BRE BANK SA

BRE Bank SA

IFRS Financial Statements 2008

Contents

Selected Financial Data

The selected financial data are supplementary information to these financial statements of BRE Bank SA for 2008.

SELECTED FINANCIAL DATA FOR THE BANK		in'000 PLN (functional currency)		in EUR '000	
		Year ended 31.12.2008	Year ended 31.12.2007	Year ended 31.12.2008	Year ended 31.12.2007
I.	Interest income	**2 940 153**	**1 860 514**	**832 409**	**492 617**
II.	Fee and commission income	**704 842**	**566 875**	**199 553**	**150 094**
III.	Net trading income	**447 478**	**472 361**	**126 689**	**125 069**
IV.	Operating profit	**901 487**	**788 428**	**255 227**	**208 756**
V.	Profit before income tax	**901 487**	**788 428**	**255 227**	**208 756**
VI.	Net profit	**829 531**	**637 231**	**234 855**	**168 722**
VII.	Net cash flows from operating activities	**(6 895 493)**	**(4 502 515)**	**(1 952 236)**	**(1 192 151)**
VIII.	Net cash flows from investing activities	**577 299**	**(12 887)**	**163 444**	**(3 412)**
IX.	Net cash flows from financing activities	**7 165 940**	**3 073 570**	**2 028 804**	**813 803**
X.	Net decrease in cash and cash equivalents	**847 746**	**(1 441 832)**	**240 012**	**(381 760)**
XI.	Total assets	**72 355 392**	**48 368 737**	**17 341 432**	**13 503 277**
XII.	Amounts due to the Central Bank	**1 302 469**	**-**	**312 163**	**-**
XIII.	Amounts due to other banks	**20 142 760**	**7 931 827**	**4 827 620**	**2 214 357**
XIV.	Amounts due to customers	**37 438 494**	**32 734 316**	**8 972 892**	**9 138 558**
XV.	Equity	**3 624 147**	**3 080 133**	**868 600**	**859 892**
XVI.	Share capital	**118 764**	**118 643**	**28 464**	**33 122**
XVII.	Number of shares	**29 690 882**	**29 660 668**	**29 690 882**	**29 660 668**
XVIII.	Book value per share (in PLN/EUR)	**122.06**	**103.85**	**29.25**	**28.99**
XIX.	Diluted book value per share (in PLN/EUR)	**121.98**	**103.74**	**29.23**	**28.96**
XX.	Capital adequacy ratio	**10.04**	**10.65**	**10.04**	**10.65**
XXI.	Earnings per 1 ordinary share (in PLN/EUR per share) (for 12 months)	**27.95**	**21.54**	**7.91**	**5.70**
XXII.	Diluted earnings per 1 ordinary share (in PLN/EUR per share) (for 12 months)	**27.93**	**21.52**	**7.91**	**5.70**
XXIII.	Declared or paid dividend per share (in PLN/EUR per share)	**-**	**-**	**-**	**-**

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

- for balance sheet items – an exchange rate announced by the National Bank of Poland as at 31 December 2008 EUR 1 = PLN 4.1724 and an exchange rate announced by the National Bank of Poland as at 31 December 2007 EUR 1 = PLN 3.582;
- for profit and loss account items – an exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2008 and 2007: EUR 1 = PLN 3.5321 and EUR 1 = PLN 3.7768 respectively.

IFRS Financial Statements 2008 PLN (000's)

Income Statement

	Note	Year ended 31 December 2008	2007
Interest income	5	2 940 153	1 860 514
Interest expense	5	(1 812 886)	(1 073 212)
Net interest income		**1 127 267**	**787 302**
Fee and commission income	6	704 842	566 875
Fee and commission expense	6	(280 876)	(182 770)
Net fee and commission income		**423 966**	**384 105**
Dividend income	7	68 681	37 726
Net trading income, including:	8	447 478	472 361
Foreign exchange result		*482 361*	*427 530*
Other trading income		*(34 883)*	*44 831*
Gains less losses from investment securities	22	265 457	132 038
Other operating income	9	43 742	59 266
Impairment losses on loans and advances	13	(218 747)	(58 222)
Overhead costs	10, 12	(1 070 917)	(867 905)
Amortization and depreciation	25, 26	(159 798)	(138 952)
Other operating expenses	11	(25 642)	(19 291)
Operating profit		**901 487**	**788 428**
Profit before income tax		**901 487**	**788 428**
Income tax expense	14	(71 956)	(151 197)
Net profit		**829 531**	**637 231**
Net profit		**829 531**	**637 231**
Weighted average number of ordinary shares		**29 680 542**	**29 578 675**
Earnings per 1 ordinary share (in PLN)	15	**27.95**	**21.54**
Weighted average number of ordinary shares for diluted earnings		**29 701 246**	**29 608 139**
Diluted earnings per 1 ordinary share (in PLN)	15	**27.93**	**21.52**

Notes presented on pages 8 – 84 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2008 PLN (000's)

Balance Sheet

	Note	31.12.2008	31.12.2007
ASSETS			
Cash and balances with the Central Bank	16	2 491 851	1 998 380
Debt securities eligible for rediscounting at the Central Bank	17	9 238	23 259
Loans and advances to banks	18	6 065 581	2 166 310
Trading securities	19	4 969 212	4 575 320
Derivative financial instruments	20	5 612 313	2 263 845
Loans and advances to customers	21	42 257 165	26 378 887
Investment securities	22	5 498 171	6 226 318
- Available for sale		5 498 171	6 226 318
Non-current assets held for sale	28	-	335 819
Pledged assets	38	3 443 989	2 812 277
Investments in subsidiaries	23	457 305	449 098
Intangible assets	25	406 360	379 504
Tangible fixed assets	26	601 649	532 175
Deferred income tax assets	35	156 747	2 824
Other assets	27	385 811	224 721
Total assets		**72 355 392**	**48 368 737**
EQUITY AND LIABILITIES			
Amounts due to the Central Bank	29	1 302 469	-
Amounts due to other banks	29	20 142 760	7 931 827
Derivative financial instruments and other trading liabilities	20	6 211 316	2 181 420
Amounts due to customers	30	37 438 494	32 734 316
Debt securities in issue	31	7 829	36 810
Subordinated liabilities	32	2 669 453	1 661 785
Other liabilities	33	654 676	552 894
Current income tax liabilities		214 145	120 659
Deferred income tax provision	35	81	62
Provisions	34	90 022	68 831
Total liabilities		**68 731 245**	**45 288 604**
Equity			
Share capital:		**1 521 683**	**1 517 432**
- Registered share capital	39	118 764	118 643
- Share premium	40	1 402 919	1 398 789
Revaluation reserve	41	**(221 303)**	**79 231**
Retained earnings:	42	**2 323 767**	**1 483 470**
- Profit from the previous years		1 494 236	846 239
- Profit for the current year		829 531	637 231
Total equity		**3 624 147**	**3 080 133**
Total equity and liabilities		**72 355 392**	**48 368 737**
Capital adequacy ratio	48	**10.04**	**10.65**
Book value		**3 624 147**	**3 080 133**
Number of shares		**29 690 882**	**29 660 668**
Book value per share (in PLN)		**122.06**	**103.85**
Diluted number of shares		**29 711 586**	**29 690 132**
Diluted book value per share (in PLN)		**121.98**	**103.74**

Notes presented on pages 8 – 84 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2008 PLN (000's)

Statement of Changes in Equity

Changes in equity from 1 January 2008 to 31 December 2008

	Note	Share capital		Revaluation reserve	Retained earnings					Total equity
		Registered share capital	Share premium		Other supplementary capital	Other reserve capital	General risk fund	Profit from the previous years	Profit for the current year	
Equity as at 1 January 2008		**118 643**	**1 398 789**	**79 231**	**286 893**	**1 346**	**558 000**	**637 231**	**-**	**3 080 133**
- reclassification to book value through profit and loss account		-	-	-	-	-	-	-	-	**-**
- changes to accounting policies		-	-	-	-	-	-	-	-	**-**
- adjustment of errors		-	-	-	-	-	-	-	-	**-**
Adjusted equity as at 1 January 2008		**118 643**	**1 398 789**	**79 231**	**286 893**	**1 346**	**558 000**	**637 231**	**-**	**3 080 133**
Net change in investments available for sale, net of tax	41	-	-	(292 476)	-	-	-	-	-	(292 476)
Currency translation differences	41	-	-	(8 058)	-	-	-	-	-	(8 058)
Net profit/(loss) not recognised in the income statement		**-**	**-**	**(300 534)**	**-**	**-**	**-**	**-**	**-**	**(300 534)**
Net profit	42	-	-	-	-	-	-	-	829 531	**829 531**
Total profit recognised in current year		**-**	**-**	**(300 534)**	**-**	**-**	**-**	**-**	**829 531**	**528 997**
Transfer to General Risk Fund		-	-	-	-	-	50 000	(50 000)	-	-
Transfer to supplementary capital		-	-	-	587 231	-	-	(587 231)	-	-
Issue of shares	39, 40	121	2 784	-	-	-	-	-	-	2 905
Other changes		-	-	-	(1)	-	-	-	-	(1)
Stock option program for employees	42	-	1 346	-	-	10 767	-	-	-	12 113
- value of services provided by the employees		-	-	-	-	12 113	-	-	-	*12 113*
- settlement of exercised options		-	1 346	-	-	(1 346)	-	-	-	-
Equity as at 31 December 2008		**118 764**	**1 402 919**	**(221 303)**	**874 123**	**12 113**	**608 000**	**-**	**829 531**	**3 624 147**

Changes in equity from 1 January 2007 to 31 December 2007

	Note	Share capital		Revaluation reserve	Retained earnings					Total equity
		Registered share capital	Share premium		Other supplementary capital	Other reserve capital	General risk fund	Profit from the previous years	Profit for the current year	
Equity as at 1 January 2007		**118 064**	**1 378 882**	**3 959**	**12 388**	**7 275**	**558 000**	**274 505**	**-**	**2 353 073**
- reclassification to book value through profit and loss account		-	-	-	-	-	-	-	-	**-**
- changes to accounting policies		-	-	-	-	-	-	-	-	**-**
- adjustment of errors		-	-	-	-	-	-	-	-	**-**
Adjusted equity as at 1 January 2007		**118 064**	**1 378 882**	**3 959**	**12 388**	**7 275**	**558 000**	**274 505**	**-**	**2 353 073**
Net change in investments available for sale, net of tax	41	-	-	78 166	-	-	-	-	-	78 166
Currency translation differences	41	-	-	(2 894)	-	-	-	-	-	(2 894)
Net profit not recognised in the income statement		**-**	**-**	**75 272**	**-**	**-**	**-**	**-**	**-**	**75 272**
Net profit	42	-	-	-	-	-	-	-	**637 231**	**637 231**
Total profit recognised in current year		**-**	**-**	**75 272**	**-**	**-**	**-**	**-**	**637 231**	**712 503**
Transfer to supplementary capital		-	-	-	274 505	-	-	(274 505)	-	-
Issue of shares	39, 40	579	13 330	-	-	-	-	-	-	13 909
Stock option program for employees	42	-	6 577	-	-	(5 929)	-	-	-	648
- value of services provided by the employees		-	-	-	-	*648*	-	-	-	*648*
- settlement of exercised options		-	*6 577*	-	-	*(6 577)*	-	-	-	-
Equity as at 31 December 2007		**118 643**	**1 398 789**	**79 231**	**286 893**	**1 346**	**558 000**	**-**	**637 231**	**3 080 133**

Notes presented on pages 8 – 84 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2008 PLN (000's)

Cash Flow Statement

	Note	Year ended 31 December 2008	2007
A. Cash flow from operating activities		**(6 895 493)**	**(4 502 515)**
Profit before income tax		**901 487**	**788 428**
Adjustments:		***(7 796 980)***	***(5 290 943)***
Income taxes paid (negative amount)		(118 475)	(20 624)
Amortisation		159 798	138 952
Foreign exchange (gains) losses		639 366	(187 385)
(Gains) losses on investing activities		(271 122)	(93 263)
Impairment of financial assets		11 020	63
Dividends received		(68 681)	(37 726)
Interest paid		1 665 572	1 057 819
Change in loans and advances to banks		(284 959)	(157 750)
Change in trading securities		(4 114 256)	101 482
Change in derivative financial instruments		(3 348 468)	(852 815)
Change in loans and advances to customers		(15 878 278)	(8 689 131)
Change in investment securities		261 017	(3 243 823)
Change in other assets		(160 772)	(10 483)
Change in amounts due to other banks		6 030 738	(239 403)
Change in financial instruments and other trading liabilities		4 029 896	913 595
Change in amounts due to customers		3 522 914	5 967 770
Change in debt securities in issue		219	595
Change in provisions		21 191	1 457
Change in other liabilities		106 300	59 727
Net cash from operating activities		**(6 895 493)**	**(4 502 515)**
B.Cash flows from investing activities		**577 299**	**(12 887)**
Investing activity inflows		**818 121**	**214 101**
Disposal of shares or stocks in associates	28	485 013	-
Disposal of shares or stocks in subsidiaries, net of cash disposed		50	173 504
Disposal of intangible assets and tangible fixed assets		342	2 871
Other investing inflows		332 716	37 726
Investing activity outflows		**240 822**	**226 988**
Acquisition of shares or stocks in subsidiaries, net of cash acquired		5	29 153
Purchase of intangible assets and tangible fixed assets		240 817	197 835
Net cash used in investing activities		**577 299**	**(12 887)**
C. Cash flows from financing activities		**7 165 940**	**3 073 570**
Financing activity inflows		**11 704 517**	**4 368 750**
Proceeds from loans and advances from other banks		10 954 760	3 124 658
Increase of subordinated liabilities		746 852	1 230 184
Issue of ordinary shares		2 905	13 908
Financing activity outflows		**4 538 577**	**1 295 180**
Repayments of loans and advances from other banks		3 640 500	124 927
Repayments of other loans and advances		106 718	18 849
Redemption of debt securities		29 200	-
Decrease of subordinated liabilities		359 500	969 100
Payments of financial lease liabilities		14 380	-
Other financing outflows		388 279	182 304
Net cash from financing activities		**7 165 940**	**3 073 570**
Net increase / decrease in cash and cash equivalents (A+B+C)		**847 746**	**(1 441 832)**
(Decrease)/increase in cash and cash equivalents in respect of foreign exchange gains and losses		157 364	(1 023)
Cash and cash equivalents at the beginning of the reporting period		7 508 153	8 951 008
Cash and cash equivalents at the end of the reporting period	44	**8 513 263**	**7 508 153**

Notes presented on pages 8 – 84 constitute an integral part of these Financial Statements.

Explanatory Notes to the Financial Statements

1. Information Concerning BRE Bank SA

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

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

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

In November 2007, foreign branches of mBank in both the Czech Republic and Slovakia opened business under the retail banking umbrella of BRE Bank.

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

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

The average employment in 2008 was in BRE Bank SA 5 364 persons (2007: 4 374 persons).

The Management Board of BRE Bank SA approved these Financial Statements for issue on 27 February 2009.

2. Description of Relevant Accounting Policies

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

Accounting Basis

These Financial Statements of the BRE Bank SA have been prepared for the 12 - month period ended 31 December 2008.

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

The drafting of the financial statements in compliance with IFRSs requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Bank. The issues in relation to which a greater degree of judgment is required, more complex issues, or such issues which involve a significant degree of application of estimates or judgments for the purpose of the Financial Statements are disclosed in the Note 4.

The Bank also prepares Consolidated Financial Statements in accordance with IFRSs. BRE Bank SA Group Consolidated Financial Statements for the year 2008 was published on 27 February 2009.

Interest Income and Expenses

All interest proceeds linked with financial instruments carried at amortised cost using the effective interest rate method are recognised in the Profit and Loss Account.

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

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

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

Interest income, including interest on loans, is recognised in the Profit and Loss Account, and on the other side in the Balance Sheet as receivables from banks or from other customers.

Interest income on impaired loans is recognised in interest income with the application of interest rates used to discount the future cash flows for the purpose of measuring impairment losses.

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

Fee and Commission Income

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

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

Financial Assets

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

<u>Financial assets valued at fair value through the profit and loss account</u>

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

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

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

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

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

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

The Bank also designates the financial assets/financial liabilities at fair value through the Profit and Loss Account when doing so results in more relevant information, because either

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

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

Interest income/expense on financial assets/financial liabilities designated at fair value, except for derivatives the recognition of which is discussed in the Note 2.10, is recognized in net interest income. The valuation and result on disposal of financial assets/liabilities designated at fair value are recognized in net trading income.

The Bank did not designate any financial assets/financial liabilities at fair value through the Profit and Loss Account at the initial recognition.

<u>Loans and Receivables</u>

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

<u>Held to Maturity Investments</u>

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

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

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

<u>Available for Sale Investments</u>

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

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

Standardized purchases and sales of financial assets at fair value through the Profit and Loss Account, held to maturity and available for sale are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs, except for financial assets at fair value through the Profit and Loss Account. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and where the Bank has transferred substantially all risks and rewards of ownership.

Available for sale financial assets and financial assets measured at fair value through the Profit and Loss Account are valued at the Balance Sheet date 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. Profits and losses resulting from changes in the fair value of "financial assets measured at fair value through the Profit and Loss Account" are recognised in the Profit and Loss Account in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in equity until the derecognition of the respective financial asset in the Balance Sheet or until its impairment: at such time the aggregate net gain or loss previously recognised in equity is now recognised in the Profit and Loss Account. However, interest calculated using the effective interest rate is recognised in the Profit and Loss Account. Dividends on available for sale equity instruments are recognised in the Profit and Loss Account when the entity's right to receive payment is established.

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

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

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognized in the Balance Sheet at the purchase price reduced by impairment.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Balance Sheet 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.

Impairment of Financial Assets

Assets Carried at Amortised Cost

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

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

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

If there is impairment indicator for loans and receivables or investments held to maturity and recognised at amortised cost, the impairment amount is calculated as the difference between the carrying value in the Balance Sheet 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 Profit and Loss Account. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

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

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

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

When a loan is uncollectible, it is written off against the related provision for impairment. Before any loan is written off, it is necessary to conduct all the required procedures and to determine the amount of the loss. Subsequent recoveries of amounts previously written off decrease (in accordance with IAS 39) the amount of the provision for loan impairment in the Profit and Loss Account.

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 Profit and Loss Account.

Assets Measured at Fair Value

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

Renegotiated agreements

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

Financial Guarantee Contracts

In accordance with amendment to IAS 39, which came into force at 1 January 2006, the Bank has an obligation to recognize financial guarantee contracts in its financial statements.

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

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

1. the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and

2. the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 Revenue.

Cash and Cash Equivalents

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

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

Sell-buy-back, Buy-sell-back, Reverse Repo and Repo Contracts

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

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

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

Securities borrowed by the Bank are not recognized in the financial statements, unless they are sold to third parties. In such case the purchase and sale transactions are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as trading liability.

Securities borrowed under "buy-sell-back" transactions and then lent under "sell-buy-back" transactions are not recognised as financial assets.

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

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 Balance Sheet as assets, those with a negative value as liabilities.

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

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

In accordance with IAS 39 AG 30 (g), there is no need to separate the prepayment option from the host debt instrument for the needs of 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 linked to the underlying debt instrument, the option should be separeted and fair valued in the financial statements of the Bank.

The method of recognising the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item.

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

a) 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.
b) 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.
c) 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.
d) 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.
e) The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

Income and expense from interest rate derivative financial instruments and their valuation are presented in net trading income.

<u>Fair Value Hedges</u>

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognised in the Profit and Loss Account 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 Profit and Loss Account over the period to maturity. The adjustment to the carrying amount of the hedged equity security remains in the revaluation reserve until the disposal of the equity security.

<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 equity. The gain or loss concerning the ineffective part is recognised in the Profit and Loss Account of the current period.

The amounts recognised in equity are transferred to the Profit and Loss Account and recognised as income or cost of the same period in which the hedged item will affect the Profit and Loss Account (e.g., at the time when the forecast sale that is hedged takes place).

In case the hedging instrument has expired or has been sold, or the hedge has ceased to fulfil the criteria of hedge accounting, any aggregate gains or losses recognised at such time in equity remain in equity until the time of recognition in the Profit and Loss Account of the forecast transaction. When a forecast transaction is no longer expected to occur, the aggregate gains or losses recorded in equity are immediately transferred to the Profit and Loss Account.

