BRE Bank SA

IFRS Condensed Financial Statements for the first half of 2013

Contents

1. Selected Financial Data

SELECTED FINANCIAL DATA FOR THE BANK		in PLN'000		in EUR'000	
		1st Half of 2013 period from 01.01.2013 to 30.06.2013	1st Half of 2012 period from 01.01.2012 to 30.06.2012	1st Half of 2013 period from 01.01.2013 to 30.06.2013	1st Half of 2012 period from 01.01.2012 to 30.06.2012
I.	Interest income	1 851 880	1 979 617	439 459	468 593
II.	Fee and commission income	552 660	531 196	131 149	125 739
III.	Net trading income	163 765	174 687	38 862	41 350
IV.	Operating profit	682 098	747 948	161 865	177 046
V.	Profit before income tax	682 098	747 948	161 865	177 046
VI.	Net profit	548 493	600 647	130 160	142 178
VII.	Net cash flows from operating activities	(1 077 518)	(2 015 699)	(255 700)	(477 134)
VIII.	Net cash flows from investing activities	283 251	(45 788)	67 217	(10 838)
IX.	Net cash flows from financing activities	(1 045 688)	3 857	(248 146)	913
X.	Net increase / decrease in cash and cash equivalents	(1 839 955)	(2 057 630)	(436 629)	(487 059)
XI.	Basic earnings per share (in PLN/EUR)	13.02	14.27	3.09	3.38
XII.	Diluted earnings per share (in PLN/EUR)	13.00	14.25	3.08	3.37
XIII.	Declared or paid dividend per share (in PLN/EUR)	10.00	-	2.37	-

SELECTED FINANCIAL DATA FOR THE BANK		in PLN'000			in EUR'000		
		As at			As at		
		30.06.2013	31.12.2012	30.06.2012	30.06.2013	31.12.2012	30.06.2012
I.	Total assets	103 853 203	98 148 976	90 219 947	23 989 006	24 007 870	21 171 930
II.	Amounts due to the Central Bank	1	-	-	0	-	-
III.	Amounts due to other banks	22 865 863	20 241 514	22 363 165	5 281 776	4 951 204	5 247 968
IV.	Amounts due to customers	63 919 189	59 881 918	51 948 839	14 764 665	14 647 502	12 190 843
V.	Own equity	9 090 894	9 163 857	8 319 314	2 099 902	2 241 538	1 952 295
VI.	Share capital	168 568	168 556	168 411	38 937	41 230	39 521
VII.	Number of shares	42 141 986	42 138 976	42 102 746	42 141 986	42 138 976	42 102 746
VIII.	Book value per share (in PLN/EUR)	215.72	217.47	197.60	49.83	53.19	46.37
IX.	Capital adequacy ratio	19.86	19.66	15.05	19.86	19.66	15.05

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

- for items of the Statement of Financial Position – exchange rate announced by the National Bank of Poland as at 30 June 2013: EUR 1 = PLN 4.3292, exchange rate as at 31 December 2012: EUR 1 = PLN 4.0882 and exchange rate as at 30 June 2012: EUR 1 = PLN 4.2613.

- for items of the Income Statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first half of 2013 and 2012: EUR 1 = PLN 4.2140 and EUR 1 = PLN 4.2246 respectively.

IFRS Condensed Financial Statements for the first half of 2013 PLN (000's)

2. Condensed Financial Data

Income statement

	Note	Period from 01.01.2013 to 30.06.2013	Period from 01.01.2012 to 30.06.2012
Interest income		1 851 880	1 979 617
Interest expense		(913 963)	(979 209)
Net interest income		**937 917**	**1 000 408**
Fee and commission income		552 660	531 196
Fee and commission expense		(213 548)	(174 916)
Net fee and commission income		**339 112**	**356 280**
Dividend income		37 359	35 102
Net trading income, including:		163 765	174 687
Foreign exchange result		*136 135*	*150 448*
Other trading income and result on hedge accounting		*27 630*	*24 239*
Gains less losses from investment securities, investments in subsidiaries and associates		37 172	26 125
Other operating income		47 136	30 778
Net impairment losses on loans and advances	5.14	(162 915)	(195 127)
Overhead costs		(603 337)	(571 220)
Amortization and depreciation		(77 523)	(86 478)
Other operating expenses		(36 588)	(22 607)
Operating profit		**682 098**	**747 948**
Profit before income tax		**682 098**	**747 948**
Income tax expense		(133 605)	(147 301)
Net profit		**548 493**	**600 647**

Net profit		**548 493**	**600 647**
Weighted average number of ordinary shares	**5.25**	**42 141 459**	**42 102 746**
Basic earnings per share (in PLN)	**5.25**	**13.02**	**14.27**
Weighted average number of ordinary shares for diluted earnings	**5.25**	**42 182 663**	**42 160 766**
Diluted earnings per share (in PLN)	**5.25**	**13.00**	**14.25**

IFRS Condensed Financial Statements for the first half of 2013 PLN (000's)

