BRE Bank SA Group

IFRS Condensed Consolidated Financial Statements for the first half of 2013

Contents

Selected Financial Data

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000		in EUR'000	
		1st Half of 2013 the period from 01.01.2013 to 30.06.2013	1st Half of 2012 the period from 01.01.2012 to 30.06.2012	1st Half of 2013 the period from 01.01.2013 to 30.06.2013	1st Half of 2012 the period from 01.01.2012 to 30.06.2012
I.	Interest income	2 016 730	2 172 642	478 579	514 283
II.	Fee and commission income	658 935	645 289	156 368	152 746
III.	Net trading income	178 258	180 985	42 301	42 841
IV.	Operating profit	748 804	817 780	177 694	193 576
V.	Profit before income tax	748 804	817 780	177 694	193 576
VI.	Net profit attributable to Owners of BRE Bank SA	596 450	650 589	141 540	154 000
VII.	Net profit attributable to non-controlling interests	1 119	172	266	41
VIII.	Net cash flows from operating activities	(318 581)	(2 052 836)	(75 601)	(485 924)
IX.	Net cash flows from investing activities	(63 204)	(99 033)	(14 999)	(23 442)
X.	Net cash flows from financing activities	(1 427 167)	(416 832)	(338 673)	(98 668)
XI.	Net increase / decrease in cash and cash equivalents	(1 808 952)	(2 568 701)	(429 272)	(608 034)
XII.	Basic earnings per share (in PLN/EUR)	14.15	15.45	3.36	3.66
XIII.	Diluted earnings per share (in PLN/EUR)	14.14	15.43	3.36	3.65
XIV.	Declared or paid dividend per share (in PLN/EUR)	10.00	-	2.37	-

SELECTED FINANCIAL DATA FOR THE GROUP		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	108 231 523	102 236 046	95 044 775	25 000 352	25 007 594	22 304 174
II.	Amounts due to the Central Bank	1	-	-	0	-	-
III.	Amounts due to other banks	23 427 634	21 110 939	23 900 747	5 411 539	5 163 871	5 608 792
IV.	Amounts due to customers	62 195 198	57 983 600	52 189 951	14 366 441	14 183 161	12 247 425
V.	Equity attributable to Owners of BRE Bank SA	9 662 427	9 685 493	8 800 233	2 231 920	2 369 134	2 065 152
VI.	Non-controlling interests	25 612	24 491	24 082	5 916	5 991	5 651
VII.	Share capital	168 568	168 556	168 411	38 937	41 230	39 521
VIII.	Number of shares	42 141 986	42 138 976	42 102 746	42 141 986	42 138 976	42 102 746
IX.	Book value per share (in PLN/EUR)	229.28	229.85	209.02	52.96	56.22	49.05
X.	Capital adequacy ratio	18.18	18.73	14.84	18.18	18.73	14.84

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 = 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 first half of 2013 and 2012: EUR 1 = PLN 4.2140 and EUR 1 = PLN 4.2246 respectively.

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

Consolidated income statement

	Note	Period from 01.01.2013 to 30.06.2013	Period from 01.01.2012 to 30.06.2012
Interest income	5	2 016 730	2 172 642
Interest expense	5	(977 942)	(1 067 574)
Net interest income		**1 038 788**	**1 105 068**
Fee and commission income	6	658 935	645 289
Fee and commission expense	6	(239 936)	(204 808)
Net fee and commission income		**418 999**	**440 481**
Dividend income	7	2 309	2 662
Net trading income, including:	8	178 258	180 985
Foreign exchange result		*143 460*	*152 702*
Other trading income and result on hedge accounting		*34 798*	*28 283*
Gains less losses from investment securities, investments in subsidiaries and associates	9	36 934	36 494
Other operating income	10	175 508	132 255
Net impairment losses on loans and advances	11	(187 113)	(220 778)
Overhead costs	12	(729 144)	(699 997)
Amortization and depreciation		(90 434)	(98 939)
Other operating expenses	13	(95 301)	(60 451)
Operating profit		**748 804**	**817 780**
Profit before income tax		**748 804**	**817 780**
Income tax expense		(151 235)	(167 019)
Net profit		**597 569**	**650 761**
Net profit attributable to:			
- Owners of BRE Bank SA		596 450	650 589
- Non-controlling interests		1 119	172

Net profit attributable to Owners of BRE Bank SA		**596 450**	**650 589**
Weighted average number of ordinary shares	14	**42 141 459**	**42 102 746**
Basic earnings per share (in PLN)	14	**14.15**	**15.45**
Weighted average number of ordinary shares for diluted earnings	14	**42 182 663**	**42 160 766**
Diluted earnings per share (in PLN)	14	**14.14**	**15.43**

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

Consolidated statement of comprehensive income

	Period from 01.01.2013 to 30.06.2013	Period from 01.01.2012 to 30.06.2012
Net profit	**597 569**	**650 761**
Other comprehensive income net of tax	**(205 344)**	**94 934**
Exchange differences on translation of foreign operations (net)	367	(1 547)
Change in valuation of available for sale financial assets (net)	(205 711)	96 481
Total comprehensive income net of tax, total	**392 225**	**745 695**
Total comprehensive income (net), attributable to:		
- Owners of BRE Bank SA	391 106	745 523
- Non-controlling interests	1 119	172

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

Consolidated statement of financial position

ASSETS	Note	30.06.2013	31.12.2012	30.06.2012
Cash and balances with the Central Bank		2 039 840	4 819 203	928 732
Loans and advances to banks		4 828 511	3 944 578	2 499 765
Trading securities	15	1 741 743	1 150 886	1 159 196
Derivative financial instruments	16	2 544 434	2 802 695	1 302 062
Loans and advances to customers	17	71 904 305	67 059 254	67 889 397
Hedge accounting adjustments related to fair value of hedged items		1 109	2 439	1 623
Investment securities	18	22 681 955	19 993 388	18 663 552
Intangible assets	19	415 428	436 123	409 753
Tangible fixed assets	20	736 680	773 904	796 474
Current income tax assets		884	129	1 385
Deferred income tax assets	23	385 775	369 821	315 608
Other assets		950 859	883 626	1 077 228
Total assets		**108 231 523**	**102 236 046**	**95 044 775**

LIABILITIES AND EQUITY				
Liabilities				
Amounts due to the Central Bank		1	-	-
Amounts due to other banks		23 427 634	21 110 939	23 900 747
Derivative financial instruments	16	3 087 827	3 476 684	1 920 410
Amounts due to customers	21	62 195 198	57 983 600	52 189 951
Debt securities in issue		4 904 909	4 892 275	3 162 332
Hedge accounting adjustments related to fair value of hedged items		(10 282)	4 220	-
Subordinated liabilities		3 347 965	3 222 295	3 375 356
Other liabilities		1 364 546	1 394 845	1 371 450
Current income tax liabilities		18 011	226 215	124 155
Deferred income tax liabilities	23	2 559	1 662	1 566
Provisions	22	205 116	213 327	174 493
Total liabilities		**98 543 484**	**92 526 062**	**86 220 460**

Equity				
Equity attributable to Owners of BRE Bank SA		**9 662 427**	**9 685 493**	**8 800 233**
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:		**5 881 591**	**5 700 076**	**5 149 701**
- Profit from the previous years		5 285 141	4 496 846	4 499 112
- Profit for the current year		596 450	1 203 230	650 589
Other components of equity		**278 440**	**483 784**	**156 720**
Non-controlling interests		**25 612**	**24 491**	**24 082**
Total equity		**9 688 039**	**9 709 984**	**8 824 315**
Total liabilities and equity		**108 231 523**	**102 236 046**	**95 044 775**

Capital adequacy ratio		**18.18**	**18.73**	**14.84**
Book value		**9 662 427**	**9 685 493**	**8 800 233**
Number of shares		**42 141 986**	**42 138 976**	**42 102 746**
Book value per share (in PLN)		**229.28**	**229.85**	**209.02**

