than 1 year and not later than 5 years	2 252 512	2 284 374
- later than 5 years	364 381	333 519
Unearned future finance income on finance leases (negative amount)	(469 720)	(473 909)
Net investment in finance leases	3 534 036	4 026 357
Net investment in finance leases, receivable:		
- not later than 1 year	1 199 826	1 690 088
- later than 1 year and not later than 5 years	2 016 366	2 065 948
- later than 5 years	317 844	270 321
Net investment in finance leases	3 534 036	4 026 357
Impairment provisions for finance leases receivable	(176 640)	(170 234)
Net carrying amount of finance leases receivable	3 357 396	3 856 123
Unguaranteed residual value accruing to the lessor	497 717	459 671

23. Investment securities

	31.12.2012			31.12.2011		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities	17 174 158	2 546 282	19 720 440	16 519 445	3 854 060	20 373 505
Issued by government	9 076 533	2 420 333	11 496 866	9 646 531	3 854 060	13 500 591
- government bonds	9 076 533	2 420 035	11 496 568	9 646 531	3 852 869	13 499 400
- treasury bills	-	298	298	-	1 191	1 191
Issued by central bank	7 855 805	125 949	7 981 754	6 511 488	-	6 511 488
Other debt securities	241 820	-	241 820	361 426	-	361 426
- bank's bonds	123 901	-	123 901	327 811	-	327 811
- corporate bonds	80 131	-	80 131	-	-	-
- communal bonds	37 788	-	37 788	33 615	-	33 615
Equity securities:	272 948	-	272 948	177 767	-	177 767
Listed	225 108	-	225 108	156 556	-	156 556
Unlisted	47 840	-	47 840	21 211	-	21 211
Total debt and equity securities:	17 447 106	2 546 282	19 993 388	16 697 212	3 854 060	20 551 272
Short-term (up to 1 year)	8 794 515	156 185	8 950 700	9 954 397	586 954	10 541 351
Long-term (over 1 year)	8 652 591	2 390 097	11 042 688	6 742 815	3 267 106	10 009 921

Presented above value of equity securities includes provisions for impairment of PLN 10 970 thousand (31 December 2011: PLN 13 257 thousand).

As at 31 December 2012, listed equity securities include fair value of PZU shares in amount of PLN 206 775 thousand (31 December 2011 - PLN 146 210 thousand).

As at 31 December 2012, the carrying values of debt securities with fixed interest rates amounted to PLN 13 341 748 thousand and debt securities with variable interest rates PLN 6 378 692 thousand (31 December 2011: PLN 14 460 541 thousand and PLN 5 912 964 thousand).

The above includes government bonds and treasury bills under the Bank Guarantee Fund (BFG), investment government bonds pledged as sell-buy-back transactions and government bonds pledged as collateral for the loans received from the European Investment Bank and government bonds pledged as collateral for deposit placed by the client.

In accordance with the BFG Law of 14 December 1994, the Group held PLN 345 442 thousand, at face value PLN 336 300 thousand of treasury securities (bonds and bills) disclosed in its statement of financial position as at 31 December 2012 (31 December 2011: fair value PLN 271 083 thousand; face value PLN 269 000 thousand), which were used as security under the Bank Guarantee Fund and they were deposited in a separate account respectively: money bonds at the National Bank of Poland and bonds at the National Depository of Securities.

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Gains and losses from investment securities include:

	Year ended 31 December	
	2012	2011
Sale/redemption of financial assets available for sale, investments in subsidiaries and associates	43 063	11 985
Reversal of impairment of investments in subsidiaries	1 903	-
Total gains and losses from investment securities	44 966	11 985

In 2012, the amount of PLN 43 063 thousand includes mainly the result of the sale of government bonds in amount of PLN 33 557 thousand and profit on sale of CERI International Sp. z o.o. in the amount of PLN 10 369 thousand, as a result of reorganization of outsourcing services in the BRE Bank Group. The transaction is described under Note 45.

In 2011, the amount of PLN 11 985 thousand includes mainly the result on liquidation of the company BRELINVEST Sp. z o.o. Fly 2 Commandite Company and the result of the sale of BRE's shareholding in Intermarket Bank AG and Magyar Factor zRt. to Erste Group entities.

Movements in investment securities

	31.12.2012	31.12.2011
Available for sale securities		
As at the beginning of the period	20 551 272	19 574 833
Exchange differences	(23 666)	11 715
Additions	261 552 427	247 540 792
Disposals (sale, redemption and forfeiture)	(262 671 130)	(246 576 084)
Gains / (losses) from impairment of equity securities and debt securities available for sale	1 903	-
Gains / (losses) from changes in fair value	582 582	16
As at the end of the period	19 993 388	20 551 272

Movements in provisions for losses on investment securities

	31.12.2012	31.12.2011
Provisions for losses on equity securities		
Listed		
As at the beginning of the period	(125)	(125)
As at the end of the period	(125)	(125)
Unlisted		
As at the beginning of the period	(13 132)	(13 132)
Allowance for impairment	(605)	-
Amounts written off during the period as uncollectible	384	-
Amounts recovered during the period	2 508	-
As at the end of the period	(10 845)	(13 132)
Total provisions for investment securities		
As at the beginning of the period	(13 257)	(13 257)
Allowance for impairment	(605)	-
Amounts written off during the period as uncollectible	384	-
Amounts recovered during the period	2 508	-
As at the end of the period	(10 970)	(13 257)

24. Intangible assets

	31.12.2012	31.12.2011
Development costs	490	789
Goodwill	4 728	4 728
Patents, licences and similar assets, including:	282 619	313 925
- computer software	228 750	247 070
Other intangible assets	7 968	9 231
Intangible assets under development	140 318	108 096
Total intangible assets	436 123	436 769

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Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2012	Development costs	Acquired patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
			including: acquired computer software				
Gross value of intangible assets as at the beginning of the period: 01.01.2012	27 965	812 184	643 482	26 467	108 136	4 728	979 480
Increase (due to)	-	51 346	37 641	69	86 855	-	138 270
- purchase	-	15 320	4 744	69	67 586	-	82 975
- transfer from fixed assets under construction	-	214	21	-	-	-	214
- transfer from intangible assets under development	-	35 780	32 848	-		-	35 780
- development costs	-	-	-	-	12 923	-	12 923
- other increases	-	32	28	-	6 346	-	6 378
Decrease (due to)	(4 490)	(92 878)	(77 490)	(266)	(54 673)	-	(152 307)
- liquidation	(4 490)	(91 774)	(76 686)	-	(62)	-	(96 326)
- transfer to intangible assets given to use	-	-		-	(35 780)	-	(35 780)
- other decreases	-	(1 104)	(804)	(266)	(18 831)	-	(20 201)
Gross value of intangible assets as at the end of the period: 31.12.2012	23 475	770 652	603 633	26 270	140 318	4 728	965 443
Accumulated amortization as at the beginning of the period: 01.01.2012	(27 176)	(498 252)	(396 405)	(17 236)	-	-	(542 664)
Amortization for the period (due to)	4 191	10 226	21 529	(1 066)	-	-	13 351
- amortization	(282)	(82 203)	(55 627)	(1 024)	-	-	(83 509)
- other increases	-	-	-	(85)	-	-	(85)
- liquidation	4 473	91 733	76 686	-	-	-	96 206
- other decreases	-	696	470	43	-	-	739
Accumulated amortization as at the end of the period: 31.12.2012	(22 985)	(488 026)	(374 876)	(18 302)	-	-	(529 313)
Impairment losses as at the beginning of the period: 01.01.2012	-	(7)	(7)	-	(40)	-	(47)
- increase	(17)	-	-	-	-	-	(17)
- decrease	17	-	-	-	40	-	57
Impairment losses as at the end of the period: 31.12.2012	-	(7)	(7)	-	-	-	(7)
Net value of intangible assets as at the end of the period: 31.12.2012	490	282 619	228 750	7 968	140 318	4 728	436 123

Movements in intangible assets from 1 January to 31 December 2011	Development costs	Acquired patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
			including: acquired computer software				
Gross value of intangible assets as at the beginning of the period: 01.01.20101	31 976	773 172	613 364	26 236	75 874	7 137	914 395
Increase (due to)	43	91 245	49 766	231	94 589	-	186 108
- purchase	-	40 267	4 666	2	75 949	-	116 218
- transfer from fixed assets under construction	-	836	279	229	-	-	1 065
- transfer from intangible assets under development	43	45 176	40 102	-	-	-	45 219
- development costs	-	-	-	-	13 275	-	13 275
- other increases	-	4 966	4 719	-	5 365	-	10 331
Decrease (due to)	(4 054)	(52 233)	(19 648)	-	(62 327)	(2 409)	(121 023)
- liquidation	-	(45 817)	(13 510)	-	-	-	(45 817)
- transfer to intangible assets given to use	-	-	-	-	(45 219)	-	(45 219)
- sale of the company consolidated previously	-	(6 139)	(6 138)	-	(2 760)	(2 409)	(11 308)
- other decreases	(4 054)	(277)	-	-	(14 348)	-	(18 679)
Gross value of intangible assets as at the end of the period: 31.12.2011	27 965	812 184	643 482	26 467	108 136	4 728	979 480
Accumulated amortization as at the beginning of the period: 01.01.2011	(30 524)	(439 848)	(334 002)	(16 179)	-	-	(486 551)
Amortization for the period (due to)	3 348	(58 404)	(62 403)	(1 057)	-	-	(56 113)
- amortization	(285)	(102 897)	(74 739)	(1 057)	-	-	(104 239)
- other increases	-	(4 099)	(3 947)	-	-	-	(4 099)
- liquidation	-	45 749	13 442	-	-	-	45 749
- sale of the company consolidated previously	-	2 843	2 841	-	-	-	2 843
- other decreases	3 633	-	-	-	-	-	3 633
Accumulated amortization as at the end of the period: 31.12.2011	(27 176)	(498 252)	(396 405)	(17 236)	-	-	(542 664)
Impairment losses as at the beginning of the period: 01.01.2011	-	(7)	(7)	-	-	-	(7)
- increase	-	-	-	-	(40)	-	(40)
Impairment losses as at the end of the period: 31.12.2011	-	(7)	(7)	-	(40)	-	(47)
Net value of intangible assets as at the end of the period: 31.12.2011	789	313 925	247 070	9 231	108 096	4 728	436 769

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25. Tangible assets

	31.12.2012	31.12.2011
Tangible assets, including:	733 553	765 993
- land	1 175	1 875
- buildings and structures	219 773	228 823
- equipment	162 573	168 804
- vehicles	212 490	216 964
- other fixed assets	137 542	149 527
Fixed assets under construction	40 351	66 462
Total tangible assets	**773 904**	**832 455**