Statement of comprehensive income

	Period from 01.01.2013 to 30.06.2013	Period from 01.01.2012 to 30.06.2012
Net profit	**548 493**	**600 647**
Other comprehensive income net of tax	**(207 284)**	**101 806**
Exchange differences on translation of foreign operations (net)	(779)	(138)
Change in valuation of available for sale financial assets (net)	(206 505)	101 944
Total comprehensive income net of tax, total	**341 209**	**702 453**

IFRS Condensed Financial Statements for the first half of 2013 PLN (000's)

Statement of financial position

ASSETS	30.06.2013	31.12.2012	30.06.2012
Cash and balances with the Central Bank	2 034 442	4 816 095	925 664
Loans and advances to banks	5 809 796	5 052 629	3 636 052
Trading securities	1 873 558	1 528 994	1 231 742
Derivative financial instruments	2 554 875	2 796 542	1 299 231
Loans and advances to customers	67 274 334	62 100 314	62 377 313
Hedge accounting adjustments related to fair value of hedged items	1 109	2 439	1 623
Investment securities	22 462 925	19 740 852	18 866 568
Investments in subsidiaries	653 623	937 336	546 387
Intangible assets	368 483	389 325	363 435
Tangible fixed assets	462 604	480 647	507 027
Deferred income tax assets	147 781	127 505	70 390
Other assets	209 673	176 298	394 515
Total assets	**103 853 203**	**98 148 976**	**90 219 947**

LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	1	-	-
Amounts due to other banks	22 865 863	20 241 514	22 363 165
Derivative financial instruments	3 063 379	3 481 294	1 914 273
Amounts due to customers	63 919 189	59 881 918	51 948 839
Hedge accounting adjustments related to fair value of hedged items	(10 282)	4 220	-
Debt securities in issue	452 029	659 048	992 921
Subordinated liabilities	3 347 965	3 222 295	3 375 356
Other liabilities	989 084	1 147 996	1 093 166
Current income tax liabilities	14 393	217 940	116 773
Provisions for deferred income tax	84	79	82
Provisions	120 604	128 815	96 058
Total liabilities	**94 762 309**	**88 985 119**	**81 900 633**

Equity			
Share capital	**3 502 396**	**3 501 633**	**3 493 812**
- Registered share capital	168 568	168 556	168 411
- Share premium	3 333 828	3 333 077	3 325 401
Retained earnings:	**5 309 442**	**5 175 884**	**4 579 313**
- Profit for the previous year	4 760 949	3 976 400	3 978 666
- Net profit for the current year	548 493	1 199 484	600 647
Other components of equity	**279 056**	**486 340**	**246 189**
Total equity	**9 090 894**	**9 163 857**	**8 319 314**
Total liabilities and equity	**103 853 203**	**98 148 976**	**90 219 947**

Capital adequacy ratio	**19.86**	**19.66**	**15.05**
Book value	**9 090 894**	**9 163 857**	**8 319 314**
Number of shares	**42 141 986**	**42 138 976**	**42 102 746**
Book value per share (in PLN)	**215.72**	**217.47**	**197.60**

(000's)

Statement of changes in equity

Changes from 1 January to 30 June 2013

	Share capital		Retained earnings					Other components of equity		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	Valuation of available for sale financial assets	
Equity as at 1 January 2013	**168 556**	**3 333 077**	**3 027 390**	**23 867**	**925 143**	**1 199 484**	**-**	**(7 778)**	**494 118**	**9 163 857**
Total comprehensive income							**548 493**	**(779)**	**(206 505)**	**341 209**
Dividends paid	-	-	-	-	-	(421 420)	-	-	-	(421 420)
Transfer to general banking risk reserve	-	-	-	-	40 000	(40 000)	-	-	-	-
Transfer to supplementary capital	-	-	738 064	-	-	(738 064)	-	-	-	-
Issue of shares	12	-	-	-	-	-	-	-	-	12
Stock option program for employees	-	751	-	6 485	-	-	-	-	-	7 236
- value of services provided by the employees	*-*	*-*	*-*	*7 236*	*-*	*-*	*-*	*-*	*-*	*7 236*
- settlement of exercised options	*-*	*751*	*-*	*(751)*	*-*	*-*	*-*	*-*	*-*	*-*
Equity as at 30 June 2013	**168 568**	**3 333 828**	**3 765 454**	**30 352**	**965 143**	**-**	**548 493**	**(8 557)**	**287 613**	**9 090 894**