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

Consolidated statement of changes in equity

Changes from 1 January to 30 June 2013

	Share capital		Retained earnings					Other components of equity		Equity attributable to Owners of BRE Bank SA, total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets			
Equity as at 1 January 2013	**168 556**	**3 333 077**	**3 353 504**	**94 863**	**945 953**	**1 305 756**	**-**	**106**	**483 678**	**9 685 493**	**24 491**	**9 709 984**
Total comprehensive income							**596 450**	**367**	**(205 711)**	**391 106**	**1 119**	**392 225**
Dividends paid	-	-	-	-	-	(421 420)	-	-	-	(421 420)	-	(421 420)
Transfer to general banking risk reserve	-	-	-	-	44 000	(44 000)	-	-	-	-	-	-
Transfer to supplementary capital	-	-	764 808	-	-	(764 808)	-	-	-	-	-	-
Issue of shares	12	-	-	-	-	-	-	-	-	12	-	12
Other changes	-	-	-	-	-	-	-	-	-	-	2	2
Stock option program for employees	-	751	-	6 485	-	-	-	-	-	7 236	-	7 236
- value of services provided by the employees	*-*	*-*	*-*	*7 236*	*-*	*-*	*-*	*-*	*-*	*7 236*	*-*	*7 236*
- settlement of exercised options	*-*	*751*	*-*	*(751)*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Equity as at 30 June 2013	**168 568**	**3 333 828**	**4 118 312**	**101 348**	**989 953**	**75 528**	**596 450**	**473**	**277 967**	**9 662 427**	**25 612**	**9 688 039**

Changes from 1 January to 31 December 2012

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

Changes from 1 January to 30 June 2012

	Share capital		Retained earnings					Other components of equity		Equity attributable to Owners of BRE Bank SA, total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets			
Equity as at 1 January 2012	**168 411**	**3 325 401**	**2 334 675**	**81 174**	**841 953**	**1 235 355**	**-**	**1 921**	**59 865**	**8 048 755**	**23 910**	**8 072 665**
Total comprehensive income							**650 589**	**(1 547)**	**96 481**	**745 523**	**172**	**745 695**
Transfer to general banking risk reserve	-	-	-	-	104 000	(104 000)	-	-	-	-	-	-
Transfer to supplementary capital	-	-	1 018 829	10 000	-	(1 028 829)	-	-	-	-	-	-
Stock option program for employees	-	-	-	5 955	-	-	-	-	-	5 955	-	5 955
- value of services provided by the employees	*-*	*-*	*-*	*5 955*	*-*	*-*	*-*	*-*	*-*	*5 955*	*-*	*5 955*
Equity as at 30 June 2012	**168 411**	**3 325 401**	**3 353 504**	**97 129**	**945 953**	**102 526**	**650 589**	**374**	**156 346**	**8 800 233**	**24 082**	**8 824 315**

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

Consolidated 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	**(318 581)**	**(2 052 836)**
Profit before income tax	**748 804**	**817 780**
Adjustments:	***(1 067 385)***	***(2 870 616)***
Income taxes paid	(326 642)	(304 158)
Amortisation, including amortisation of fixed assets provided under operating lease	116 722	124 047
Foreign exchange (gains) losses related to financing activities	857 543	(640 144)
(Gains) losses on investing activities	(12 869)	(12 620)
Impairment of investments in subsidiaries	-	105
Dividends received	(2 309)	(2 675)
Interest income (income statement)	(2 016 730)	(2 172 642)
Interest expense (income statement)	977 942	1 067 574
Interest received	2 116 995	2 276 057
Interest paid	(835 321)	(871 567)
Changes in loans and advances to banks	(686 599)	(833 933)
Changes in trading securities	112 232	160 800
Changes in assets and liabilities on derivative financial instruments	(132 712)	308 737
Changes in loans and advances to customers	(4 871 802)	(149 773)
Changes in investment securities	(2 927 002)	2 011 403
Changes in other assets	(77 507)	(220 669)
Changes in amounts due to other banks	2 089 232	(1 646 862)
Changes in amounts due to customers	4 246 597	(1 991 556)
Changes in debt securities in issue	336 120	303 567
Changes in provisions	(8 211)	21 325
Changes in other liabilities	(23 064)	(297 632)
Net cash generated from operating activities	**(318 581)**	**(2 052 836)**
B.Cash flows from investing activities	**(63 204)**	**(99 033)**
Investing activity inflows	**29 706**	**30 232**
Disposal of shares in subsidiaries, net of cash disposed	2	13 200
Disposal of intangible assets and tangible fixed assets	13 981	14 357
Dividends received	2 309	2 675
Other investing inflows	13 414	-
Investing activity outflows	**92 910**	**129 265**
Acquisition of shares in associates	8	-
Purchase of intangible assets and tangible fixed assets	92 901	129 265
Other investing outflows	1	-
Net cash used in investing activities	**(63 204)**	**(99 033)**
C. Cash flows from financing activities	**(1 427 167)**	**(416 832)**
Financing activity inflows	**392 368**	**2 795 721**
Proceeds from loans and advances from other banks	82 356	-
Issue of debt securities	310 000	2 795 721
Issue of ordinary shares	12	-
Financing activity outflows	**1 819 535**	**3 212 553**
Repayments of loans and advances from other banks	508 581	1 344 888
Repayments of other loans and advances	234 456	5 271
Redemption of debt securities	624 289	1 675 421
Acquisition of shares in subsidiaries	1 650	-
Payments of financial lease liabilities	234	178
Dividends and other payments to shareholders	421 420	-
Interest paid from loans and advances received from other banks and from subordinated liabilities	28 905	186 795
Net cash generated from financing activities	**(1 427 167)**	**(416 832)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(1 808 952)**	**(2 568 701)**
Effects of exchange rate changes on cash and cash equivalents	80	(3 215)
Cash and cash equivalents at the beginning of the reporting period	7 578 317	4 675 211
Cash and cash equivalents at the end of the reporting period	**5 769 445**	**2 103 295**

Explanatory notes to the consolidated financial statements

1. Information regarding the Group of BRE Bank SA

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

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

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

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

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

As at 30 June 2013, BRE Bank Group covered by the condensed consolidated financial statements comprised the following companies:

BRE Bank SA, the parent entity

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

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

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

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

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

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

As at 30 June 2013, the headcount of BRE Bank SA amounted to 4 720 FTEs (Full Time Equivalents) and of the Group to 6 107 FTEs (30 June 2012: Bank 4 686 FTEs, Group 6 145 FTEs).

As at 30 June 2013, the employment in BRE Bank SA was 5 687 persons and in the Group 7 845 persons (30 June 2012: Bank 5 619 persons, Group 8 070 persons).

The business activities of the Group are conducted in the following business segments presented in detail in Note 4.

Corporates and Financial Markets Segment, including:

Corporates and Institutions

- BRE Holding Sp. z o.o., subsidiary
- BRE Faktoring SA, subsidiary
- BRE Leasing Sp. z o.o., subsidiary
- Garbary Sp. z o.o., subsidiary
- Transfinance a.s., subsidiary

Trading and Investment

- BRE Finance France SA, subsidiary
- Dom Inwestycyjny BRE Banku SA, subsidiary

Retail Banking Segment (including Private Banking)

- Aspiro SA, subsidiary
- BRE Bank Hipoteczny SA, subsidiary
- BRE Wealth Management SA, subsidiary
- BRE Ubezpieczenia TUiR SA, subsidiary, insurer
- BRE Ubezpieczenia Sp. z o.o., subsidiary, insurance agent
- BRE Agent Ubezpieczeniowy Sp. z o.o., subsidiary, insurance agent

Other

- BRE Centrum Operacji Sp. z o.o., subsidiary
- BRE.locum SA, subsidiary

Other information concerning companies of the Group

From the beginning of 2013, there was a change in the assignment to a segment of BRE Bank Hipoteczny. The company was assigned to the Retail Banking Segment (previously was part of Trading and Investment).

In June 2013, the Group ceased to consolidate the subsidiary MLV 35 Sp. z o.o. spółka komandytowo-akcyjna in connection with its liquidation procss. On July 15, 2013, the request was filed to remove the company from the register of companies (KRS).

A detailed description of the business of the companies of BRE Bank SA Group was presented in the Explanatory Notes to the Consolidated Financial Statements for 2012, published on 7 March 2013.

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

2. Description of relevant accounting policies

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

2.1 Accounting basis

The Condensed Consolidated Financial Statements of BRE Bank SA Group have been prepared for the 6-month period ended 30 June 2013.

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

The data presented in the BRE Bank SA Group Condensed Consolidated 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 Group. The issues in relation to which a greater degree of judgment is required, more complex issues, or such issues where estimates or judgments are material to the consolidated financial statements are disclosed in Note 3.

2.2 Consolidation

Subsidiaries

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

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

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

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

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

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

Associates

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

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

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

The condensed consolidated financial statements of the Bank cover the following companies.