Movements in tangible assets

Movements in tangible assets from 1 January to 31 December 2012	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period: 01.01.2012	1 875	361 760	617 331	309 328	413 481	66 598	1 770 373
Increase (due to)	-	2 662	52 999	69 768	36 226	31 870	193 525
- purchase	-	776	29 252	67 965	4 903	25 903	128 799
- transfer from tangible assets under construction	-	928	22 803	-	31 099	-	54 830
- other increases	-	958	944	1 803	224	5 967	9 896
Decrease (due to)	(700)	(10 086)	(107 078)	(48 472)	(32 736)	(57 937)	(257 009)
- sale	(700)	(10 000)	(15 114)	(45 326)	(8 942)	-	(80 082)
- liquidation	-	(67)	(20 488)	-	(2 637)	-	(23 192)
- transfer to tangible assets	-	-	-	-	-	(54 830)	(54 830)
- transfer to intangible assets	-	-	-	-	-	(214)	(214)
- other decreases	-	(19)	(71 476)	(3 146)	(21 157)	(2 893)	(98 691)
Gross value of tangible assets as at the end of the period: 31.12.2012	1 175	354 336	563 252	330 624	416 971	40 531	1 706 889
Accumulated depreciation as at the beginning of the period: 01.01.2012	-	(81 251)	(448 527)	(92 364)	(263 823)	-	(885 965)
Depreciation for the period (due to)	-	(4 042)	48 055	(25 770)	(12 911)	-	5 332
- depreciation charge	-	(7 242)	(56 177)	(57 379)	(42 867)	-	(163 665)
- other increases	-	-	(1)	-	-	-	(1)
- sale	-	3 123	13 846	29 997	7 178	-	54 144
- liquidation	-	59	20 367	-	2 362	-	22 788
- other decreases	-	18	70 020	1 612	20 416	-	92 066
Accumulated depreciation as at the end of the period: 31.12.2012	-	(85 293)	(400 472)	(118 134)	(276 734)	-	(880 633)
Impairment losses as at the beginning of the period: 01.01.2012	-	(51 686)	-	-	(131)	(136)	(51 953)
- increase	-	(12 500)	(207)	-	(2 619)	(44)	(15 370)
- decrease	-	14 916	-	-	55		14 971
Impairment losses as at the end of the period: 31.12.2012	-	(49 270)	(207)	-	(2 695)	(180)	(52 352)
Net value of tangible assets as at the end of the period: 31.12.2012	1 175	219 773	162 573	212 490	137 542	40 351	773 904

Movements in tangible assets from 1 January to 31 December 2011	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period: 01.01.2011	1 867	364 316	554 140	267 374	402 912	44 149	1 634 758
Increase (due to)	26	2 802	94 751	91 962	25 234	70 763	285 538
- purchase	-	568	66 974	86 434	6 427	69 895	230 298
- transfer from tangible assets under construction	-	2 021	25 366	442	16 617	-	44 446
- other increases	26	213	2 411	5 086	2 190	868	10 794
Decrease (due to)	(18)	(5 358)	(31 560)	(50 008)	(14 665)	(48 314)	(149 923)
- sale	(18)	(400)	(5 053)	(41 632)	(3 931)	-	(51 034)
- liquidation	-	(5)	(11 290)	(1 428)	(9 127)		(21 850)
- transfer to tangible assets	-	-	-	-	-	(44 446)	(44 446)
- transfer to intangible assets	-	-	-	-	-	(1 065)	(1 065)
- sale of the company consolidated previously	-	(4 953)	(7 380)	(1 288)	(372)	(1 017)	(15 010)
- other decreases	-	-	(7 837)	(5 660)	(1 235)	(1 786)	(16 518)
Gross value of tangible assets as at the end of the period: 31.12.2011	1 875	361 760	617 331	309 328	413 481	66 598	1 770 373
Accumulated depreciation as at the beginning of the period: 01.01.2011	-	(75 143)	(421 696)	(72 548)	(235 755)	-	(805 142)
Depreciation for the period (due to)	-	(6 108)	(26 831)	(19 816)	(28 068)	-	(80 823)
- depreciation charge	-	(7 217)	(49 553)	(50 917)	(39 486)	-	(147 173)
- other increases	-	(26)	(575)	(52)	(684)	-	(1 337)
- sale	-	152	4 709	26 670	3 554	-	35 085
- liquidation	-	5	11 135	471	7 798	-	19 409
- sale of the company consolidated previously	-	978	6 631	686	328	-	8 623
- other decreases	-	-	822	3 326	422	-	4 570
Accumulated depreciation as at the end of the period: 31.12.2011	-	(81 251)	(448 527)	(92 364)	(263 823)	-	(885 965)
Impairment losses as at the beginning of the period: 01.01.2011	-	(51 686)	-	(2)	(131)	(177)	(51 996)
- decrease	-	-	-	2	-	41	43
Impairment losses as at the end of the period: 31.12.2011	-	(51 686)	-	-	(131)	(136)	(51 953)
Net value of tangible assets as at the end of the period: 31.12.2011	1 875	228 823	168 804	216 964	149 527	66 462	832 455

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

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As part of its activities as a lessor, the Group presents within tangible assets those assets which are leased to third parties under operating lease agreements. The table below presents future minimum lease payments under non-cancellable operating lease agreements with the Group as a lessor.

	31.12.2012	31.12.2011
Minimum lease payments under non-cancellable operating lease		
Up to 1 year	57 637	59 607
Over 1 year up to 5 years	77 341	82 289
Over 5 years	9 799	16 223
Total	**144 777**	**158 119**

The Group presents depreciation of tangible assets leased under operating lease agreements as 'Net income from operating lease' (Note 10).

26. Other assets

	31.12.2012	31.12.2011
Assets taken over and held for resale	**-**	**18 772**
- real estate	-	18 772
Other, including:	**883 626**	**840 312**
- debtors	122 908	247 075
- receivables from income tax	1 818	-
- interbank balances	7 387	2 083
- other accruals	73 885	70 666
- accrued income	28 775	19 133
- inventories	392 876	316 666
- receivables resulting from insurance premiums	43 950	20 699
- other	212 027	163 990
Total other assets	**883 626**	**859 084**
Short-term (up to 1 year)	600 097	521 945
Long-term (over 1 year)	283 529	337 139

The value of inventories results primarily from the business of the companies: BRE.locum and BRE Leasing.

Throughout the year 2012, the Group did not capitalize borrowing costs. Throughout the year 2011, the Group capitalized its borrowing costs amounting to PLN 7 654 thousand. The capitalized borrowing costs increased the value of inventories.

As at 31 December 2012, other assets in amount of PLN 212 027 thousand include receivables of Dom Inwestycyjny from the National Depository of Securities in amount of PLN 143 923 thousand (31 December 2011: PLN 90 309 thousand).

As at 31 December 2012, the above note includes financial assets in amount of PLN 318 168 thousand (31 December 2011: PLN 360 166 thousand).

27. Amounts due to other banks

	31.12.2012	31.12.2011
Current accounts	1 146 772	1 891 265
Term deposits	113 426	1 395 273
Loans and advances received	18 333 571	22 816 765
Repo / sell-buy-back transactions	1 295 964	1 173 097
Liabilities in respect of cash collaterals	197 400	73 865
Payables to be settled	1 269	6 505
Other	22 537	34 039
Amounts due to other banks	**21 110 939**	**27 390 809**
Short-term (up to 1 year)	7 031 127	8 577 533
Long-term (over 1 year)	14 079 812	18 813 276

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As at 31 December 2012, the fixed rate term deposits accepted from other banks amounted to PLN 113 426 thousand. There were no variable rate term deposits (31 December 2011: PLN 510 162 thousand and PLN 885 111 thousand, respectively).

As at 31 December 2012 and as at 31 December 2011, loans and advances received, were variable rate loans.

The average interest rate for loans and deposits obtained from banks in 2012 amounted to 1.42% (31 December 2011: 1.58%).

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

28. Amounts due to customers

	31.12.2012	31.12.2011
Individual customers:	**33 233 757**	**26 700 892**
Current accounts	21 059 319	16 961 125
Term deposits	12 121 656	9 698 858
Other liabilities:	52 782	40 909
- liabilities in respect of cash collaterals	32 763	33 215
- other	20 019	7 694
Corporate customers:	**24 248 650**	**27 015 436**
Current accounts	11 731 164	11 038 961
Term deposits	8 336 226	11 650 679
Loans and advances received	1 696 404	1 848 575
Repo transactions	1 883 368	1 818 532
Other liabilities:	601 488	658 689
- liabilities in respect of cash collaterals	408 776	479 749
- other	192 712	178 940
Public sector customers:	**501 193**	**528 060**
Current accounts	387 383	447 481
Term deposits	110 765	64 783
Other liabilities:	3 045	15 796
- liabilities in respect of cash collaterals	152	18
- other	2 893	15 778
Total amounts due to customers	**57 983 600**	**54 244 388**

Short-term (up to 1 year)	55 788 507	51 677 581
Long-term (over 1 year)	2 195 093	2 566 807

As at 31 December 2012, the majority of the deposits from retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repos) amounted to 3.11% (31 December 2011: 2.43%).

As at 31 December 2012, the balance of loans and advances received included a loan received from European Investment Bank amounting to PLN 1 696 404 thousand (31 December 2011: PLN 1 848 575 thousand). The loan was collateralized with treasury bonds, which have been presented under Note 23 and Note 36.

29. Debt securities in issue

As at 31 December 2012

Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
Short-term issues	846 800				850 449
- Bonds (in PLN)	50 000	6.00%	no collateral	07-01-2013	50 723
- Bonds (in PLN)	50 000	5.98%	no collateral	15-01-2013	50 637
- Bonds (in PLN)	5 000	5.73%	no collateral	15-01-2013	4 989
- Deposit certificates (in PLN)	206 900	5.00%	no collateral	29-01-2013	206 105
- Bonds (in PLN)	20 000	5.40%	no collateral	30-01-2013	19 909
- Bonds (in PLN)	30 000	5.19%	no collateral	27-02-2013	29 744
- Bonds (in PLN)	15 000	5.75%	no collateral	12-03-2013	14 833
- Bonds (in PLN)	14 200	5.36%	no collateral	15-03-2013	14 193
- Bonds (in PLN)	38 000	5.11%	no collateral	18-03-2013	38 071
- Bonds (in PLN)	30 000	5.61%	no collateral	05-04-2013	29 566
- Mortgage bonds (in PLN)	25 000	6.05%	mortgage bond register	29-04-2013	25 257
- Bonds (in PLN)	25 000	5.70%	no collateral	24-05-2013	25 135
- Bonds (in PLN)	27 700	5.30%	no collateral	20-06-2013	27 720
- Bonds (in PLN)	10 000	5.71%	no collateral	26-08-2013	9 985
- Mortgage bonds (in PLN)	100 000	5.46%	mortgage bonds publicly registered	20-09-2013	101 508
- Mortgage bonds (in PLN)	200 000	5.79%	mortgage bond register	21-10-2013	202 074
Long-term issues	3 988 361				4 041 826
- Mortgage bonds (in PLN)	25 000	6.10%	mortgage bond register	28-04-2014	25 244
- Mortgage bonds (in PLN)	177 000	6.55%	mortgage bond register	28-07-2014	181 702
- Mortgage bonds (in PLN)	89 200	5.79%	mortgage bond register	28-11-2014	89 558
- Mortgage bonds (in PLN)	78 611	5.64%	mortgage bond register	15-05-2015	78 994
- Mortgage bonds (in PLN)	100 000	4.92%	mortgage bond register	07-07-2015	102 710
- Mortgage bonds (in PLN)	57 150	6.45%	mortgage bonds publicly registered	28-07-2015	58 523
- Mortgage bonds (in PLN)	100 000	6.31%	mortgage bond register	28-09-2015	101 460
- Eurobonds (EUR)	2 044 000	2.75%	guarantee	12-10-2015	2 048 132
- Bonds (in PLN)	450 000	6.10%	no collateral	23-11-2015	452 943
- Mortgage bonds (in PLN)	77 000	5.73%	mortgage bonds publicly registered	30-11-2015	77 225
- Mortgage bonds (in PLN)	145 750	5.92%	mortgage bond register	20-04-2016	146 964
- Mortgage bonds (in PLN)	200 000	5.20%	mortgage bond register	16-06-2016	199 836
- Mortgage bonds (in PLN)	140 500	6.74%	mortgage bonds publicly registered	28-09-2016	142 558
- Mortgage bonds (in PLN)	25 000	6.20%	mortgage bond register	15-11-2015	24 903
- Mortgage bonds (in PLN)	172 750	6.07%	mortgage bond register	20-04-2017	174 187
- Mortgage bonds (in EUR)	10 000	2.31%	mortgage bond register	19-10-2017	40 959
- Mortgage bonds (in PLN)	96 400	5.91%	mortgage bond register	15-06-2018	95 928
Debt securities in issue (carrying value in PLN '000)					4 892 275