<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 Profit and Loss Account of the current period.

The Bank holds the following derivative instruments in its portfolio:

Market risk instruments:

a) Futures contracts for bonds, index futures
b) Options for securities and for stock-market indices
c) Options for futures contracts

d) Forward transactions for securities
e) Commodity swaps

Interest rate risk instruments:

a) Forward Rate Agreement (FRA)
b) Interest Rate Swap (IRS), Cross Overnight Index Swap (OIS)
c) Interest Rate Options

Foreign exchange risk instruments:

a) Currency forwards, fx swap, fx forward,
b) Cross Currency Interest Rate Swap (CIRS),
c) Currency options

Gains and Losses on Initial Recognition

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

The transaction for which the fair value determined using a valuation model (where inputs are both observable and non-observable data) and the transaction price differ, the initially recognition is at the transaction price. The Bank assumes that the transaction price is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is not recognised immediately in the Profit and Loss Account.

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

Borrowings

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

Intangible Assets

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

<u>Computer software</u>

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. These costs are amortised on the basis of the expected useful life of the software (2-11 years). Expenses attached to the development or maintenance of computer software are expensed when incurred. Costs directly linked to the development of identifiable and unique proprietary computer programmes controlled by the 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".

<u>Development costs</u>

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

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

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

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

Tangible Fixed Assets

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

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

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

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

- Buildings and constructed structures	25-40 years,
- Technical plant vehicles	5-15 years,
- Transport vehicles	5 years,
- Information technology hardware	3.33-5 years,
- Investments in the third party (leased) fixed assets	10-40 years or the period of the lease contract,
- Offiice 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 each Balance Sheet date 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 Balance Sheet might not be possible to be recovered. The value of a fixed asset carried in the Balance Sheet is reduced to the level of its recoverable value if the carrying value in the Balance Sheet exceeds the estimate recoverable amount. The recoverable value is the higher of two amounts: the fair value of the fixed asset reduced by its selling costs and the value in use.

If it is not possible to estimate the recoverable amount of the individual asset, the Bank shall determine the recoverable amount of the cash-generating unit to which the asset belongs (cash-generating unit of given component 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 Balance Sheet and they are recognised in the Profit and Loss Account.

Non-Current Assets Held for Sale and Discontinued Operation

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

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

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

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

Discontinued operations are a component of the Bank that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations 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.

Deferred Income Tax

The Bank forms a provision/assets for the temporary difference on account of deferred corporate income tax arising due to the discrepancy between the timing of recognition of income as earned and of costs as incurred according to accounting regulations and according to legal regulations concerning corporate income taxation. A positive net difference is recognised in liabilities as "Provisions for deferred income tax". A negative net difference is recognised under "Deferred income tax assets". Any change in the balance of the deferred tax liability in relation to the previous accounting period is recorded under the item "Income tax". The balance sheet method is applied for the calculation of the deferred corporate income tax.

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

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

Deferred income tax assets are recognised at their realisable value. If the forecast amount of income determined for tax purposes does not allow the realisation of the asset for deferred income tax in full or in part, such an asset is recognised to the respective amount, accordingly. The above described principle also applies to tax losses recorded as part of the deferred tax asset.

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

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

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

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

Assets Repossessed for Debt

Assets repossessed for debt at their initial recognition are measured at their fair values. In case the fair value of acquired assets is higher than the debt amount the difference constitutes a liability toward the debtor.

At subsequent measurement the initial amount is tested for impairment.

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 Balance Sheet under "Other assets".

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

Leasing

BRE Bank SA as a Lessee

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

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

Provisions

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

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

Retirement Benefits and Other Employee Benefits

Retirement Benefits

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

Benefits Based on Shares

The Bank runs a program of remuneration based on and settled in own shares and shares of the ultimate parent entity. These benefits are accounted for in compliance with IFRS 2 Share-based Payment. The fair value of the work performed by employees in return for options and shares granted increases the costs of the respective period, corresponding to own equity in the case of own shares and commitments in the case of shares of the ultimate parent entity. 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 each Balance Sheet date, 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 recognize the change in fair value of the share-based payment over the term of the program.

Equity

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

Registered share capital

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

a) Share Issue Costs

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

b) Dividends

Dividends for the given year, which have been approved by the Extraordinary General Meeting but not distributed at the Balance Sheet date, are shown under the liabilities on account of dividends payable under the item of "Other liabilities".

c) Own Shares

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

Share premium

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

Revaluation reserve

Revaluation reserve is formed as a result of:

- valuation of available for sale financial instruments,
- valuation of cash flow hedge financial assets,
- currency translation differences resulting from valuation of structural items.

Retained earnings

Retained earnings include:

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

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

Moreover, other reserve capital comprises valuation of employee options.

Valuation of Items Denominated in Foreign Currencies

Functional Currency and Presentation Currency

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

Transactions and Balances

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

Foreign exchange differences arising on account of such non-monetary items such as financial assets measured at fair value through the Profit and Loss Account 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 revaluation reserve.

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 Profit and Loss Account, and foreign exchange differences relating to other changes in carrying amount, which are recognised under revaluation reserve.

Balance sheet items of foreign branches of the Bank are converted from functional currency to the presentation currency with the application of average exchange rate on the balance sheet date. Profit and Loss Account items are converted to the presentation currency with the application of average exchange rates as at the end of each month of the reporting period. Foreign exchange differences so arisen are recognized under revaluation reserve.

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

New Standards, Interpretations and Amendments to Published Standards

Changes in the published Standards and Interpretations that have come into force since 1 January 2008:

- IFRIC 11, IFRS 2: Group and Treasury Share Transactions, binding for the annual periods starting after 1 March 2007
- IFRIC 12, Service Concession Agreements, binding for annual periods starting after 1 January 2008
- IFRIC 14 – IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, binding for annual periods starting after 1 January 2008

Changes in the published Standards and Interpretations that have come into force since 1 July 2008:

- Reclassification of Financial Assets, Amendments to IAS 39 and IFRS 7, binding since 1 July 2008.

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

- IFRIC 13, Customer Loyalty Programmes, binding for annual periods starting after 1 July 2008
- IFRIC 15, Agreements for the Construction of Real Estate, binding for annual periods starting on or after 1 January 2009
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation, binding for annual periods starting on or after 1 October 2008
- IFRIC 17, Distribution of Non-Cash Assets of Owners, binding for annual periods starting after 1 July 2009
- IFRIC 18, Transfers of Assets from Customers, binding for annual periods starting after 1 July 2009
- IFRS 1 (Revised), First-Time Adoption of International Accounting Standards and IAS 27 (Revised), Consolidated and Separate Financial Statements, binding for annual periods starting on or after 1 January 2009
- IFRS 2 (Revised), Share-based Payment, binding for annual periods starting on or after 1 January 2009
- IFRS 3 (Revised), Business Combinations, binding prospectively to business combinations for which the acquisition date is on or after 1 July 2009
- IFRS 8, Operating Segments, binding for annual periods starting after 1 January 2009
- IAS 1 (Revised), Presentation of Financial Statements, binding for annual periods starting on or after 1 January 2009
- IAS 23 (Revised), Borrowing Costs, binding for annual periods starting on or after 1 January 2009
- IAS 27 (Revised), Consolidated and Separate Financial Statements, binding for annual periods starting after 1 July 2009
- IAS 32 (Revised), Financial Instruments: Presentation and IAS 1 (Revised), Presentation of Financial Statements-Puttable Financial Instruments and Obligation arising on Liquidation, binding for annual periods starting after 1 January 2009
- IAS 39 (Revised), Financial Instruments: Recognition and Measurement – criteria of qualification as hedged item, binding for annual periods starting on or after 1 July 2009
- Improvements to IFRS 2008 revising 20 standards, binding mostly for annual periods starting on 1 January 2009.

The following Standards, Interpretations and improvements to published Standards were not approved by the European Union at the date of publishing of financial statements: IAS 27 (revised), IAS 32 (revised), IAS 39 (revised), IFRS 1 (revised), IFRS 3 (revised), IFRIC 12, IFRIC 15, IFRIC 16, IFRIC 17 and IFRIC 18.

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

The Bank did not take the opportunity of reclassification of financial instruments to other categories based on amendment to IAS 39 and IFRS 7, binding since 1 July 2008.

IFRS Financial Statements 2008 PLN (000's)

Comparative Data

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

In the current reporting period the Bank modified accounting for "buy-sell-back" and "sell-buy-back" transactions. The new treatment consists of an individual rather than a collective approach to each subportfolio of debt instruments subjected to these transactions as it better reflects the character of the transactions conducted by the Bank.

The restatement had no impact on the amounts of profit and equity in presented comparative data as at 31 December 2007.

The following combination presents the impact of the restatement on presented comparative data in these financial statements.

Changes in the Balance Sheet as at 31 December 2007.

	31.12.2007 before adjustments	**presentation adjustments**	**31.12.2007 after adjustments**
Trading securities	3 721 311	854 009	4 575 320
Pledged assets	3 707 359	(895 082)	2 812 277
Amounts due to banks	7 972 900	(41 073)	7 931 827
Total assets	48 409 810	(41 073)	48 368 737

Business segments

Data concerning business segments were presented in the Consolidated Financial Statements of the BRE Bank SA Group for the year 2008, prepared in compliance with the International Financial Reporting Standards, published on 27 February 2009.

3. Financial Risk Management

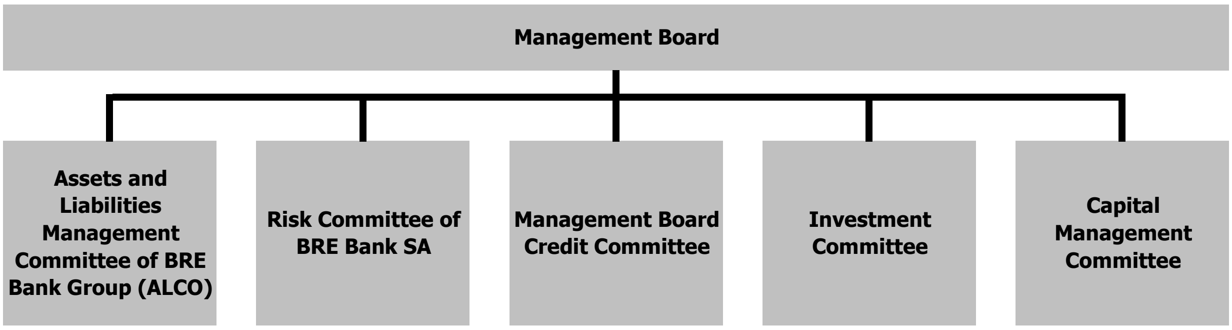
The structure of Risk Management in BRE Bank

Risk management in BRE Bank starts with widely understood responsibility of the Supervisory Board of BRE Bank, which, among other activities, grants approvals to the Bank's risk management strategies and polices. The Supervisory Board Risk Committee is a body within the Board aimed both at risk management processes supervision (especially market, liquidity, credit and operational risk management) and at assessment of the Bank's exposure to particular risks.

The Management Board Members of the Bank, adequately to their duties and powers, have assigned responsibilities for the different risk types present in the Bank's activities. The President of the Management Board of the Bank is responsible for the Bank's business strategy, reputation risk and compliance risk. The Deputy President, Chief Risk Officer bears responsibility for the supervision of all quantifiable types of risk, i.e., credit, market, liquidity and operational risk, and accordingly for the implementation of the risk strategies and realization of the risk management polices in the Bank. The Head of Investment Banking, Member of the Management Board is responsible for the investment risks. The Head of Operations and IT bears responsibility for business processes risk. Moreover, the human resources risks are under supervision of the Bank Director in charge of Human Resources Management.

The daily management of credit, market, liquidity and operational risks, is performed on several defined management levels, ranging from the Management Board level at the top to the risk control and management units level at the bottom. In order to effectively execute the above mentioned risk management duties, the Management Board has defined the appropriate organizational structure of the Bank with clearly assigned and divided responsibilities of particular units, as well as has delegated the supervision of different types of risk to the respective Committees. The below chart presents the structure of the Committees:

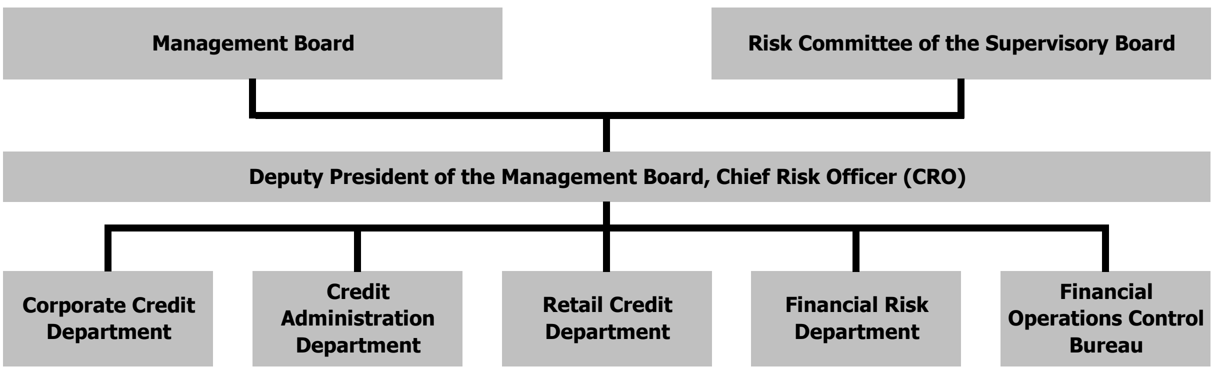
Committees of Management Board



The Risk Committee of BRE Bank SA carries out the Management Board responsibilities in the area of control and management of financial risk (i.e., market, liquidity and banking book interest rate risk), portfolio credit risk and operational risk, including coordination of actions of the Bank's units participating in relevant risk management processes. The Risk Committee is comprised of four Management Board Members, out of which the Chief Risk Officer chairs the Committee, and of the heads of the departments which control and monitor the risks, of the heads of departments which manage operationally the relevant risks, and of the heads of the Controlling Department, the Strategy Department, and the Internal Audit Department. The Committee is responsible for: setting the rules and the framework for the processes of control of financial and operational risks, setting the risk limits, accepting methodologies for calculations of regulatory and economical capital, approving financial risk measurement methodologies and reporting forms, setting the rules for inclusion of Bank's operations in the trading book or in the banking book respectively, setting the structure and minimal volume of liquidity reserves of the Bank, taking actions to neutralize possibility of loosing the Bank's liquidity. Moreover, the Risk Committee reviews regularly the Bank's exposure to market risk, banking book interest rate risk, liquidity risk, portfolio credit and operational risk, and assesses the Bank's capital adequacy level and the level of capital requirements, and reviews operational losses and the profile of operational risk of the Bank, reviews utilization of limits established by the Committee and limits imposed by external supervisory institutions, presettlement and settlement limits, P&L results of front-office departments, and price conformity of concluded transactions with the market. The Committee holds its meetings on at least monthly basis.

The Management Board Credit Committee consists of: the Management Board Members, the adviser of the Management Board and the Heads of: Corporate Credit Department, Credit Administration Department (both Heads of the Departments enjoy voting power), Trading Transaction Department (the Head of the Department does not enjoy voting power). The Committee is responsible for credit decisions concerning: exposures exceeding PLN 50 million; debt conversions into shares, bonds etc. and other decisions exceeding competences of lower level decision-making bodies. This Committee meets on weekly basis and ad hoc in justifiable cases.

The Chief Risk Officer (CRO) supervises the Risk Line, which consists of the Bank's units shown in the bottom on the diagram below.



Credit risk management is an integrated and continuous process operating at both the transaction and portfolio levels. The process is carried out within the credit departments responsible for clear defining complementary areas. The mission of the Corporate Credit Department (DKK) is mainly focused on the implementation of the Bank's credit policy as well as credit risk controlling and management in the area of Corporate Banking on the Bank level and the level of the subsidiaries of BRE Bank Group. The key functions of the DKK include: analyzing and managing credit risk of the Bank's customers and the BRE Bank Group's subsidiaries (except for retail credits); monitoring the structure of exposure of the risk portfolio; analyzing and managing country credit risk and controlling country limits; controlling customer limits (for non-financial customers, banks, and international financial institutions); assignment of customer and Expected Loss ratings. The mission of the Credit Administration Department (DAK) is to administer credit risk in the Corporate Banking and Private Banking Area. In particular, DAK administers credit risk provisions and monitors concentration risk in the case of large exposures. The mission of the Retail Credit Department is credit risk management within the framework of Retail Banking. The main credit risk management functions of the Department include: administering and calculating the greatness of loans to customers of Retail Banking, monitoring and enforcing loan receivables and implementation of decision-making system. All of the three Departments cooperate closely in common areas. Finally, the credit risk on the portfolio level is monitored, valued and reported by the Financial Risk Department (DRF).

Market risk is controlled and monitored by the DRF and the Financial Operations Control Bureau (BKF). In relation to this task, DRF is responsible for development of market risk measurement methodologies, producing financial instruments valuation models, measurement of front-office units' portfolios exposures to market risk using Value at Risk (VaR) and stress tests methodologies. DRF controls and monitors utilization of the limits set by the Risk Committee for these risk measures, provides daily and periodical reporting on the market risk exposition to the front-office units, to relevant Committees, and, directly, to the Chief Risk Officer. Moreover, DRF monitors the level of market risk in the subsidiaries of BRE Bank Group.

Financial Operations Control Bureau calculates daily P&L on transactions carried out by the front-office units and delivers daily reconciled P&L to the financial division. Moreover, the Bureau is responsible for the administration of the front-office dealing systems, grants access rights to the systems and delivers proper market data to the systems. BKF monitors whether transactions carried out are within earlier established credit limits (pre-settlement, settlement, issuer and country risk) imposed on trading activities and monitors infringement escalation. Moreover, BKF verifies the conformity with the market prices binding at the timing of the transactions carried out by the front-office units.

The purpose of liquidity risk management is to ensure and maintain the Bank's ability to fulfill both current and future liabilities taking into account the cost of liquidity obtaining. The Treasury Department is responsible for the liquidity management. The Financial Risk Department is in charge of controlling and monitoring financial liquidity risk of the Bank on the strategic level and carrying reporting to the Chief Risk Officer and to the Risk Committee of BRE Bank. The Financial Risk Department monitors on a daily basis the financial liquidity using methods based on the cash flow analysis. The liquidity risk measurement is based on the internal model, which has been established taking into consideration the specific character of the Bank, volatility of deposit base, level of funding concentration and projected development of particular portfolios. The value of mismatch of cash flows over defined periods of time (the liquidity gap), the level of liquidity reserve of the Bank, the usage of external and internal liquidity limits are monitored daily. The Bank assesses the currently liquidity situation and the probability of its deterioration using scenario's methods including stress tests. The Bank established the Liquidity Contingency Plan, which regulates the proceedings in the case of illiquidity threat. The Contingency Plan defines the organization of appropriate warning system, the scope of responsibilities of particular people and Committees in relation to the whole process and on each of its stages.

The operational risk control and monitoring function is realized by the Financial Risk Department to keep close control over operational risk on the Bank and the BRE Bank Group (consolidated) level. As a part of the operational risk control activities BRE Bank collects data about operational risk events and losses (loss collection database), regularly carries out the operational risk self-assessment within organizational units, collects and monitors key risk indicators and performs scenario analysis in order to identify exposure to potential high-severity events. At the same time the function maintains the communication channels for remedial action once the systems spots critical patterns of operational risk in any area of business or support. The results of operational risk control and monitoring are reported to the Supervisory Board, Financial Risk Committee and the Chief Risk Officer on a regular basis. Financial Risk Department – within the scope of its operational risk control function duties – closely cooperates with other units and projects within the Bank in particular with the Compliance Bureau, the Internal Audit Department and the Business Continuity Project.

The enhanced credit risk control function on the Group level is carried out by a specially dedicated Bureau established in the Corporate Credit Department. The main tasks of the Bureau are: analysing credit risk connected with new exposures of the companies and taking part in credit risk committees, monitoring credit risk of the biggest exposures, analysis of risk portfolio quality, participation in development and modification of strategies, policies and risk management rules applied by the companies and the supervision over planning and realization of provisions, furthermore the biggest exposures audit with reference to the whole Group's commitments (consolidation of commitments).