Changes from 1 January to 31 December 2012

	Share capital		Retained earnings					Other components of equity		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	Valuation of available for sale financial assets	
Equity as at 1 January 2012	**168 411**	**3 325 401**	**2 061 378**	**20 178**	**825 143**	**1 066 012**	**-**	**(8 333)**	**152 716**	**7 610 906**
Total comprehensive income							**1 199 484**	**555**	**341 402**	**1 541 441**
Transfer to general banking risk reserve	-	-	-	-	100 000	(100 000)	-	-	-	-
Transfer to supplementary capital	-	-	966 012	-	-	(966 012)	-	-	-	-
Issue of shares	145	-	-	-	-	-	-	-	-	145
Stock option program for employees	-	7 676	-	3 689	-	-	-	-	-	11 365
- value of services provided by the employees	*-*	*-*	*-*	*11 365*	*-*	*-*	*-*	*-*	*-*	*11 365*
- settlement of exercised options	*-*	*7 676*	*-*	*(7 676)*	*-*	*-*	*-*	*-*	*-*	*-*
Equity as at 31 December 2012	**168 556**	**3 333 077**	**3 027 390**	**23 867**	**925 143**	**-**	**1 199 484**	**(7 778)**	**494 118**	**9 163 857**

Changes from 1 January to 30 June 2012

	Share capital		Retained earnings					Other components of equity		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	Valuation of available for sale financial assets	
Equity as at 1 January 2012	**168 411**	**3 325 401**	**2 061 378**	**20 178**	**825 143**	**1 066 012**	**-**	**(8 333)**	**152 716**	**7 610 906**
Total comprehensive income							**600 647**	**(138)**	**101 944**	**702 453**
Transfer to general banking risk reserve	-	-	-	-	100 000	(100 000)	-	-	-	-
Transfer to supplementary capital	-	-	966 012	-	-	(966 012)	-	-	-	-
Stock option program for employees	-	-	-	5 955	-	-	-	-	-	5 955
- value of services provided by the employees	*-*	*-*	*-*	*5 955*	*-*	*-*	*-*	*-*	*-*	*5 955*
Equity as at 30 June 2012	**168 411**	**3 325 401**	**3 027 390**	**26 133**	**925 143**	**-**	**600 647**	**(8 471)**	**254 660**	**8 319 314**

IFRS Condensed Financial Statements for the first half of 2013 PLN (000's)

Statement of cash flows

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
A. Cash flows from operating activities	**(1 077 518)**	**(2 015 699)**
Profit before income tax	**682 098**	**747 948**
Adjustments:	***(1 759 616)***	***(2 763 647)***
Income taxes paid	(308 612)	(288 238)
Amortisation	77 523	86 478
Foreign exchange (gains) losses on financing activities	838 797	(631 659)
(Gains) losses on investing activities	330	(2 251)
Impairment of investments in subsidiaries	-	105
Dividends received	(37 359)	(35 103)
Interest income (income statement)	(1 851 880)	(1 979 617)
Interest expenses (income statement)	913 963	979 209
Interest received	1 957 798	2 065 370
Interest paid	(769 866)	(786 273)
Changes in loans and advances to banks	(582 821)	(254 056)
Changes in trading securities	363 457	311 799
Changes in assets and liabilities on derivative financial instruments	(184 058)	305 398
Changes in loans and advances to customers	(5 206 494)	(831 180)
Changes in investment securities	(2 964 006)	2 189 495
Changes in other assets	(35 138)	(68 419)
Changes in amounts due to other banks	2 112 543	(1 636 027)
Changes in amounts due to customers	4 078 706	(1 996 951)
Changes in debt securities in issue	(2 611)	8 090
Changes in provisions	(8 211)	23 754
Changes in other liabilities	(151 677)	(223 571)
Net cash generated from operating activities	**(1 077 518)**	**(2 015 699)**
B.Cash flows from investing activities	**283 251**	**(45 788)**
Investing activity inflows	**346 704**	**37 424**
Disposal of shares in subsidiaries	2	56
Disposal of intangible assets and tangible fixed assets	480	2 265
Dividends received	37 359	35 103
Other investing inflows	308 863	-
Investing activity outflows	**63 453**	**83 212**
Acquisition of shares in subsidiaries	1 008	-
Purchase of intangible assets and tangible fixed assets	62 445	83 212
Net cash used in investing activities	**283 251**	**(45 788)**
C. Cash flows from financing activities	**(1 045 688)**	**3 857**
Financing activity inflows	**82 368**	**1 971 252**
Proceeds from loans and advances from other banks	82 356	-
Issue of debt securities	-	1 971 252
Issue of ordinary shares	12	-
Financing activity outflows	**1 128 056**	**1 967 395**
Repayments of loans and advances from other banks	224 238	783 665
Repayments of other loans and advances	234 456	5 271
Redemption of debt securities	204 289	986 421
Acquisition of shares in subsidiaries - increase of involvement	10 000	-
Payments of financial lease liabilities	4 748	5 334
Dividends and other payments to shareholders	421 420	-
Interest paid from loans and advances received from other banks and from subordinated liabilities	28 905	186 704
Net cash from financing activities	**(1 045 688)**	**3 857**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(1 839 955)**	**(2 057 630)**
Effects of exchange rate changes on cash and cash equivalents	4 973	(11 413)
Cash and cash equivalents at the beginning of the reporting period	7 994 650	4 583 895
Cash and cash equivalents at the end of the reporting period	**6 159 668**	**2 514 852**

3. Description of relevant accounting policies

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

3.1 Accounting basis

The condensed financial statements of BRE Bank SA ('Bank') have been prepared for the 6-month period ended 30 June 2013.