As at 31 December 2011

Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
Short-term issues	546 450				550 307
- Bonds (in PLN)	50 000	5.25%	no collateral	05-01-2012	49 971
- Bonds (in PLN)	14 000	5.26%	no collateral	05-01-2012	13 992
- Bonds (in PLN)	10 000	5.75%	no collateral	05-01-2012	9 994
- Bonds (in PLN)	21 400	5.27%	no collateral	11-01-2012	21 374
- Bonds (in PLN)	10 000	5.76%	no collateral	13-01-2012	9 981
- Bonds (in PLN)	10 100	5.76%	no collateral	20-01-2012	10 070
- Bonds (in PLN)	20 000	5.39%	no collateral	27-01-2012	19 922
- Bonds (in PLN)	1 800	5.76%	no collateral	27-01-2012	1 792
- Bonds (in PLN)	4 700	5.77%	no collateral	03-02-2012	4 675
- Bonds (in PLN)	1 500	5.68%	no collateral	15-03-2012	1 476
- Bonds (in PLN)	2 300	5.69%	no collateral	20-04-2012	2 251
- Bonds (in PLN)	25 000	5.46%	no collateral	25-05-2012	24 463
- Bonds (in PLN)	57 400	5.95%	no collateral	16-11-2012	57 788
- Bonds (in PLN)	50 000	6.06%	no collateral	30-11-2012	50 243
- Mortgage bonds (in PLN)	68 250	4.92%	mortgage bonds publicly registered	27-07-2012	69 746
- Mortgage bonds (in PLN)	200 000	5.15%	mortgage bonds publicly registered	28-09-2012	202 569

Long-term issues	1 172 961				1 185 681
- Mortgage bonds (in PLN)	25 000	6.22%	mortgage bond register	29-04-2013	25 252
- Mortgage bonds (in PLN)	100 000	5.36%	mortgage bonds publicly registered	20-09-2013	101 434
- Mortgage bonds (in PLN)	116 100	5.94%	mortgage bond register	21-10-2013	116 980
- Mortgage bonds (in PLN)	25 000	6.27%	mortgage bond register	28-04-2014	25 241
- Mortgage bonds (in PLN)	177 000	6.17%	mortgage bond register	28-07-2014	181 367
- Mortgage bonds (in PLN)	78 500	6.21%	mortgage bond register	28-11-2014	78 769
- Mortgage bonds (in PLN)	78 611	5.94%	mortgage bond register	15-05-2015	78 953
- Mortgage bonds (in PLN)	100 000	5.63%	mortgage bond register	07-07-2015	102 484
- Mortgage bonds (in PLN)	100 000	6.21%	mortgage bond register	28-09-2015	101 374
- Mortgage bonds (in PLN)	77 000	6.15%	mortgage bonds publicly registered	30-11-2015	77 200
- Mortgage bonds (in PLN)	145 750	6.00%	mortgage bond register	20-04-2016	146 916
- Mortgage bonds (in PLN)	150 000	5.97%	mortgage bond register	16-06-2017	149 711
Debt securities in issue (carrying value in PLN '000)					1 735 988

The Group did not note any violations of contractual terms related to liabilities in respect of issued debt securities.

On 4 October 2012, BRE Finance France SA - a subsidiary of BRE Bank (the Bank holds 99.98% of its shares) issued Eurobonds with a nominal value of EUR 500 000 thousand (PLN 2 046 650 thousand at the average exchange rate of the National Bank of Poland as at 4 October 2012) maturing on 12 October 2015. On 4 October 2012, BRE Bank guaranteed the payment of any amounts payable on debt securities issued under Euro Medium Term Note Programme. Guarantee was given for the duration of the Programme.

The funds comprising the security deposit signed on 4 October 2012 under the agreement between BRE Bank and the Company are used to back the guarantee issued by the Bank to secure the payment obligations from the Eurobonds. The amount of security deposit is EUR 497 770 thousand (PLN 2 037 522 thousand at the average exchange rate of the National Bank of Poland as at 4 October 2012).

The amount of the security deposit shall remain the property of the Bank until the date of repayment of Eurobonds on 12 October 2015.

Movements in debt securities in issue

	31.12.2012	31.12.2011
As at the beginning of the period	1 735 988	1 371 824
Additions (issue)	8 795 542	3 993 798
Disposals (redemption)	(5 695 002)	(3 658 100)
Other changes	55 747	28 466
Debt securities in issue as at the end of the period	4 892 275	1 735 988

As at 31 December 2012, the nominal value of receivables constituting collateral for the issue of mortgage covered bonds amounted to PLN 2 619 590 thousand (31 December 2011: PLN 2 471 248 thousand). According to legal requirements, the nominal value of mortgage covered bonds issued cannot exceed 60% of the value of the related real estate. At 31 December 2012, this amount in the register of collateral of mortgage bond amounted to PLN 2 162 039 thousand (31 December 2011: PLN 1 860 257 thousand). Both, as at 31 December 2012 and as at 31 December 2011, covered bonds were secured with receivables secured with mortgage entered as the first item in the land and mortgage register. The value of receivables constituting collateral for the issue of public sector covered bonds amounted to PLN 561 481 thousand as at 31 December 2012 compared with PLN 549 334 thousand as at 31 December 2011.

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 2012						
- Commerzbank AG	400 000	CHF	3M LIBOR + 1.2%*	1.21	08.03.2017	1 355 725
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	1.42	perpetual	271 072
- Commerzbank AG	120 000	CHF	3M LIBOR + 1.5%***	2.02	18.12.2017	406 674
- Commerzbank AG	170 000	CHF	3M LIBOR + 2.2%****	2.24	perpetual	578 765
- Commerzbank AG	90 000	CHF	3M LIBOR + 4.0%	4.01	perpetual	305 084
- Commerzbank AG	90 000	CHF	3M LIBOR + 2.5%	2.51	24.06.2018	304 975
						3 222 295

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 2011						
- Commerzbank AG	400 000	CHF	3M LIBOR + 0.7%*	0.75	08.03.2017	1 454 048
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	1.45	perpetual	290 805
- Commerzbank AG	120 000	CHF	3M LIBOR + 1.5%***	1.55	18.12.2017	436 221
- Commerzbank AG	170 000	CHF	3M LIBOR + 2.2%****	2.23	perpetual	620 832
- Commerzbank AG	90 000	CHF	3M LIBOR + 4.0%	4.05	perpetual	327 181
- Commerzbank AG	90 000	CHF	3M LIBOR + 2.5%	2.55	24.06.2018	327 113
						3 456 200

* margin amounting to 0.7% was in force for the period of first five years. From June 2012, margin amounting to 1.2% is in force.
** margin amounting to 1.4% is in force up to December 2016. Within the period of next years it will be equal to 3.4%.
*** margin amounting to 1.5% was 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 up to January 2018. Within the period of next years it will be equal to 4.2%.

In 2012 and in 2011, the Group 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 the capital adequacy ratio the funds raised through these issues were used in the Bank's own funds calculation. The Bank obtained the approvals of the Polish Financial Supervision Authority (KNF) for the inclusion of the funds obtained from the issues into the Group's supplementary capital.

Movements in subordinated liabilities

	31.12.2012	31.12.2011
As at the beginning of the period	3 456 200	3 010 127
Exchange differences	(234 547)	446 958
Other changes	642	(885)
Subordinated liabilities as at the end of the period	3 222 295	3 456 200
Short-term (up to 1 year)	4 835	4 565
Long-term (over 1 year)	3 217 460	3 451 635

31. Other liabilities

	31.12.2012	31.12.2011
Other liabilities, including		
- tax liabilities	22 835	35 044
- interbank settlements	388 965	765 326
- creditors	444 462	405 264
- accrued expenses	135 854	154 880
- deferred income	109 007	101 137
- reinsurance liabilities	26 769	26 947
- accrual of pension benefits	4 048	4 664
- accrual of holiday equivalents	22 676	19 497
- accrual of other employee benefits	171 986	176 060
- other	68 243	35 037
Total other liabilities	1 394 845	1 723 856

As at 31 December 2012, the presented note includes financial liabilities of PLN 1 017 339 thousand (as at 31 December 2011: PLN 1 352 417 thousand). Cash flows resulting from those financial liabilities are presented under the Note 3.9.1. The other components of presented liabilities, except for part of accrual of pension benefits that were calculated on actuarial basis, as a rule, are short term liabilities.

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32. Provisions

	31.12.2012	31.12.2011
For off-balance sheet granted contingent liabilities *	46 462	30 906
For legal proceedings	47 204	25 644
Technical-insurance provisions	84 512	80 864
Other	35 149	15 754
Total provisions	**213 327**	**153 168**

* includes valuation of financial guarantees

Provision policies for technical-insurance provisions and provisions for off-balance sheet commitments granted are described in Note 2.26 and Note 3.4.4 respectively. Estimated dates of granted contingent liabilities realisation are presented in Note 35.

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

Movements in the provisions

	31.12.2012	31.12.2011
As at the beginning of the period (by type)	**153 168**	**175 325**
For off-balance sheet granted contingent liabilities	30 906	49 674
For legal proceedings	25 644	19 193
Technical-insurance provisions	80 864	87 307
Other	15 754	19 151
Change in the period (due to)	**60 159**	**(22 157)**
- increase of provisions, due to:	224 404	171 334
for off-balance-sheet granted contingent liabilities (Note 13)	175 869	159 183
for legal proceedings	22 950	6 508
technical-insurance provisions	3 648	(6 443)
other	21 937	12 086
- release of provisions, due to:	(160 168)	(168 892)
for off-balance-sheet granted contingent liabilities (Note 13)	(159 912)	(168 260)
for legal proceedings	(256)	(632)
- write-offs	(2 697)	(9 722)
- utilization	-	(135)
- reclassification	-	(4 243)
- foreign exchange differences	(1 380)	1 482
- other	-	(11 981)
As at the end of the period (by type)	**213 327**	**153 168**
For off-balance sheet granted contingent liabilities	46 462	30 906
For legal proceedings	47 204	25 644
Technical-insurance provisions	84 512	80 864
Other	35 149	15 754

Technical-insurance provisions

	31.12.2012	31.12.2011
Insurance provisions and reinsurance assets		
Insurance provisions gross, including:	169 785	147 043
- Provision for losses raised and costs of liquidation	22 356	18 154
- IBNR	80 194	61 255
- Provision for premiums	67 148	67 620
- Provision for the insurers' share in technical profit	87	14
Insurance provisions gross, total	**169 785**	**147 043**

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Reinsurer's share, including:		
- Provision for losses raised and costs of liquidation	15 270	11 114
- IBNR	34 111	25 083
- Provision for premiums	35 892	29 982
Reinsurer's share, total	85 273	66 179
Insurance provisions net, including		
- Provision for losses raised and costs of liquidation	7 086	7 040
- IBNR	46 083	36 172
- Provision for premiums	31 256	37 638
- Provision for the insurers' share in technical profit	87	14
Insurance provisions net, total	84 512	80 864

Provisions for off-balance sheet granted contingent liabilities

	31.12.2012	31.12.2011
Incurred but not identified losses		
Off-balance sheet contingent liabilities	17 314 377	17 142 460
Provisions for off-balance sheet contingent liabilities analysed according to portfolio approach (negative amount)	(21 936)	(25 264)
Net off-balance sheet contingent liabilities	17 292 441	17 117 196
Off-balance sheet granted contingent liabilities with impairment		
Off-balance sheet contingent liabilities	79 469	25 016
Provisions for off-balance sheet contingent liabilities analysed individually (negative amount)	(24 526)	(5 642)
Net off-balance sheet contingent liabilities	54 943	19 374

33. Assets and liabilities for deferred income tax

Assets and liabilities 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 2012 and 2011.