The important part in the risk management process in the Bank plays well organized reporting system. On one hand, the Heads of the Bank's organizational units that deal with risk management operationally, report directly and on ongoing basis to the Management Board Members responsible for the relevant units. On the other hand, with regard to quantifiable risks, units of the Risk Line that control and monitor these risks, submit independent risk reports to the Heads of the Departments that manage the respective risks operationally, to the Chief Risk Officer, and to appropriate Risk Committees of the Bank. The CRO regularly presents reports concerning the risks under his supervision to the Risk Committee of the Supervisory Board and to the Management Board. Moreover, the above mentioned bodies are provided with regular reports about the risk profile of the Bank as a whole. In particular, a quarterly risk report addressed to the Risk Committee of the Supervisory Board, prepared by the units of the Risk Line, presents a comprehensive and synthetic approach of the risk profile of the Bank. Furthermore, every event that has considerable impact on the risk profile of the Bank is on ad hoc basis and with no delay reported to the appropriate, to the significance of the situation, levels of risk management system.

The Capital Management Committee under the direction of the Member of the Management Board (the Chief Financial Officer) is an advisory body performing among others advisory functions in relation to capital management to the Management Board. The Committee consists of the Heads of Departments of Finance, Risk, Investment Banking, Corporate Banking and Retail Banking Line. In particular, the Committee recommends: capital management activities, including the Capital Management Policy, to the Management Board; activities concerning maintenance the safe level and optimal capital structure by the Bank and the Group; activities related to enhancement of capital utilization; projects of internal procedures, concerning planning and capital management processes.

Moreover, the Committee monitors and forms the structure of the capital in order to provide optimal allocation of the capital, taking into account the Bank's internal strategy, concerning adequacy ratio and elaborating optimal return on capital. Additionally, the Committee participates in identification and validation of relevance of the risks. The Committee has powers in making-decisions on:

1) establishing the management rules in relation to regulating and internal capital,
2) approvals concerning estimation and maintenance of internal capital,
3) establishing the rules of capital estimation and allocation of capital to particular business areas of the Bank's activities, depending on the actual level of the risk taken,
4) establishing the rules of minimal margins assessment in relation to the capital exposure and the risk taken,
5) introducing capital measures,
6) limits of capital utilization by particular business activities of the Bank and the units of the Bank.

The Committee has approval powers related to activities aiming at optimization of the capital utilization and the capital strategy of the Bank, in particular long-term capital objects of the Bank within the scope of capital adequacy as well as preferred structure of the capital.

The Bank operates an Assets and Liabilities Committee (ALCO).

ALCO performs advisory functions towards the Management Board in the following areas:

1) assets and liabilities management,
2) liquidity management,
3) financing of the Bank and the BRE Bank Group.

Its duties are:

1) decisions-making on the ground of liquidity and sources of financing, taking under consideration currency and term structure,
2) balance sheet management by the transfer pricing system of funds,
3) carrying out revision of:
    a) liquidity,
    b) currency magnitude and the structure as well as the structure of portfolio of loans and deposits,
    c) level of stable financing in relation to the amount of illiquid assets,
    d) formation of risk weighted assets, level of the capital and the capital ratios

    on a regular basis,
4) carrying out stress tests.

The Committee consists of:

1) Chairman of the Committee – Member of the Management Board, the Chief Investment Officer,
2) Deputy Chairman of the Committee – Member of the Management Board, the Chief Financial Officer,
3) Members of the Committee:
    a) the President of the Management Board, Director General of the Bank,
    b) Deputy President of the Management Board, the Chief Risk Officer,
    c) the Head of the Department of Controlling and Management Information,
    d) the Head of the Accounting Department,
    e) the Head of the Financial Risk Department.
    f) the Head of the Department of the Treasury,

The Chairman of the Committee can invite other employees of the Bank or employees of the companies of BRE Bank Group to meetings if he deems their presence is grounded by the topics to be discussed.

The Members of the Committee meet once a month. In justified cases, the Chairman or the Deputy Chairman of the Committee can convoke on their own initiative or on a motion of one of the Members of the Committee an extraordinary session.

Authority to Approve Credit Decisions

The Bank actively manages credit risk, striving to optimise its level. For this purpose, uniform principles of credit risk management apply across the Bank's structure. The main principles include: separation of the functions of credit risk rating from the business functions; setting exposure limits; monitoring the concentration risk of large exposures; monitoring concentration risk in other significant dimensions. The separation of the functions of credit risk rating from the business functions applies at all levels in the Bank, up to and including the Management Board level. After a product is sold, exposures generating credit risk are also administered by the Risk Line, completely independently from the Sales Line. Limits of exposure are set per individual clients and groups of associated entities, sectors, countries, etc. The concentration risk of large exposures is monitored by means of imposing limits, making observations, and by provisioning by the units which offer products generating the risk of planned future exposure in correspondence with regulatory limits under the Banking Law.

The Corporate Banking Line has a credit decision-making scheme. Decisions on products generating credit risk are made by decision-making bodies whose composition, tasks, and procedures are uniform across all levels, the only difference is their powers. The authority of the decision-making bodies is determined on the basis of the amount of the Bank's total acceptable exposure to a client or a group of associated clients and the rating of exposure to a client or a group of associated clients set pursuant to the Bank's internal regulations. The specific rating is determined on the basis of the client's probability of default. Each credit decision is preceded by risk assessment carried out by an experienced analyst. The main purpose of the analysis is to determine the EL rating, i.e., the quality of the client as measured by expected loss caused by the Bank's exposure to the client's business. Depending on the level of the Bank's exposure to the client and the client's rating, the decisions are made by the relevant decision-making bodies.

The decision-making process for the Private Banking clients is identical to the process in Corporate Banking, i.e., the decision-making bodies (Credit Committees) make decisions within the scope of their authority, while appeals against credit decisions are elevated to a superior decision-making level. Products offered to the Private Banking clients have a flexible structure and they are individually tailored to specific needs.

Within the retail activity of the Bank (mBank and MultiBank) a different approach of risk financing is adopted.

The risk assessment and the criteria of credit decision-making in relation to retail clients differ from those concerning corporate clients because of different profile of the retail clients, the exposures to the clients and thorough standardization of products offered to them. The decision-making process is largely automated, both in the collection of borrower information from internal and external sources and in risk assessment based on scoring and segmentation methods. The narrow margin of discretion applies only to manual functions including mainly the verification of credit documentation. Such functions are performed by operating units of the Risk Line. In relation to the clients of mBank and MultiBank any non-standard cases are escalated to a superior decision-making body.

Mortgage-backed real estate credits are the key area of the Bank's retail credit operations. The Bank strives to minimise the risk of default by means of a very conservative approach to creditworthiness rating and preference for customers with a positive credit track record. In the case of other credit products of mBank and MultiBank, the Bank strictly follows the principle of refusing non-secured credits including overdraft facilities, credit cards, and cash loans to new customers without an existing relationship with the Bank or a positive credit track record in the banking system. The principle effectively eliminates both credit and operational risk.

The New Basel Capital Accord

The Bank realizes the project of implementation of the advanced methods (AIRB) of calculating capital requirements and the capital adequacy ratio. In the result of the project the Bank will be ready to comply with AIRB Basel II requirements and will be prepared to submit the motion to the Polish Financial Supervision Authority for the approval to use the advanced methods.

In view of high complexity of the process of preparation to implement AIRB method, the Basel II AIRB project had received the highest priority of the Bank's Management Board, and for realization of the project tasks in addition to Bank's employees and the employees of the consulting company supporting the Bank, a team of specialists from Commerzbank had been engaged.

The strategic goal of the project is to provide the potential for the development of BRE Bank Group due to optimalization of the level and the structure of risk weighted assets, and in consequence to improve the correspondence of the structure and the level of capital requirements to the risk profile resulting from business operations of the Bank.

The essential added value following from the direct engagement in the realization of the project of the strategic shareholder of BRE Bank is not only the operational support in realization of the project tasks but also the transfer of knowledge, experience and solutions both in relation to methodology and IT area which were worked out in the course of the Basel II AIRB project at Commerzbank. These solutions are adaptable to the needs and surroundings of BRE Bank's functionality and what is also very important very well reflect the Polish market specific conditions.

The impact of the worldwide turmoil on the financial risk management

The financial worldwide turmoil has had also impact on the Polish economy, and has put Polish financial institutions, banks in particular, in a very strained environment. BRE Bank was no exception in this respect. As the main problem from the emergence of the crises in the Polish market was rapidly drying liquidity on the interbank market, the Risk Committee of BRE Bank in October 2008 decided to implement actions within the liquidity contingency plan to secure the Bank's ability to cover its obligations and to have stable funding sources, although the liquidity profile of the Bank remained safe and stable at that time. Moreover, in order to have reliable diagnosis of the liquidity needs of the Bank, scenarios used in assessment of the Bank's liquidity profile were adjusted accordingly to reflect current situation.

The second problem faced by the Bank was the increased counterparty exposure of the Bank to its corporate clients caused by sudden reverse of the trends of major market parameters, such as accelerated depreciation of Polish Zloty and high market volatility. In response to this situation, in addition to typical actions as calls for collaterals, the Bank adjusted internal parameters used in evaluation of potential future counterparty exposure as a measure to assess this risk correctly in currently strained market. Moreover, in order to value of the Bank's positions in corporate debt securities appropriately, the Bank, pricing these securities, applied updated credit spreads with respect to current default risk of the issuer, the concentration risk and the cost of the capital consumption.

In view of the current situation, while assessing the capital adequacy, the Bank also decided to calculate its economic capital in a conservative way anticipating strong correlation between risk categories.

3.1 Strategy in Using Financial Instruments

Due to its nature, the business of the Bank focuses on using financial instruments, including derivatives. The Bank accepts customers' deposits with both fixed and variable interest for various terms and attempts to earn above-average percent margins by investing the funds in top quality assets. The Bank works to increase its percent margins by accumulating short-term funds and lending the funds for longer terms, for higher interest rates, while retaining liquidity at a level ensuring that all liabilities are met.

Further, the Bank works to improve its earnings by obtaining above-average margins, net of provisions, by lending funds to corporate and household customers with varying credit ratings. Such exposures include not only credits and loans recognized in the Balance Sheet but also guarantees and other off-balance sheet liabilities, such as letters of credit, good performance guarantees, etc.

Also, the Bank trades with listed and unlisted financial instruments, including derivatives, in order to take advantage of short-term changes on the equity instruments, bonds, currencies and interest rate markets. The Management Board sets exposure limits for overnight and intra-day market positions.

Hedge Accounting

The Bank did not use hedge accounting in reporting periods presented in these financial statements.

3.2 Credit Risk

The Bank is exposed to credit risk, i.e., risk that borrower may be unable to repay its liabilities to the Bank on time. The Bank creates provisions for its losses on the Balance Sheet date. Because of strong concentration of the risk portfolio, a change in the economy or an industry sector with a large share in the Bank's portfolio may create additional risk, for which no provisions were made on the Balance Sheet date. For this reason, the Management monitors the customers and customer groups in connection with the service of which the exposure of the Bank is significant.

The Bank manages the level of its credit exposure by setting limits for risks acceptable to each borrower or group of related borrowers and by using a structure of sub-limits. Sub-limits make it possible to adjust a limit to the requirements of customers in functional terms and, on the other hand, they enable control of the use of funds provided to each customer. The risk management exercise involves also setting limits for geographic and industrial concentration. Credit risk is monitored daily on the basis of financial documents received from customers and observation of all trends, signals, and economic projections. In addition, the Bank can access external database and information services that capture information in various cross-sections.

The Bank, in response to the unfavorable development of the market situation introduced significant changes to the credit policy. More conservative approach had been adopted in respect of the customer creditworthiness and collateral polices.

The most important changes were the following:

1. change of creditworthiness model parameters (decrease of potentially available amount of loan by ca. 10%),
2. restrictions in respect of customers without documented positive credit history,
3. restrictions in the area of loans secured on the real estates under construction,
4. limitation of the available loan amount for transactions with the highest default ratio and/or secured on real estates localized on low liquidity markets (decrease of acceptable LtV level),
5. limitation of maximum loan amount for mortgage loans with Low Down-payment Insurance (to the level of 100% of real estate value).
6. in the area of loans to small enterprises there were introduced rules on obligatory collateral in the form of mortgage for loans in the amount of more than PLN 1 mln as well as on decreasing an acceptable level of LtV by 20 basic points for such transactions

3.2.1 Collateral

Derivative instruments

The Bank controls net open derivatives, i.e., the difference between purchase and sale contracts, both in terms of amount and maturity. The amount exposed to credit risk is limited at any time to the present fair value of the instruments with positive values (assets), which, in relation to derivative instruments, represents only a small fraction of contract or nominal value used to express the volume of the existing instruments. The level of exposure to this credit risk, together with potential risk exposure related to market changes, is managed under the overall credit limits for customers. If the value of exposure related to transactions on derivatives or in case of exceeding a limit increases (growth of value favourable to the Bank or, in theory, growth of weights of the risk for calculation of potential loss), the customer is asked to provide (or increase) the collateral. Typically, the Bank does not require collateral for credit risk related to such instruments. The exception is a situation when the Bank requires deposits as collateral from its contracting parties.

Master netting agreements

Master netting agreements made with contracting parties with which the Bank concludes large transactions are an additional measure used by the Bank to limit the credit risk. As a rule, such master netting agreements do not result in compensation of balance sheet assets and liabilities because transactions are usually settled in gross amounts. However, credit risk related to a favourable agreement is alleviated through execution of a master netting agreement because if the agreement is breached, all accounts with the contracting party are terminated and realized in net amounts. The total credit risk exposure of the Bank related to derivative instruments covered by master netting agreements can undergo significant changes over a short time because each transaction covered by the agreement affects the exposure.

Off-balance sheet credit-related commitments

These instruments are used mainly to ensure availability of required funds to customers. "Standby" guarantees and letters of credit, representing irrevocable assurance of payment of a customer's liabilities to third parties by the Bank if the customer is unable to do so, involve the same risk as credits. Documentary letters of credits and commercial letters of credit (CLC), representing written commitments of the Bank given to a customer, authorizing third parties to draw checks on the Bank up to an agreement and on specified terms, are secured with deliveries of goods they relate to, by which they involve less risk than direct credits.

Credit-related off-balance sheet commitments concern the unused parts of credits, guarantees and letters of credit granted by the Bank. As regards credit risk related to credit commitments, the Bank can be exposed to loss equal to the whole amount of unused credit commitments. However, the probable amount of loss is smaller than the whole amount of unused credit commitments because most of such commitments are contingent on meeting specific credit standards by customers. The Bank monitors the terms of validity of credit commitments because, as a rule, longer terms involve larger risk.

Collateral on securities resulting from buy-sell-back transactions

The Bank accepts collateral in the form of securities in connection with the buy-sell-back transactions concluded. Depending on the agreement such collateral may be sold or repledged. The total market value of collateral that can be sold or repledged, including the case of lack of default of the customer, as at 31 December 2008 amounted to PLN 925 775 thousand (as at 31 December 2007: PLN 1 183 586 thousand), including the value of taken collaterals which were resold or pledged with another pledge as at 31 December 2008 amounted to PLN 806 583 thousand (as at 31 December 2007: PLN 1 129 754 thousand).

Collateral accepted by BRE Bank

In making a decision about granting a credit risk bearing product, the Bank strives to obtain the highest possible quality collateral that would be adequate to the risk. The quality of the proposed tangible collateral is assessed according to its liquidity and market value, and the quality of collateral in form of guarantees is assessed according to the financial situation of the guarantor. Moreover, the impact of collateral on the impairment of the loan portfolio is a significant factor in the assessment of the collateral's quality. The quality of the accepted collateral is correlated to the amount of the product bearing credit risk and the level of risk related to granting such a product.

The most frequently applied collateral includes:

a) monetary deposit;
b) guarantee deposit or cash blocked in BRE Bank SA;
c) cession of receivables (cession of rights);
d) mortgage on real estate;
e) registered pledge;
f) transfer of ownership to collateral;
g) bill of exchange – including blank bill of exchange with declaration on the bill of exchange;
h) a letter of comfort issued by a Company whose reliability and fairness is known on the international financial markets;
i) guarantees and warranties.

In the case of personal collateral (e.g. pledge, guarantee), the situation and reliability of the entity issuing such security at the Bank's disposal is evaluated.

In the case of tangible collateral the following principles for assessing their value are applied:

The value of fixed assets set up as collateral is determined on the basis of a valuation survey prepared by an expert surveyor. The valuation survey submitted at the Bank is verified by a team of specialists situated in the Corporate Credit Department who verifies the correctness of the market value assumptions and assesses the liquidity of the collateral from the Bank's point of view. The following factors are taken into account in the verification process:

a) for collateral on real estate:
   - Type of real estate (industrial, housing, commercial)
   - Legal status
   - Designation in the local land development plan
   - Technical description of buildings and structures
   - Description of land
   - Situation on the local market
   - Other price-making factors
b) for collateral on plant and machinery:
   - General application and function in the technological process / possibilities of alternative use
   - Technical description and parameters
   - Exploitation and maintenance conditions
   - Availability of similar devices and machinery
   - Current market situation
   - Forecasts of demand for specific machinery in connection with the situation in the industrial sectors applying such machinery
c) for collateral on inventories:
   - Formal and legal requirements related to specific products (e.g. a security certificate "CE" for electrical equipment, permit of UDT (the Office of Technical Inspection) for appliances which operate under pressure, etc.)
   - Saleability
   - Warehousing conditions required (e.g. for paper materials, sensitive to humidity, precise materials sensitive to pollution, etc.)
   - Security and insurance of both the warehouse and the goods stored therein.

3.2.2 Rating System Description

Rating system of BRE Bank

Current rating methodology (RC-POL) consists of two elements:

IFRS Financial Statements 2008 PLN (000's)

- Customer rating (PD-rating) – which describes the probability of lack of loan repayment (PD – Probability of Default)
- Credit rating (EL-rating) – which describes expected loss (EL - Expected Loss) and takes into consideration either customer risk (PD) and transaction risk (LGD, Loss Given Default – loss resulting from the lack of loan repayment). EL can be described as PD*LGD. EL indicator is used mainly on the making decision stage.

Rating provides absolute measure of credit risk both in percentage scale (PD % and EL %) and also in the scale from 1.0 to 6.5 (PD-rating, EL-rating).

PD rating calculation includes seven steps:

1. Financial analysis of annual report – based on discrimination function in logistic regression of nine financial indicators and corresponding to its default/non-default status of the client in one-year period;
2. Financial analysis of following interim figures:
   - assessment of evaluation of trends, essential for rating,
   - increase of PD as an effect of delay of data updating;
3. Assessment of timeliness of presenting financial statements;
4. Analysis of qualitative risks:
   - analysis of quality factors including among others macroeconomics, business risk, management quality, value added activities, accounting policies, etc;
5. Warning indicators:
   - 29 warning indicators:
     - 14 warning indicators got out of financial analysis or qualitative analysis of risk (answers),
     - 15 direct warning indicators,
   - 3 criteria for assigning the lowest intermediate rating,
   - other 3 steps which have influence on rating;
6. Level of integration of debtor's group:
   - applying PD of parent entity,
   - diverse procedure according to PD of parent entity;
7. Overruling:
   - manual change of PD by one category is possible.

Credit rating based on expected loss (EL) is created by combining customer risk and transactional risk, which results from the value of exposure (EAD, Exposure At Default) and the character and coverage of collateral for transactions carried out with the client (LGD).

EAD represents actual balance sheet exposure increased by expected level of off-balance sheet items to be converted to balance sheet items at the date of default

LGD, described as % of EAD, is a function of possibly executed value of collateral and depends on the type and the value of the collateral, the type of transaction and recovery ratio from other than collateral sources (which depends on the client type).

Rating system generates the probability of lack of loan repayment directly in the form of PD ratio, expressed in percentage on the continuous scale. Classes of rating are calculated on the basis of procedures of dividing PD into groups based on geometric stepladder.

Mapping the internal PD-rating scale to external ratings

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

The rating system is based on Commerzbank solution for mid-cap clients (RC-GER). The main part of methodology was developed by Risk Control Department in Frankfurt as well as relevant IT solution. Mapping the internal rating scale to external ratings is based on the PD statistics.