Company	30.06.2013		30.06.2012	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro SA	100%	full	100%	full
BRE Agent Ubezpieczeniowy Sp. z o.o.	100%	full	100%	full
BRE Bank Hipoteczny SA	100%	full	100%	full
BRE Centrum Operacji Sp. z o.o.	100%	full	100%	full
BRE Faktoring SA	100%	full	100%	full
BRE Holding Sp. z o.o.	100%	full	100%	full
BRE Leasing Sp. z o.o.	100%	full	100%	full
BRE Ubezpieczenia Sp. z o.o.	100%	full	100%	full
BRE Ubezpieczenia TUiR SA	100%	full	100%	full
BRE Wealth Management SA	100%	full	100%	full
Dom Inwestycyjny BRE Banku SA	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full
Transfinance a.s.	100%	full	100%	full
BRE Finance France SA	99.98%	full	99.98%	full
BRE.locum SA	79.99%	full	79.99%	full
BRE GOLD FIZ Aktywów Niepublicznych	-	full	100% of certificates	full

In June 2013, the Group ceased to consolidate the subsidiary MLV 35 Sp. z o.o. spółka komandytowo-akcyjna in connection with its liquidation process. These consolidated financial statements include the results achieved by the company until the date of cessation of consolidation.

2.3 Interest income and expenses

All interest income on financial instruments carried at amortised cost using the effective interest rate method is recognised in the income statement.

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

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

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

Interest income, including interest on loans, is recognised in the income statement and on the other side in the statement of financial position as receivables from banks or from other customers.

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

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

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

2.4 Fee and commission income

Income on account of fees and commissions is recognised on the accrual basis, at the time of performance of the respective services. Fees charged for the granting of loans which are likely to be drawn down are deferred (together with the related direct costs) and recognised as adjustments of the effective interest rate charge on the loan. Fees on account of syndicated loans are recognised as income at the time of closing of the process of organisation of the respective syndicate, if the Group has not retained any part of the credit risk on its own account or has retained a part with the same effective interest rate as other participants. Commissions and fees on account of negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the acquisition of shares or other securities, or the acquisition or disposal of an enterprise, are recognised at the time of realisation of the respective transaction. The same principle is applied in the case of management of client assets, financial planning and custody services, which are continuously provided over an extended period of time.

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

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

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

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

The Group'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 Group defers a part of revenues due to a potential return of a part of insurance premiums.

2.5 Insurance premium revenue

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

2.6 Compensations and benefits, net

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

2.7 Segment reporting

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

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

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

2.8 Financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Loans and receivables

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

Held to maturity investments

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

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

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

Available for sale investments

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

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

Available for sale financial assets and financial assets measured at fair value through the income statement are valued at the end of the reporting period according to their fair value. Loans and receivables, as well as investments held to maturity are measured at adjusted cost of acquisition (amortised cost), applying the effective interest rate method. Gains and losses resulting from changes in the fair value of 'financial assets measured at fair value through the income statement' are recognised in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale financial assets are recognised in other comprehensive income until the derecognition of the respective financial asset in the statement of financial position or until its impairment: at such time the aggregate net gain or loss previously recognised in other comprehensive income is now recognised in the income statement. However, interest calculated using the effective interest rate is recognised in the income statement. Dividends on available for sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

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

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

2.9 Reinsurance assets

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

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

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

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

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

2.10 Offsetting financial instruments

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

2.11 Impairment of financial assets

Assets carried at amortised cost

At the end of the reporting period, the Group estimates whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated. Loss events were divided into definite ('hard') loss events of which occurrence requires that the client be classified into the default category, and indefinite ('soft') loss events of which occurrence may imply that there is a need to classify the client into the default category.

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

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

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

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

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

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

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

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

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

Assets measured at fair value

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

Renegotiated agreements

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

2.12 Financial guarantee contracts

The financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
When a financial guarantee contract is recognised initially, it is measured at the fair value. After initial recognition, an issuer of such a contract measures it at the higher of:

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

2.13 Cash and cash equivalents

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

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

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

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

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

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

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

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

2.15 Derivative financial instruments and hedge accounting

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

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Group recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.16.

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

In accordance with IAS 39 AG 30: (i), there is no need to separate the prepayment option from the host debt instrument for the needs of consolidated financial statements, because the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument. If the value of prepayment option was not to be closely related to the underlying debt instrument, the option should be separated and fair valued in the consolidated financial statements of the Group; (ii), exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

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

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

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

- The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

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

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

<u>Fair value hedges</u>

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

In case a hedge has ceased to fulfil the criteria of hedge accounting, the adjustment to the carrying value of the hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of the hedged equity security remains in other comprehensive income until the disposal of the equity security.

<u>Cash flow hedges</u>

The effective part of the fair value changes of derivative instruments designated and qualifying as cash flow hedges is recognised in 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.

<u>Derivative instruments not fulfilling the criteria of hedge accounting</u>

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

The Group holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

2.16 Gains and losses on initial recognition

The best evidence of fair value of a financial instrument at initial recognition is the transaction price (i.e., the fair value of the payment given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (without modification) or based on a valuation technique whose variables include only data from observable markets.

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

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

2.17 Borrowings and deposits taken

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

2.18 Intangible assets

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

Goodwill

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

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

Computer software

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

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

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

Development costs

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

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

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

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

2.19 Tangible fixed assets

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

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

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

Land is not depreciated. Depreciation of other fixed assets is accounted for according to the straight line method in order to spread their initial value reduced by the residual value over the period of their useful life which is estimated as follows for the particular categories of fixed assets:

- Buildings and structures 25-40 years,
- Equipment 5-15 years,
- Vehicles 5 years,
- Information technology hardware 3.33-5 years,
- Investments in third party fixed assets 10-40 years or the period of the lease contract,
- Office equipment, furniture 5-10 years.

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

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

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

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

2.20 Inventories

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

2.21 Non-current assets held for sale and discontinued operations

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

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

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

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

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

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

2.22 Deferred income tax

The Group creates a deferred income tax on the temporary difference arising between the carrying amount of an asset or liability in the statement of financial position and its tax base. A taxable net difference is recognised in liabilities as 'Provisions for deferred income tax'. A deductible net difference is recognised under 'Deferred income tax assets'. Any change in the balance of the deferred tax assets and liabilities in relation to the previous accounting period is recorded under the item 'Income Tax'. The balance sheet method is applied for the calculation of the deferred corporate income tax.

Liabilities or assets for deferred corporate income tax are recognised in their full amount according to the balance sheet method in connection with the existence of temporary differences between the tax value of assets and liabilities and their carrying value. Such liabilities or assets are determined by application of the tax rates in force by virtue of law or of actual obligations at the end of the reporting period. According to expectations such tax rates applied will be in force at the time of realisation of the assets or settlement of the liabilities for deferred corporate income tax.

The main temporary differences arise on account of impairment write-offs recognised in relation to the loss of value of credits and granted guarantees of repayment of loans, amortization of fixed assets and intangible assets, finance leases treated as operating leases for tax purposes, revaluation of certain financial assets and liabilities, including contracts concerning derivative instruments and forward transactions, provisions for retirement benefits and other benefits following the period of employment, and also deductible tax losses.

Deferred income tax assets are recognised to the extent it is probable that there will be sufficient taxable profits to allow them to recover. If the forecast amount of income determined for tax purposes does not allow the realisation of the asset for deferred income tax in full or in part, such an asset is recognised to the respective amount, accordingly. The above described principle also applies to tax losses recorded as part of the deferred tax asset.

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

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

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

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

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

2.23 Assets repossessed for debt

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

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

2.24 Prepayments, accruals and deferred income

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

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

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

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

2.25 Leasing

BRE Bank SA Group as a lessor

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

Revenue from leasing agreements is recognised as follows:

- Interests on finance lease

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

- Net revenue from operating lease

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

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

BRE Bank SA Group as a lessee

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

2.26 Provisions

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

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

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

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

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

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

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

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

2.27 Retirement benefits and other employee benefits

Retirement benefits

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

Benefits based on shares

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

2.28 Equity

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

Registered share capital

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

- Own shares

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

Share premium

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

- Share issue costs

Costs directly connected with the issue of new shares, the issue of options, or the acquisition of a business entity. They reduce the proceeds from the issue recognised in equity.

Retained earnings

Retained earnings include:

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

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

Moreover, other reserve capital comprises valuation of employee options.

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

Other components of equity

Other components of equity result from:

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

2.29 Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

Changes in fair value of monetary items available for sale cover foreign exchange differences arising from valuation at amortised cost, which are recognised in the income statement.

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

Companies belonging to the Group

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

- assets and liabilities in each presented statement of financial position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period;
- revenues and expenses in each income statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 6 months of each presented periods; whereas
- all resulting foreign exchange differences are recognised as a distinct item of other comprehensive income.

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

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

Leasing business

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

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

2.30 Trust and fiduciary activities

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

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

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

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

2.31 New standards, interpretations and amendments to published standards

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

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

Published Standards and Interpretations which have been issued and binding for the Group for annual periods 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 Group 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.