Changes in assets and liabilities for deferred income tax are presented below.

Deferred income tax assets	As at 1 January 2012	Recognized in income statement	Recognized in other comprehensive income	Other changes	As at 31 December 2012
Interest	44 095	26 512	-	-	70 607
Valuation of derivative financial instruments	76 534	60 466	-	-	137 000
Valuation of investment securities	21 303	3 925	(4 492)	-	20 736
Provisions for impairment of loans and advances	229 590	(7 362)	-	-	222 228
Provisions for employee benefits	38 825	(4 120)	-	-	34 705
Other provisions	5 547	2 035	-	-	7 582
Prepayments/accruals	28 962	166	-	-	29 128
Tax losses carried forward	7 520	(3 798)	-	-	3 722
Differences between carrying and tax value of lease	116 104	-	-	-	116 104
Other negative temporary differences	78 280	17 639	-	(378)	95 541
Total deferred income tax assets	646 760	95 463	(4 492)	(378)	737 353

Short-term (up to 1 year)	473 269
Long-term (over 1 year)	264 084

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Deferred income tax liabilities	As at 1 January 2012	Recognized in income statement	Recognized in other comprehensive income	Other changes	As at 31 December 2012
Interest	(49 329)	(1 132)	-	-	(50 461)
Valuation of derivative financial instruments	-	-	-	-	-
Valuation of investment securities	(140 765)	40 710	(62 568)	-	(162 623)
Prepayments regarding amortization of applyed investment relief	(57 339)	(2 361)	-	-	(59 700)
Difference between tax and book value of fixed and tangible assets	(29 114)	3 434	-	-	(25 680)
Deferred income	(18 657)	-	-	-	(18 657)
Other positive temporary differences	(44 762)	(7 280)	-	(31)	(52 073)
Total deferred income tax liabilities	(339 966)	33 371	(62 568)	(31)	(369 194)

Short-term (up to 1 year)	(326 068)
Long-term (over 1 year)	(43 126)

Deferred income tax assets	As at 1 January 2011	Recognized in income statement	Recognized in other comprehensive income	Other changes	As at 31 December 2011
Interest	36 869	7 226	-	-	44 095
Valuation of derivative financial instruments	47 059	29 475	-	-	76 534
Valuation of investment securities	22 149	1 187	(2 033)	-	21 303
Provisions for impairment of loans and advances	189 558	40 032	-	-	229 590
Provisions for employee benefits	32 032	6 793	-	-	38 825
Other provisions	6 097	(550)	-	-	5 547
Prepayments/accruals	29 735	(773)	-	-	28 962
Tax losses carried forward	982	6 538	-	-	7 520
Differences between carrying and tax value of lease	139 083	(22 979)	-	-	116 104
Other negative temporary differences	66 529	12 931	-	(1 180)	78 280
Total deferred income tax assets	570 093	79 880	(2 033)	(1 180)	646 760

Short-term (up to 1 year)	384 613
Long-term (over 1 year)	262 147

Deferred income tax liabilities	As at 1 January 2011	Recognized in income statement	Recognized in other comprehensive income	Other changes	As at 31 December 2011
Interest	(38 469)	(10 860)	-	-	(49 329)
Valuation of investment securities	(97 595)	(44 501)	1 331	-	(140 765)
Prepayments regarding amortization of applyed investment relief	(40 840)	(16 499)	-	-	(57 339)
Difference between tax and book value of fixed and tangible assets	(32 699)	3 585	-	-	(29 114)
Deferred income	(18 657)	-	-	-	(18 657)
Other positive temporary differences	(26 090)	(19 083)	-	411	(44 762)
Total deferred income tax liabilities	(254 350)	(87 358)	1 331	411	(339 966)

Short-term (up to 1 year)	(299 650)
Long-term (over 1 year)	(40 316)

Deferred income tax included in the income statement	31.12.2012	31.12.2011
Interest	25 380	(3 634)
Valuation of derivative financial instruments	60 466	29 475
Valuation of securities	44 635	(43 314)
Provisions for impairment of loans and advances	(7 362)	40 032
Provisions for employee benefits	(4 120)	6 793
Other provisions	2 035	(550)
Prepayments/accruals	166	(773)
Difference between tax and book value of fixed and tangible assets	3 434	3 585
Tax losses carried forward	(3 798)	6 538
Other temporary differences *	7 998	(45 630)
Total deferred income tax included in the profit and loss account (Note 14)	128 834	(7 478)

* The other 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 of BRE Bank and Garbary Sp. z o.o, BRE Group does not include those losses in the deferred tax asset calculation. The amount of unused tax losses not included in the calculation of deferred tax assets amounted to PLN 243 910 thousand on 31 December 2012 and PLN 284 534 thousand on 31 December 2011. Right to tax losses' settlement expires between 2013 and 2018 year.

The Group recognizes deferred tax liabilities or assets related to temporary differences arising from investments in subsidiaries and associates except that the implementation of the temporary differences is controlled by the Group and it is probable that in the foreseeable future, these differences will not be reversed. At the end of 2012 the Group did not include settlements on temporary differences in the total amount of PLN 441 521 thousand incurred due to investments in subsidiaries and affiliated companies in deferred tax calculation.

Deferred tax assets are recognised, because it is probable that future taxable profit will occur.

34. Proceedings before a court, arbitration body or public administration authority

As at 31 December 2012, 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 Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 31 December 2012 was also not higher than 10% of the Bank's equity.

Report on major proceedings brought against the Bank

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

   As at 31 December 2012 a proceeding against BRE Bank in the Court of Jerusalem initiated by Bank Leumi and an insurance company of Bank Leumi, Migdal Insurance Company was pending. It is an action for indemnity in the amount of USD 13.5 million (PLN 41.8 million translated at the average exchange rate of the National Bank of Poland as at 31 December 2012). 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 claimed 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 was under recourse. On 23 January 2013, the parties entered into an out-of-court settlement, which was approved by the Court of Jerusalem, and consequently, the dispute over the said issue was brought to the end.

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. On 24 February 2011, the Court of Appeal made a decision on revoking the ruling and discontinuance of proceedings involving Bank Pekao S.A. (the Bank entered in the proceedings as successor of BPH) justified by lack of title to bring the action before the court on the side of the Bank. The case was returned to the court of the first instance where it will be continued with the participation of BPH as the claimant. Bank Pekao SA filed the last resort appeal against the aforesaid decision with the Supreme Court. On 25 April 2012, the Supreme Court revoked the aforesaid decision of the Court of Appeal and referred the case back.

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 suspended proceedings due to the closing of the insolvency procedure. On 5 June 2012, the court once again decided to suspend the proceedings until the case filed by Bank BPH SA against Garbary Sp. z o.o. is finally settled.

4. Claims of clients of Interbrok

Up to 21 February 2013, 166 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 373 935 thousand and via the District Court in Warsaw. In addition, up to 21 February 2013, 9 legal compensation suits have been delivered to the Bank. Eight of the nine suits where placed by former clients of Interbrok for 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. 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 4 March 2010, one of the judgments becomes final and valid. On 22 June 2011, the Supreme Court dismissed the plaintiff's cassation appeal in the said case. As far as the remaining cases are concerned, on 21 December 2010 and 17 January 2012, the Court of Appeals revoked the judgments of the District Court and remanded the cases to the District Court in Warsaw for re-examination. In the 9th case the value of the subject of litigation amounts to PLN 165 571 thousand together with statutory interest and legal costs. The amount set forth in the petition is to cover the 99 receivables, acquired by the Plaintiff by way of assignment, due to 97 parties aggrieved by Interbrok on account of the reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The Plaintiff claims the Bank's liability on the grounds of the Bank's aiding to commit the illicit act of Interbrok involving the pursuit of brokerage activity without a permit. At present, the case is being heard by the court of first instance.

In all court cases the Bank moves for dismissal of the claims in entirety and objects to charges raised in the legal suits. The legal analysis of the abovementioned claims indicates that there are not significant grounds to state that the Bank bears liability in the case. Therefore, BRE Bank Group did not create provisions for the above claims.

5. Class action against BRE Bank

On 4 February 2011, BRE Bank SA received a class action brought to the District Court in Łódź on 20 December 2010 by the Municipal Ombudsman who represents a group of 835 persons – retail clients of BRE Bank. 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 improperly applied provisions of the agreements concerning interest rates adjustment, namely that the Bank did not reduce interest rates on 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.

On 6 May 2011, the District Court in Łódź decided to reject the application of BRE Bank SA for dismissing the claim and decided that the case will proceed as a class action. On 13 June 2011, BRE Bank SA lodged a complaint against this decision with the Court of Appeal in Łódź. On 28 September 2011, the Court of Appeal dismissed the complaint of BRE Bank SA. Currently, the case proceeds as a class action. The time for joining the class ended in March 2012. As at 17 October 2012, the approved class consisted of 1 247 members. Moreover, the District Court in Łódź ruled against setting up a cash deposit for BRE Bank SA requested by the Bank. The Bank lodged a complaint against this ruling. On 29 November 2012, the Court of Appeal in Łódź dismissed the Bank's complaint about setting up the cash deposit. The ruling is valid and the Plaintiff is not obliged to pay the cash deposit. The final response to the petition was sent in January and the Bank awaits fixing the first date of the hearing. On 15 February 2013, the Plaintiff filed a pleading in reply to the response to the petition.

As at 31 December 2012, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2012 was also not higher than 10% of the Bank's equity.

Taxes

On 7 January 2013, Director of the Treasury Control Office in Warsaw (Urząd Kontroli Skarbowej w Warszawie) initiated audit proceedings in BRE Bank concerning reliability of declared tax bases and correctness of calculation and payment of corporate income tax for the year 2007.

Within the period from 24 August 2012 to 3 September 2012, officer of the First Mazovian Treasury Office in Warsaw (Pierwszy Mazowiecki Urzad Skarbowy w Warszawie) carried out audit proceedings and tax audit in BRE Bank Hipoteczny SA, concerning correctness of the settlement of the value added tax for June 2012. The audits did not identify any irregularities.

Within the period from 20 June 2012 to 29 June 2012, officers of the Treasury Control Office in Warsaw (Urząd Kontroli Skarbowej w Warszawie) carried out tax audit at the company BRE Leasing, concerning correctness of the settlement of the value added tax for the months January – March 2007, May – December 2007. The audits did not identify any irregularities.