The BRE Bank customization was mainly focused on:

- Conversion and reconciliation of financial standards
- Calibration to internal Polish default data set (PD)
- Minor adjustments in PD-rating methodology (impact of interim figures)
- Parametrisation of collateral value haircuts (LGD assessment)
- Development of own interfaces to ensure communication with other Bank systems, etc.

Method of calculating of portfolio provision for loans and advances to corporates and retail, based on rating system

Portfolio provision is formed on credit portfolio of the customers not classified to the default category. The portfolio is divided into 8 subportfolios for corporates based on a range of ratings as disclosed in the table above.

Subportfolios are homogeneous groups having similar credit risk outlines. Amount of provisions is a sum of incurred losses on calculated subportfolios resulting from arisen economic events which haven't been identified by Bank at the provisions calculation date.

Probability of disclosure of a loss is modeled by logistic regression based on financial indicators and qualitative data. The model is calibrated on the internal Bank's data, comprising several years' period of observation of corporate portfolio. 9-month-period was established as the average period between the loss event occurrence and its identification by the Bank (loss identification period "LIP"). Therefore, the Bank performed calculation on the basis of default observation of 9 months. The value of incurred loss is calculated based on current engagement multiplied by LGD (parameter describing the loss resulting from the lack of loan repayment), calculated by rating model RC-POL on the stage of estimating EL-rating.

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

Moreover in the fourth quarter of 2008 the previously planned elimination of conservative model assumptions (credit conversion factor - CCF=100%, effects of annual model re-calibration) was abandoned in order to amortize expected lagging effect between fast deterioration of macroeconomic environment and model readings.

For the purposes of calculating of provisions for retail receivables, loan contracts are classified into 21 subportfolios – the groups of contracts of similar risk level. Two parameters are subjected to each transaction: probability of default of a client (PD) and loss so arisen (LGD). Contracts upon one portfolio with the same status of delay, have the same values of PD and LGD parameters. Portfolio provision is created for the transaction with no insolvency event occurrence as well as for default receivables for which 100% of PD is taken into account.

In the case of retail receivables, insolvency event definition is used in relation to individual loan transactions instead of in relation to the debtors. This means that default of the debtor does not result in default in relation to his/her other commitments. However, if the default concerns the client (e.g. as a result of subreption), all of the client's transactions are considered as default.

Procedure of calculating of portfolio provision for retail receivables comprises amortised value of credit exposure and PD and LGD parameters calculated on the basis of historical observations for respective portfolios.

In 2008 a change was introduced to the impairment methodology of retail exposures. The loss identification period (LIP) was extended from three to four months. Prior historical analysis proved that adoption of a four-month LIP would result in a better representation of actual market conditions. Additionally, the adjustment led to the unification of the approach to LIP within the Commerzbank Group.

3.2.3 Measurement of Impairment

The Bank measures impairment of loan exposures in accordance with the International Accounting Standards 37 and 39. The intranet application IMPAIRMENT is a tool used to calculate impairment losses for impaired exposures granted to corporate customers and banks. The classification of customers to default portfolio and calculation of impairment write-off is as follows:

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

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

At Bank's retail division losses for impaired exposures are calculated, similarly to the corporate division, with the usage of IMPAIRMENT application. Retail exposures are considered defaulted when:
a) the transaction's amount exceeds 200 PLN and is more than 90 days past due

IFRS Financial Statements 2008 PLN (000's)

b) the loan has been identified as fraudulent,
c) the contract is restructured.

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

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

PD/Rating	31.12.2008		31.12.2007	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	43.89	0.01	36.68	0.02
2	23.98	0.15	15.99	0.11
3	10.14	0.36	15.38	0.34
4	14.40	1.02	15.43	0.76
5	3.01	1.60	5.13	1.80
6	0.11	5.52	0.30	3.29
7	0.59	2.37	0.20	2.48
8	2.17	0.00	9.28	0.36
Default category	1.71	56.84	1.61	69.94
Total	**100.00**	**1.26**	**100.00**	**1.46**

3.2.4 Maximum Exposure to Credit Risk – before taking account of the adopted collateral

	31.12.2008	31.12.2007
Credit risk exposures relating to on-balance sheet assets:		
Debt securities eligible for rediscounting at the Central Bank	**9 238**	**23 259**
Loans and advances to banks	**6 065 581**	**2 166 310**
Loans and advances to customers	**42 257 165**	**26 378 887**
Loans to individuals:	26 246 283	13 609 757
– current accounts	3 358 878	2 184 779
– term loans, including:	22 887 405	11 424 978
housing and mortgage loans	21 341 130	10 514 434
Loans to corporate clients:	15 308 006	12 324 426
– current accounts	3 510 238	2 663 851
– term loans:	11 390 189	8 991 557
corporate & institutional enterprises	4 612 890	3 297 868
medium & small enterprises	6 777 299	5 693 689
– Reverse repo / buy-sell-back transactions	407 579	669 018
Loans and advances to public sector	34 192	32 175
Other receivables	668 684	412 529
Trading assets		
– Debt securities	4 967 900	4 573 740
Derivative financial instruments	**5 612 313**	**2 263 845**
Investment securities		
– Debt securities	5 414 972	5 877 067
Pledged assets	**3 443 989**	**2 812 277**
Other assets	**385 811**	**224 721**
Total exposures relating to on-balance sheet assets	**68 156 969**	**44 320 106**
Credit risk exposures relating to off-balance sheet items:		
Loan commitments and other financial liabilities	15 177 904	12 720 453
Guarantees, banker's acceptances, documentary and commercial letters of credit	3 020 853	3 439 125
Total exposures relating to off-balance sheet items	**18 198 757**	**16 159 578**
Total on-balance sheet assets and off-balance sheet items	**86 355 726**	**60 479 684**

The above table shows the maximum exposure to credit risk as at 31 December 2008 and 31 December 2007 without taking account of any collateral held or credit enhancements attached. Balance Sheet exposures set out above are based on net carrying amounts.

As shown above, 70.90% of the total maximum balance sheet exposure is derived from loans and advances to banks and customers (31 December 2007: 64.41%); 7.94% represents investments in debt securities (31 December 2007: 13.26%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk of the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- 67.87% of loans and advances portfolio is categorized in the top two grades of the internal rating system (31 December 2007: 52.67%);
- 94.32% of the loans and advances portfolio are considered to be neither past due nor impaired (31 December 2007: 94.65%);
- 95.53% of the investments in debt securities got at least A- credit rating (31 December 2007: 81.41%).

3.2.5 Loans and Advances to Customers and Banks

Loans and advances to customers	31.12.2008		31.12.2007	
	exposure in PLN '000	share / coverage %	exposure in PLN '000	share / coverage %
Neither past due nor impaired	40 491 905	94.32	25 487 717	94.65
Past due but not impaired	1 717 510	4.00	854 316	3.17
Impaired	721 614	1.68	586 662	2.18
Total, gross	**42 931 029**	**100.00**	**26 928 695**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(673 864)	1.57	(549 808)	2.04
Total, net	**42 257 165**	**98.43**	**26 378 887**	**97.96**

The table below shows amounts due from banks:

Loans and advances to banks	31.12.2008		31.12.2007	
	exposure in PLN '000	share / coverage %	exposure in PLN '000	share / coverage %
Neither past due nor impaired	6 019 732	98.74	2 171 519	100.00
Past due but not impaired	-	-	-	-
Impaired	76 863	1.26	-	-
Total, gross	**6 096 595**	**100.00**	**2 171 519**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(31 014)	0.51	(5 209)	0.24
Total, net	**6 065 581**	**99.49**	**2 166 310**	**99.76**

The total impairment provision for loans and advances is PLN 704 878 thousand (as at 31 December 2007: PLN 555 017 thousand) of which PLN 553 749 thousand (as at 31 December 2007: PLN 546 214 thousand) represents provisions for loans individually impaired and the remaining amount of PLN 151 129 thousand represents the portfolio provision (as at 31 December 2007: PLN 98 803 thousand). Further information on the impairment allowance for loans and advances to banks and to customers is provided in Notes 18 and 21.

In 2008, the amount of loans and advances granted to the Bank's customers increased by 60.19% compared to 2007 as a result of the expansion at the market of retail and corporate loans and advances. For the purpose of minimizing potential increase of exposure to credit risk, the Bank focused on corporate enterprises and retail customers who provide sufficient collateral.

Loans and advances neither past due nor impaired

31 December 2008	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
PD/Rating	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Other				
1	609 828	20 567 067	20 441 245	58 777	325 968	217 286	-	-	-	-	21 778 926	3 652 381
2	1 628 787	962 377	-	1 187 892	2 084 894	1 899 971	-	-	3 336	-	7 767 257	1 879 852
3	87 981	389 573	57 084	790 280	1 150 913	1 137 468	-	-	444	-	3 556 659	219 697
4	734 496	-	-	1 178 034	816 244	2 422 269	-	-	30 602	-	5 181 645	149 132
5	-	-	-	262 696	8 346	603 636	-	-	-	-	874 678	54 504
6	-	-	-	10 498	-	19 730	-	-	-	-	30 228	-
7	-	-	-	10 499	17 454	119 243	-	-	-	-	147 196	29 286
8	-	-	-	1 159	-	-	407 579	-	-	668 684	1 077 422	34 880
Default category	315	6 118	1 642	19 878	2 984	48 599	-	-	-	-	77 894	-
Total	**3 061 407**	**21 925 135**	**20 499 971**	**3 519 713**	**4 406 803**	**6 468 202**	**407 579**	**-**	**34 382**	**668 684**	**40 491 905**	**6 019 732**

IFRS Financial Statements 2008 PLN (000's)

31 December 2007 PD/Rating	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Other				
1	830 083	10 667 540	10 247 208	24 279	350	71 557	-	-	15	-	11 593 824	2 171 519
2	560 089	182 790	-	569 189	733 657	1 200 038	-	-	-	-	3 245 763	-
3	437 680	18 754	-	644 713	1 262 470	1 100 935	-	-	17 994	-	3 482 546	-
4	-	-	-	853 048	725 771	1 932 465	-	-	4 365	-	3 515 649	-
5	-	-	-	406 590	157 183	639 741	-	-	6 229	-	1 209 743	-
6	-	-	-	9 518	48 285	33 644	-	-	-	-	91 447	-
7	-	-	-	6 329	2 763	27 376	-	-	-	-	36 468	-
8	193 127	260 245	33 389	128 140	178 642	455 501	669 018	-	3 883	412 529	2 301 085	-
Default category	111	1 232	135	224	-	9 625	-	-	-	-	11 192	-
Total	**2 021 090**	**11 130 561**	**10 280 732**	**2 642 030**	**3 109 121**	**5 470 882**	**669 018**	**-**	**32 486**	**412 529**	**25 487 717**	**2 171 519**

Loans and advances past due but not impaired

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

31 December 2008	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Other				
Past due up to 30 days	254 029	828 461	732 187	-	203 138	203 841	-	-	-	-	1 489 469	-
Past due 31 - 60 days	40 731	67 501	58 555	-	-	32 099	-	-	-	-	140 331	-
Past due 61 - 90 days	33 377	31 286	23 468	-	-	23 047	-	-	-	-	87 710	-
Total	**328 137**	**927 248**	**814 210**	**-**	**203 138**	**258 987**	**-**	**-**	**-**	**-**	**1 717 510**	**-**

31 December 2007	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Other				
Past due up to 30 days	136 395	232 206	184 630	-	70 412	153 229	-	-	-	-	592 242	-
Past due 31 - 60 days	17 224	23 843	20 935	-	-	13 686	-	-	-	-	54 753	-
Past due 61 - 90 days	15 903	14 696	11 432	32 697	133 178	10 844	-	-	3	-	207 321	-
Total	**169 522**	**270 745**	**216 997**	**32 697**	**203 590**	**177 759**	**-**	**-**	**3**	**-**	**854 316**	**-**

As at 31 December 2008 the fair value of received collaterals for mortgage loans to retail customers, amounted to PLN 605 891 thousand (31 December 2007: PLN 227 802 thousand) for the group of loans past due but not impaired.

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

Loans and advances individually impaired

Loans and advances individually impaired amounted to PLN 244 370 thousand (as at 31 December 2007: PLN 130 448 thousand). Gross amounts of loans and advances individually impaired (i.e., before taking into consideration the cash flows from collateral held and expected repayments) are presented below by classes of assets, together with the corresponding collateral.

	Individual customers			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Banks
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Other				
31 December 2008												
Loans and advances with impairment	175 332	121 707	60 659	98 558	33 955	292 062	-	-	-	-	**721 614**	76 863
Fair value of collateral	8 913	47 051	35 951	3 496	-	82 529	-	-	-	-	**141 989**	**-**
31 December 2007												
Loans and advances with impairment	111 074	87 566	38 738	69 087	13 637	305 298	-	-	-	-	**586 662**	-
Fair value of collateral	13 708	27 596	21 705	19 028	4 334	59 203	-	-	-	-	**123 869**	-

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

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

Decrease of gross amount of impaired loans and advances mainly resulted from sale of separated part of the portfolio.

IFRS Financial Statements 2008 PLN (000's)

In the 12-month-period ended 31 December 2008, the Bank recognized impairment of exposures to banks in the amount of PLN 26 212 thousand (PLN 0 as at 31 December 2007).

Renegotiated loans and advances

The renegotiations of contractual terms of loans and advances is an evidence of impairment unless caused by the situation of a debtor and it was carried out in normal business conditions. The restructuring processes consists in changing the agreements due to extension the timing circuit of payments, recognized reparation plans, modification and delay of repayment of customer's debt, which as a result of the process is classified into default portfolio. The restructuring procedures and practice are based on ratios and criteria which, in the opinion of Board of Management, show that payments shall most probably be made on time. The restructuring procedures are conditioned by regular reviews. Most frequently, restructuring is carried out in respect of term loans. In connection with established accounting principles, renegotiated loans are impaired if the change of contractual terms was caused by higher credit risk. As at 31 December 2008 renegotiated loans and advances not impaired amounted to PLN 49 655 thousand.

3.2.6 Debt Instruments: treasury bonds and other eligible debt securities

31 December 2008	Trading securities and pledged assets			Investment debt securities and pledged assets	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	-	-
AA- to AA+	-	-	-	-	-
A- to A+	795 927	874 579	3 775 953	7 762 177	13 208 636
BBB+ to BBB-	-	-	49 908	-	49 908
BB+ to BB-	-	-	-	-	-
B+ to B-	-	-	67 228	-	67 228
Lower than B-	-	-	-	-	-
Unrated	-	-	501 089	-	501 089
Total	**795 927**	**874 579**	**4 394 178**	**7 762 177**	**13 826 861**

31 December 2007	Trading securities and pledged assets			Investment debt securities and pledged assets	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	19 649	19 649
AA- to AA+	-	-	168 907	28 701	197 608
A- to A+	4 733 535	25 623	1 431 085	4 389 409	10 579 652
BBB+ to BBB-	-	-	-	-	-
BB+ to BB-	-	-	-	-	-
B+ to B-	-	-	1 015	-	1 015
Lower than B-	-	-	-	-	-
Unrated	-	-	946 209	1 518 951	2 465 160
Total	**4 733 535**	**25 623**	**2 547 216**	**5 956 710**	**13 263 084**

In 2008 the amount of other debt securities with ratings A- to A+ comprised securities issued by the Central Bank in the amount of PLN 3 162 714 thousand (2007: PLN 1 296 845 thousand).

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

As at 31 December 2008 all presented above debt instruments were neither past due nor impaired.

3.2.7 Repossessed Collateral

In 2008, the Bank did not take over or sale of any assets established as collateral. In 2007 the Bank obtained assets in the net amount of PLN 122 thousand (takeovers minus sales).

The Bank classifies repossessed collaterals as assets repossessed for debt and measures them in accordance with the adopted accounting policies described in Note 2.17. Repossessed collaterals classified as assets held for sale shall be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified by the Restructuring and Recovery Bureau for individual types of repossessed collaterals. The policy of the Bank is to sell repossessed assets. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Company's urgent need, and must each time be approved by the Management Board. In 2008, the Bank did not have any repossessed collaterals that were difficult to sell. Repossessed collaterals are presented in "Other assets" (Note 27).

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

Geographic concentration risk

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

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

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

Sector concentration risk

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

Sector limits are set for sectors defined by BRE Bank SA in accordance with the internal regulations of the Bank, in quarterly reporting periods. Monitoring and analysis covers all the sectors in which the Bank's exposure exceeds PLN 700 million, and additionally those indicated by the Chief Risk Officer of the Bank. Unless the Bank's Credit Committee decides otherwise, an exposure limit is set for the Bank in any sector on a level not higher than:

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

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

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

The structure of concentration of exposure of BRE Bank SA

No.	Sector	Principal exposure (in PLN millions) 31.12.2008	%	Principal exposure (in PLN millions) 31.12.2007	%
1.	Household customers	26 538 966	61.82%	13 790 558	51.21%
2.	Metals	1 092 428	2.54%	899 090	3.34%
3.	Liquid fuels and natural gas	1 004 087	2.34%	341 442	1.27%
4.	Power industry and heat engineering	911 347	2.12%	425 394	1.58%
5.	Real estate management	906 297	2.11%	640 847	2.38%
6.	Leasing and renting	846 747	1.97%	696 576	2.59%
7.	Wholesale trade	815 607	1.90%	607 143	2.25%
8.	Wood and furniture	811 307	1.89%	604 628	2.25%
9.	Transport and travel agencies	713 987	1.66%	625 238	2.32%
10.	Management, consulting, advertising	693 230	1.61%	519 114	1.93%
11.	Motorization	676 848	1.58%	527 365	1.96%
12.	Building industry	639 459	1.49%	414 742	1.54%
13.	Building materials	549 592	1.28%	233 831	0.87%
14.	Basic groceries	537 174	1.25%	150 858	0.56%
15.	Chemistry and plastics	487 304	1.14%	452 669	1.68%
16.	Financial agency	455 794	1.06%	332 958	1.24%
17.	IT and telecommunication	381 925	0.89%	384 852	1.43%
18.	Hotels and restaurants	98 845	0.23%	71 520	0.27%
19.	Public administration	6 400	0.01%	3 535	0.01%

Total exposure of the Bank in the above sectors (excluding household customers) amounts to about 27.09% (2007: 18.48%) of the credit portfolio. According to the newest (for 2008) study of The Gdańsk Institute for Market Economics as well as on the basis of recommendation of trade analysts from the Bank, the risk of investing in these sectors (in a 5-point scale, i.e., small, medium, increased, large and very large) was assessed as follows:

Metals	- large
Liquid fuels and natural gas	- medium
Power industry and heat engineering	- medium
Real estate management	- increased
Leasing and renting	- increased
Wholesale trade	- medium
Wood and furniture	- large
Transport and travel agencies	- large
Management, consulting, advertising	- increased
Motorization	- large
Building industry	- increased
Building materials	- increased
Basic groceries	- medium
Chemistry and plastics	- increased
Financial agency	- medium
IT and telecommunication	- medium
Hotels and restaurants	- increased
Public administration	- medium

<u>Large exposures concentration risk</u>

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

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

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

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

The level of exposure to credit risk is managed by regular reviews of the existing and potential borrowers' ability to repay principal and interest, if necessary, the Bank may change credit limits or by asking customers to provide security and/or guarantees.

3.4 Market Risk

The Bank is exposed to market risk, which is defined as a risk of changes in the current valuation of financial instruments constituting the Bank's portfolios, resulting from changes in prices and market parameters. The Bank's exposure to market risk results from open positions in interest rate, foreign currency and equity instruments, which are exposed to market changes in the values of the appropriate risk factors, and in particular, to changes in interest rates, foreign exchange rates, share prices and indices, and the volatility of these risk factors.

Market risk results both from trading book and banking book items. The Bank's trading portfolios are composed of items arising as a result of trading transactions concluded with the Bank's customers or transactions in which the Bank acts as a market maker. The banking book comprises items resulting from the Bank's interest rate risk management, mainly in the areas of corporate, investment and retail banking, and from management of the Bank's liquidity. Operating management in market risk takes place in the front office – in the Treasury Department responsible mainly for banking book items and in the Financial Markets Department, which mainly manages trading book items. Market risk resulting from transactions concluded by other units of the Bank is transferred, in principle, to the Treasury Department or the Financial Markets Department in line with the type of risk.