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

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

2.32 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 Group ceased to present pledged assets in a separate line in the statement of financial position. Debt securities pledged as collaterals were presented within the items: 'Trading securities' or 'Investment securities', according to their classification before establishing the pledge. Information regarding debt securities pledged as collaterals is still available under Notes 15 and 18.

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 consolidated financial statements.

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

	30.06.2012 before adjustments	presentation adjustments	30.06.2012 after adjustments
Trading securities	866 528	292 668	1 159 196
Investments securities	15 194 988	3 468 564	18 663 552
Pledged assets	3 761 232	(3 761 232)	-
Total asstes	95 044 775	-	95 044 775

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

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

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. 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 Group 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 Group 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 Group 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.

Technical-insurance provisions

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

As at 30 June 2013, provisions for claims incurred but not reported to the insurer (IBNR) were calculated using the actuarial methods (Naive Loss Ratio and Bornhuetter-Ferguson). The expected loss ratios are composed on the basis of available market studies concerning loss arising from the given group of risks.

4. Business segments

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

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

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

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

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

- *Corporates and Institutions* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing and factoring services. The Corporates and Institutions sub-segment includes the results of the following subsidiaries:, BRE Leasing Sp. z o.o., BRE Faktoring SA, BRE Holding Sp. z o.o., Transfinance a.s., Garbary Sp. z o.o., as well as the results achieved by MLV 35 Sp. z o.o. spółka komandytowo-akcyjna until the date of cessation of consolidation, due to the liquidation process of the company.

- *The Trading and Investment* sub-segment (business line) consists primarily of treasury, financial markets, and financial institutions operations, manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments, debt origination for financial institutions. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by KUKE to support the Polish export market. This sub-segment also includes the results of BRE Finance France SA and Dom Inwestycyjny BRE Banku SA.

- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under 'Other'. This segment includes the results of BRE.locum SA and BRE Centrum Operacji Sp. z o.o.

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

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

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

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

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

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

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

From the beginning of 2013, there was a change in the assignment to a segment of BRE Bank Hipoteczny. The company was assigned to the Retail Banking segment (previously was part of Trading and Investment sub-segment). This change was made in connection with the new strategy adopted by BRE Bank Hipoteczny SA, which assumes that the company will be in the future a source of funding for mortgages offered to retail customers.

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

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

The BRE Bank Group business segment reporting

Business segment reporting on the activities of BRE Bank Group
for the period from 1 January to 30 June 2013
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates & Institutions	Trading & Investment					
Net interest income	371 924	10 259	662 018	(5 413)	-	1 038 788	1 038 788
- sales to external clients	317 842	380 757	343 085	(2 896)	-	1 038 788	
- sales to other segments	54 082	(370 498)	318 933	(2 517)	-	-	
Net fee and commission income	165 361	21 622	224 484	(2 537)	10 069	418 999	418 999
- sales to external clients	156 452	28 876	236 213	(2 542)	-	418 999	
- sales to other segments	8 909	(7 254)	(11 729)	5	10 069	-	
Dividend income	11	76	22	2 200	-	2 309	2 309
Trading income	106 260	10 746	60 128	1 124	-	178 258	178 258
Gains less losses from investment securities, investments in subsidiaries and associates	(256)	23 748	13 442	-	-	36 934	36 934
Other operating income	38 676	458	72 456	73 987	(10 069)	175 508	175 508
Net impairment losses on loans and advances	(56 453)	538	(131 190)	(8)	-	(187 113)	(187 113)
Overhead costs	(251 148)	(62 517)	(399 180)	(16 299)	-	(729 144)	(729 144)
Amortization and depreciation	(34 040)	(6 093)	(48 765)	(1 536)	-	(90 434)	(90 434)
Other operating expenses	(22 908)	(1 707)	(29 557)	(41 129)	-	(95 301)	(95 301)
Gross profit of the segment	317 427	(2 870)	423 858	10 389	-	748 804	748 804
Income tax						(151 235)	(151 235)
Net profit attributable to Owners of BRE Bank SA						596 450	596 450
Net profit attributable to non-controlling interests						1 119	1 119
Assets of the segment	25 636 620	38 364 736	43 348 721	881 446	-	108 231 523	108 231 523
Liabilities of the segment	21 105 143	39 650 817	37 069 099	718 425	-	98 543 484	98 543 484
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(37 804)	(3 536)	(33 570)	(50)	-	(74 960)	
Other costs/ income without cash outflows/ inflows*	1 626	(136 198)	6 765	-	-	(127 807)	
- other non-cash costs	*(340)*	*(1 094 515)*	*-*	-	-	*(1 094 855)*	
- other non-cash income	*1 966*	*958 317*	*6 765*	-	-	*967 048*	

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

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

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates & Institutions	Trading & Investment					
Net interest income	727 168	133 281	1 385 805	(13 371)	749	2 233 632	2 233 632
- sales to external clients	594 238	854 850	784 891	(347)	-	2 233 632	
- sales to other segments	132 930	(721 569)	600 914	(13 024)	749	-	
Net fee and commission income	309 460	37 451	479 662	(2 739)	16 046	839 880	839 880
- sales to external clients	287 611	54 782	500 226	(2 739)	-	839 880	
- sales to other segments	21 849	(17 331)	(20 564)	-	16 046	-	
Dividend income	11 045	223	62	2 572	-	13 902	13 902
Trading income	184 315	37 958	134 785	(516)	-	356 542	356 542
Gains less losses from investment securities, investments in subsidiaries and associates	(974)	33 557	2 008	10 375	-	44 966	44 966
Other operating income	78 543	4 721	117 182	119 667	(44 392)	275 721	275 721
Net impairment losses on loans and advances	(166 661)	(15 383)	(262 584)	(7)	-	(444 635)	(444 635)
Overhead costs	(510 327)	(125 380)	(820 397)	(37 281)	27 597	(1 465 788)	(1 465 788)
Amortization and depreciation	(79 350)	(11 550)	(101 627)	(3 090)	-	(195 617)	(195 617)
Other operating expenses	(40 492)	(1 240)	(68 463)	(76 305)	-	(186 500)	(186 500)
Gross profit of the segment	512 727	93 638	866 433	(695)	-	1 472 103	1 472 103
Income tax						(268 292)	(268 292)
Net profit attributable to Owners of BRE Bank SA						1 203 230	1 203 230
Net profit attributable to non-controlling interests						581	581
Assets of the segment	25 136 704	34 087 188	42 177 386	834 768	-	102 236 046	102 236 046
Liabilities of the segment	20 660 447	33 081 039	37 810 589	973 987	-	92 526 062	92 526 062
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(112 233)	(24 152)	(86 477)	(1 834)	-	(224 696)	
Other costs/ income without cash outflows/ inflows*	6 137	53 372	5 934	133	-	65 576	
- other non-cash costs	*(877)*	*(2 243 438)*	*-*	*-*	*-*	*(2 244 315)*	
- other non-cash income	*7 014*	*2 296 810*	*5 934*	*133*	*-*	*2 309 891*	

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

Business segment reporting on the activities of BRE Bank Group
for the period from 1 January to 30 June 2012
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates & Institutions	Trading & Investment					
Net interest income	361 190	82 882	667 175	(6 179)	-	1 105 068	1 105 068
- sales to external clients	277 398	402 847	428 656	(3 833)	-	1 105 068	
- sales to other segments	83 792	(319 965)	238 519	(2 346)	-	-	
Net fee and commission income	166 611	21 849	241 830	(920)	11 111	440 481	440 481
- sales to external clients	155 461	30 297	255 643	(920)	-	440 481	
- sales to other segments	11 150	(8 448)	(13 813)	-	11 111	-	
Dividend income	-	103	20	2 539	-	2 662	2 662
Trading income	89 845	26 479	64 448	213	-	180 985	180 985
Gains less losses from investment securities, investments in subsidiaries and associates	(97)	26 216	-	10 375	-	36 494	36 494
Other operating income	32 824	496	51 656	60 623	(13 344)	132 255	132 255
Net impairment losses on loans and advances	(99 437)	231	(121 567)	(5)	-	(220 778)	(220 778)
Overhead costs	(249 448)	(61 297)	(372 685)	(18 800)	2 233	(699 997)	(699 997)
Amortization and depreciation	(39 691)	(5 895)	(51 801)	(1 552)	-	(98 939)	(98 939)
Other operating expenses	(10 392)	(705)	(13 048)	(36 306)	-	(60 451)	(60 451)
Gross profit of the segment	251 405	90 359	466 028	9 988	-	817 780	817 780
Income tax						(167 019)	(167 019)
Net profit attributable to Owners of BRE Bank SA						650 589	650 589
Net profit attributable to non-controlling interests						172	172
Assets of the segment	26 260 278	24 713 734	43 191 072	879 691	-	95 044 775	95 044 775
Liabilities of the segment	21 859 928	31 295 245	32 077 177	988 110	-	86 220 460	86 220 460
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(48 377)	(7 925)	(23 101)	(975)	-	(80 378)	
Other costs/ income without cash outflows/ inflows*	1 471	(25 590)	3 041	135	(370)	(21 313)	
- other non-cash costs	*(1 120)*	*(524 262)*	*-*	*-*	*1 586*	*(523 796)*	
- other non-cash income	*2 591*	*498 672*	*3 041*	*135*	*(1 956)*	*502 483*	