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Within the period from 19 July 2010 to 6 October 2011, officers of the Treasury Control Office in Warsaw (Urząd Kontroli Skarbowej w Warszawie) carried out audit proceedings and tax audit in BRE Bank, concerning reliability of declared tax bases and correctness of calculation and payment of corporate income tax for the year 2006. The audits did not identify any relevant irregularities.

Within the period from 28 September to 10 October 2011, officers of the First Mazovian Treasury Office in Warsaw (Pierwszy Mazowiecki Urzad Skarbowy w Warszawie) carried out tax audits at the company BRE Hipoteczny concerning correctness of the settlement of the value added tax for the period from 1 to 31 July 2011. The audits did not identify any irregularities.

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

35. Off-balance sheet liabilities

Off-balance sheet liabilities of the Group comprise:

- Loan commitments

The amounts and deadlines by which the Group will be obliged to realise 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

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

The following table presents the Group's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions as at 31 December 2012 and 31 December 2011.

31.12.2012	Up to 1 year	1 - 5 years	Over 5 years	Total
I Contingent liabilities granted and received	14 610 884	2 793 820	910 228	18 314 932
Commitments granted	14 240 946	2 563 714	733 032	17 537 692
1. Financing	12 221 699	1 905 513	457 972	14 585 184
a) Loan commitments	12 199 735	1 814 505	427 098	14 441 338
b) Operating lease commitments	21 964	91 008	30 874	143 846
2. Guarantees and other financial facilities	1 616 789	658 025	275 060	2 549 874
a) Banker's acceptances	4 441	-	-	4 441
b) Guarantees and standby letters of credit	1 544 982	658 025	275 060	2 478 067
c) Documentary and commercial letters of credit	67 366	-	-	67 366
3. Other commitments	402 458	176	-	402 634
Commitments received	369 938	230 106	177 196	777 240
2. Guarantees received	369 938	230 106	177 196	777 240
II Derivative financial instruments (nominal value of contracts)	424 132 076	204 385 583	15 300 549	643 818 208
1. Interest rate derivatives	386 524 210	202 484 562	14 998 964	604 007 736
2. Currency derivatives	37 079 839	1 825 041	18 385	38 923 265
3. Market risk derivatives	528 027	75 980	283 200	887 207
Total off-balance sheet items	438 742 960	207 179 403	16 210 777	662 133 140

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31.12.2011	Up to 1 year	1 - 5 years	Over 5 years	Total
I Contingent liabilities granted and received	14 451 505	2 658 153	1 250 889	18 360 547
Commitments granted	13 946 753	2 452 452	946 816	17 346 021
1. Financing	11 950 156	1 669 992	755 045	14 375 193
a) Loan commitments	11 926 402	1 570 723	699 523	14 196 648
b) Operating lease commitments	23 754	99 269	55 522	178 545
2. Guarantees and other financial facilities	1 993 253	782 226	191 771	2 967 250
a) Banker's acceptances	3 042	-	-	3 042
b) Guarantees and standby letters of credit	1 675 071	770 900	191 771	2 637 742
c) Guarantees of issues underwritten	150 000	-	-	150 000
d) Documentary and commercial letters of credit	165 140	11 326	-	176 466
3. Other commitments	3 344	234	-	3 578
Commitments received	504 752	205 701	304 073	1 014 526
1. Financial commitments received	430	-	-	430
2. Guarantees received	504 322	205 701	304 073	1 014 096
II Derivative financial instruments (nominal value of contracts)	334 033 912	146 187 262	10 466 975	490 688 149
1. Interest rate derivatives	290 496 121	141 358 726	10 449 114	442 303 961
2. Currency derivatives	42 328 275	4 784 658	17 861	47 130 794
3. Market risk derivatives	1 209 516	43 878	-	1 253 394
Total off-balance sheet items	348 485 417	148 845 415	11 717 864	509 048 696

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 months 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 Note 20.

As at 31 December 2012, apart from financial commitments granted by the Bank, the largest impact on the amount of financial commitments granted had commitments granted by BRE Bank Hipoteczny and BRE Faktoring respectively in amount of PLN 798 623 thousand and PLN 770 069 thousand.

36. Pledged assets

	31.12.2012	31.12.2011
Pledged assets, including:	3 105 926	4 339 523
- Trading securities (Note 19), including:	559 644	485 463
pledged asset with the right to repledge	*559 644*	*485 463*
- Investment securities (Note 23), including:	2 546 282	3 854 060
pledged asset with the right to repledge	*2 197 220*	*2 474 685*
Liabilities arising from pledged assets, including:	5 166 200	5 024 684
- Sell-buy-back transactions (Note 27, 28), including	3 179 332	2 991 629
sell-buy-back transactions concerning securities which are subject to buy-sell-back transaction	2 066 961	1 593 755
- Loan received from the European Investment Bank	1 696 404	1 848 575
- Deposit placed by the client	7 264	-
- Funds guaranteed under the Bank Guarantee Fund	283 200	184 480

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.

37. Registered share capital

The total number of ordinary shares as at 31 December 2012 was 42 138 976 shares (31 December 2011: 42 102 746) at PLN 4 nominal value each (31 December 2011: PLN 4). All issued shares were fully paid up.

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REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 DECEMBER 2012						
Share type	Type of preference	Type of restrictions	Number of shares	Series / issue value	Paid up	Year of registration
ordinary bearer*	-	-	9 980 500	39 922 000	fully paid in cash	1986
ordinary registered*	-	-	19 500	78 000	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
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
Total number of shares			42 138 976			
Total registered share capital				168 555 904		
Nominal value per share		4				

* As at the end of the reporting period

On 27 December 2012, Commerzbank AG announced of the acquisition of 29 352 897 shares of BRE Bank from Commerzbank AG Auslandbanken, a subsidiary of Commerzbank AG. These shares entitle to 29 352 897 votes at the General Meeting of BRE Bank and represent 69.66% of the share capital of BRE Bank and 69.66% of the total number of votes at the General Meeting. Before the transaction, Commerzbank held the stake in BRE Bank indirectly through Commerzbank Auslandsbanken AG. Sale of shares of BRE Bank was subject to an internal transfer of shares within the Commerzbank Group and did not change the ultimate parent company of the BRE Bank.

In 2012, the National Depository of Securities made a registration of 36 230 shares of BRE Bank, which were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes (Note 43) to take up shares in BRE Bank SA. As a result of the above registration, in the year 2012 the Bank's share capital increased by PLN 145 thousand.

Pursuant to a notice dated 8 July 2011, the Bank informed in the current report No.46/2011, that ING Powszechny Fundusz Emerytalny (Fundusz) became the owner of BRE Bank shares representing more than 5% of the votes at the General Meeting of BRE Bank.

Prior to this acquisition of shares, Fundusz held 2 085 431 shares of BRE Bank, which constituted 4.96% of BRE Bank's share capital and entitled it to exercise 2 085 431 votes at the General Meeting of BRE Bank, which represented 4.96% of the total number of votes at the General Meeting of BRE Bank.

On 8 July 2011, there were 2 290 882 shares of BRE Bank at the Fund's securities account. It constitutes 5.44% of BRE Bank's share capital which entitles to exercise 2 290 882 votes at the General Meeting of BRE Bank, representing 5.44% of the total number of votes at the General Meeting of BRE Bank.

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 2012 and 2011 results from the issue of shares under incentive programmes described under Note 43.

39. Retained earnings

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

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

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	31.12.2012	31.12.2011
Other supplementary capital	3 353 504	2 334 675
Other reserve capital	94 863	81 174
General banking risk reserve	945 953	841 953
Profit from the previous year	102 526	100 383
Profit for the current year	1 203 230	1 134 972
Total retained earnings	**5 700 076**	**4 493 157**

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 banking risk reserve to cover unexpected risks and future losses. The general banking risk reserve can be distributed only on consent of shareholders at a general meeting.

40. Other components of equity

	31.12.2012	31.12.2011
Exchange differences on translating foreign operations	**106**	**1 921**
Unrealized gains (positive differences)	11 569	14 485
Unrealized losses (negative differences)	(11 463)	(12 564)
Available-for-sale financial assets	**483 678**	**59 865**
Unrealized gains on debt instruments	408 539	9 649
Unrealized losses on debt instruments	(9 996)	(38 841)
Unrealized gains on equity instruments	169 404	106 266
Deferred income tax	(84 269)	(17 209)
Total other components of equity	**483 784**	**61 786**

41. Dividend per share

Pursuant to the resolution on profit distribution for the year 2011, adopted on 30 March 2012 by the XXV Ordinary General Shareholders Meeting of BRE Bank SA, no dividend was paid for the year 2011.

On the basis of resolution dated 8 February 2013, the Management Board of BRE Bank SA decided to recommend to the XXVI Ordinary General Meeting of BRE Bank SA to pay a dividend for 2012 to the shareholders of BRE Bank SA.

The motion of the Management Board regarding payment of dividend for shareholders for 2012, together with an appropriate motion relating to a division of profit for 2012, including: amount of dividend per one share, suggested day of dividend and date of payment of dividend, shall be presented for the assessment of the Supervisory Board in accordance with art. 382 § 3 of the Commercial Companies Code, once the financial data for 2012 is finally verified by the auditor however the Management Board is going to propose a dividend pay-out ratio of approximately 33% of 2012 profits.

42. Cash and cash equivalents

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

	31.12.2012	31.12.2011
Cash and balances with the Central Bank (Note 17)	4 819 203	1 038 356
Debt securities eligible for rediscounting at the Central Bank (Note 22)	-	2 158
Loans and advances to banks (Note 18)	1 953 017	2 615 124
Trading securities (Note 19)	806 097	1 019 573
Total cash and cash equivalents	**7 578 317**	**4 675 211**

43. Share-based incentive programmes

<u>2008 Incentive Programme for the Management Board Members of the Bank</u>

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

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the value of Commerzbank shares calculated on the basis of the average market price of the shares at the original date of the right to receive a cash equivalent.

As a result of the programme 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 bearer shares. As a result of settlement of the programme, 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 could have been 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 programme 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) 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.

The 2008 incentive programme 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, Mr. Joerg Hessenmueller, Member of the Management Board of the Bank, appointed to the Management Board with effect from 16 April 2012 and Mr. Cezary Kocik, Member of the Management Board of the Bank, appointed to the Management Board with effect from 1 April 2012.

The incentive programme for Management Board Members of the Bank was modified in 2012; its new rules are described in the section "2012 – 2016 Incentive Programme for the Management Board Members of the Bank."

The section below describes the accounting treatment of the 2008 incentive programme for Management Board Members of the Bank.

Cash Part of the Bonus

The cash bonus under the programme was paid for 2008 – 2011 and was recognised as a liability to employees and charged to the income statement in the year for which it was granted.

Share-Based Payments Settled in Cash

All rights under payments settled as a cash equivalent based on Commerzbank shares under the programme have already been granted. Since payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the Management Board of the right for a given year of the programme, the cost of Commerzbank share-based payments settled in cash are still recognised in the income statement in correspondence with liabilities to employees. The last settlements under the programme are in 2015.

Share-Based Payments Settled in BRE Bank SA Shares

All rights under payments settled as a cash equivalent based on BRE Bank SA shares under the programme have already been granted. Since payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the Management Board of the right for a given year of the programme, the cost of share-based payments settled in cash are still recognised in the income statement in correspondence with other reserve capital. The last settlements under the programme are in 2015.