The strategic management of market risk, including independent monitoring and control, is performed in the Bank's units which are functionally independent of the units managing the items – including the Financial Risk Department, and the decisions relating to the strategic market risk management are made by the Risk Committee of BRE Bank. The management of market risk is performed in accordance with both the strategy and the market risk management policy approved by the Supervisory Board in BRE Bank.

The Management Board, based on decisions of the Financial Risk Committee, sets limits of value at risk and limits of stress tests with the object of limitation of the level of market risk to which the Bank is exposed. Market risk limits in respect of the Bank's trading book are monitored on a daily basis.

The level of exposure to market risk

The level of market risk of the Bank's position is quantified by measuring value at risk (VaR) and performing stress tests.

Value at Risk

Value at Risk (VaR) is the basic measure of market risk applied to the trading book portfolios and the banking book portfolios. VaR is a statistical measure which expresses potential loss to which a portfolio is exposed in a specified period, for a specified level of confidence, in normal market conditions, in connection with changes in risk factors, such as interest rates, foreign exchange rates, share prices and volatility of specified risk factors (exchange rates, interest rates, prices). The potential nature of losses means that with a predetermined high probability (level of confidence) at which value at risk is established, in a specified period a loss can be expected which is lower than VaR. Value at risk is determined using historical simulation method, based on time sequences of 254 (1 year) observed values of all the risk factors on which the Bank's portfolios are dependent. The Bank monitors value at risk at a level of confidence of 97.5% for a one-day period of maintaining a position.

Thanks to the fact that in the process of determining value at risk accurate methods of measuring financial instruments are applied, the level of VaR monitored by the Bank accurately reflects market risk of non-straight line financial instruments, such as options. The model for determining value at risk is subjected to historical verification tests on an ongoing basis.

The table below presents analysis of the structure of market risk determined using value at risk (with a confidence level of 97.5% for presented periods) of the Bank's items:

PLN 000's	2008				2007			
	31.12.2008	mean	maximum	minimum	31.12.2007	mean	maximum	minimum
Interest rate risk	5 409	4 649	8 173	2 378	4 722	5 189	9 587	3 449
Foreign exchange risk	3 301	927	3 301	378	455	976	2 454	182
Equities risk	66	273	906	11	155	260	944	6
Total VaR	**8 623**	**5 309**	**11 575**	**2 336**	**5 041**	**5 754**	**10 275**	**3 530**

The utilization of VaR limits for the trading book was in 2008 on a safe level and amounted to 27% on average for trading portfolios of the Financial Markets Department (DFM), whereas for portfolios of the Department of the Treasury (DS) it amounted to 24% relatively.

The level of VaR was affected mainly by portfolios of instruments sensitive to interest rate, such as T-bonds, commercial papers, IRS and CIRS transaction and secondly, portfolios of instruments sensitive to changes in foreign exchange rates, such as currency options and currency exchange transactions. In the fourth quarter of 2008, the implied volatilities of currency options, apart from foreign exchange rates, constituted a substantial risk factor in the DFM's trading portfolio. The remaining groups of risk factors had a relatively smaller impact on VaR.

Stress testing

Stress testing is an additional measure of market risk, supplementing the measurement of value at risk. The test shows the hypothetical change in the current valuation of the Bank's portfolios, which would take place as a result of the risk factors reaching specified extreme values in one-day horizon. The Bank applies two methods for carrying out stress tests: the first one, in which the scenarios of changes in risk factors have been constructed on the basis of large changes in market parameters observed during crisis situations on the market in the past, and the second one, in which the scenarios are composed of larger changes in risk factors correlated on the extremes and the same in each group. The value of the stress test is subject to a limit in the form of a control number. The average value of a stress test (based on observed crisis situations in the past) 2008 was PLN 20 million for trading portfolios of the Financial Markets Department and PLN 42 million for portfolios of the Department of the Treasury relatively.

3.5 Currency Risk

The Bank is exposed to changes in currency exchange rates. The following table presents the exposure of the Bank to currency risk as at 31 December 2008 and 31 December 2007. The table presents assets and liabilities of the Bank at balance sheet carrying amount, for each currency:

31.12.2008	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	2 422 554	14 572	4 939	27	170	49 589	**2 491 851**
Debt securities eligible for rediscounting at the Central Bank	9 238	-	-	-	-	-	**9 238**
Loans and advances to banks	3 101 544	769 477	455 838	745 763	23 961	968 998	**6 065 581**
Trading securities	4 855 957	100 649	12 606	-	-	-	**4 969 212**
Derivative financial instruments	5 315 877	107 091	44 559	29 950	1 371	113 465	**5 612 313**
Loans and advances to customers	17 248 910	3 067 604	1 391 551	19 499 626	15 437	1 034 037	**42 257 165**
Investment securities	5 417 034	71 019	10 118	-	-	-	**5 498 171**
- Available for sale	5 417 034	71 019	10 118	-	-	-	**5 498 171**
Pledged assets	3 443 989	-	-	-	-	-	**3 443 989**
Investments in subsidiaries	390 168	39 992	-	-	-	27 145	**457 305**
Intangible assets	404 642	-	-	-	-	1 718	**406 360**
Tangible fixed assets	571 957	215	-	-	-	29 477	**601 649**
Other assets, including deferred income tax assets	511 039	21 307	-	475	17	9 720	**542 558**
Total assets	**43 692 909**	**4 191 926**	**1 919 611**	**20 275 841**	**40 956**	**2 234 149**	**72 355 392**
LIABILITIES							
Amounts due to the Central Bank	1 302 469	-	-	-	-	-	**1 302 469**
Amounts due to other banks	2 591 094	900 639	2 596	16 631 483	-	16 948	**20 142 760**
Derivative financial instruments and other trading liabilities	5 777 755	326 393	63 836	13 458	3 700	26 174	**6 211 316**
Amounts due to customers	29 952 021	3 003 628	1 022 509	30 886	84 071	3 345 379	**37 438 494**
Debt securities in issue	7 829	-	-	-	-	-	**7 829**
Subordinated liabilities	-	-	-	2 669 453	-	-	**2 669 453**
Other liabilities including tax liabilities	831 082	452	3 249	391	2	33 726	**868 902**
Provisions	85 508	987	3 420	-	-	107	**90 022**
Total liabilities	**40 547 758**	**4 232 099**	**1 095 610**	**19 345 671**	**87 773**	**3 422 334**	**68 731 245**
Net on-balance sheet position	**3 145 151**	**(40 173)**	**824 001**	**930 170**	**(46 817)**	**(1 188 185)**	**3 624 147**
Credit commitments	**12 575 624**	**1 616 998**	**191 670**	**745 390**	**1 313**	**46 909**	**15 177 904**

31.12.2007	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	1 987 116	6 353	3 636	170	357	748	**1 998 380**
Debt securities eligible for rediscounting at the Central Bank	23 259	-	-	-	-	-	**23 259**
Loans and advances to banks	1 003 889	445 580	701 368	249	6 082	9 142	**2 166 310**
Trading securities	4 420 760	107 301	47 259	-	-	-	**4 575 320**
Derivative financial instruments	2 230 405	18 295	13 175	1 849	-	121	**2 263 845**
Loans and advances to customers	14 322 439	2 034 181	801 952	9 119 242	9 593	91 480	**26 378 887**
Investment securities	6 144 288	50 802	31 228	-	-	-	**6 226 318**
- Available for sale	6 144 288	50 802	31 228	-	-	-	**6 226 318**
Pledged assets	2 812 277	-	-	-	-	-	**2 812 277**
Investments in subsidiaries	391 055	34 333	-	-	-	23 710	**449 098**
Investments in associates	-	-	-	-	-	-	**-**
Intangible assets	379 478	-	-	-	-	26	**379 504**
Tangible fixed assets	528 922	-	-	-	-	3 253	**532 175**
Other assets, including deferred income tax assets	558 220	1 496	-	1 021	11	2 616	**563 364**
Total assets	**34 802 108**	**2 698 341**	**1 598 618**	**9 122 531**	**16 043**	**131 096**	**48 368 737**
LIABILITIES							
Amounts due to other banks	1 131 856	126 300	28 838	6 644 725	-	108	**7 931 827**
Derivative financial instruments and other trading liabilities	2 079 449	85 112	16 366	268	116	109	**2 181 420**
Amounts due to customers	27 362 741	3 954 247	1 269 383	20 417	69 897	57 631	**32 734 316**
Debt securities in issue	36 810	-	-	-	-	-	**36 810**
Subordinated liabilities	-	362 440	-	1 299 345	-	-	**1 661 785**
Other liabilities including tax liabilities	658 256	449	3 333	965	1	10 611	**673 615**
Provisions	67 840	614	377	-	-	-	**68 831**
Total liabilities	**31 336 952**	**4 529 162**	**1 318 297**	**7 965 720**	**70 014**	**68 459**	**45 288 604**
Net on-balance sheet position	**3 465 156**	**(1 830 821)**	**280 321**	**1 156 811**	**(53 971)**	**62 637**	**3 080 133**
Credit commitments	**11 122 424**	**788 698**	**311 131**	**490 632**	**5 464**	**2 104**	**12 720 453**

3.6 Interest Rate Risk

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

As at 31 December 2008 and 31 December 2007 a sudden, lasting and disadvantageous change of market interest rates by 100 base points for all maturities would result in decrease in the annual interest income within 12 months after the Balance Sheet date by the following amounts ("EaR"), on average:

31.12.2008		31.12.2007	
in PLN millions	**currency**	**in PLN millions**	**currency**
7.85	PLN	28.58	PLN
5.04	EUR	4.19	EUR
0.06	USD	3.32	USD
16.3	CHF	2.68	CHF

IFRS Financial Statements 2008 PLN (000's)

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

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

The Bank runs also other analyses of the changes of the economical value of the banking book under stress test scenarios. Under the stress test, which assumes unfavorable shift of the interest rates for respective currencies by 200 bps, the economical value of the banking book at the end of 2008 would change by 157 millions PLN, out of which 118 millions PLN would be due to available for sale instruments. During the calculation of these values no correlation between currencies was taken into account and it was assumed that after the negative shift interest rates cannot become negative.

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

31.12.2008	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	1 175 454	-	-	-	-	1 316 397	**2 491 851**
Debt securities eligible for rediscounting at the Central Bank	-	9 238	-	-	-	-	**9 238**
Loans and advances to banks	4 867 001	523 542	303 915	-	-	371 123	**6 065 581**
Securities (trading securities, investment securities and pledged assets)	7 893 795	2 064 359	2 902 224	284 249	682 234	541 816	**14 368 677**
Loans and advances to customers	38 780 988	1 560 371	915 475	301 470	29 826	669 035	**42 257 165**
Other assets and derivative financial instruments	890 819	999 783	2 275 099	1 036 274	32 888	763 261	**5 998 124**
T o t a l a s s e t s	**53 608 057**	**5 157 293**	**6 396 713**	**1 621 993**	**744 948**	**3 661 632**	**71 190 636**
LIABILITIES							
Amounts due to the Central Bank	1 090 545	211 924	-	-	-	-	**1 302 469**
Amounts due to other banks	8 792 488	10 602 808	721 397	-	-	26 067	**20 142 760**
Amounts due to customers	31 710 571	4 607 912	882 084	167 890	56 687	13 350	**37 438 494**
Debt securities in issue	-	-	7 829	-	-	-	**7 829**
Subordinated liabilities	482 077	2 187 376	-	-	-	-	**2 669 453**
Other liabilities and derivative financial instruments	999 218	1 086 056	2 651 538	1 145 218	36 369	947 593	**6 865 992**
Total liabilities	**43 074 899**	**18 696 076**	**4 262 848**	**1 313 108**	**93 056**	**987 010**	**68 426 997**
Total interest repricing gap	**10 533 158**	**(13 538 783)**	**2 133 865**	**308 885**	**651 892**		

31.12.2007	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	963 312	-	-	-	-	1 035 068	**1 998 380**
Debt securities eligible for rediscounting at the Central Bank	-	23 259	-	-	-	-	**23 259**
Loans and advances to banks	1 470 158	432 779	243 996	-	-	19 377	**2 166 310**
Securities (trading securities, investment securities and pledged assets)	6 282 285	1 864 011	1 814 713	2 300 509	1 001 566	350 831	**13 613 915**
Loans and advances to customers	24 665 087	958 610	235 756	87 288	19 618	412 528	**26 378 887**
Other assets and derivative financial instruments	414 633	417 654	896 372	340 775	10 868	408 264	**2 488 566**
T o t a l a s s e t s	**33 795 475**	**3 696 313**	**3 190 837**	**2 728 572**	**1 032 052**	**2 226 068**	**46 669 317**
LIABILITIES							
Amounts due to other banks	4 013 543	3 291 498	147 094	-	-	479 692	**7 931 827**
Amounts due to customers	30 068 475	1 906 991	633 181	122 927	2 742	-	**32 734 316**
Debt securities in issue	-	11 152	18 342	7 316	-	-	**36 810**
Subordinated liabilities	6 745	1 655 040	-	-	-	-	**1 661 785**
Other liabilities and derivative financial instruments	392 049	366 229	1 023 889	330 665	10 494	610 988	**2 734 314**
Total liabilities	**34 480 812**	**7 230 910**	**1 822 506**	**460 908**	**13 236**	**1 090 680**	**45 099 052**
Total interest repricing gap	**(685 337)**	**(3 534 597)**	**1 368 331**	**2 267 664**	**1 018 816**		

3.7 Liquidity Risk

The objective of liquidity risk management is to ensure and maintain the Bank's ability to fulfill both current and future commitments, with taking account of costs of liquidity obtaining.

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

1) liquidity risk management, i.e., taking up preventive actions for the purposes of not allowing to occurrence the threat of losing liquidity.
2) monitoring liquidity situation of the Bank,

Liquidity risk management process contains two stages:

1) strategic stage that enables to ensure financial liquidity in long term and it includes prognostic point of view,
2) operational which allows to observe exposure to liquidity risk for the purposes of protecting immediate and current liquidity.

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

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

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

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

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

For the purposes of securing liquidity, the Bank establishes resources of current and immediate reinforcement of liquidity which are liquidity reserves.

The Bank holds its own procedures concerning emergency actions against material worsening of financial liquidity of the Bank.

For the purposes of current monitoring liquidity, the Bank establishes values of realistic, cumulated gap of cash flows misfit. The gap is calculated on the basis of contractual cash flows (Note 3.7.1). Both cash flows in portfolios of: non-banking customers' deposits and current account loans are mainly materialized. It is also assumed that term loans portfolio is stable and that there is an earlier sale clause or a clause of pledge of liquid securities portfolio.

Value of realistic, cumulative gap of cash flows misfit (in PLN millions)

Time range	31.12.2008	31.12.2007
up to 3 working days	4 394	3 600
up to 7 calendar days	5 642	3 706
up to 15 calendar days	4 912	3 647
up to 1 month	6 083	4 005
up to 2 months	6 783	4 656
up to 3 months	6 662	4 655
up to 4 months	6 537	4 024
up to 5 months	6 738	3 817
up to 6 months	6 504	3 217
up to 7 months	6 400	2 743
up to 8 months	6 492	2 242
up to 9 months	7 319	2 276
up to 10 months	7 310	2 346
up to 11 months	6 559	1 344
up to 12 months	6 564	1 425

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

Analyzing the liquidity situation of the Bank in the period of the financial market crisis in 2008, it should be underlined that:

- the funding structure was stable. The biggest position in this structure was current and term customer's deposit portfolio. The second big source of funding, with growing share in funding structure, was long-term borrowings from banks (over 1 year), especially from Commerzbank (Note 29). Borrowings and subordinated loans (Note 32) were the main sources of financing mortgage loan portfolio in CHF. BRE Bank's dependency on Money Market funding was low (near 1 % of total funding)

IFRS Financial Statements 2008 PLN (000's)

- BRE Bank, which analyze liquidity risk on a daily basis , increased, during the crisis, the number and the range of scenario analysis, especially in a type of stress test scenarios. The results of this scenarios was regularly presented and discussed during ALCO, the Risk Committee and the Board Management meetings. The very detailed stability analysis was done on a loan and deposit portfolios. Additionally, securities portfolio, which is the important source of funding in time of crisis was precisely analyzed. Moreover, the Bank prepared the set of information for the purpose and current needs of Banking Supervisory.
- the Risk Committee of BRE Bank in October 2008 decided to implement actions within the liquidity contingency plan (LCP) to secure Bank's ability to cover its obligations and to have stable funding sources. It should be mentioned that the liquidity profile of the Bank remained safe and stable at that time. The decision to introduce LCP was taken in a context of rapidly drying liquidity on the interbank market, uncertainty of future depositor's decisions and materializing credit risk in a banking sector.

3.7.1 Cash Flows from Transactions in Non-derivative Financial Instruments

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

Liabilities (by contractual maturity dates)	as at 31.12.2008					
	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Amounts due to the Central Bank	1 097 633	213 201	-	-	-	1 310 834
Amounts due to other banks	2 665 150	97 462	1 582 217	17 114 178	-	21 459 007
Amounts due to customers	31 782 594	4 393 785	1 053 491	379 678	104 849	37 714 397
Debt securities in issue	-	-	8 000	-	-	8 000
Subordinated liabilities	5 979	9 777	28 196	149 797	2 799 065	2 992 814
Other liabilities	419 136	181	749	2 533	267	422 866
Total liabilities	35 970 492	4 714 406	2 672 653	17 646 186	2 904 181	63 907 918
Assets (by remaining contractual maturity dates)						
Total assets	12 836 540	2 845 270	10 293 854	16 545 298	38 735 448	81 256 410
Net liquidity gap	(23 133 952)	(1 869 136)	7 621 201	(1 100 888)	35 831 267	17 348 492

Liabilities (by contractual maturity dates)	as at 31.12.2007					
	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Amounts due to other banks	1 291 237	51 120	3 729 162	3 230 040	1 814	8 303 373
Amounts due to customers	28 751 997	1 027 262	1 406 685	315 457	1 946 554	33 447 955
Debt securities in issue	372	344	30 534	8 000	-	39 250
Subordinated liabilities	537 857	15 047	31 380	166 715	1 309 242	2 060 241
Other liabilities	352 298	24	254	1 866	207	354 649
Total liabilities	30 933 761	1 093 797	5 198 015	3 722 078	3 257 817	44 205 468
Assets (by remaining contractual maturity dates)						
Total assets	12 599 754	2 568 047	8 100 654	13 737 392	26 114 719	63 120 566
Net liquidity gap	(18 334 007)	1 474 250	2 902 639	10 015 314	22 856 902	18 915 098

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

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

Moreover, debt securities and T-bonds and other bonds have been pledged as collateral for liabilities. The Bank could ensure cash for unexpected net outflows by selling securities and availing itself of other sources of financing, such as the market of securities secured with assets (e.g. securitization transactions).

3.7.2 Cash Flows from Derivatives

<u>Derivative financial instruments settled in net amounts</u>

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

- Derivative futures;
- Forward Rate Agreements (FRA);
- Options;

IFRS Financial Statements 2008 PLN (000's)

- Warrants;
- Interest rate swaps (IRS);
- Cross currency interest rate swaps (CIRS);
- Security forwards.

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

31.12.2008 Derivatives settled on a net basis	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Forward Rate Agreements (FRA)	32 018	100 566	264 617	77 491	-	**474 692**
Overnight Index Swaps (OIS)	1 822	10 754	84 702	-	-	**97 278**
Interest Rate Swaps (IRS)	238 732	285 218	552 729	1 544 079	201 702	**2 822 460**
Cross Currency Interest Rate Swaps (CIRS)	71 013	4 195	127 995	337 391	-	**540 594**
Options	78 809	237 686	480 680	127 018	15 652	**939 845**
Futures contracts	-	39	-	-	-	**39**
Other	868	-	3 249	-	-	**4 117**
Total derivatives settled on a net basis	**423 262**	**638 458**	**1 513 972**	**2 085 979**	**217 354**	**4 879 025**

31.12.2007 Derivatives settled on a net basis	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Forward Rate Agreements (FRA)	22 154	14 150	94 817	17 014	-	**148 135**
Overnight Index Swaps (OIS)	3 576	483	12 109	98	-	**16 266**
Interest Rate Swaps (IRS)	38 202	47 500	324 527	388 833	48 435	**847 497**
Cross Currency Interest Rate Swaps (CIRS)	2 130	36	39 128	53 738	2 571	**97 603**
Options	29 364	19 833	110 519	25 275	7 245	**192 236**
Futures contracts	-	-	435	-	-	**435**
Other	-	-	1 917	5 040	10 988	**17 945**
Total derivatives settled on a net basis	**95 426**	**82 002**	**583 452**	**489 998**	**69 239**	**1 320 117**

<u>Derivative financial instruments settled in gross amounts</u>

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

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

31.12.2008 Derivatives settled on a gross basis	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Currency derivatives:						
-outflows	6 733 193	4 561 439	6 344 262	784 894	-	**18 423 788**
-inflows	6 556 321	4 495 831	6 191 820	837 295	-	**18 081 267**

31.12.2007 Derivatives settled on a gross basis	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Currency derivatives:						
- outflows	15 327 605	3 284 341	12 372 956	786 180	-	**31 771 082**
- inflows	15 347 612	3 327 334	12 474 667	765 524	-	**31 915 137**

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

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

Detailed data concerning liquidity risk related to off-balance sheet items are presented in the Note 37.