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

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

The BRE Bank Group geographical areas reporting

Geographical areas reporting on the acivities of BRE Bank Group for the period from	1 January to 30 June 2013			1 January to 31 December 2012			1 January to 30 June 2012		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	993 922	44 866	1 038 788	2 140 429	93 203	2 233 632	1 066 344	38 724	1 105 068
Net fee and commission income	410 175	8 824	418 999	820 318	19 562	839 880	431 198	9 283	440 481
Dividend income	2 309	-	2 309	13 902	-	13 902	2 662	-	2 662
Trading income	175 822	2 436	178 258	352 828	3 714	356 542	180 120	865	180 985
Gains less losses from investment securities, investments in subsidiaries and associates	36 934	-	36 934	44 966	-	44 966	36 494	-	36 494
Other operating income	174 835	673	175 508	270 590	5 131	275 721	131 333	922	132 255
Net impairment losses on loans and advances	(180 742)	(6 371)	(187 113)	(430 487)	(14 148)	(444 635)	(215 220)	(5 558)	(220 778)
Overhead costs	(680 912)	(48 232)	(729 144)	(1 387 658)	(78 130)	(1 465 788)	(662 350)	(37 647)	(699 997)
Amortization and depreciation	(88 091)	(2 343)	(90 434)	(190 779)	(4 838)	(195 617)	(96 468)	(2 471)	(98 939)
Other operating expenses	(93 267)	(2 034)	(95 301)	(177 385)	(9 115)	(186 500)	(59 402)	(1 049)	(60 451)
Gross profit of the segment	750 985	(2 181)	748 804	1 456 724	15 379	1 472 103	814 711	3 069	817 780
Income tax			(151 235)			(268 292)			(167 019)
Net profit attributable to Owners of BRE Bank SA			596 450			1 203 230			650 589
Net profit attributable to non-controlling interests			1 119			581			172
Assets of the segment, including:	105 623 461	2 608 062	108 231 523	100 024 122	2 211 924	102 236 046	92 925 729	2 119 046	95 044 775
- tangible assets	1 133 644	18 464	1 152 108	1 192 443	17 584	1 210 027	1 167 188	39 039	1 206 227
- deferred income tax assets	381 816	3 959	385 775	365 955	3 866	369 821	311 633	3 975	315 608
Liabilities of the segment	90 812 049	7 731 435	98 543 484	85 741 819	6 784 243	92 526 062	82 049 005	4 171 455	86 220 460

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

5. Net interest income

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
Interest income		
Loans and advances including the unwind of the impairment provision discount	1 437 331	1 576 490
Investment securities	453 415	413 566
Cash and short-term placements	47 040	62 712
Trading debt securities	23 629	33 976
Interest income on derivatives classified into banking book	49 258	81 341
Other	6 057	4 557
Total interest income	**2 016 730**	**2 172 642**
Interest expense		
Arising from amounts due to banks	(132 470)	(196 684)
Arising from amounts due to customers	(692 518)	(748 492)
Arising from issue of debt securities	(102 305)	(78 628)
Other borrowed funds	(30 581)	(31 236)
Interest expense on derivatives concluded under the hedge accounting	(283)	(515)
Other	(19 785)	(12 019)
Total interest expense	**(977 942)**	**(1 067 574)**

Interest income related to impaired financial assets amounted to PLN 93 122 thousand (for the period ended 30 June 2012: PLN 105 654 thousand).

6. Net fee and commission income

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
Fee and commission income		
Payment cards-related fees	187 132	190 685
Credit-related fees and commissions	120 067	116 523
Commissions from insurance activity	86 374	87 550
Fees from brokerage activity	44 036	41 688
Commissions from bank accounts	75 789	60 040
Commissions from money transfers	42 689	45 607
Commissions due to guarantees granted and trade finance commissions	18 308	18 502
Commission for agency service regarding sale of products of external financial entities	34 221	34 403
Commissions on trust and fiduciary activities	9 143	8 486
Fees from portfolio management services and other management-related fees	5 710	3 304
Other	35 466	38 501
Total fee and commission income	**658 935**	**645 289**
Fee and commission expense		
Payment cards-related fees	(108 193)	(83 168)
Commissions paid to external entities for sale of the Bank's products	(39 032)	(32 103)
Insurance activity-related fees	(2 272)	(4 809)
Discharged brokerage fees	(16 789)	(12 210)
Other discharged fees	(73 650)	(72 518)
Total fee and commision expense	**(239 936)**	**(204 808)**

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

the period	from 01.01.2013 to 31.03.2013	from 01.01.2012 to 31.03.2012
Fee and commission income from insurance activity		
- Income from insurance intermediation	77 089	76 875
- Income from insurance policies administration	9 285	10 675

7. Dividend income

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
Trading securities	4	103
Securities available for sale	2 305	2 559
Total dividend income	**2 309**	**2 662**

8. Net trading income

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
Foreign exchange result	**143 460**	**152 702**
Net exchange differences on translation	294 807	196 593
Net transaction gains/(losses)	(151 347)	(43 891)
Other net trading income and result on hedge accounting	**34 798**	**28 283**
Interest-bearing instruments	30 071	24 955
Equity instruments	(511)	852
Market risk instruments	1 765	2 387
Result on hedge accounting, including:	3 473	89
- Net profit on hedged items	13 172	(301)
- Net profit on hedging instruments	(9 699)	390
Total net trading income	**178 258**	**180 985**

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

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

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

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

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

9. Gains and losses from investment securities, investments in subsidiaries and associates

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
Sale/redemption of financial assets available for sale, investments in subsidiaries and associates	36 934	36 599
Impairment of investments in subsidiaries	-	(105)
Total gains and losses from investment securities	**36 934**	**36 494**

10. Other operating income

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	63 597	43 450
Income from insurance activity net	37 523	39 609
Income from services provided	15 249	16 925
Net income from operating lease	7 792	9 600
Income due to release of provisions for future commitments	23 082	5 719
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	208	38
Income from compensations, penalties and fines received	69	187
Other	27 988	16 727
Total other operating income	**175 508**	**132 255**

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

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

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

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

Net income from insurance activity generated for the first half of 2013 and the first half of 2012 is presented below.

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
Income from premiums		
- Premiums attributable	87 759	86 813
- Change in provision for premiums	2 027	(587)
Premiums earned	**89 786**	**86 226**
Reinsurer's shares		
- Gross premiums written	(36 601)	(36 045)
- Change in unearned premiums reserve	(291)	4 147
Reinsurer's share in premiums earned	**(36 892)**	**(31 898)**
Net premiums earned	**52 894**	**54 328**

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

Claims and benefits		
- Claims and benefits paid out in the current year including costs of liquidation before tax	(37 398)	(33 017)
- Change in provision for claims and benefits paid out in the current year including costs of liquidation before tax	(9 767)	(4 366)
- Reinsurer's share in claims and benefits paid out in the current year including costs of liquidation	26 678	21 761
- Change in provision for reinsurer's share of claims and benefits paid out in the current year including costs of liquidation	7 094	3 303
Claims and benefits net	(13 393)	(12 319)
- Other costs net of reinsurance	(1 885)	(2 165)
- Other operating income	3	(68)
- Costs of expertise and certificates concerning underwriting risk	(96)	(167)
Total net income from insurance activity	37 523	39 609

Net income from operating lease for the first half of 2013 and the first half of 2012 is presented below.

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
Net income from operating lease, including:		
- Income from operating lease	34 080	34 708
- Depreciation cost of fixed assets provided under operating lease	(26 288)	(25 108)
Total net income from operating lease	7 792	9 600

11. Net impairment losses on loans and advances

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
Net impairment losses on amounts due from other banks	109	532
Net impairment losses on loans and advances to customers	(194 210)	(203 968)
Net impairment losses on off-balance sheet contingent liabilities due to customers	6 988	(17 342)
Total net impairment losses on loans and advances	(187 113)	(220 778)

12. Overhead costs

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
Staff-related expenses	(399 176)	(386 017)
Material costs	(280 036)	(264 117)
Taxes and fees	(19 620)	(15 884)
Contributions and transfers to the Bank Guarantee Fund	(26 815)	(30 227)
Contributions to the Social Benefits Fund	(3 243)	(3 132)
Other	(254)	(620)
Total overhead costs	(729 144)	(699 997)

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

Staff-related expenses for the first half of 2013 and the first half of 2012 is presented below.