Mr Christian Rhino, who served in the function of Management Board Member until 31 March 2012, retained for the period of serving in this function in 2012 the right to receive a bonus on the terms of the 2008 incentive programme. The cash part of the bonus will be paid after the date of the general meeting, which approves the Bank's 2012 financial statements. Payments settled as a Commerzbank share-based cash equivalent and payments settled in BRE Bank shares will be settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition of the rights.

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

	31.12.2012		31.12.2011	
	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	35 218	4	33 356	4
Granted during the period	17 376	-	17 934	-
Forfeited during the period	-	-	-	-
Exercised during the period*	27 140	4	16 072	4
Expired during the period	2 292	-	-	-
Outstanding at the end of the period	23 162	4	35 218	4
Exercisable at the end of the period	-	-	-	-

* In 2012, the weighted average exercise price of the shares at the option exercise date was PLN 263.13 (in 2011 PLN 332.95).

2012 – 2016 Incentive Programme for the Management Board Members of the Bank

In 2012, the incentive programme was governed by Agreements made with the Management Board Members under the terms of the management contracts.

On 7 December 2012, the Supervisory Board acting in line with the recommendation of the Remuneration Committee approved the BRE Bank SA Incentive Programme Rules which will replace the BRE Bank SA Incentive Programme Rules of 14 March 2008 subject to adoption by the General Meeting of BRE Bank of resolutions amending the resolutions of 14 March 2008 concerning the terms of BRE Bank's incentive programme and a bond issue.

Under the programme, the Management Board Members of the Bank are entitled to receive a bonus, including a non-cash bonus paid in Bank shares, including phantom shares. The basis of the acquisition of the right to receive a bonus by a Management Board Member and of the calculation of the base amount necessary to determine the amount of the bonus for a financial year is the net return on equity (ROE) of the BRE Bank SA Group. The equivalent of 50% of the base amount calculated on the basis of ROE constitutes the guaranteed bonus for the achievement of the financial result. As the remaining 50% of the base amount, the Executive Committee of the Supervisory Board may award a discretionary bonus if it decides that the Management Board Member has achieved the annual/multi-annual business development target and considering the situation on the financial market in the last financial period(s). 40% of the bonus due to a Management Board Member for a financial year, which constitutes the sum of the guaranteed bonus and the discretionary bonus, is paid in cash while the remaining 60% is paid as a non-cash bonus in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition of the rights to the non-cash bonus by the Management Board Member. The conditions of award of the non-cash bonus and its amount depend on the net ROE in the financial year for which the non-cash bonus is granted, the assessment of the financial standing of the Bank by the Remuneration Committee, and the assessment of the performance of the Management Board Member in a time horizon longer than one financial year. The Supervisory Board acting on the basis of a recommendation of the Remuneration Committee may decide to withhold the full right or to reduce the right to acquire bonds with the pre-emptive right to acquire shares of the Bank of the deferred tranche in whole or in part depending on later assessment of the performance of the Management Board Member in a time horizon longer than one financial year (i.e., for a period of at least 3 years), taking into account the Bank's business cycle as well as the risk inherent in the business of the Bank but only if the action or omission of the Management Board Member had a direct and negative impact on the financial results and the market position of the Bank according to the assessment. The Supervisory Board acting on the basis of a recommendation of the Remuneration Committee of the Supervisory Board may decide to withhold the full amount or to reduce the amount of the bonus for the financial year to the extent of the bonus or deferred tranche not yet paid in cases referred to in Article 142.1 of the Banking Law. Withholding the full amount or reducing the bonus or any deferred tranche by the Remuneration Committee of the Supervisory Board may also apply to a bonus and/or deferred tranche not paid to a Management Board Member following the expiration or termination of the management contract.

The incentive system described above covers all Management Board Members.

The section below describes the accounting treatment of the 2012 - 2016 incentive programme for Management Board Members of the Bank.

Cash Part of the Bonus

The bonus at 40% of the base amount for the year is recognised as a liability to employees and charged to the income statement in the year for which it was granted.

Share-Based Payments Settled in BRE Bank SA Shares

A bonus at 60% of the base amount constitutes a payment settled in BRE Bank SA shares. The cost of this part of the programme is charged to the income statement and recognised in correspondence with other reserve capital.

The cost of payments settled in shares is recognised in the income statement as of the date of award of the programme, i.e., as of 2012, for all years of the programme (2012 – 2016) until the acquisition date of rights to the programme for the year and, subsequently, until the exercise date of the last deferred payment (payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the Manager of the right for a given year of the programme).

The Management Board Members will acquire the right to acquire bonds with the pre-emptive right to acquire shares of the Bank as the non-cash bonus for 2012 in 2014 for Tranche I in the issue of C5 bonds.

2008 Incentive Programme for Key Managers of BRE Bank Group

On 27 October 2008, the Extraordinary General Meeting of the Bank approved an incentive programme for key managers of BRE Bank Group.

The goal of the programme 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.

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The programme participants include:

- 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 programme 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 programme 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 programme execution. There were 13 000 options granted from Tranche III. Additionally, in 2011 there were 20 000 options granted from Tranche IV and 19 990 options granted from Tranche V. The options granted will allow participants to purchase the Bank shares with an issue price of PLN 4 per share. Exercise of rights stemming from Tranche III started in 2012 and will continue until 31 December 2019. Exercise of rights stemming from Tranches IV and V is conditional and the options will be exercisable between 1 May 2013 and 31 December 2019 (Tranche IV) and 1 May 2014 and 31 December 2019 (Tranche V), respectively. 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 the BRE Bank Group and achievement of the individual yearly assessment grade in each year of the tranche. It was decided in 2011 to suspend the programme and not to activate the remaining tranches.

The fair values of options granted were determined as at 23 August 2010 (Tranche III) and as at 1 February 2011 (Tranches IV and V) using the Monte-Carlo simulation and amounted to PLN 245.9 (Tranche III), PLN 306.4 (Tranche IV) and PLN 306.6 (Tranche V), respectively. The valuation model was selected mainly due to the terms of the programme, 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 programme (data from 12 April 2001 up to 23 August 2010 for Tranche III and from 5 March 2002 up to 1 February 2011 for Tranches IV and V). 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.

Share-Based Payments Settled in BRE Bank SA Shares

The cost of the programme for key managers is charged to the income statement and recognised in correspondence with other reserve capital.

The cost of payments settled in shares is recognised in the income statement as of the date of award of the programme until the acquisition date of rights, i.e.:

- from 23.08.2010 to 30.04.2012 for Tranche III;
- from 1.02.2011 to 30.04.2013 for Tranche IV;
- from 1.02.2011 to 30.04.2014 for Tranche V.

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

	31.12.2012		31.12.2011	
	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	**49 280**	**4**	**12 650**	**4**
Granted during the period	5 390	-	39 990	-
Forfeited during the period	-	-	-	-
Exercised during the period	9 090	4	-	-
Expired during the period	2 795	-	3 360	-
Outstanding at the end of the period	**42 785**	**4**	**49 280**	**4**
Exercisable at the end of the period	**3 910**	**4**	**-**	**-**

Options outstanding at the end of 2011 and 2012 expire on 31 December 2019.

Summary of the Impact of the Programmes on the Bank's Balance Sheet and Income Statement

Share-Based Payments Settled in Shares

The table below presents changes in other reserve capital generated by the above mentioned incentive programs for share-based payments settled in BRE Bank SA shares.

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	31.12.2012	31.12.2011
Incentive programs		
As at the beginning of the period	**20 178**	**10 791**
- value of services provided (Note 11)	11 365	11 323
- settlement of exercised options	(7 676)	(1 936)
As at the end of the period	**23 867**	**20 178**

Share-Based Payments Settled in Cash

The incentive programme 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 programme was PLN 533 thousand in 2012 (31 December 2011: PLN 1 698 thousand) (Note 11). As at 31 December 2012, liabilities due to this programme amounted to PLN 2 660 thousand (31 December 2011: PLN 3 179 thousand).

Cash Payments

The cost of the cash part of the programmes is presented in Note 11 'Overhead Costs'.

44. 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 as well as the direct parent of BRE Bank SA.

Up to 27 December 2012, the direct parent of BRE Bank SA was Commerzbank Auslandsbanken Holding AG, 100% subsidiary of Commerzbank AG. Transaction of purchase of BRE Bank's shares by Commerzbank AG from Commerzbank Auslandsbanken Holding AG is described in Note 37.

All transactions between the Bank and related entities were typical and routine transactions concluded on terms, which not differ from arm's length terms, and their nature, terms and conditions resulted from the current operating activities conducted by the Bank. Transactions concluded with related entities as a part of regular operating activities include loans, deposits and foreign currency transactions.

The 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.e.: 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: Members of the Supervisory Board and the Management Board of BRE Bank, key executive management of BRE Bank, Members of the Supervisory Board and the Management Board of Commerzbank and other related persons and entities, as well as Commerzbank AG Group entities. The amounts of transactions include assets, liabilities and related costs and income as at 31 December 2012 and 31 December 2011 and for the respective periods then ended are as follows.

PLN (000's)	Supervisory Board, Management Board and key management personnel of BRE Bank SA as well as Supervisory Board and Management Board of Commerzbank AG		Other related persons *		Commerzbank AG	
As at the end of the period	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Statement of Financial Position						
Assets	12 222	9 030	60 700	55 437	927 505	1 386 035
Liabilities	39 818	13 078	8 123	6 513	21 441 573	26 989 260
Income Statement						
Interest income	101	95	3 628	3 181	114 886	35 067
Interest expense	(1 266)	(428)	(316)	(184)	(381 400)	(445 009)
Fee and commission income	52	25	105	36	-	-
Fee and commission expense	-	(6)	-	-	-	-
Other operating income	19	-	1	-	113	137
Overhead costs, amortisation and other operating expenses	(1)	(1)	-	-	(12 309)	(9 764)
Contingent liabilities granted and received						
Liabilities granted	769	918	3 441	1 244	834 033	777 286
Liabilities received	-	-	-	-	511 959	707 467

* Other related persons and entities include: close members of the family of Members of the Supervisory and the Management Board of BRE Bank, key executive management of BRE Bank, Members of the Supervisory Board and the Management Board of Commerzbank, entities controlled or jointly controlled by above mentioned persons and BRE Bank's subsidiaries not consolidated by acquisition method.

In 2012 and 2011 no provisions were created in connection with credits granted to related entities.

<u>Management Board Remuneration</u>

The composition of the Management Board of BRE Bank, which consists of seven persons was as follows at the end of 2012:

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

On 2 March 2012 Ms Karin Katerbau, Vice-President of the Management Board, Chief Financial Officer, resigned from her function with the effect from 15 April 2012. Ms Karin Katerbau became a Member of the Management Board of Oldenburgische Landesbank. On 9 December 2011, the Bank made a public information concerning intention to resign of Ms Karin Katerbau.

On 30 March 2012, Mr. Christian Rhino, BRE Bank's Management Board Member and Chief Operation Officer, resigned from his function as of 31 March 2012. The reason for his resignation was transfer to a new function in Commerzbank AG. On 27 January 2012, BRE Bank made a public information concerning intention to resign of Mr. Christian Rhino.