The presented Condensed Financial Statements for the first half of 2013 fulfill the requirements of the International Accounting Standard (IAS) 34 'Interim Financial Reporting', concerning interim financial statements.

The condensed consolidated financial statements of the BRE Bank SA Group ('Group'), which constitute an integral part of these condensed financial statements, are publicly available together with the condensed financial statements. The BRE Bank SA condensed financial statements should be read in conjunction with the condensed consolidated financial statements of the Group to obtain a complete understanding of result and financial position of the issuer.

The presented condensed financial statements for the first half of 2013 should be read in conjunction with the BRE Bank SA Financial Statements for the year ended 31 December 2012, which have been prepared in accordance with IFRSs.

The data presented in the BRE Bank SA Condensed Financial Statements for the first half of 2013 and the first half of 2012 have been reviewed by the auditor, while the data for the year 2012 was audited by the auditor.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Bank. The issues in relation to which a greater degree of judgment is required, more complex issues, or such issues where estimates or judgments are material to the financial statements are disclosed in Note 4.

3.2 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 Bank 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.

3.3 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 Bank has not retained any part of the credit risk on its own account or has retained a part with the same effective interest rate as other participants. Commissions and fees on account of negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the acquisition of shares or other securities, or the acquisition or disposal of an enterprise, are recognised at the time of realisation of the respective transaction. 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 Bank 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 Bank on account of cash management operations, keeping of customer accounts, money transfers, brokerage business activities are recognised directly in the income statement.

The Bank's income on account of fees and commissions comprises also income from offering insurance products of third parties. The method of recognising these fees in the profit and loss account depends in particular on the voluntary nature of insurance, profitability of the linked product and amount of premiums compared to similar instruments offered on the market. In the case of a one-off recognition of these fees, the Bank defers a part of revenues due to a potential return of a part of insurance premiums.

3.4 Financial assets

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

Standardised purchases and sales of financial assets at fair value through the income statement, held to maturity and available for sale are recognised on the settlement date – the date on which the Bank delivers or receives the asset. Changes in fair value in the period between trade and settlement date with respect to assets carried at fair value is recognised in profit or loss or in other components of equity. Loans are recognised when cash is advanced to the borrowers. 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 Bank. Derivative instruments are also classified as 'held for trading', unless they were designated for hedging.

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

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

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

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

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

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

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

- a group of financial assets, financial liabilities or both is properly managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

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

Interest income/expense on financial assets/financial liabilities designated at fair value (Note 3.2), except for derivatives the recognition of which is discussed in Note 3.10, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

Loans and receivables

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

Held to maturity investments

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

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

In reporting periods presented in these financial statements, there were no assets held to maturity at the Bank.

Available for sale investments

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

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

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 Bank determines the fair value by applying valuation techniques. These comprise recently conducted transactions concluded according to normal market principles, reference to other instruments, discounted cash flow analysis, as well as valuation models for options and other valuation methods generally applied by market participants.

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

Investments in subsidiaries and associates

Investments in subsidiaries and associates are initially recognised in the statement of financial position at cost less impairment write-offs.

3.5 Offsetting financial instruments

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

3.6 Impairment of financial assets

Assets carried at amortised cost

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

1. Default or delinquency in interest or principal payments.
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 resultes 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.

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

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

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

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

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

<u>Assets measured at fair value</u>

At the end of the reporting period the Bank estimates whether there is an objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost resulting from higher credit risk is considered 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.

<u>Renegotiated agreements</u>

The Bank 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 Bank makes an assessment whether the impairment should be recognised on either individual or group basis.

3.7 Financial guarantee contracts

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

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

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

3.8 Cash and cash equivalents

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

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

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

Securities sold with a repurchase clause (repos/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, the Bank sells or buys securities with a repurchase or resale clause specifying a contractual date and price. Such transactions are presented in the statement of financial position as financial assets held for trading or as investment financial assets, and also as liabilities in the case of 'sell-buy-back' transactions and as receivables in the case of 'buy-sell-back' transactions.

Securities borrowed by the Bank are not recognised in the financial statements, unless they are sold to third parties. In such case the purchase and sale transactions are recorded with 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 Bank, financial assets are transferred in such way that they do not qualify for derecognition. Thus, the Bank retains substantially all risks and rewards of ownership of the financial assets.

3.10 Derivative financial instruments and hedge accounting

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

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). 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 Bank recognises the respective gains or losses from the first day in accordance with the principles described under Note 3.11.

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 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 financial statements of the Bank; (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 Bank designates some derivative instruments either as (1) fair value hedges against a recognised asset or liability or against a binding contractual obligation (fair value hedge), or as (2) hedges against highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Derivative instruments designated as hedges against positions maintained by the Bank are recorded by means of hedge accounting, subject to the fulfilment of the criteria specified in IAS 39:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
- The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

Due to the split of derivatives classified into banking book and into trading book, the Bank applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 3.2 '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 3.27 '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 Bank holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

3.11 Gains and losses on initial recognition

The best evidence of fair value 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 Bank assumes that the transaction price is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is 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.