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
Wages and salaries	(323 870)	(312 222)
Social security expenses	(53 250)	(50 453)
Remuneration concerning share-based payments, including:	(7 236)	(6 487)
- share-based payments settled in BRE Bank SA shares	(7 236)	(5 954)
- cash-settled share-based payments	-	(533)
Other staff expenses	(14 820)	(16 855)
Staff-related expenses, total	**(399 176)**	**(386 017)**

13. Other operating expenses

the period	from 01.01.2013 to 30.06.2013	from 01.01.2012 to 30.06.2012
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	(46 921)	(32 005)
Provisions for future commitments	(14 394)	(10 062)
Donations made	(2 628)	(2 578)
Compensation, penalties and fines paid	(642)	(178)
Costs arising from provisions created for other receivables (excluding loans and advances)	(483)	(1 071)
Costs of sale of services	(1 216)	(851)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(78)	(77)
Impairment provisions created for tangible fixed assets, intangible assets and other non-financial assets	-	(16)
Other operating costs	(28 939)	(13 613)
Total other operating expenses	**(95 301)**	**(60 451)**

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

Costs of sale of services concern non-banking services.

14. 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 attributable to Owners of BRE Bank SA	596 450	650 589
Weighted average number of ordinary shares	42 141 459	42 102 746
Net basic profit per share (in PLN per share)	**14.15**	**15.45**
Diluted:		
Net profit attributable to Owners of BRE Bank SA, applied for calculation of diluted earnings per share	596 450	650 589
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)	**14.14**	**15.43**

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

15. Trading securities

	30.06.2013			31.12.2012			30.06.2012		
	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities
Debt securities:	383 717	1 320 499	1 704 216	550 040	559 644	1 109 684	833 853	292 668	1 126 521
Issued by government	258 755	1 320 499	1 579 254	246 453	559 644	806 097	597 739	292 668	890 407
- government bonds	258 755	1 320 499	1 579 254	246 134	559 644	805 778	588 109	292 489	880 598
- treasury bills	-	-	-	319	-	319	9 630	179	9 809
Other debt securities	124 962	-	124 962	303 587	-	303 587	236 114	-	236 114
- bank's bonds	104 687	-	104 687	231 196	-	231 196	54 942	-	54 942
- deposit certificates	-	-	-	26 459	-	26 459	31 692	-	31 692
- corporate bonds	20 275	-	20 275	45 932	-	45 932	149 480	-	149 480
Equity securities:	37 527	-	37 527	41 202	-	41 202	32 675	-	32 675
- listed	4 627	-	4 627	10 986	-	10 986	9 925	-	9 925
- unlisted	32 900	-	32 900	30 216	-	30 216	22 750	-	22 750
Total debt and equity	421 244	1 320 499	1 741 743	591 242	559 644	1 150 886	866 528	292 668	1 159 196

16. Derivative financial instruments

	30.06.2013		31.12.2012		30.06.2012	
	assets	liabilities	assets	liabilities	assets	liabilities
Held for trading derivative financial instruments classified into banking book	34 299	130 080	158 840	39 540	112 398	142 802
Held for trading derivative financial instruments classified into trading book	2 494 829	2 956 220	2 643 855	3 430 946	1 189 646	1 775 741
Derivative financial instruments held for hedging	15 306	1 527	-	6 198	18	1 867
Total derivative financial instruments	2 544 434	3 087 827	2 802 695	3 476 684	1 302 062	1 920 410

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

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

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

Due to the application of fair value hedge accounting for part of the portfolio of fixed interest rate mortgage loans granted by foreign branches of the Bank in the Czech Republic and fair value hedge accounting of Eurobonds issued by BRE Finance France SA within interest rate swaps, the Group distinguished instruments that hedge the risk of changes in interest rate. Result from valuation of the hedged item and hedging instruments is presented in this consolidated financial statement in item 'Net income from other trading operations and hedge accounting' in Note 8.

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

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

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

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

17. Loans and advances to customers

	30.06.2013	31.12.2012	30.06.2012
Loans and advances to individuals:	39 149 388	37 816 508	38 791 144
- current accounts	4 840 815	4 600 545	4 432 662
- term loans, including:	34 308 573	33 215 963	34 358 482
housing and mortgage loans	29 902 594	29 171 827	30 544 828
Loans and advances to corporate entities:	32 523 288	28 405 403	28 374 430
- current accounts	4 422 438	4 255 092	5 254 471
- term loans:	21 598 628	20 897 898	21 800 516
corporate & institutional enterprises	5 640 919	5 857 708	6 815 463
medium & small enterprises	15 957 709	15 040 190	14 985 053
- reverse repo / buy-sell-back transactions	5 080 882	2 024 380	474 621
- other	1 421 340	1 228 033	844 822
Loans and advances to public sector	2 438 813	2 698 549	2 780 245
Other receivables	422 190	667 327	490 158
Total (gross) loans and advances to customers	74 533 679	69 587 787	70 435 977
Provisions for loans and advances to customers (negative amount)	(2 629 374)	(2 528 533)	(2 546 580)
Total (net) loans and advances to customers	71 904 305	67 059 254	67 889 397
Short-term (up to 1 year)	29 507 218	22 895 700	21 721 104
Long-term (over 1 year)	42 397 087	44 163 554	46 168 293

The Group presents loans to micro enterprises provided by Retail Banking of BRE Bank (mBank and MultiBank) under the item 'Loans and advances to individuals'.

Loans to micro enterprises in the presented reporting periods amounted to respectively: 30 June 2013 – PLN 3 901 951 thousand, 31 December 2012 – PLN 3 609 923 thousand, 30 June 2012 – PLN 3 518 500 thousand.

Provisions for loans and advances

	30.06.2013	31.12.2012	30.06.2012
Incurred but not identified losses			
Gross balance sheet exposure	70 888 575	65 955 528	66 991 335
Impairment provisions for exposures analysed according to portfolio approach	(207 523)	(198 712)	(222 740)
Net balance sheet exposure	70 681 052	65 756 816	66 768 595
Receivables with impairment			
Gross balance sheet exposure	3 645 104	3 632 259	3 444 642
Provisions for receivables with impairment	(2 421 851)	(2 329 821)	(2 323 840)
Net balance sheet exposure	1 223 253	1 302 438	1 120 802

The table below presents the structure of concentration of BRE Bank SA Group's exposures in particular sectors.

No.	Sectors	Principal exposure (in PLN thousand)	%	Principal exposure (in PLN thousand)	%	Principal exposure (in PLN thousand)	%
		30.06.2013		31.12.2012		30.06.2012	
1.	Household customers	39 149 388	52.53%	37 816 508	54.34%	38 791 144	55.07%
2.	Real estate management	5 003 935	6.71%	4 674 458	6.72%	4 332 466	6.15%
3.	Transport and travel agencies	2 356 910	3.16%	1 737 725	2.50%	1 882 772	2.67%
4.	Public Administration	2 008 638	2.70%	2 177 125	3.13%	2 352 530	3.34%
5.	Building industry	1 709 895	2.29%	2 084 143	2.99%	2 274 681	3.23%
6.	Power industry and heat engineering	1 566 640	2.10%	1 474 800	2.12%	720 225	1.02%
7.	Metals	1 388 399	1.86%	1 223 564	1.76%	1 241 280	1.76%
8.	Liquid fuels and natural gas	1 119 905	1.50%	1 392 174	2.00%	1 947 619	2.77%
9.	Building materials	1 030 914	1.38%	742 360	1.07%	831 509	1.18%
10.	Motorization	983 554	1.32%	880 978	1.26%	871 554	1.24%
11.	Chemistry and plastic processing	922 414	1.24%	719 518	1.03%	773 846	1.10%
12.	Groceries	833 039	1.12%	855 409	1.23%	153 009	0.22%
13.	Wood and furniture	818 037	1.10%	632 047	0.91%	780 986	1.11%
14.	Leasing and renting	773 237	1.04%	429 591	0.62%	784 971	1.11%
15.	Pharmaceuticals and health care	748 274	1.00%	680 846	0.98%	626 782	0.89%
16.	Other wholesale trade	680 990	0.91%	888 033	1.28%	1 354 529	1.92%
17.	Meat processing industry	642 171	0.86%	593 134	0.85%	576 710	0.82%
18.	Telecomunication	583 776	0.78%	618 089	0.89%	655 183	0.93%
19.	Management, consulting, advertising	485 090	0.65%	404 098	0.58%	1 007 189	1.43%

As at 30 June 2013, the total exposure of the Group in the above sectors (excluding household customers) amounted to 31.72% of the credit portfolio (31 December 2012 – 31.92%, 30 June 2012 - 32.89%).