Under the Resolution of 2 March 2012, with the effect from 16 April 2012, the Supervisory Board appointed Mr. Joerg Hessenmueller to the Management Board of BRE Bank SA and for the post of Chief Financial Officer, for the period until the end of the current term of the Management Board.

Under the Resolution of 30 March 2012, the Supervisory Board appointed Mr. Jarosław Mastalerz (until 31 March 2012, BRE Bank's Management Board Member and Head of Retail Banking) for the post of BRE Bank's Management Board Member and Chief Operation Officer with the effect from 1 April 2012, for the period until the end of the current term of the Management Board.

Under the Resolution of 30 March 2012, with the effect from 1 April 2012, the Supervisory Board appointed Mr. Cezary Kocik to the Management Board of BRE Bank SA and for the post of Head of Retail Banking, for the period until the end of the current term of the Management Board.

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 2012, as at 31 December 2012 and 31 December 2011, is presented below.

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		Remuneration paid in 2012 (in PLN)				
		Basic salary	Other benefits	Bonus for 2011	Cash settlement of the incentive program based on Commerzbank shares*	Supplement of bonus for 2008 **
1.	Cezary Stypułkowski	2 088 596	155 600	2 052 222	-	-
2.	Wiesław Thor	1 607 143	165 058	1 350 000	145 034	1 500 000
3.	Przemysław Gdański	1 376 190	141 275	990 000	31 884	-
4.	Joerg Hessenmueller	907 471	173 544	-	-	-
5.	Hans-Dieter Kemler	1 200 000	563 575	1 035 000	30 961	-
6.	Cezary Kocik	900 000	68 672	-	-	-
7.	Jarosław Mastalerz	1 314 286	91 373	1 170 000	135 865	400 000
	Total	9 393 686	1 359 097	6 597 222	343 744	1 900 000

* The settlement relates to an incentive programme for members of the Management Board in 2008, in a part based on the shares of Commerzbank. In 2012, eligible Members of the Board received a cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2008, the second tranche of the incentive programme for 2009 and the first tranche of the incentive programme for 2010.

** In 2012, eligible members of the Board were paid an extra amount in addition to the bonus for 2008, representing compensation for the exclusion from the calculation of bonus for 2008, the effects of one-off transaction.

Remuneration of the former Management Board Members paid in the year 2012.

		Remuneration paid in 2012 (in PLN)				
		Basic salary	Other benefits, payoff and compensations	Bonus for 2011	Cash settlement of the incentive program based on Commerzbank shares*	Supplement of bonus for 2008 **
Remuneration of the former Management Board Members who ceased performing their functions in the year 2012						
1.	Karin Katerbau	598 214	18 913	1 125 000	69 645	208 895
2.	Christian Rhino	431 571	31 871	1 080 000	483 223	208 000
Remuneration of the former Management Board Members who ceased performing their functions in the year 2010						
3.	Mariusz Grendowicz	-	-	-	91 516	-
Remuneration of the former Management Board Members who ceased performing their functions in the year 2008						
4.	Andre Carls	-	-	-	36 560	220 035
	Total	1 029 785	50 784	2 205 000	680 944	636 930

* The settlement relates to an incentive programme for members of the Bank Management Board in 2008, in a part based on the shares of Commerzbank. In 2012, entitled former Members of the Management Board received: Mrs. Karin Katerbau - cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2008, the second tranche of the incentive programme for 2009 and the first tranche of the incentive programme for 2010; Mr. Christian Rhino - cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2008, the second and third tranches of the incentive programme for 2009, the first, second and third tranche of the incentive programme for 2010 and first, second and third tranche of the incentive programme for 2011; Mr. Mariusz Grendowicz - cash equivalent for Commerzbank shares in settlement of the first tranche of the incentive programme for 2010, Mr. Andre Carls cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2008.

In 2012, Mrs. Karin Katerbau who acted as Vice-President of the Bank until 15 April 2012, was paid bonus for 2011 in amount of PLN 1 125 000 thousand. In 2012, was also paid bonus for 2011 in amount of PLN 1 080 000 thousand for Mr. Christian Rhino who acted as the Member of the Board until 31 March 2012.

** In 2012, eligible members of the Board were paid an extra amount in addition to the bonus for 2008, representing compensation for the exclusion from the calculation of bonus for 2008, the effects of one-off transaction.

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Remuneration of the Management Board Members paid in the year 2011.

		Remuneration paid in 2011 (in PLN)			
		Basic salary	Other benefits	Bonus for 2010	Cash settlement of the incentive program based on Commerzbank shares*
1.	Cezary Stypułkowski	2 071 179	183 230	352 844	-
2.	Karin Katerbau	1 500 000	80 291	1 312 500	94 583
3.	Wiesław Thor	1 505 225	154 506	1 312 500	309 081
4.	Przemysław Gdański	1 200 000	130 684	1 000 000	11 854
5.	Hans-Dieter Kemler	1 203 161	409 614	1 000 000	9 254
6.	Jarosław Mastalerz	1 200 000	93 891	1 000 000	307 655
7.	Christian Rhino	1 207 107	145 826	1 000 000	201 608
	Total	9 886 672	1 198 042	6 977 844	934 035

* The settlement relates to 2008 incentive programme for the Management Board Members of the Bank in the part based on Commerzbank shares. In 2011, the entitled Management Board Members received cash equivalent for Commerzbank shares as a settlement of the second tranche of the incentive programme for 2008 and of the first tranche of the incentive programme for 2009.

Remuneration of the former Management Board Members paid in the year 2011.

		Remuneration paid in 2011 (in PLN)			
		Basic salary	Other benefits, payoff and compensations	Bonus for 2010	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	-	129	1 098 082	358 663
Remuneration of the former Management Board Members who ceased performing their functions in the year 2008					
2.	Andre Carls	-	-	-	104 055
	Total	-	129	1 098 082	462 718

* The settlement relates to 2008 incentive programme for the Management Board Members of the Bank in the part based on Commerzbank shares. In 2011, the entitled former Management Board Members received: Mr. Mariusz Grendowicz cash equivalent for Commerzbank shares as a settlement of the second and third tranche of the incentive programme for 2008 as well as first, second and third tranche of the incentive programme for 2009; Mr. Andre Carls cash equivalent for Commerzbank shares as a settlement of the second tranche of the incentive programme for 2008.

In 2011, Mr. Mariusz Grendowicz, who acted as the President of the Bank till 2 August 2010, was paid bonus for 2010 in the amount of PLN 1 098 082.

The total compensation of members of the Management Board consists of: basic 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 eligible to receive bonuses for the year 2012, which would be paid out in 2013. As a result provision created for the cash bonus payment for the members of the Management Board for 2012 amounts to PLN 6 168 516 as of 31 December 2012. The final decision concerning the level of the bonus will be taken by the Remuneration Committee of the Supervisory Board by 11 April 2013.

In 2012 and 2011, 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 companies.

The total amount of remuneration received in 2012 by Bank's Management Board members was PLN 23 849 081 (2011: PLN 18 996 593).

<u>Information on the rules of payment other component of remuneration (severance payment) for the members of the Management Board</u>

From the date of appointment of the members of the Management Board for the new term, i.e. from the date of General Shareholders Meeting approving the financial results for the year 2012 all members of the Management Board shall get the severance payment in the amount which depends on years spent with the organization and is calculated as follows: (i) 4 monthly salaries if the member held his post for a period shorter than 1 year, (ii) 8 monthly salaries if the member held his position for more than 1 year but less than 2 years and (iii) 12 monthly salaries if the member held his post for more than 2 but less than 5 years, (iv) 18 monthly salaries if the member held his post for more than 5 years.

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Supervisory Board Compensation

The composition of the Supervisory Board at the end of 2012 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, Member of the Remuneration Committee,
2. Ulrich Sieber - Deputy Chairman of the Supervisory Board, Chairman of the Remuneration Committee, Member of the Executive Committee,
3. Andre Carls - Member of the Supervisory Board, Member of the Executive Committee, Member of the Audit Committee, Member of the Remuneration Committee,
4. Stephan Engels - Member of the Supervisory Board, Chairman of the Audit Committee,
5. Thorsten Kanzler - Member of the Supervisory Board, Member of the Risk Committee,
6. Teresa Mokrysz - Member of the Supervisory Board, Member of the Audit Committee,
7. Waldemar Stawski - Member of the Supervisory Board, Member of the Risk Committee,
8. Jan Szomburg - Member of the Supervisory Board, Member of the Executive Committee,
9. Dirk Wilhelm Schuh - Member of the Supervisory Board, Chairmen of the Risk Committee,
10. Marek Wierzbowski - Member of the Supervisory Board, Member of the Remuneration Committee.

On 13 February 2012, Mr. Eric Strutz, Member of the Supervisory Board, resigned from his function with the effect from 30 March 2012.

On 30 March 2012, the 25th Ordinary General Meeting of Shareholders of BRE Bank SA appointed Mr. Stephan Engels as Member of the Supervisory Board of BRE Bank, effective as of 1 April 2012 for the common term of the Supervisory Board.

On 9 July 2012, BRE Bank received the resignation of Mr. Sascha Klaus, Member of the Supervisory Board, from his function as of 25 July 2012.

On 25 July 2012, the Supervisory Board of BRE Bank appointed Mr. Dirk Wilhelm Schuh as Member of the Supervisory Board of BRE Bank, effective as of 26 July 2012 for the common term of the Supervisory Board.

Information about the Supervisory Board members' salaries, bonuses and benefits paid as at 31 December 2012 and 31 December 2011 is presented below.

		Remuneration paid in 2012 (in PLN)	Remuneration paid in 2011 (in PLN)
1.	Maciej Leśny	355 430	319 862
2.	Ulrich Sieber	254 250	109 571
3.	Andre Carls	246 750	241 500
4.	Stephan Engels	162 000	-
5.	Thorsten Kanzler	211 500	149 935
6.	Teresa Mokrysz	215 399	185 747
7.	Waldemar Stawski	216 530	202 862
8.	Jan Szomburg	216 530	211 112
9.	Dirk Wilhelm Schuh	93 273	-
10.	Marek Wierzbowski	141 000	132 000
	Stefan Schmittmann*	-	-
	Martin Zielke*	-	49 500
	Achim Kassow**	-	99 668
	Eric Strutz***	49 500	149 935
	Sascha Klaus****	121 500	206 250
	Total	**2 283 662**	**2 057 942**

* Term expired on 30 March 2011
** On 12 July 2011, Mr. Achim Kassow resigned from the office
*** On 30 March 2012, Mr. Eric Strutz resigned from the office
**** On 25 July 2012, Mr. Sascha Klaus 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).

The total compensation of Members of the Supervisory Board, the Management Board and other key executive management of the Bank that perform their duties in 2012 amounted to PLN 34 654 944 (2011: PLN 29 730 191).

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

As at 31 December 2012, Bank shares were held by one Member of the Management Board, Mr. Przemysław Gdański – 1 086 shares.

As at 31 December 2011, Bank shares were held by five Members of the Management Board: Vice-president, Mrs. Karin Katerbau – 2 611, Vice-president, Mr. Wiesław Thor – 4 805 shares and Members of the Management Board, Mr. Przemysław Gdański - 156 shares, Mr. Jarosław Mastalerz – 2 603 shares and Mr. Christian Rhino – 6 046 shares.

As at 31 December 2012, the Members of the Supervisory Board of BRE Bank SA had no Bank shares.