3.8 Fair Value of Financial Assets and Financial Liabilities

Fair value is a price, for which an asset could be exchanged, or an obligation fulfilled, between well informed and interested parties in a direct transaction other than a forced sale or liquidation. The market price, if available, is the best reflection of fair value.

Following market practices the Bank values open positions in financial instruments using either mark-to-market method or well established in market practice pricing models (mark-to-model method) which use as inputs market prices or market parameters, and in few cases parameters estimated internally by the Bank. All open positions in derivatives (currency or interest rates) are valued by relevant market models fed with prices or parameters observable by market. Domestic commercial papers are mark-to-model (by discounting cash flows), which in addition to market (zero coupon) interest rate curve uses credit spreads estimated internally. If the credit spread had increased by 20 basic points, the valuation of commercial papers would have been lower by PLN 5.4 million. One mezzanine finance deal is valued by a model which uses historical volatility estimated from market observable share prices.

IFRS Financial Statements 2008 PLN (000's)

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

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

The following table presents a summary of balance sheet and fair values for each group of financial assets and liabilities not recognized in the Balance Sheet of the Bank at their fair values.

	31.12.2008		31.12.2007	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Loans and advances to banks	**6 065 581**	**6 065 581**	**2 166 310**	**2 166 306**
Loans and advances to customers	**42 257 165**	**42 232 586**	**26 378 887**	**26 360 526**
Loans and advances to individuals	**26 246 283**	**26 245 535**	**13 609 757**	**13 608 501**
current accounts	3 358 878	3 358 878	2 184 779	2 184 779
term loans including:	22 887 405	22 886 657	11 424 978	11 423 722
- housing and mortgage loans	21 341 130	21 340 935	10 514 434	10 514 053
Loans and advances to corporate entities	**15 308 006**	**15 285 292**	**12 324 426**	**12 307 321**
current accounts	3 510 238	3 510 238	2 663 851	2 663 851
term loans	11 390 189	11 367 475	8 991 557	8 974 452
- corporate & institutional enterprises	4 612 890	4 598 136	3 297 868	3 285 069
- medium & small enterprises	6 777 299	6 769 339	5 693 689	5 689 383
reverse repo / buy-sell-back transactions	407 579	407 579	669 018	669 018
other	-	-	-	-
Loans and advances to public sector	**34 192**	**33 075**	**32 175**	**32 175**
Other receivables	**668 684**	**668 684**	**412 529**	**412 529**
Assets available for sale				
Debt securities unlisted	**-**	**-**	**25 025**	**25 025**
Equity securities unlisted	**75 241**	**75 241**	**339 230**	**339 230**
Financial liabilities				
Amounts due to other banks	**20 142 760**	**20 142 620**	**7 931 827**	**7 931 692**
Amounts due to customers	**37 438 494**	**37 411 363**	**32 734 316**	**32 717 430**
Debt securities in issue	**7 829**	**7 678**	**36 810**	**36 188**

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

Amounts due from banks. The fair values of variable interest deposits and fixed interest deposits with less than 1 year to maturity approximates the balance sheet carrying amounts.

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

As at 31 December 2008 the value of loans and advances to customers includes the value of bonds of the following companies: ABC Data Holding SA (bonds with embedded warrant), Internet Group SA (bonds with embedded warrant). The aforementioned bonds were taken up by the Bank. The maturity dates for the bonds fall on 2012 and 2013 relatively, with earlier redemption clause. Because of complicated agreements and lack of analogous transactions at the Polish market in relation to bonds of the company ABC Data Holding SA it is not possible to determine reliably the fair value of acquired instruments at the moment of the transaction.

So, the Bank, abiding by the principle of prudence, recognised the transactions at acquisition cost being also the nominal value of the acquired bonds.

As at 31 December 2008 the Bank valued share warrants embedded in bonds of Internet Group SA. The valuation in the amount of PLN 767 thousand was recognised in the Balance Sheet under the item "Derivative financial instruments" and reflected in the Profit and Loss Account.

Additionally, as at 31 December 2007 the Bank held bonds of JM Holdings S.a.r.l. (exchange bonds), which were redeemed in June 2008.

All acquired bonds were classified as credit receivables undergoing tests for impairment and valuation at amortised cost.

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

The Bank was unable to prepare reliable fair value estimates for unlisted equity instruments and it used the acquisition price adjusted for impairment losses for the balance sheet valuation purposes.
The Bank applied this rule concerning equity instruments to the shares of Powszechny Zakład Ubezpieczeń (PZU SA).

The Bank holds 653 660 shares of PZU SA, representing 0.76% of the share capital; their book value is PLN 73 988 480.48. PZU SA is Poland's largest property insurer and the owner of the life insurer PZU Życie SA.

Shares of PZU SA are not listed in a regulated market. Shareholders frequently trade in its shares but this usually involves small packages of employee-held shares. The market is liquid to an extent, but in view of a conflict between the major shareholders and due to the fact that the potential IPO date of PZU SA remains unknown, the transaction prices are believed to include a large discount. It is estimated that the actual value is between PLN 180 and PLN 400 per share.

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

1. Contracted borrowings;
2. Liabilities resulting from the issue of securities;
3. Deposits.

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

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

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

Credit risk exposures relating to off-balance sheet items. As at 31 December 2008 the fair value of financial guarantees amounted to PLN 11 644 thousand (31 December 2007: PLN 9 850 thousand). As at 31 December 2008 and 31 December 2007 the fair value of lending commitments did not significantly differ from their carrying amount.

3.9 Other Business

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

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

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

Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the Profit and Loss Account, the Bank assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio, before such a decrease will be able to be attributed to a specific loan. The estimates may take into account any observable indications pointing at the occurrence of an unfavourable change in the solvency position of debtors belonging to any particular group or in the economic situation of a given country or part of a country, which is associated with the problems appearing in that group of assets. The Management plans future cash flows based on estimates drawing on historical experience of losses incurred on assets featuring the traits of credit risk exposure and objective impairment symptoms similar to those which characterise the portfolio. The methodology and the assumptions on the basis of which the estimated cash flow amounts and their anticipated timing are determined will be regularly reviewed in order to reduce the discrepancies between the estimated and the actual magnitude of the impairment losses concerned. If the current value of estimated cash flows for portfolio of loans and advances, individually impaired, changed by +/- 10%, the estimated loans and advances impairment would either decrease by PLN 20.2 million or increase by PLN 27.0 million relatively. The above indicated estimation was performed for portfolio of loans and advance impaired on the basis of individual analysis of future cash flows due to repayments and recovery from collateral.

Credit risk management connected with changes in market conditions was described under Note 3, in the part regarding the impact of the worldwide turmoil on financial risk management.

The matters regarding valuation of bonds acquired under mezzanine transactions were described in the Note 3.8.

Fair value of derivative instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, the models applied resort exclusively to observable data originating from an active market. The matter regarding changes in market conditions on valuation of trading book of the Bank (containing inter alia derivatives) was presented in the Note 3.4.

Impairment of equity securities available for sale

Impairment is regarded to occur if the issuer incurs loss not covered by its equity within the period of one year, and in the case of the occurrence of other facts and circumstances providing indications of the impairment of value. In addition, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates which indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

The matter regarding valuation of shares of PZU SA was presented in the Note 3.8.

Impairment of debt instruments available for sale

Impairment and increase in value of debt securities available for sale is determined at the date of valuation, i.e. the Balance Sheet date, separately for each category of debt security. Impairment is recognised, if the issuer incurs a loss not covered by his equity capital over a period of one year or in the event of other circumstances indicating impairment. If in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the Profit and Loss Account.

Significant and prolonged declines in fair values of available for sale financial debt instruments below their purchasing prices would result in charges due to estimated impairment of portfolio of these instruments in the amount of PLN 0.8 million which would be reflected in the Profit and Loss Account of the Bank in correspondence with revaluation reserve. For the purpose of the analysis, the declines in particular securities ratings that decreased by four rating classes were assumed to be significant and prolonged declines in fair values of available for sale financial debt instruments.

IFRS Financial Statements 2008 PLN (000's)

5. Net Interest Income

	Year ended 31 December	
	2008	**2007**
Interest income		
Loans and advances including the unwind of the impairment provision discount	2 056 191	1 297 594
Cash and short-term investments	304 514	219 580
Investment securities	314 108	179 413
Trading debt securities	259 202	154 418
Other	6 138	9 509
	2 940 153	**1 860 514**
Interest expense		
Arising from amounts due to banks and customers	(1 726 959)	(1 008 377)
Arising from issue of debt securities	(1 928)	(1 987)
Other borrowed funds	(82 086)	(58 460)
Other	(1 913)	(4 388)
	(1 812 886)	**(1 073 212)**

Interest income related to financial assets which have been impaired amounted to PLN 33 180 thousand (PLN 7 215 thousand in 2007).

Net interest income per segment is as follows:

	Year ended 31 December	
	2008	**2007**
Interest income		
From banking sector	444 354	359 031
From clients, including:	2 495 799	1 501 483
- corporate clients	1 013 668	659 956
- individual clients	1 028 423	582 946
- public sector	453 708	258 581
	2 940 153	**1 860 514**
Interest expense		
From banking sector	(423 617)	(209 020)
From clients, including:	(1 387 341)	(862 205)
- corporate clients	(660 082)	(619 573)
- individual clients	(646 082)	(201 773)
- public sector	(81 177)	(40 859)
Own issue	(1 928)	(1 987)
	(1 812 886)	**(1 073 212)**

6. Net Fee and Commission Income

	Year ended 31 December	
	2008	**2007**
Fee and commission income		
Credit-related fees and commissions	210 694	128 098
Payment cards-related fees	206 445	152 787
Commissions from money transfers	72 435	75 791
Commissions from bank accounts	69 893	58 226
Guarantees granted and trade finance commissions	38 648	38 470
Commissions on trust and fiduciary activities	10 164	10 997
Other	96 563	102 506
	704 842	**566 875**
Fee and commission expense		
Payment cards-related fees	(143 629)	(106 182)
Brokerage fees discharged	(8 156)	(6 713)
Other fees discharged	(129 091)	(69 875)
	(280 876)	**(182 770)**

The amount of other fees discharged comprises primarily commissions paid for sale of the Bank's products to external customers.

IFRS Financial Statements 2008 PLN (000's)

7. Dividend Income

	Year ended 31 December	
	2008	**2007**
Trading securities	1 687	-
Securities available for sale	66 994	37 726
Total dividend income	**68 681**	**37 726**

8. Net Trading Income

	Year ended 31 December	
	2008	**2007**
Foreign exchange result	**482 361**	**427 530**
Foreign exchange differences from the translation (net)	395 394	499 318
Net transaction gains and losses	86 967	(71 788)
Other net trading income	**(34 883)**	**44 831**
Interest-bearing instruments	(28 489)	18 522
Equities	(3 903)	20 486
Market risk instruments	(2 491)	5 823
Total net trading income	**447 478**	**472 361**

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

In 2008 valuation of currency derivatives resulted in decrease of valuation by PLN 56 613 thousand included under the item "Net transaction gains and losses".

9. Other Operating Income

	Year ended 31 December	
	2008	**2007**
Income from services provided	22 732	16 556
Income due to release of provisions for future commitments	9 668	17 313
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	4 476	616
Income from sale or liquidation of fixed assets, intangible assets and assets held for resale	562	3 002
Compensations, penalties and fines received	242	494
Other	6 062	21 285
Total other operating income	**43 742**	**59 266**

Income from services provided concerns non-banking services.

10. Overhead Costs

	Year ended 31 December	
	2008	**2007**
Staff-related expenses (Note 12)	(564 256)	(453 131)
Material costs	(476 122)	(400 339)
Taxes and fees	(20 111)	(6 439)
Contributions and transfers to the Bank Guarantee Fund	(6 623)	(5 171)
Contribution to the Social Benefits Fund	(3 805)	(2 825)
Total overhead costs	**(1 070 917)**	**(867 905)**

"Material costs" consist of tangible assets operating lease payment costs (mainly real estate) of PLN 22 605 thousand (2007: PLN 30 053 thousand).

IFRS Financial Statements 2008 PLN (000's)

11. Other Operating Expenses

	Year ended 31 December	
	2008	**2007**
Costs arising from impairment provisions created for other receivables (excluding loans and advances)	(7 365)	(795)
Provisions for future commitments	(4 935)	(5 078)
Donations made	(3 333)	(2 405)
Costs arising from sale or liquidation of fixed assets, intangible assets and assets held for resale	(1 260)	(1 372)
Compensations, penalties and fines paid	(728)	(339)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(12)	(130)
Other operating costs	(8 009)	(9 172)
Total other operating expenses	**(25 642)**	**(19 291)**

12. Staff Costs

	Year ended 31 December	
	2008	**2007**
Wages and salaries	(442 563)	(370 164)
Social security expenses	(63 905)	(47 487)
Remuneration settled in the form of shares and share options	(18 898)	(648)
Other staff expenses	(38 890)	(34 832)
Staff-related expenses, total	**(564 256)**	**(453 131)**

The average level of employment in the Bank in 2008 was 5 364 persons (2007: 4 374).

The additional information related to share-based payment has been presented in the Note 42 "Retained earnings".

13. Impairment Losses on Loans and Advances

	Year ended 31 December	
	2008	**2007**
Impairment losses on amounts due from other banks (Note 18)	(21 894)	(631)
Impairment losses on off-balance sheet contingent liabilities due to other banks (Note 34)	(287)	(247)
Impairment losses on loans and advances to customers (Note 21)	(183 350)	(52 625)
Impairment losses on off-balance sheet contingent liabilities due to customers (Note 34)	(13 216)	(4 719)
Total impairment losses on loans and advances	**(218 747)**	**(58 222)**

14. Income Tax Expense

	Year ended 31 December	
	2008	**2007**
Current tax	(214 262)	(142 457)
Deferred income tax (Note 35)	142 306	(8 740)
Total income tax	**(71 956)**	**(151 197)**
Profit before tax	**901 487**	**788 428**
Tax calculated at Polish current tax rate (19%)	(171 283)	(149 801)
Income not subject to tax	72 350	15 877
Costs other than tax deductible costs	(23 991)	(11 440)
Other positions affecting income tax	50 968	(5 833)
Income tax expense	**(71 956)**	**(151 197)**
Effective tax rate calculation		
Profit before income tax	901 487	788 428
Income tax	(71 956)	(151 197)
Effective tax rate	**7.98%**	**19.18%**

In 2008 the item "Other positions affecting income tax" contains tax result on the sale of the shares of Aegon PTE SA.

Further information about deferred income tax is presented in the Note 35. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

Effective tax rate 7.98% mainly comes from result on the sale for redemption purposes of Vectra SA and tax loss on the sale of the Aegon PTE's shares.

IFRS Financial Statements 2008 PLN (000's)

15. Earnings per Share

Earnings per share for 12 months – continued operations

	Year ended 31 December	
	2008	**2007**
Basic:		
Net profit	829 531	637 231
Weighted average number of ordinary shares	29 680 542	29 578 675
Net basic profit per share (in PLN per share)	**27.95**	**21.54**
Diluted:		
Net profit from continued operations attributable to the Bank's equity holders applied for calculation of diluted earnings per share	829 531	637 231
Weighted average number of ordinary shares	29 680 542	29 578 675
Adjustments for:		
- stock options for employees	20 704	29 464
Weighted average number of ordinary shares for calculation of diluted earnings per share	29 701 246	29 608 139
Diluted earnings per share (in PLN per share)	**27.93**	**21.52**

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

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

According to IAS 33, the Bank prepares a calculation of the so-called "diluted earnings per share", taking account of share purchase options granted to employees.

The Bank conducted two option programs from 1 January 2007 to 31 December 2008. The programs were valued in accordance with IFRS 2.

The employee options program (initiated in May 2003) assumes that the members of the Bank's Management will receive 500 000 options to be exercised in phases between 1 June 2005 and 30 June 2008. Under these options, the employees may have assumed 500 000 of newly issued shares of the Bank.

On 14 March 2008, the Ordinary General Meeting of BRE Bank adopted a resolution approving an incentive program for Management Board Members of the Bank. Under the program, the Management Board Members can acquire bonds with the pre-emptive right to acquire shares of the Bank and shares of the ultimate parent entity, Commerzbank AG.

The detailed information concerning remuneration program based on and settled in shares was described in the Note 42.

16. Cash and Balances with Central Bank

	31.12.2008	**31.12.2007**
Cash in hand	143 277	96 751
Current account	2 348 574	1 901 629
Total cash and balances with the Central Bank (Note 44)	**2 491 851**	**1 998 380**
Including: mandatory reserve deposit	1 175 454	963 054

The mandatory reserve is held in an account with the Central Bank and in the Bank's hand. As at 31 December 2008, the former part of the reserve bore 4.73% interest (31 December 2007: 4.73% relatively).

17. Debt Securities Eligible for Rediscounting at the Central Bank

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

IFRS Financial Statements 2008 PLN (000's)

18. Loans and Advances to Banks

	31.12.2008	31.12.2007
Current accounts	95 493	41 386
Placements with other banks	4 246 175	685 970
Included in cash equivalents (Note 44)	**4 341 668**	**727 356**
Loans, placements and advances	1 031 641	787 850
Reverse repo / buy-sell-back transactions	515 694	513 866
Other receivables	207 592	142 447
Total (gross) loans and advances to banks	**6 096 595**	**2 171 519**
Provisions created for loans and advances to banks (negative amount)	(31 014)	(5 209)
Total (net) loans and advances to banks	**6 065 581**	**2 166 310**
Short-term (up to 1 year)	5 634 569	1 827 787
Long-term (over 1 year)	431 012	338 523

The following table presents receivables from Polish and foreign banks:

	31.12.2008	31.12.2007
Loans and advances to Polish banks (gross)	898 208	654 232
Provisions created for loans and advances to Polish banks	(57)	(247)
Loans and advances to foreign banks (gross)	5 198 387	1 517 287
Provisions created for loans and advances to foreign banks	(30 957)	(4 962)
Total (net) loans and advances to banks	**6 065 581**	**2 166 310**

The variable rate loans to banks amount to PLN 960 821 thousand and the fixed rate loans to banks amounted to PLN 54 670 thousand (as at 31 December 2007 – variable rate loans to banks amounted to PLN 558 833 thousand and fixed rate loans: PLN 31 178 thousand). An average deposit interest rate for deposits in other banks and loans granted to banks amounted to 5.31% (31 December 2007: 4.86%).

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

	31.12.2008	31.12.2007
Provisions for loans and advances to banks as at the beginning of the period	**5 209**	**4 578**
Increase (due to)	25 805	631
- provisions created (Note 13)	21 894	631
- foreign exchange differences	3 911	-
Provisions for loans and advances to banks as at the end of the period	**31 014**	**5 209**

Provisions for loans and advances to banks in 2008 comprise provisions of PLN 26 212 thousand created for receivables analysed individually.