18. Investment securities

	30.06.2013			31.12.2012			30.06.2012		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities	17 664 323	4 747 658	22 411 981	17 174 158	2 546 282	19 720 440	14 984 152	3 468 564	18 452 716
Issued by government	11 845 353	4 746 458	16 591 811	9 076 533	2 420 333	11 496 866	10 455 879	3 443 586	13 899 465
- government bonds	11 692 938	4 746 458	16 439 396	9 076 533	2 420 035	11 496 568	10 358 004	3 442 097	13 800 101
- treasury bills	152 415	-	152 415	-	298	298	97 875	1 489	99 364
Issued by central bank	5 664 317	1 200	5 665 517	7 855 805	125 949	7 981 754	4 165 294	24 978	4 190 272
Other debt securities	154 653	-	154 653	241 820	-	241 820	362 979	-	362 979
- bank's bonds	64 589	-	64 589	123 901	-	123 901	328 310	-	328 310
- corporate bonds	52 900	-	52 900	80 131	-	80 131	-	-	-
- communal bonds	37 164	-	37 164	37 788	-	37 788	34 669	-	34 669
Equity securities:	269 974	-	269 974	272 948	-	272 948	210 836	-	210 836
Listed	226 900	-	226 900	225 108	-	225 108	174 821	-	174 821
Unlisted	43 074	-	43 074	47 840	-	47 840	36 015	-	36 015
Total debt and equity securities:	17 934 297	4 747 658	22 681 955	17 447 106	2 546 282	19 993 388	15 194 988	3 468 564	18 663 552
Short-term (up to 1 year)	6 260 662	795 195	7 055 857	8 794 515	156 185	8 950 700	7 806 220	113 519	7 919 739
Long-term (over 1 year)	11 673 635	3 952 463	15 626 098	8 652 591	2 390 097	11 042 688	7 388 768	3 355 045	10 743 813

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

As at 30 June 2013, presented above value of equity securities includes provisions for impairment of PLN 10 470 thousand (31 December 2012: PLN 10 970 thousand, 30 June 2012: PLN 13 362 thousand).

As at 30 June 2013, listed equity securities include fair value of PZU shares in amount of PLN 193 858 thousand, (31 December 2012 – PLN 206 775 thousand, 30 June 2012 – PLN 158 039 thousand).

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

19. Intangible assets

	30.06.2013	31.12.2012	30.06.2012
Development costs	435	490	627
Goodwill	4 728	4 728	4 728
Patents, licences and similar assets, including:	308 257	282 619	285 437
- computer software	252 335	228 750	222 020
Other intangible assets	7 517	7 968	8 476
Intangible assets under development	94 491	140 318	110 485
Total intangible assets	**415 428**	**436 123**	**409 753**

20. Tangible assets

	30.06.2013	31.12.2012	30.06.2012
Tangible fixed assets, including:	688 256	733 553	755 418
- land	1 242	1 175	1 175
- buildings and structures	216 708	219 773	223 078
- equipment	154 773	162 573	167 310
- vehicles	192 848	212 490	214 585
- other fixed assets	122 685	137 542	149 270
Fixed assets under construction	48 424	40 351	41 056
Total tangible fixed assets	**736 680**	**773 904**	**796 474**

21. Amounts due to customers

	30.06.2013	31.12.2012	30.06.2012
Individual customers:	**33 689 231**	**33 233 757**	**26 978 822**
Current accounts	24 496 406	21 059 319	20 459 489
Term deposits	9 139 181	12 121 656	6 484 568
Other liabilities:	53 644	52 782	34 765
- liabilities in respect of cash collaterals	30 903	32 763	23 743
- other	22 741	20 019	11 022
Corporate customers:	**27 351 389**	**24 248 650**	**24 633 099**
Current accounts	12 402 829	11 731 164	11 048 075
Term deposits	6 982 155	8 336 226	10 412 640
Loans and advances received	1 550 259	1 696 404	1 777 731
Repo transactions	5 862 005	1 883 368	821 333
Other liabilities:	554 141	601 488	573 320
- liabilities in respect of cash collaterals	411 592	408 776	446 833
- other	142 549	192 712	126 487
Public sector customers:	**1 154 578**	**501 193**	**578 030**
Current accounts	445 909	387 383	305 308
Term deposits	693 344	110 765	241 907
Other liabilities:	15 325	3 045	30 815
- liabilities in respect of cash collaterals	-	152	-
- other	15 325	2 893	30 815
Total amounts due to customers	**62 195 198**	**57 983 600**	**52 189 951**

Short-term (up to 1 year)	60 056 910	55 788 507	49 844 433
Long-term (over 1 year)	2 138 288	2 195 093	2 345 518

The Group presents amounts due to micro enterprises provided by Retail Banking of BRE Bank (mBank and MultiBank) under amounts due to individual customers.

In the presented reporting periods the value of liabilities in respect of current accounts and term deposits accepted from micro enterprises amounted to respectively: 30 June 2013 – PLN 2 178 799 thousand, 31 December 2012 - PLN 3 299 478 thousand, 30 June 2012 – PLN 1 856 249 thousand.

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

22. Provisions

	30.06.2013	31.12.2012	30.06.2012
For off-balance sheet granted contingent liabilities *	40 017	46 462	48 187
For legal proceedings	47 342	47 204	34 651
Technical-insurance provisions	84 512	84 512	78 435
Other	33 245	35 149	13 220
Total provisions	**205 116**	**213 327**	**174 493**

* includes valuation of financial guarantees

Movements in the provisions

	30.06.2013	31.12.2012	30.06.2012
As at the beginning of the period (by type)	**213 327**	**153 168**	**153 168**
For off-balance sheet granted contingent liabilities	46 462	30 906	30 906
For legal proceedings	47 204	25 644	25 644
Technical-insurance provisions	84 512	80 864	80 864
Other	35 149	15 754	15 754
Change in the period (due to)	**(8 211)**	**60 159**	**21 325**
- increase of provisions	57 136	224 404	102 284
- release of provisions	(54 295)	(160 168)	(78 258)
- write-offs	(11 385)	(2 697)	(2 551)
- utilization	(150)	-	-
- foreign exchange differences	483	(1 380)	(150)
As at the end of the period (by type)	**205 116**	**213 327**	**174 493**
For off-balance sheet granted contingent liabilities	40 017	46 462	48 187
For legal proceedings	47 342	47 204	34 651
Technical-insurance provisions	84 512	84 512	78 435
Other	33 245	35 149	13 220

23. Assets and provisions for deferred income tax

Deferred income tax assets	30.06.2013	31.12.2012	30.06.2012
As at the beginning of the period	**737 353**	**646 760**	**646 760**
Changes recognized in the income statement	(28 346)	95 463	47 732
Changes recognized in other comprehensive income	165	(4 492)	(4 724)
Other changes	(259)	(378)	-
As at the end of the period	**708 913**	**737 353**	**689 768**

Provisions for deferred income tax	30.06.2013	31.12.2012	30.06.2012
As at the beginning of the period	**(369 194)**	**(339 966)**	**(339 966)**
Changes recognized in the income statement	(4 225)	33 371	(18 119)
Changes recognized in other comprehensive income	47 722	(62 568)	(17 576)
Other changes	-	(31)	(65)
As at the end of the period	**(325 697)**	**(369 194)**	**(375 726)**

The Bank's calculation of deferred income tax assets does not take into account the unused tax losses sustained by the foreign branches of BRE Bank due to the fact that there is no sufficient basis to assess the likelihood of whether sufficient taxable income will be generated allowing the Bank to settle these losses. Moreover, it also results from high volatility of macroeconomic parameters leading to a lack of a clear trend in the development of tax income of the foreign branches. At the same time, on a quarterly basis the foreign branches will estimate the likelihood of loss settlement, taking into account the macroeconomic conditions.