As at 31 December 2011, one Member of the Supervisory Board of BRE Bank SA held shares of BRE Bank SA, Mr. Andre Carls - 3 269 shares. As at 31 December 2011, the other Members of the Supervisory Board of BRE Bank SA had no Bank shares.

45. Acquisitions and disposals

- In December 2011, a decision was made to reorganize the outsourcing services area of BRE Bank Group by means of transferring the operations and processes related to services provided to clients from outside BRE Bank Group from Centrum Rozliczeń i Informacji CERI Sp. z o.o. (CERI) to BRE Systems Sp. z o.o. (BRE Systems). On 29 February 2012, an agreement was signed on the sale of 100% of BRE Systems to Commerzbank AG. BRE Bank and CERI sold their respective shareholdings of 0.42% and 99.58% in BRE Systems for a total amount of PLN 13.2 million to Commerzbank AG. The sale transaction was finalized on 2 March 2012.

  Moreover, in December 2011, the General Meetings of CERI and BRE Systems adopted resolutions on changing the registered business names of both companies. Consequently, following the registration of the aforesaid resolutions with the Commercial Court, Centrum Rozliczeń i Informacji Sp. z o.o. changed its registered business name to BRE Centrum Operacji Sp. z o.o. and BRE Systems Sp. z o.o. changed its registered business name to CERI International Sp. z o.o.

  As a result of the changes, BRE Centrum Operacji (formerly – CERI) will be providing outsourcing services to BRE Bank and the subsidiaries of BRE Group, while CERI International Sp. z o.o.(formerly – BRE Systems) will be rendering its services to Commerzbank AG and entities from outside BRE Bank Group.
- On 28 June 2012, the share capital of Aspiro SA was increased by PLN 109 342 thousand by way of issuing 109 342 B-series ordinary registered shares. The shares were acquired by BRE Bank in a private placement and covered by a non-financial contribution in the form of 12 941 177 ordinary registered shares of BRE Ubezpieczenia TUiR SA. The transaction resulted from the reorganization of the retail sales network.
- In the fourth quarter of 2012, BRE Bank acquired 100% stake in MLV 35 Sp. z o.o. spółka komandytowo-akcyjna (MLV 35) for the amount of PLN 50 thousand. Subsequently, the Bank increased the equity of the company by the amount of PLN 1 500 thousand in cash and by the amount of PLN 279 725 thousand by contribution in kind in the form of all owned investment certificates issued by BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (BRE GOLD FIZ AN). The core business of the company is financial intermediation.
- In the fourth quarter of 2012, the company MLV 35 redeemed certificates issued by BRE GOLD FIZ AN. As at 31 December 2012, the Group did not have any certificates issued by BRE GOLD FIZ AN.

46. 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 19 June 2012.

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 3 005 thousand in 2012 (2011: PLN 3 005 thousand).

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to consulting services for BRE Bank SA was PLN 1 546 thousand in 2012 (2011: PLN 1 280 thousand).

47. Capital adequacy ratio / capital adequacy

One of the main tasks of the balance sheet management is to ensure an appropriate level of capital. Within the framework of the capital management policy of BRE Bank Group, BRE Bank prepares the guidelines for the most effective planning and utilisation of capital basis which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets achievement, which render an appropriate rate of return for shareholders,
- ensure the maintenance of a strong capital basis being of fundamental support for business development.

The capital management policy in BRE Bank Group 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 and 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. This enables to maintain the consolidated capital adequacy ratio (calculated as a quotient of own funds to the total capital requirement multiplied by 12.5,) at least on the level required by the supervision authority (the Polish Financial Supervision Authority - KNF).

In 2012, the strategic goals of BRE Bank Group were aimed at maintaining the consolidated capital adequacy ratio above 12% and the consolidated Tier 1 capital adequacy ratio above 10%.

Capital adequacy ratio

The calculation of the consolidated capital adequacy ratio, the consolidated own funds and the consolidated total capital requirement in BRE Bank Group is made according to the following regulations:

- Banking Act of 29 August 1997 (Dz.U. from the year 2002 No 72, item 665) with further amendments,
- Resolution No. 325/2011 of the Polish Financial Supervision Authority of 20 December 2011 (Dz. Urz. KNF from 2011 No 13 item 49),
- Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 (Dz. Urz. KNF from 2010 No 2 item 11) with further amendments,
- Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 (Dz. Urz. KNF from 2011 No 11 item 42),
- Resolution No. 208/2011 of the Polish Financial Supervision Authority of 22 August 2011 (Dz. Urz. KNF from 2011 No 9 item 34) with further amendments,
- Resolution No. 384/2008 of the Polish Financial Supervision Authority of 17 December 2008 (Dz. Urz. KNF from 2008 No 8 item 38) with further amendments,
- Resolution No. 387/2008 of the Polish Financial Supervision Authority of 17 December 2008 (Dz. Urz. KNF from 2008 No 8 item 41).

Own funds contains:

- 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 accounting principles in force, less any expected costs and dividends in the amounts not bigger than the profit verified by auditors and other items defined by KNF),
  - items deducting core funds (own shares valued at carrying amount including impairment losses, intangible assets valued at carrying amount, loss from the previous years, loss under approval by shareholders, net loss for the current year and other deductions of the core funds defined by KNF),
- supplementary funds including:
  - balance sheet items included in supplementary capital with the consent of the KNF (including subordinated liabilities, securities liabilities with undefined maturity and other similar instruments),
  - additional items of supplementary funds defined by KNF,
  - items defined by KNF, the aim of which is to ensure a safe activity conducting and competent risk management,
  - deductions of supplementary funds defined by KNF.

The total capital requirement contains (while assuming the possession of a trading book) capital requirements for:

  - credit risk,
  - market risk, including the total requirement for foreign exchange risk, commodity price risk, equity price risk, specific risk of debt instrument prices and general interest rate risk,
  - settlement, delivery and counterparty risk,
  - excess of the exposure concentration limit and the large exposures limit,
  - excess of qualified holdings,
  - operational risk.

On 4 July 2012, Polish Financial Supervision Authority (KNF) and Bundesanstalt fur Finanzdienstleistungsaufsicht (BaFin) granted conditional consent to the application of the advanced internal rating based approach (A-IRB approach) by BRE Bank to the calculation of the capital requirement for credit risk for the corporate portfolio and the retail mortgage loan portfolio, with a provision that until the significant conditions laid down in the decision are met, the total capital requirement calculated with the application of the A-IRB approach must be maintained at the level based on 100% of the capital requirement for credit risk calculated under the standardised approach. Additionally, on 27 August 2012 KNF and BaFin granted consent to the application of internal rating based approach concerning the risk weighting for specialized lending exposures (IRB slotting approach) by BRE Bank Hipoteczny SA to the calculation of the capital requirement for credit risk.

Since the BRE Bank met all high-significance conditions set out in the consent of KNF and BaFin regarding A-IRB application, the calculation of the consolidated capital adequacy ratio of BRE Bank Group as of 31 December 2012 took into account the total capital requirement determined under the A-IRB approach for credit risk pursuant to annex No. 5 to the Resolution No. 76/2010 of KNF of 10 March 2010 (with further amendments). Additionally own funds were calculated with the application of the deduction derived from the A-IRB approach and stood above 80% of comparative total capital requirement as stipulated in article 14 of Resolution No. 76/2010 of KNF of 10 March 2010 (with further amendments).

The total capital requirement of BRE Bank Group as of 31 December 2012 amounted to PLN 4 938 371 thousand, including PLN 4 403 234 thousand of capital requirement for credit risk.

The consolidated capital adequacy ratio of BRE Bank Group as of 31 December 2012 amounted to 18.73%. Additionally the consolidated Tier 1 capital adequacy ratio of BRE Bank Group amounted to 13.00%.

Had in the calculations of consolidated capital adequacy ratios as of 31 December 2012 BRE Bank Group still included own funds and total capital requirement according to the methodology applied in the capital ratios calculation as of 31 December 2011, i.e. determined using standardised approach for credit risk in accordance with the annex No. 4 to the Resolution No. 76/2010 of KNF of 10 March 2010 (with further amendments), the consolidated capital adequacy ratio of BRE Bank Group as of 31 December 2012 would have amounted to 16.54%. Additionally the consolidated Tier 1 capital adequacy ratio of BRE Bank Group would have amounted to 11.40%.

Internal capital

BRE Bank Group adjusts the own funds to the level and the type of risk, BRE Bank Group is exposed to, and to the nature, the scale and the complexity of its business activity. For that purpose, the ICAAP process (Internal Capital Adequacy Assessment Process) was prepared and implemented in BRE Bank Group, the aim of which is to maintain the own funds at the level adequate to the risk profile and the risk level of the activity of BRE Bank Group.

The internal capital is the amount of capital estimated for BRE Bank Group to cover all material risks identified in the activity of BRE Bank Group. The internal capital is the total sum of the economic capital and the capital to cover other risk.

The internal capital adequacy assessment process is continuous in BRE Bank Group and is composed of six stages implemented by organizational units of BRE Bank and the BRE Bank Group entities. The process includes:

- identification and definition of materiality of each risk involved in the business of BRE Bank Group,
- calculation of internal capital for coverage of risk,
- capital aggregation,
- stress tests,
- allocation of economic capital to business lines and the BRE Bank Group entities,
- monitoring consisting in a permanent identification of risk involved in the business of BRE Bank Group and the analysis of the level of capital for risk coverage.

The internal capital adequacy assessment process is accepted by the Supervisory Board of BRE Bank. The whole internal capital adequacy assessment process is reviewed annually. The Management Board of BRE Bank is responsible for the internal capital adequacy assessment process.

Due to the fact that both, the total capital requirement of BRE Bank Group calculated according to the Resolution No. 76/2010 (with further amendments) and the internal capital estimated for BRE Bank Group according to the Resolution No. 258/2011 are lower than BRE Bank Group own funds, the own funds of BRE Bank Group as of 31 December 2012 were maintained on the level consistent with the Banking Act requirements.

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Capital adequacy	31.12.2012	31.12.2011
Own funds:		
- Share capital	168 556	168 411
- Supplementary fund	6 686 581	5 660 076
- Reserve fund	1 143 342	1 023 510
- Unrealised gains and losses on available for sale financial instruments and exchange differences from conversion	452 465	55 812
- Profit for the current year	650 589	-
- Investments in financial institutions	(30 818)	(31 211)
- Additional increase	24 491	23 910
- Additional decrease	(311 962)	(38 535)
- Intangible assets	(436 123)	(436 769)
- Subordinated liabilities	3 217 460	3 451 635
I. Total own funds	11 564 581	9 876 839
Capital charges		
II. Credit risk, including	4 403 234	4 784 139
- with application of standardised approach	1 495 241	4 784 139
- with application of AIRB approach	2 907 993	-
III. Foreign exchange risk	-	-
IV. Equity position risk	2 085	797
V. Specific risk of debt instruments	15 154	18 035
VI. General interest rate risk	26 409	31 002
VII. Settlement, delivery and counterparty credit risk	38 623	34 423
VIII. Commodity risk	-	-
IX. Operational risk	452 866	413 731
X. Total capital charge	4 938 371	5 282 127
XI. Total risk exposure amount	61 729 638	66 026 588
XII. Capital adequacy ratio (%)	18.73%	14.96%
XIII. Internal capital	4 079 786	4 130 983

Information regarding information on capital management in BRE Bank Group entities conducting insurance activity is presented under Note 3.10.

48. Events after the balance sheet date

After balance sheet date, significant events did not occur in the Group.