3.12 Borrowings and deposits taken

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

3.13 Intangible assets

Intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction, adaptation or modernisation) and accumulated 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.

<u>Computer software</u>

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

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

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

<u>Development costs</u>

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

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

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

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

3.14 Tangible fixed assets

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

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

Accounting principles concerning assets held for liquidation or withdrawal from usage are described under Note 3.16.

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 Bank shall determine the recoverable amount of the cash-generating unit to which the asset belongs (cash-generating unit of the asset).

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

3.15 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.

3.16 Non-current assets held for sale and discontinued operations

The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and 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 Bank ceases to classify the assets as held for sale and reclassifies them into appropriate category of assets. The Bank measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- its carrying amount at a date before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, 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 Bank that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation or is a subsidiary acquired exclusively with a view to resale.

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

3.17 Deferred income tax

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

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

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

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

3.18 Assets repossessed for debt

Repossessed collateral represents financial and non-financial assets acquired by the Bank 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 Bank'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.

3.19 Prepayments, accruals and deferred income

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

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

3.20 Leasing

BRE Bank SA as a Lessee

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

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

3.21 Provisions

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

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

3.22 Retirement benefits and other employee benefits

Retirement benefits

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

Benefits based on shares

The Bank runs 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.

3.23 Equity

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

Registered share capital

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

- Own shares

In the case of acquisition of shares or equity interests in the Bank by the Bank the amount paid reduces the value of equity as 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.

3.24 Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

Foreign exchange differences arising on account of such non-monetary items 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.

3.25 Trust and fiduciary activities

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

3.26 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 Bank 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 Bank for annual periods starting on 1 January 2013:

Standards and interpretations approved by the European Union:

- IFRS 10, Consolidated Financial Statements (supersedes consolidation requirements of IAS 27), binding for annual periods beginning on or after 1 January 2013.
- IFRS 11, Joint Arrangements, binding for annual periods beginning on or after 1 January 2013.
- IFRS 12, Disclosure of Interests in Other Entities, binding for annual periods beginning on or after 1 January 2013.
- IFRS 13, Fair Value Measurement, binding for annual periods beginning on or after 1 January 2013.
- IAS 19 (Amended), Employee Benefits, binding for annual periods beginning on or after 1 January 2013.
- IAS 27, Separate Financial Statements (IAS 27 and IFRS 10 supersede IAS 27 Consolidated and Separate Financial Statements), binding for annual periods beginning on or after 1 January 2013.
- IAS 28, Investments in Associates and Joint Ventures (supersedes IAS 28 Investments in Associates), binding for annual periods beginning on or after 1 January 2013.
- Amendments to IAS 1, Presentation of Items of Other Comprehensive Income, binding for annual periods beginning on or after 1 July 2012.
- Amendments to IFRS 7, Disclosures - Offsetting Financial Assets and Financial Liabilities, binding for annual periods beginning on or after 1 January 2013.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance, binding for annual periods starting on or after 1 January 2013.
- Improvements to IFRS 2009-2011, binding for annual periods starting on or after 1 January 2013.
- Government Loans (Amendments to IFRS 1), binding for annual periods starting on or after 1 January 2013.

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

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

Standards and interpretations approved by the European Union:

- Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities, binding for annual periods beginning on or after 1 January 2014.

Standards and interpretations not yet approved by the European Union:

- IFRS 9, Financial Instruments Part 1: Recognition and Measurement, binding for annual periods beginning on or after 1 January 2015.
- Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities, binding for annual periods starting on or after 1 January 2014.
- IFRIC 21, Levies, binding for annual periods starting on or after 1 January 2014.
- Amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets, binding for annual periods starting on or after 1 January 2014.
- Amendments to IAS 39, Novation of Derivatives and Continuation of Hedge Accounting, binding for annual periods starting on or after 1 January 2014.

The Bank believes, that the application of IFRIC 21 will have no impact on the total level of recognised fees of the financial year, and may have an impact on the level of such costs recognised in each quarter of the financial year. The Bank is considering the implications of the IFRS 9, the impact on the Bank and the timing of its adoption by the Bank. The Bank believes that the application of the other standards and interpretations will not have a significant effect on the financial statements in the period of their first application.

IFRS Condensed Financial Statements for the first half of 2013 PLN (000's)

3.27 Comparative data

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

In the fourth quarter of 2012, the Bank 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.

The change had no impact on the profit and equity in the presented comparative data as at 30 June 2012.

The following table presents the impact of the restatement introduced in 2013 on presented comparative data in the condensed financial statements.

Changes in BRE Bank SA statement of financial position as at 30 June 2012.

	30.06.2012 before adjustments	presentation adjustments	31.06.2012 after adjustments
Trading securities	939 074	292 668	1 231 742
Investments securities	15 399 493	3 467 075	18 866 568
Pledged assets	3 759 743	(3 759 743)	-
Total asstes	90 219 947	-	90 219 947

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

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

Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Bank assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified.