19. Trading Securities and Pledged Assets

	31.12.2008	31.12.2007
Debt securities:	**6 064 684**	**7 306 374**
Government bonds included in cash equivalents and pledged government bonds (sell-buy-back transactions) (Note 44), including:	795 927	4 733 535
- pledged government bonds (sell-buy-back transactions) (Note 38)	716 356	2 718 240
Treasury bills included in cash equivalents and pledged treasury bills (sell-buy-back transactions) (Note 44), including:	874 579	25 623
- pledged treasury bills (sell-buy-back transactions) (Note 38)	380 428	14 394
Other debt securities	4 394 178	2 547 216
Equity securities:	**1 312**	**1 580**
- listed	1 312	1 580
Debt and equity securities, including:	**6 065 996**	**7 307 954**
- Trading securities	*4 969 212*	*4 575 320*
- Pledged assets (Note 38)	*1 096 784*	*2 732 634*

Government bonds include securities used to secure sell-buy-back transactions with customers, the market value of which as at 31 December 2008 amounted to PLN 716 356 thousand (31 December 2007: PLN 2 718 240 thousand). The bonds are disclosed separately within the "Pledged assets" in the Balance Sheet.

Treasury bills include bills used to secure sell-buy-back transactions with customers, the market value of which as at 31 December 2008 amounted to PLN 380 428 thousand (31 December 2007: PLN 14 394 thousand). The bills are disclosed separately within the "Pledged assets" in the Balance Sheet.

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

The above note includes neither Treasury bills nor money bills pledged under the Bank Guarantee Fund of PLN 175 300 thousand (31 December 2007: PLN 79 643 thousand), which have been classified into investment securities (the Note 22).

20. Derivative Financial Instruments and Other Trading Liabilities

The Bank uses the following derivative instruments for 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 organized financial market. Because futures contracts are collateralized with fair-valued cash or securities and the changes of the face value of such contracts are accounted for daily in reference to stock exchange quotations, the credit risk is marginal. **FRA contracts** are similar to futures except that each of them is negotiated individually and each requires payment on a specific future date of the difference between the interest rate set in the agreement and the current market rate on the basis of theoretical amount of capital.

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

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

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

IFRS Financial Statements 2008 PLN (000's)

	Contract amount purchase	sale	Fair value assets	liabilities
As at 31 December 2008				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	16 503 882	16 135 075	615 328	191 351
- Currency swaps	11 507 998	12 262 351	391 237	1 168 759
- Cross-currency interest rate swaps	6 710 761	6 755 264	518 271	513 708
- OTC currency options bought and sold	10 393 957	11 311 674	1 169 471	908 457
Total OTC derivatives	**45 116 598**	**46 464 364**	**2 694 307**	**2 782 275**
Total foreign exchange derivatives	**45 116 598**	**46 464 364**	**2 694 307**	**2 782 275**
Interest rate derivatives				
- Interest rate swap, OIS	164 517 492	164 517 492	2 280 107	2 922 735
- Forward rate agreements	102 672 586	131 095 000	599 517	470 713
- OTC interest rate options	518 134	509 829	15 296	13 742
Total OTC interest rate derivatives	**267 708 212**	**296 122 321**	**2 894 920**	**3 407 190**
Total interest rate derivatives	**267 708 212**	**296 122 321**	**2 894 920**	**3 407 190**
Market risk transactions	**750 581**	**647 227**	**23 086**	**21 851**
Total derivative assets / liabilities held for trading	**313 575 391**	**343 233 912**	**5 612 313**	**6 211 316**
Total recognised derivative assets/ liabilities	**313 575 391**	**343 233 912**	**5 612 313**	**6 211 316**
Total recognised derivative assets/ liabilities and other trading liabilities	**313 575 391**	**343 233 912**	**5 612 313**	**6 211 316**
Short-term (up to 1 year)	218 456 055	244 002 412	3 593 059	4 428 318
Long-term (over 1 year)	95 119 336	99 231 500	2 019 254	1 782 998

	Contract amount purchase	sale	Fair value assets	liabilities
As at 31 December 2007				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	12 866 925	12 839 154	270 880	195 533
- Currency swaps	23 337 621	23 179 011	659 201	515 373
- Cross-currency interest rate swaps	5 145 346	5 063 839	80 023	102 644
- OTC currency options bought and sold	5 373 192	6 162 540	144 038	230 131
Total OTC derivatives	**46 723 084**	**47 244 544**	**1 154 142**	**1 043 681**
Total foreign exchange derivatives	**46 723 084**	**47 244 544**	**1 154 142**	**1 043 681**
Interest rate derivatives				
- Interest rate swap, OIS	168 944 349	168 944 349	696 993	762 811
- Forward rate agreements	102 094 000	94 729 280	184 062	146 944
- OTC interest rate options	401 467	405 383	8 351	8 401
Total OTC interest rate derivatives	**271 439 816**	**264 079 012**	**889 406**	**918 156**
- Stock exchange traded interest rate options	-	-	136	-
Total interest rate derivatives	**271 439 816**	**264 079 012**	**889 542**	**918 156**
Market risk transactions	**683 536**	**1 267 794**	**220 161**	**219 583**
Total derivative assets / liabilities held for trading	**318 846 436**	**312 591 350**	**2 263 845**	**2 181 420**
Total recognised derivative assets/ liabilities	**318 846 436**	**312 591 350**	**2 263 845**	**2 181 420**
Total recognised derivative assets/ liabilities and other trading liabilities	**318 846 436**	**312 591 350**	**2 263 845**	**2 181 420**
Short-term (up to 1 year)	234 255 226	229 568 667	1 518 493	1 442 533
Long-term (over 1 year)	84 591 210	83 022 683	745 352	738 887

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

As at 31 December 2008 and 31 December 2007 the Bank did not have any other assets or financial liabilities in the category of financial liabilities priced at fair value through the Profit and Loss Account.

IFRS Financial Statements 2008 PLN (000's)

21. Loans and Advances to Customers

	31.12.2008	31.12.2007
Loans and advances to individuals:	**26 538 966**	**13 790 558**
- overdrafts	3 564 876	2 301 686
- term loans, including:	22 974 090	11 488 872
housing and mortgage loans	21 374 840	10 536 467
Loans and advances to corporate entities:	**15 688 997**	**12 693 119**
- overdrafts	3 618 271	2 743 814
- term loans:	11 663 147	9 280 287
corporate & institutional enterprises	4 643 896	3 326 348
medium & small enterprises	7 019 251	5 953 939
- reverse repo / buy-sell-back transactions	407 579	669 018
Loans and advances to public sector	**34 382**	**32 489**
Other receivables	**668 684**	**412 529**
Total (gross) loans and advances to customers	**42 931 029**	**26 928 695**
Provisions for loans and advances to customers (negative amount)	(673 864)	(549 808)
Total (net) loans and advances to customers	**42 257 165**	**26 378 887**
Short-term (up to 1 year)	12 654 060	11 196 418
Long-term (over 1 year)	29 603 105	15 182 469

As at 31 December 2008, variable and fixed rate credits amounted to PLN 42 381 018 thousand and PLN 550 011 thousand, respectively (as at 31 December 2007: PLN 26 342 485 thousand and PLN 586 210 thousand respectively). The values mentioned above relate to loans granted to individual clients, corporate clients and budget sector. An average loan interest rate for loans granted to customers (excluding reverse repos) amounted to 6.30% (31 December 2007: 5.57%).

The Bank accepted exchange-listed securities at the fair value of PLN 789 160 thousand (31 December 2007: PLN 956 634 thousand) as collateral for commercial loans.

Provisions for Loans and Advances

	31.12.2008	31.12.2007
Receivables classified as "non-default"		
Gross balance sheet exposure	42 209 415	26 342 033
Impairment provisions for exposures analysed according to portfolio approach	(146 327)	(93 594)
Net balance sheet exposure	**42 063 088**	**26 248 439**
Receivables classified as "default"		
Gross balance sheet exposure	721 614	586 662
Provisions for exposures analysed individually	(527 537)	(456 214)
Net balance sheet exposure	**194 077**	**130 448**

Movements in provisions for loans and advances

	31.12.2008	31.12.2007
INDIVIDUALS		
Current accounts		
As at the beginning of the period	**116 907**	**80 463**
increase (due to)	113 773	40 395
- provisions created	113 773	37 311
- reclassification & foreign exchange differences	-	3 084
release (due to)	(24 682)	(3 951)
- release of provisions	(6 845)	(304)
- write-offs	(17 837)	(3 647)
As at the end of the period	**205 998**	**116 907**

IFRS Financial Statements 2008 PLN (000's)

Term loans		
As at the beginning of the period	**63 894**	**70 072**
increase (due to)	34 187	11 961
- provisions created	30 613	11 961
- reclassification of provisions & foreign exchange differences	3 574	-
release (due to)	(11 396)	(18 139)
- release of provisions	(4 383)	(9 403)
- reclassification of provisions & foreign exchange differences	-	(3 936)
- write-offs	(7 013)	(4 800)
As at the end of the period	**86 685**	**63 894**
including:		
Housing and mortgage loans		
As at the beginning of the period	**22 033**	**16 891**
increase (due to)	13 949	5 142
- provisions created	13 942	5 142
- reclassification of provisions & foreign exchange differences	7	-
release (due to)	(2 272)	-
- release of provisions	(39)	-
- write-offs	(2 233)	-
As at the end of the period	**33 710**	**22 033**
TOTAL - INDIVIDUALS		
As at the beginning of the period	**180 801**	**150 535**
increase (due to)	147 960	52 356
- provisions created	144 386	49 272
- reclassification of provisions & foreign exchange differences	3 574	3 084
release (due to)	(36 078)	(22 090)
- release of provisions	(11 228)	(9 707)
- reclassification & foreign exchange differences	-	(3 936)
- write-offs	(24 850)	(8 447)
As at the end of the period	**292 683**	**180 801**
	31.12.2008	**31.12.2007**
CORPORATE ENTITIES		
Current accounts		
As at the beginning of the period	**79 963**	**109 245**
increase (due to)	92 952	38 274
- provisions created	83 417	38 274
- reclassification of provisions & foreign exchange differences	9 535	-
release (due to)	(64 882)	(67 556)
- release of provisions	(45 162)	(11 735)
- reclassification of provisions & foreign exchange differences	(5 320)	(16 030)
- write-offs	(14 400)	(39 791)
As at the end of the period	**108 033**	**79 963**
Term loans		
As at the beginning of the period	**288 730**	**454 457**
increase (due to)	97 022	72 792
- provisions created	97 022	56 915
- reclassification of provisions & foreign exchange differences	-	15 877
release (due to)	(112 794)	(238 519)
- release of provisions	(84 961)	(70 614)
- reclassification of provisions & foreign exchange differences	(5 241)	(2 183)
- write-offs	(22 592)	(165 722)
As at the end of the period	**272 958**	**288 730**
including:		

Corporate & institutional enterprises		
As at the beginning of the period	**28 480**	**87 427**
increase (due to)	11 817	10 692
- provisions created	11 817	10 692
release (due to)	(9 291)	(69 639)
- release of provisions	(8 422)	(12 727)
- reclassification & foreign exchange differences	(869)	(2 183)
- write-offs	-	(54 729)
As at the end of the period	**31 006**	**28 480**
Medium & small enterprises		
As at the beginning of the period	**260 250**	**367 030**
increase (due to)	85 205	62 100
- provisions created	85 205	46 223
- reclassification of provisions & foreign exchange differences	-	15 877
release (due to)	(103 503)	(168 880)
- release of provisions	(76 539)	(57 887)
- reclassification of provisions & foreign exchange differences	(4 372)	-
- write-offs	(22 592)	(110 993)
As at the end of the period	**241 952**	**260 250**
TOTAL - CORPORATE ENTITIES		
As at the beginning of the period	**368 693**	**563 702**
increase (due to)	189 974	111 066
- provisions created	180 439	95 189
- reclassification of provisions & foreign exchange differences	9 535	15 877
release (due to)	(177 676)	(306 075)
- release of provisions	(130 123)	(82 349)
- reclassification of provisions & foreign exchange differences	(10 561)	(18 213)
- write-offs	(36 992)	(205 513)
As at the end of the period	**380 991**	**368 693**

	31.12.2008	**31.12.2007**
PUBLIC SECTOR		
As at the beginning of the period	**314**	**94**
increase (due to)	-	220
- provisions created	-	220
release (due to)	(124)	-
- release of provisions	(124)	-
As at the end of the period	**190**	**314**
TOTAL - MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS		
As at the beginning of the period	**549 808**	**714 331**
increase (due to)	337 934	163 642
- provisions created (Note 14)	324 825	144 681
- reclassification of provisions & foreign exchange differences	13 109	18 961
release (due to)	(213 878)	(328 165)
- release of provisions (Note 14)	(141 475)	(92 056)
- reclassification of provisions & foreign exchange differences	(10 561)	(22 149)
- write-offs	(61 842)	(213 960)
As at the end of the period	**673 864**	**549 808**

IFRS Financial Statements 2008 PLN (000's)

22. Investment Securities and Pledged Assets

	31.12.2008	31.12.2007
Debt securities	**7 762 177**	**5 956 710**
Listed, including:	7 762 177	5 931 685
- pledged government bonds (sell-buy-back transactions)	2 171 905	-
- government bonds pledged under the Bank Guarantee Fund	175 300	-
- Treasury bills pledged under the Bank Guarantee Fund	-	79 643
Unlisted	-	25 025
Equity securities	**83 199**	**349 251**
- listed	7 958	10 021
- unlisted	75 241	339 230
Total securities	**7 845 376**	**6 305 961**
Total investment securities and pledged assets, including:	**7 845 376**	**6 305 961**
- Available for sale securities	*5 498 171*	*6 226 318*
- Pledged assets (Note 38)	*2 347 205*	*79 643*
Short-term (up to 1 year)	1 317 860	2 979 205
Long-term (over 1 year)	6 527 516	3 326 756

The fair values of equity securities presented above include impairment in the amount of PLN 125 thousand (31 December 2007: PLN 125 thousand).

As at 31 December 2008, the carrying values of debt securities based on fixed interest rate amounted to PLN 2 006 163 thousand and variable interest rate PLN 5 756 014 thousand respectively (31 December 2007 respectively: PLN 4 677 609 thousand and PLN 1 279 101 thousand).

The above note includes government bonds pledged under the Bank Guarantee Fund, which are presented in the Balance Sheet in a separate position "Pledged assets" (see the Note 38).

In accordance with the Bank Guarantee Fund Law of 14 December 1994, the Bank held PLN 175 300 thousand, at face value PLN 175 000 thousand of government bonds disclosed in its Balance Sheet as at 31 December 2008 (nominal value as at 31 December 2007: PLN 80 000 thousand). The bills were used as security under the Bank Guarantee Fund and they were deposited in a separate account at the National Bank of Poland.

Gains and Losses from Investment Securities:

	31.12.2008	31.12.2007
Sale / redemption by the issuer of the financial assets available for sale and investments in subsidiaries and affiliated entities	124 452	105 850
Impairment of available for sale equity securities and investments in subsidiaries and affiliated entities	141 005	26 188
Total gains and losses from investment securities	**265 457**	**132 038**

The biggest material impact on the value of sale/redemption of financial assets available for sale came with the result on the sale of shares of Vectra SA. In accordance with the agreement on sale of shares of Vectra SA ("Vectra") as of 25 January 2008, BRE Bank disposed 9 045 404 shares of par value of PLN 10 each. The Bank disposed the aforementioned shares for total amount of PLN 264 035 thousand. Payment for the shares took place at the date of the transaction. Disposed shares of Vectra constitute 19.95% of share capital, i.e., 11.20% of voting rights at the General Meeting of Vectra.

The book value of Vectra's shares disposed reported by the Bank amounted to PLN 264 035 thousand. The Bank has held no Vectra shares since the transaction.

In 2008, gross and net profit of the BRE Bank arising from the transaction amounts to PLN 137 673 thousand, net of transaction costs.

Movements in investment securities and pledged assets:

	31.12.2008	31.12.2007
Available for sale securities and pledged assets		
As at the beginning of the period	**6 305 961**	**3 013 948**
Exchange differences	15 129	(37 397)
Additions	8 774 565	9 765 486
Disposals (sale, redemption and remission)	(7 084 700)	(6 503 295)
Gains / (losses) from impairment on equity securities and debt securities available for sale	-	(63)
Gains / (losses) from changes in fair value (Note 41)	(165 579)	67 282
As at the end of the period	**7 845 376**	**6 305 961**

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

	31.12.2008	31.12.2007
Allowance for impairment losses on securities available for sale and pledged assets		
As at the beginning of the period	**(125)**	**(64)**
allowance for impairment	-	(63)
amounts recovered during the period	-	2
As at the end of the period	**(125)**	**(125)**
As at the beginning of the period	**(125)**	**(64)**
allowance for impairment	-	(63)
amounts recovered during the period	-	2
As at the end of the period	**(125)**	**(125)**

23. Investments in Subsidiaries

31 December 2008 (in PLN 000's)

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held	Carrying value
1.	**AMBRESA Sp. z o.o.**	Poland	851	7	109	(203)	100.00	844
2.	**BRE Bank Hipoteczny SA**	Poland	4 675 087	4 362 060	310 377	43 063	100.00	52 102
3.	**BRE Corporate Finance SA**	Poland	1 371	258	5 489	(2 157)	100.00	6 256
4.	**BRE Finance France SA**	France	18 623	17 707	19 005	(106)	99.98	938
5.	**BRE Holding Sp. z o.o.**	Poland	182 729	49	11 745	11 597	100.00	171 083
6.	**BRE Systems Sp. z o.o. (previously ServicePoint Sp. z o.o.)**	Poland	3 555	2 076	18 486	85	100.00	50
7.	**BRE Ubezpieczenia SA**	Poland	175 894	151 231	130 469	4 748	100.00	26 353
8.	**BRE Wealth Management**	Poland	7 363	1 531	8 636	655	100.00	12 000
9.	**BRE.locum SA**	Poland	346 879	269 486	163 542	29 496	79.99	22 252
10.	**BRELINVEST Sp. z o.o. Fly 2 Commandite company**	Poland	50 873	47 842	5 890	(560)	99.84	3 629
11.	**Centrum Rozliczeń i Informacji CERI Sp. z o.o.**	Poland	69 946	58 565	39 832	566	100.00	10 566
12.	**Dom Inwestycyjny BRE Banku SA**	Poland	453 564	397 315	104 528	20 624	100.00	26 719
13.	**emFinanse Sp. z o.o.**	Poland	1 836	1 046	12 862	(3 227)	100.00	1 880
14.	**Garbary Sp. z o.o.**	Poland	47 844	99	203	(1 924)	100.00	56 384
15.	**Intermarket Bank AG**	Austria	1 128 096	962 894	98 726	22 494	56.24	39 054
16.	**Magyar Factor zRt.**	Hungary	224 557	197 041	28 115	3 031	78.12	8 666
17.	**Tele -Tech Investment Sp. z o.o.**	Poland	52 498	52 020	5 564	(203)	100.00	50
18.	**TRANSFINANCE a.s.**	Czech Republic	413 835	367 943	41 689	1 621	78.11	18 479
								457 305

BRE Holding Sp. z o.o. was founded in connection with restructuring conducted within BRE Bank Group with the purpose of maintenance of effective cooperation with the companies of the Corporate Banking area.

Upon the restructuring, on 5 February 2008 the Bank concluded with BRE Holding an agreement on the transfer of shares and stocks of certain of the Bank's subsidiaries in the total amount of PLN 170 983 thousand. In accordance with the agreement BRE Holding took over:

- 6 121 shares of BRE Leasing Sp. z o.o. ("BRE Leasing") with a nominal value of PLN 500 each, which constitute 50.004% of the share capital of BRE Leasing as well as voting rights at the general meeting of shareholders of the company. The book value of the transferred shares amounted to PLN 3 737 thousand. The Bank has had no shares of BRE Leasing since the transaction,

- 2 301 ordinary registered shares of Polfactor SA ("Polfactor") with a nominal value of PLN 2 500 each, which constitute 50.00% of the share capital and authorise to exercise 2 302 votes at the general meeting of Polfactor, which constitute 50.01% of general number of voting rights at the general meeting of Polfactor. The book value of the transferred shares amounted to PLN 4 808 thousand. The Bank has had no shares of Polfactor since the transaction,

- 1 325 000 ordinary registered shares of BRE Bank Hipoteczny SA ("BBH") with a nominal value of PLN 100 each, which constitute 75.71% of the share capital of BBH as well as voting rights at the general meeting of BBH. The book value of the transferred shares amounted to PLN 162 437 thousand. After the transaction the Bank has had 425 000 shares of BBH, representing 24.29% of the share capital and voting rights at the general meeting of BBH.