24. Capital adequacy ratio

On 4 July 2012, Polish Financial Supervision Authority (KNF) and Bundesanstalt fur Finanzdienstleistungsaufsicht (BaFin) granted conditional consent to the application of the advanced internal rating based approach (A-IRB approach) by BRE Bank to the calculation of the capital requirement for credit risk for the corporate portfolio and the retail mortgage loan portfolio, with a provision that until the significant conditions laid down in the decision are met, the total capital requirement calculated with the application of the A-IRB approach must be maintained at the level based on 100% of the capital requirement for credit risk calculated under the standardised approach. Additionally, on 27 August 2012 KNF and BaFin granted consent to the application of internal rating based approach concerning the risk weighting for specialized lending exposures (IRB slotting approach) by BRE Bank Hipoteczny SA to the calculation of the capital requirement for credit risk.

Since the BRE Bank met all high-significance conditions set out in the consent of KNF and BaFin regarding A-IRB application, starting from 31 December 2012, the calculation of the consolidated capital adequacy ratio of BRE Bank Group takes into account the total capital requirement determined under the A-IRB approach for credit risk pursuant to annex No. 5 to the Resolution No. 76/2010 of KNF of 10 March 2010 (with further amendments). Additionally own funds are calculated with the application of the deduction derived from the A-IRB approach and stood above 80% of comparative total capital requirement as stipulated in article 14 of Resolution No. 76/2010 of KNF of 10 March 2010 (with further amendments).

As at 30 June 2013, the consolidated capital adequacy ratio of BRE Bank Group SA amounted to 18.18% and capital adequacy ratio of BRE Bank SA amounted to 19.86%. Additionally the consolidated Tier 1 capital adequacy ratio of BRE Bank Group SA amounted to 13.12% and Tier 1 capital adequacy ratio of BRE Bank SA amounted to 14.16%.

Had in the calculations of consolidated capital adequacy ratios as of 30 June 2013 BRE Bank Group still included own funds and total capital requirement according to the methodology applied in the capital ratios calculation as of 30 June 2012, i.e. determined using standardised approach for credit risk in accordance with the annex No. 4 to the Resolution No. 76/2010 of KNF of 10 March 2010 (with further amendments), the consolidated capital adequacy ratio of BRE Bank Group SA as of 30 June 2013 would have amounted to 15.49% and capital adequacy ratio of BRE Bank SA would have amounted to 16.42%. Additionally the consolidated Tier 1 capital adequacy ratio of BRE Bank Group SA would have amounted to 11.09% and Tier 1 capital adequacy ratio of BRE Bank SA 11.65%.

Selected explanatory information

1. Compliance with international financial reporting standards

The presented consolidated 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.

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

A detailed description of the accounting policy principles of the Group is presented under items 2 and 3 of the Notes to the Condensed Consolidated Financial Statements for the first half of 2013. The accounting policies were applied consistently over all periods presented in the financial statements.

3. Seasonal or cyclical nature of the business

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

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

Events as indicated above did not occur in the Group.

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.

6. Issues, redemption and repayment of non-equity and equity securities

In the first half 2013, BRE Bank redeemed deposit certificates in nominal value of PLN 206 900 thousand, and BRE Bank Hipoteczny (BBH) issued bonds in amount of PLN 230 000 thousand and mortgage bonds in amount of PLN 80 000 thousand. In the same time, BBH redeemed bonds in amount of PLN 395 000 thousand and mortgage bonds in amount of PLN 25 000 thousand.

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.

8. 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 Group.

9. 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 Group ceased its consolidation. On July 15, 2013, the request was filed to remove the company from the register of companies (KRS).

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

11. 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 Group.

12. 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 Group.

13. Revaluation write-offs on account of impairment of financial assets

Data regarding write-offs on account of impairment of financial assets are presented in Note 11 of these Condensed Consolidated Financial Statements.

14. Reversals of provisions against restructuring costs

Events as indicated above did not occur in the Group.

15. 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, with the exception of typical lease and property development operations that are performed by the companies of the Group.

16. Material liabilities assumed on account of acquisition of tangible fixed assets

Events as indicated above did not occur in the Group.

17. 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 Group.

18. 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 Group.

19. Corrections of errors from previous reporting periods

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

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

Events as indicated above did not occur in the Group.

21. 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.

22. 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 Consolidated 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

23. 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 Consolidated Financial Statements for the first half of 2013 PLN (000's)

24. Change in Bank shares and rights to shares held by managers and supervisors

	Number of rights to shares held as at the date of publishing the report for Q1 2013	Number of rights to shares acquired from the date of publishing the report for Q1 2013 to the date of publishing the report for H1 2013	Number of rights to shares realised from the date of publishing the report for Q1 2013 to the date of publishing the report for H1 2013	Number of rights to shares held as at the date of publishing the report for H1 2013
Management Board				
1. Cezary Stypułkowski	-	-	-	-
2. Przemysław Gdański	-	1 950	1 950	-
3. Joerg Hessenmueller	-	-	-	-
4. Lidia Jabłonowska-Luba	-	-	-	-
5. Hans-Dieter Kemler	-	1 962	1 962	-
6. Cezary Kocik	-	-	-	-
7. Jarosław Mastalerz	-	2 187	2 187	-

	Number of shares held as at the date of publishing the report for Q1 2013	Number of shares acquired from the date of publishing the report for Q1 2013 to the date of publishing the report for H1 2013	Number of shares sold from the date of publishing the report for Q1 2012 to the date of publishing the report for H1 2013	Number of shares held as at the date of publishing the report for H1 2013
Management Board				
1. Cezary Stypułkowski	-	-	-	-
2. Przemysław Gdański	1 086	1 950	-	3 036
3. Joerg Hessenmueller	-	-	-	-
4. Lidia Jabłonowska-Luba	-	-	-	-
5. Hans-Dieter Kemler	-	1 962	-	1 962
6. Cezary Kocik	-	-	-	-
7. Jarosław Mastalerz	-	2 187	-	2 187

As at the date of publishing the report for the first quarter of 2013 and as at the date of publishing the report for the first half of 2013, the Members of the Management Board had no Bank rights to shares and they have no Bank rights to shares.

As at the date of publishing the report for the first quarter of 2013, the Members of the Supervisory Board of BRE Bank SA had neither Bank shares nor Bank rights to shares. As at the date of publishing the report for the first half of 2013 Mr. Wiesław Thor, Member of the Supervisory Board of BRE Bank SA, had 5 447 shares of BRE Bank SA.

25. 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, 9 legal compensation suits have been delivered to the Bank. Eight of the nine suits where placed by former clients of Interbrok for the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. Plaintiffs allege that the Bank aided in Interbrok's illegal activities, which caused damage to plaintiffs. The District Court in Warsaw settled 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

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

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.

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.

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

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

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

26. Off-balance sheet liabilities

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

BRE Bank Group consolidated data

	30.06.2013	31.12.2012	30.06.2012
1. Contingent liabilities granted and received	**18 865 172**	**18 314 932**	**18 871 811**
Commitments granted	**17 561 120**	**17 537 692**	**17 973 161**
- financing	14 493 549	14 585 184	15 003 607
- guarantees and other financial facilities	2 901 462	2 549 874	2 969 554
- other commitments	166 109	402 634	-
Commitments received	**1 304 052**	**777 240**	**898 650**
- financial commitments	434 260	-	426
- guarantees	869 792	777 240	898 224
2. Derivative financial instruments (nominal value of contracts)	**719 738 161**	**643 818 208**	**568 766 245**
Interest rate derivatives	666 554 238	604 007 736	525 284 015
Currency derivatives	51 509 149	38 923 265	40 772 839
Market risk derivatives	1 674 774	887 207	2 709 391
Total off-balance sheet items	**738 603 333**	**662 133 140**	**587 638 056**

27. Transactions with related entities

BRE Bank SA is the parent entity of the BRE Bank SA Group and Commerzbank AG is the ultimate parent of the Group as well as the direct parent of BRE Bank SA.

Up to 27 December 2012, the direct parent of BRE Bank SA was Commerzbank Auslandsbanken Holding AG, 100% subsidiary of Commerzbank AG.

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 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 not consolidated by acquisition method			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	59 923	60 645	55 250	1 402 752	927 505	235 611
Liabilities	1 708	994	1 757	22 123 177	21 441 573	23 979 339
Income Statement						
Interest income	1 830	3 623	1 797	60 872	114 886	47 197
Interest expense	(10)	(58)	(45)	(173 415)	(381 400)	(200 979)
Fee and commission income	18	83	16	-	-	-
Fee and commission expense	-	-	-	-	-	-
Other operating inccome	1	-	1	132	113	78
Overhead costs, amortisation and other operating expenses	(26)	-	(85)	(5 269)	(12 309)	(5 973)
Contingent liabilities granted and received						
Liabilities granted	878	3 285	1 028	767 650	834 033	577 137
Liabilities received	-	-	-	599 414	511 959	510 495

28. 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.

29. 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.