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.

Impairment of available for sale investments

The Bank reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances. The Bank also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Pension obligation

The cost of pension obligation plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and other factors. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

5. Selected explanatory information

5.1 Compliance with international financial reporting standards

The presented report for the first half of 2013 fulfils the requirements of the International Accounting Standard (IAS) 34 'Interim Financial Reporting' relating to interim financial reports.

5.2 Consistency of accounting principles and calculation methods applied to the drafting of the half year report and the last annual financial statements

A detailed description of the accounting policy principles of the Bank is presented under the Note 3 to the condensed financial statements for the first half of 2013. The accounting policies were applied consistently over all periods presented in the financial statements.

5.3 Seasonal or cyclical nature of the business

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

5.4 Nature and values of items affecting assets, liabilities, equity, net profit/(loss) or cash flows, which are extraordinary in terms of their nature, magnitude or exerted impact

Events as indicated above did not occur in the Bank.

5.5 Nature and amounts of changes in estimate values of items, which were presented in previous interim periods of the current reporting year, or changes of accounting estimates indicated in prior reporting years, if they bear a substantial impact upon the current interim period

In the first half of 2013, there were no significant changes in estimate values of items presented in previous reporting periods.

5.6 Issues, redemption and repayment of non-equity and equity securities

In the first half of 2013, BRE Bank redeemed deposit certificates in nominal value of PLN 206 900 thousand.

5.7 Dividends paid (or declared) altogether or broken down by ordinary shares and other shares

On 11 April 2013, the XXVI Ordinary General Meeting of BRE Bank SA adopted a resolution regarding the distribution of the profit with the decision to pay a dividend for the year 2012. The dividend to the shareholders contributed an amount of PLN 421 419 860, wherein the amount of the dividend per one share was PLN 10. Number of shares eligible for dividend was 42 141 986. The dividend date was fixed for the 15th of May 2013. Payment of the dividend was on 29 May 2013.

5.8 Income and Profit by Business Segment

Income and profit by business segment within the Bank are presented on the consolidated level in the Note 4 of the Condensed Consolidated Financial Statements for the first half of 2013.

5.9 Significant events after the end of the first half of 2013, which are not reflected in the financial statements

Events as indicated above did not occur in the Bank.

5.10 Effect of changes in the structure of the entity in the first half of 2013, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

Due to the liquidation process of the subsidiary MLV 35 Sp. z o.o. spółka komandytowo-akcyjna, in June 2013, the Bank ceased its consolidation. On July 15, 2013, the request was filed to remove the company from the register of companies (KRS).

5.11 Changes in contingent liabilities and commitments

In the first half of 2013, there were no changes in contingent liabilities and commitments of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Bank. There was no single case of granting of guarantees or any other contingent liability of any material value for the Bank.

IFRS Condensed Financial Statements for the first half of 2013 PLN (000's)

5.12 Write-offs of the value of inventories down to net realisable value and reversals of such write-offs

Events as indicated above did not occur in the Bank.

5.13 Revaluation write-offs on account of impairment of tangible fixed assets, intangible assets, or other assets as well as reversals of such write-offs

Events as indicated above did not occur in the Bank.

5.14 Revaluation write-offs on account of impairment of financial assets

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
Provisions for losses on available for sale securities	**-**	**(105)**
Net impairment losses on loans and advances, including:	**(162 915)**	**(195 127)**
Net impairment losses on amounts due from other banks	109	532
Net impairment losses on loans and advances to customers	(170 012)	(178 317)
Net impairment losses on off-balance sheet contingent liabilities due to customers	6 988	(17 342)
Total impairment of financial assets	**(162 915)**	**(195 232)**

5.15 Reversals of provisions against restructuring costs

Events as indicated above did not occur in the Bank.

5.16 Acquisitions and disposals of tangible fixed asset items

In the first half of 2013, there were no material transactions of acquisition or disposal of any tangible fixed assets.

5.17 Material liabilities assumed on account of acquisition of tangible fixed assets

Events as indicated above did not occur in the Bank.

5.18 Information about changing the process (method) of measurement the fair value of financial instruments

In the first half of 2013, events as indicated above did not occur in the Bank.

5.19 Changes in the classification of financial assets due to changes of purpose or use of these assets

Events as indicated above did not occur in the Bank.

5.20 Corrections of errors from previous reporting periods

In the first half of 2013, there were no corrections of errors from previous reporting periods.

5.21 Default or infringement of a loan agreement or failure to initiate composition proceedings

Events as indicated above did not occur in the Bank.

5.22 Position of the management on the probability of performance of previously published profit/loss forecasts for the year in light of the results presented in the half year report compared to the forecast

BRE Bank did not publish a performance forecast for the year 2013.

5.23 Registered share capital

The total number of ordinary shares as at 30 June 2013 was 42 141 986 shares (30 June 2012: 42 102 746) at PLN 4 nominal value each (30 June 2012: PLN 4). All issued shares were fully paid up.

IFRS Condensed Financial Statements for the first half of 2013 PLN (000's)

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 30 JUNE 2013						
Share type	Type of privilege	Type of limitation	Number of shares	Series / face value of issue in PLN	Paid up	Registered on
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
ordinary bearer	-	-	3 010	12 040	fully paid in cash	2013
Total number of shares			42 141 986			
Total registered share capital (PLN)				168 567 944		
Nominal value per share (PLN)		4				

* As at the end of the reporting period

5.24 Material share packages

In the first half of 2013, there were no changes in the holding of material share packages of the Bank.

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 30 June 2013 it held 69.61% of the share capital and votes at the General Meeting of BRE Bank SA.

In the first half of 2013, the National Depository of Securities (KDPW) has registered 3 010 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 to take up shares in BRE Bank SA. As a result of the above registration, in the first half of 2013 the Bank's share capital increased by PLN 12 040.

In connection with the registration on 17 July 2013 by the KDPW of 28 266 shares of BRE Bank, the Bank's share capital increased as of 17 July 2013 by the amount of PLN 113 064. The shares 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 with the aim of granting those shares to beneficiaries of the incentive programmes. As at the date of publishing these financial statements, the Bank's share capital amounted to PLN 168 681 008 and is divided into 42 170 252 shares.

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.

IFRS Condensed Financial Statements for the first half of 2013 PLN (000's)

5.25 Earnings per share

Earnings per share for 6 months

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
Basic:		
Net profit	548 493	600 647
Weighted average number of ordinary shares	42 141 459	42 102 746
Net basic profit per share (in PLN per share)	**13.02**	**14.27**
Diluted:		
Net profit applied for calculation of diluted earnings per share	548 493	600 647
Weighted average number of ordinary shares	42 141 459	42 102 746
Adjustments for:		
- share options	41 204	58 020
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 182 663	42 160 766
Diluted earnings per share (in PLN per share)	**13.00**	**14.25**

5.26 Proceedings before a court, arbitration body or public administration authority

As at 30 June 2013, 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 30 June 2013 was also not higher than 10% of the Bank's equity.

The Bank monitors the status of all legal proceedings brought against the Bank and the level of required provisions.

Report on major proceedings brought against the Bank

1. 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. 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.

2. 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.

3. Claims of clients of Interbrok

170 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 385 520 thousand and via the District Court in Warsaw. In addition, 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 8 of 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. On 23 May 2013 the District Court in Warsaw upon re-examination of the case of 6 former clients of Interbrok dismissed actions for a total of PLN 600 thousand. The judgement is not final and valid. In the 9th case the value of the subject of litigation amounts to PLN 275 423 thousand together with statutory interest and legal costs. The amount set forth in the petition is to cover the receivables, acquired by the Plaintiff by way of assignment, due to 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.

4. 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, while the Plaintiff replied to it in a pleading filed on 15 February 2013. By a decision dated 18 February 2013, the District Court in Łódź decided to refer the case to mediation. In a letter dated 26 February 2013, the Municipal Consumer Ombudsman raised an objection to the mediation. On 22 June 2013 a trial was conducted, and on 3 July 2013 the Court announced its judgment in which it took into account the action in its entirety acknowledging that the Bank improperly performed the agreement whereby the consumers sustained a loss. The Bank applied for a judgment with justification in order to have legal grounds for an appeal. The verdict of the first instance court does not significantly influence the Bank's perception of the legal risk in this case.

As at 30 June 2013, 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 30 June 2013 was also not higher than 10% of the Bank's equity.

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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. The audit proceedings are still pending.

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.

5.27 Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2013, 31 December 2012 and 30 June 2012, were as follows:

	30.06.2013	31.12.2012	30.06.2012
1. Contingent liabilities granted and received	**19 826 410**	**19 486 909**	**18 101 055**
Commitments granted	**18 524 773**	**18 711 412**	**17 204 148**
- financing	13 242 600	13 675 517	14 196 134
- guarantees and other financial facilities	5 116 298	4 633 495	3 008 014
- other commitments	165 875	402 400	-
Commitments received	**1 301 637**	**775 497**	**896 907**
- financial commitments received	434 260	-	426
- guarantees received	867 377	775 497	896 481
2. Derivative financial instruments (nominal value of contracts)	**720 508 204**	**644 321 065**	**568 514 153**
Interest rate derivatives	667 679 965	604 951 383	525 566 970
Currency derivatives	51 153 891	38 482 961	40 237 792
Market risk derivatives	1 674 348	886 721	2 709 391
Total off-balance sheet items	**740 334 614**	**663 807 974**	**586 615 208**

5.28 Transactions with related entities

BRE Bank SA is the parent entity of the BRE Bank SA Bank and Commerzbank AG is the ultimate parent of the Bank 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.

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 most important transactions with related entities in 2013:

From 27 December 2012, the Bank concluded several agreements with its subsidiary entity BRE Leasing Sp. z o.o. on a total amount of PLN 1 114 778 thousand. The agreement concluded for the largest amount was the agreement concluded on 25 January 2013 regarding a revolving loan limit by EUR 93 000 thousand (PLN 389 698 thousand at the average exchange rate of the National Bank of Poland as at 25 January 2013) to EUR 240 000 thousand (PLN 1 005 672 thousand at the average exchange rate of the National Bank of Poland as at 25 January 2013), maturing on 31 December 2013.

The amounts of transactions with related entities, i.e., balances of receivables and liabilities and related costs and income as at 30 June 2013, 31 December 2012 and 30 June 2012 were as follows.

PLN (000's)	BRE Bank's subsidiaries			Commerzbank AG Group		
As at the end of the period	30.06.2013	31.12.2012	30.06.2012	30.06.2013	31.12.2012	30.06.2012
Statement of Financial Position						
Assets	6 991 730	6 260 582	5 655 799	1 376 641	902 977	229 267
Liabilities	2 894 021	2 897 981	689 544	21 879 141	20 964 962	22 899 312
Income Statement						
Interest income	99 412	215 884	105 971	60 872	114 886	47 197
Interest expense	(37 249)	(80 253)	(12 869)	(171 870)	(346 592)	(174 962)
Fee and commission income	31 492	65 464	29 746	-	-	-
Fee and commission expense	(46 138)	(114 079)	(63 797)	-	-	-
Other operating inccome	6 867	16 501	8 451	132	113	78
Overhead costs, amortisation and other operating expenses	(3 115)	(9 235)	(2 318)	(5 269)	(12 309)	(5 973)
Contingent liabilities granted and received						
Liabilities granted	2 591 043	2 745 931	475 928	767 650	834 033	577 137
Liabilities received	-	-	-	599 414	511 959	510 495

5.29 Credit and loan guarantees, other guarantees granted in excess of 10% of the equity

As at 30 June 2013, the Bank's exposure under guarantees granted in excess of 10% of own funds related to the guarantee payment of all amounts to be paid in respect of debt securities issued under Euro Medium Term Note Programme by BRE Finance France SA, a subsidiary of the BRE Bank. On 4 October 2012, the subsidiary issued Eurobonds with a nominal value of EUR 500 000 thousand maturing on 12 October 2015. The guarantee was given on 4 October 2012 for the duration of the Programme, that is until 12 October 2015.

5.30 Other information which the issuer deems necessary to assess its human resources, assets, financial position, financial performance and their changes as well as information relevant to an assessment of the issuer's capacity to meet its liabilities

- On April 11, 2013, the Supervisory Board of BRE Bank SA has selected the Management Board of BRE Bank SA for a joint five-year term, with the following members:

  1. Cezary Stypułkowski - President of the Management Board, Director General of the Bank,
  2. Przemysław Gdański - Vice President of the Management Board, Head of Corporate Banking,
  3. Joerg Hessenmueller - Vice President of the Management Board, Chief Financial Officer,
  4. Lidia Jabłonowska-Luba - Vice President of the Management Board,
  5. Hans-Dieter Kemler - Vice President of the Management Board, Head of Investment Banking,
  6. Cezary Kocik - Vice President of the Management Board, Head of Retail Banking,
  7. Jarosław Mastalerz - Vice President or the Management Board, Chief Operating and IT Officer.

  In addition, the Supervisory Board decided that from 12 April 2013 to the date of approval by the Polish Financial Supervision Authority to appoint Mrs. Lidia Jabłonowska-Luba for the position of Vice President of the Management Board responsible for the risk management of the Bank and for the post of Chief Risk Officer, these duties are temporarily assigned to Mr. Cezary Stypułkowski, President of the Management Board of BRE Bank SA.

  On 11 April 2013, the XXVI Ordinary General Meeting of BRE Bank SA appointed with the effect from 12 April 2013, Mr. Wieslaw Thor and Mr. Martin Blessing for the post of Members of the Supervisory Board of BRE Bank SA for the joint term of office of the Supervisory Board of BRE Bank SA. Until 11 April 2013, Mr. Wieslaw Thor posted as Vice President of the Management Board, Chief Risk Officer.

- On 11 April 2013, the XXVI Ordinary General Meeting of BRE Bank SA, acting under section 11 letter n) of the Articles of Association of the Bank, has elected Ernst & Young Audit Sp. z o.o. as an auditor to audit the financial statements of the Bank and the consolidated financial statements of BRE Bank SA Group for the years 2013 and 2014.

  In connection with the above-mentioned decision of the General Meeting, on 20 May 2013, the Bank signed an agreement with Ernst & Young Audit Sp. z o.o. regarding audits of financial statements of the Bank and the consolidated financial statements of the BRE Bank SA Group for the years 2013 and 2014.

  Ernst & Young Audit Sp. z o.o. (located at Rondo ONZ 1, 00-124 Warsaw) is entered on the list of auditors authorized to audit financial statements under No. 130.

  The Bank has not worked in recent years with Ernst & Young Audit Sp. z o.o. in the range of audit services.