31 December 2007 (in PLN 000's)

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held	Carrying value
1.	**AMBRESA Sp. z o.o.**	Poland	1 176	138	621	120	100.00	866
2.	**BRE Bank Hipoteczny SA**	Poland	3 395 759	3 126 108	197 270	35 351	100.00	214 540
3.	**BRE Corporate Finance SA**	Poland	6 625	1 738	12 253	1 617	100.00	6 256
4.	**BRE Finance France SA**	France	732 966	731 895	64 452	222	99.98	806
5.	**BRE Holding Sp. z o.o.**	Poland	98	3	-	(5)	100.00	100
6.	**BRE Leasing Sp. z o.o.**	Poland	3 272 197	3 183 381	282 437	38 941	50.004	3 737
7.	**BRE Ubezpieczenia SA**	Poland	62 922	35 920	12 622	649	100.00	26 353
8.	**BRE Wealth Management**	Poland	10 966	3 671	11 038	3 118	100.00	12 000
9.	**BRE.locum SA**	Poland	306 539	246 642	152 144	38 034	79.99	22 252
10.	**BRELINVEST Sp. z o.o. Fly 2 Commandite company**	Poland	56 429	52 837	6 508	(560)	99.84	3 629
11.	**BREL-MAR Sp. z o.o.**	Poland	44	162	-	(73)	100.00	50
12.	**Centrum Rozliczeń i Informacji CERI Sp. z o.o.**	Poland	28 514	17 699	33 000	292	100.00	10 566
13.	**Dom Inwestycyjny BRE Banku SA**	Poland	780 501	702 890	157 205	43 110	100.00	26 719
14.	**emFinanse Sp. z o.o.**	Poland	6 210	9 427	15 929	(3 439)	100.00	5 700
15.	**Garbary Sp. z o.o.**	Poland	50 105	3 436	224	(2 251)	100.00	53 384
16.	**Intermarket Bank AG**	Austria	849 252	728 496	89 163	18 013	56.24	33 528
17.	**Magyar Factor zRt.**	Hungary	225 281	201 788	28 136	4 147	78.12	7 803
18.	**Polfactor SA**	Poland	301 488	265 793	38 787	9 904	78.12	4 803
19.	**PTE Skarbiec - Emerytura SA***	Poland	166 975	12 543	49 792	17 214	100.00	335 819
20.	**ServicePoint Sp. z o.o.**	Poland	2 535	1 163	14 523	33	100.00	50
21.	**Tele -Tech Investment Sp. z o.o.**	Poland	39 701	39 020	4 521	435	100.00	50
22.	**TRANSFINANCE a.s.**	Czech Republic	456 405	414 609	42 235	7 614	78.11	15 906
	including non-current assets held for sale (Note 28)							(335 819)
								449 098

*) balance sheet value of PTE was presented under the balance sheet item "Non-current assets held for sale"

Changes in investments in subsidiaries:

	31.12.2008	31.12.2007
As at the beginning of the period	**449 098**	**433 343**
Increase due to:	199 439	38 817
- purchase	173 988	37 564
- foreign exchange differences	9 094	-
- release of impairment	9 157	-
- other*	7 200	1 253
Decrease due to:	(191 232)	(23 062)
- sale	(180 190)	(19 595)
- impairment	(5 722)	-
- foreign exchange differences	-	(3 467)
- reclassification of provision*	(5 320)	-
As at the end of the period	**457 305**	**449 098**

- The amounts of: other increases and reclassification of provision concern the company emFinanse whose debt due to the loan received from the Bank as well as provision created by the Bank for that loan were converted to equity. It was connected with restructuring of the company.

24. Investments in associates

The Bank had the following shares in its major unlisted associaties:

31 December 2008 (in PLN '000s)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held
Xtrade SA	Poland	1 448	1 799	3 757	772	24.90

31 December 2007 (in PLN '000s)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held
Xtrade SA	Poland	1 785	2 861	1 758	(757)	24.90

IFRS Financial Statements 2008 PLN (000's)

Investments in associates did not change in both periods presented. The carrying amount as at the end of 2007 and 2008 was of PLN 0.

25. Intangible Assets

	31.12.2008	31.12.2007
Development costs	2 632	3 412
Patents, licences and similar assets, including:	359 550	301 519
- computer software	295 498	267 860
Other intangible assets	1 337	1 573
Intangible assets under development	42 841	73 000
Total intangible assets	**406 360**	**379 504**

Movements in intangible assets:

Movements in intangible assets from 1January 2008 to 31 December 2008	Development costs	Acquired patents, licences and other similar assets, including:	acquired computer software	Other intangible assets	Intangible assets under development	Total intangible assets
Gross value of intangible assets as at the beginning of the period: 01.01.2008	**31 774**	**527 180**	**438 325**	**6 132**	**73 000**	**638 086**
Increase (due to)	**-**	**135 330**	**80 238**	**15**	**79 585**	**214 930**
- purchase	-	25 842	1 395	15	79 585	105 442
- transfer from fixed assets under construction	-	1 532	608	-	-	1 532
- transfer from intangible assets under development	-	107 956	78 235	-	-	107 956
Decrease (due to)	**-**	**(8 842)**	**(1 106)**	**-**	**(109 744)**	**(118 586)**
- sale	-	-	-	-	-	-
- liquidation	-	(8 842)	(1 106)	-	(108)	(8 950)
- transfer to intangible assets given to use	-	-	-	-	(107 956)	(107 956)
- other decreases	-	-	-	-	(1 680)	(1 680)
Gross value of intangible assets as at the end of the period: 31.12.2008	**31 774**	**653 668**	**517 457**	**6 147**	**42 841**	**734 430**
Accumulated amortization as at the beginning of the period: 01.01.2008	**(28 362)**	**(225 661)**	**(170 465)**	**(4 559)**	**-**	**(258 582)**
Amortization for the period (due to)	**(780)**	**(68 457)**	**(51 494)**	**(251)**	**-**	**(69 488)**
- amortization	(780)	(77 273)	(52 581)	(251)	-	(78 304)
- other increases	-	(118)	(112)	-	-	(118)
- liquidation	-	8 842	1 107	-	-	8 842
- other decreases	-	92	92	-	-	92
Accumulated amortization as at the end of the period: 31.12.2008	**(29 142)**	**(294 118)**	**(221 959)**	**(4 810)**	**-**	**(328 070)**
Net value of intangible assets as at the end of the period: 31.12.2008	**2 632**	**359 550**	**295 498**	**1 337**	**42 841**	**406 360**

Movements in intangible assets from 1January 2007 to 31 December 2007	Development costs	Acquired patents, licences and other similar assets, including:	acquired computer software	Other intangible assets	Intangible assets under development, including:	Total intangible assets
Gross value of intangible assets as at the beginning of the period: 01.01.2007	**33 108**	**475 132**	**403 046**	**6 129**	**46 003**	**560 372**
Increase (due to)	**1 343**	**71 233**	**49 513**	**3**	**80 310**	**152 889**
- purchase	-	10 730	2 420	3	80 274	91 007
- transfer from intangible assets under development	1 343	49 800	47 092	-	-	51 143
- other increases	-	10 703	1	-	36	10 739
Decrease (due to)	**(2 677)**	**(19 185)**	**(14 234)**	**-**	**(53 313)**	**(75 175)**
- liquidation	(2 677)	(8 086)	(3 534)	-	-	(10 763)
- transfer to intangible assets given to use	-	-	-	-	(51 143)	(51 143)
- other decreases	-	(11 099)	(10 700)	-	(2 170)	(13 269)
Gross value of intangible assets as at the end of the period: 31.12.2007	**31 774**	**527 180**	**438 325**	**6 132**	**73 000**	**638 086**
Accumulated amortization as at the beginning of the period: 01.01.2007	**(28 793)**	**(172 002)**	**(130 210)**	**(3 441)**	**-**	**(204 236)**
Amortization for the period (due to)	**431**	**(53 659)**	**(40 255)**	**(1 118)**	**-**	**(54 346)**
- amortization	(1 261)	(62 728)	(44 459)	(1 117)	-	(65 106)
- other increases	(985)	-	-	(1)	-	(986)
- liquidation	2 677	8 086	3 534	-	-	10 763
- other decreases	-	983	670	-	-	983
Accumulated amortization as at the end of the period: 31.12.2007	**(28 362)**	**(225 661)**	**(170 465)**	**(4 559)**	**-**	**(258 582)**
Net value of intangible assets as at the end of the period: 31.12.2007	**3 412**	**301 519**	**267 860**	**1 573**	**73 000**	**379 504**

IFRS Financial Statements 2008 PLN (000's)

26. Tangible Fixed Assets

	31.12.2008	31.12.2007
Tangible fixed assets, including:	563 717	487 459
- land	1 733	1 733
- buildings and constructions	216 995	218 813
- equipment	115 375	105 044
- vehicles	48 175	34 163
- other tangible fixed assets	181 439	127 706
Fixed assets under construction	37 932	44 716
Total tangible fixed assets	**601 649**	**532 175**

Movements in tangible fixed assets:

Movements in tangible fixed assets from 1January 2008 to 31 December 2008	Land	Buildings	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2008	**1 733**	**328 071**	**392 837**	**42 916**	**269 110**	**45 277**	**1 079 944**
Increase (due to)	**-**	**4 630**	**49 838**	**25 644**	**82 515**	**81 909**	**244 536**
- purchase	-	26	26 932	-	26 511	81 907	135 376
- transfer from fixed assets under construction	-	4 604	22 899	-	55 999	2	83 504
- other increases	-	-	7	25 644	5	-	25 656
Decrease (due to)	**-**	**-**	**(2 468)**	**(6 079)**	**(4 579)**	**(89 118)**	**(102 244)**
- sale	-	-	(486)	(675)	(211)	-	(1 372)
- liquidation	-	-	(1 952)	(508)	(3 260)	-	(5 720)
- transfer to fixed assets	-	-	-	-	-	(83 504)	(83 504)
- transfer to intangible assets	-	-	-	-	-	(1 532)	(1 532)
- other decreases	-	-	(30)	(4 896)	(1 108)	(4 082)	(10 116)
Gross value of tangible fixed assets as at the end of the period: 31.12.2008	**1 733**	**332 701**	**440 207**	**62 481**	**347 046**	**38 068**	**1 222 236**
Accumulated depreciation as at the beginning of the period: 01.01.2008	**-**	**(56 528)**	**(287 793)**	**(8 753)**	**(141 273)**	**-**	**(494 347)**
Depreciation for the period (due to)	**-**	**(6 448)**	**(37 039)**	**(5 553)**	**(24 203)**	**-**	**(73 243)**
- depreciation charge	-	(6 448)	(39 483)	(8 073)	(27 490)	-	(81 494)
- other increases	-	-	(6)	(56)	-	-	(62)
- sale	-	-	477	650	180	-	1 307
- liquidation	-	-	1 868	47	2 635	-	4 550
- other decreases	-	-	105	1 879	472	-	2 456
Accumulated depreciation as at the end of the period: 31.12.2008	**-**	**(62 976)**	**(324 832)**	**(14 306)**	**(165 476)**	**-**	**(567 590)**
Impairment losses as at the beginning of the period: 01.01.2008	**-**	**(52 730)**	**-**	**-**	**(131)**	**(561)**	**(53 422)**
- decrease	-	-	-	-	-	425	425
Impairment losses as at the end of the period: 31.12.2008	**-**	**(52 730)**	**-**	**-**	**(131)**	**(136)**	**(52 997)**
Net value of tangible fixed assets as at the end of the period: 31.12.2008	**1 733**	**216 995**	**115 375**	**48 175**	**181 439**	**37 932**	**601 649**

Movements in tangible fixed assets from 1January 2007 to 31 December 2007	Land	Buildings	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2007	**1 733**	**333 594**	**359 056**	**7 578**	**229 548**	**33 882**	**965 391**
Increase (due to)	**-**	**2 658**	**42 250**	**35 686**	**45 172**	**77 086**	**202 852**
- purchase	-	90	20 497	-	9 204	77 037	106 828
- transfer from fixed assets under construction	-	2 568	21 023	-	35 891	-	59 482
- other increases	-	-	730	35 686	77	49	36 542
Decrease (due to)	**-**	**(8 181)**	**(8 469)**	**(348)**	**(5 610)**	**(65 691)**	**(88 299)**
- sale	-	(8 181)	(644)	(344)	(1 150)	-	(10 319)
- liquidation	-	-	(6 225)	(4)	(3 282)	-	(9 511)
- transfer to fixed assets	-	-	-	-	-	(59 482)	(59 482)
- other decreases	-	-	(1 600)	-	(1 178)	(6 209)	(8 987)
Gross value of tangible fixed assets as at the end of the period: 31.12.2007	**1 733**	**328 071**	**392 837**	**42 916**	**269 110**	**45 277**	**1 079 944**
Accumulated depreciation as at the beginning of the period: 01.01.2007	**-**	**(51 497)**	**(252 723)**	**(7 115)**	**(124 067)**	**-**	**(435 402)**
Depreciation for the period (due to)	**-**	**(5 031)**	**(35 070)**	**(1 638)**	**(17 206)**	**-**	**(58 945)**
- depreciation charge	-	(6 687)	(42 652)	(1 985)	(22 522)	-	(73 846)
- other increases	-	-	(497)	-	(29)	-	(526)
- sale	-	1 656	527	344	1 142	-	3 669
- liquidation	-	-	5 984	3	2 988	-	8 975
- other decreases	-	-	1 568	-	1 215	-	2 783
Accumulated depreciation as at the end of the period: 31.12.2007	**-**	**(56 528)**	**(287 793)**	**(8 753)**	**(141 273)**	**-**	**(494 347)**
Impairment losses as at the beginning of the period: 01.01.2007	**-**	**(58 159)**	**(180)**	**-**	**(163)**	**(561)**	**(59 063)**
- decrease	-	5 429	180	-	32	-	5 641
Impairment losses as at the end of the period: 31.12.2007	**-**	**(52 730)**	**-**	**-**	**(131)**	**(561)**	**(53 422)**
Net value of tangible fixed assets as at the end of the period: 31.12.2007	**1 733**	**218 813**	**105 044**	**34 163**	**127 706**	**44 716**	**532 175**

IFRS Financial Statements 2008 PLN (000's)

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

27. Other Assets

	31.12.2008	31.12.2007
Assets taken over and held for resale	**-**	**1 266**
- other	-	1 266
Other, including:	**385 811**	**223 455**
- debtors	267 412	150 853
- inter-bank balances	1 208	519
- other accruals	89 774	47 557
- accrued income	24 377	21 268
- inventories	3 032	2 917
- other	8	341
Total other assets	**385 811**	**224 721**
Short-term (up to 1 year)	271 681	154 676
Long-term (over 1 year)	114 130	70 045

28. Assets and Liabilities Held for Sale and Discontinued Operations

On 29 June 2007, the Bank and Aegon Woningen Nova BV, a 100% shareholder of the company Powszechne Towarzystwo Emerytalne Ergo Hestia S.A. (PTE Ergo Hestia), signed the "PTE Ergo Hestia and PTE Skarbiec-Emerytura Merger Agreement" and the "Option Agreement". Details of these two Agreements were published by the Bank in financial statements prepared for previous reporting periods.

On 28 September 2007, the Bank was informed that the President of the Competition and Consumer Protection Office ("UOKiK") by decision of 27 September 2007 approved the level of market concentration arising in the merger of Aegon PTE SA (previously PTE Ergo Hestia SA) and PTE Skarbiec-Emerytura SA. The UOKiK approval was one of the conditions necessary for the merger of these two pension fund companies.

On 7 November 2007, the two pension fund companies submitted merger applications to the Polish Financial Supervision Authority (KNF). On 9 May 2008, KNF gave the approval of the merger of PTE Skarbiec-Emerytura SA and Aegon PTE SA together with other merger-related decisions.

On 30 June 2008, the registration court for the capital city of Warsaw registered the merger of PTE Skarbiec-Emerytura SA and Aegon PTE SA. The merger consisted in the transfer of all assets of PTE Skarbiec-Emerytura SA, the acquired company, to Aegon PTE SA, the acquiring company.

In connection with the registration of the merger and with implementation of the above mentioned merger agreement, Aegon PTE SA transferred to the Bank 54 812 shares of Aegon PTE SA with a nominal value of PLN 1 000 per share. The shares represented 49.7% of the share capital of Aegon PTE SA and authorised to exercise 54 812 votes at the General Meeting of Aegon PTE SA, equivalent to 49.7% of the total number of votes at the General Meeting of the company.

Prior to the transaction, the Bank did not hold any shares of Aegon PTE SA.

Prior to the merger, the Bank held 8 516 181 shares of PTE Skarbiec-Emerytura SA representing 100% of the share capital and votes at the General Meeting of the company.

On 21 July 2008 BRE Bank and Aegon Woningen Nova BV entered into agreement on sale of shares of Aegon PTE, being the property of the Bank. On 13 August 2008 Aegon PTE SA put a motion on behalf of Aegon Woningen Nova BV to the Polish Financial Supervision Authority concerning acquisition of 54 812 shares of Aegon Woningen Nova BV from BRE Bank which were obtained by BRE Bank in relation to the transaction of merger of PTE Skarbiec-Emerytura SA and Aegon PTE SA.

On 17 December 2008 the Financial Supervision Authority issued its consent for Aegon Woningen BV to acquire 54 812 shares of Aegon PTE from the Bank, representing 49.7% of the share capital. The KNF's decision regarding purchase of the shares by Aegon Woningen BV from the Bank was a final act of fulfilment of the suspending conditions arising from the agreement on the sale of the Aegon PTE's shares.

Ownership of the shares was transferred on 30 December 2008.

Following the sale of the aforesaid shares, the Bank has had no shares of Aegon PTE.

<u>Accounting for the merger and sale transaction</u>

The value of the shares on the books of the Bank was PLN 335 819 thousand before the merger. On 30 June 2008, the Bank reversed revaluation of the shares of PTE Skarbiec-Emerytura on the books of the Bank to PLN 468 039 thousand. That value was calculated on the basis of the selling price in the amount of PLN 482 546 thousand less estimated transaction costs in the amount of PLN 14 507 thousand. Subsequently, the Bank booked the conversion of shares of PTE Skarbiec-Emerytura to shares of Aegon PTE SA.

IFRS Financial Statements 2008 PLN (000's)

The final sale price of the shares of Aegon PTE SA was upgraded to PLN 485 013 thousand in accordance with the price formula indicated in the agreement of sale.

The total profit before tax of BRE Bank on the reversed impairment and the conversion of shares of PTE Skarbiec-Emerytura SA to the shares of Aegon PTE SA and then the sale of the shares of Aegon PTE SA was PLN 134 392 thousand, net of the transaction costs, and it was recognised under "Gains less losses on investment securities" in the Profit and Loss Account. Profit before tax on the sale of the shares of Aegon PTE SA recognised in the fourth quarter of 2008 amounted to PLN 2 172 thousand.

29. Amounts due to Other Banks

	31.12.2008	31.12.2007
Payables to be settled	26 067	20 068
Current accounts	408 053	459 624
Term deposits	101 323	210 299
Loans and advances received	17 513 656	6 693 248
Repo / sell buy back transactions	1 861 683	517 107
Liabilities in respect of cash collaterals	231 978	31 481
Amounts due to other banks	**20 142 760**	**7 931 827**
Short-term (up to 1 year)	3 839 842	4 817 892
Long-term (over 1 year)	16 302 918	3 113 935

As at 31 December 2008 term deposits accepted from other banks were fixed interest rate deposits. An average deposit interest rate and loan interest rate for loans obtained from banks in 2008 amounted to 3.61% (31 December 2007: 3.28%).

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

As at 31 December 2008, apart from amounts due to other banks, the Bank holds amounts due to the Central Bank in the amount of PLN 1 302 469 thousand, arising from repo transactions with maturity dates up to 3 months and average interest rate of 6.04%.

30. Amounts due to Customers

	31.12.2008	31.12.2007
Individual customers:	**20 875 353**	**12 643 879**
Current accounts	13 259 583	9 387 769
Term deposits	7 567 276	3 195 395
Other liabilities:	48 494	60 715
- liabilities in respect of cash collaterals	42 625	55 620
- other	5 869	5 095
Corporate customers:	**16 487 018**	**19 385 792**
Current accounts	7 833 406	9 496 912
Term deposits	6 784 647	5 266 397
Loans and advances received	97 285	193 510
Repo transactions	933 924	3 343 495
Other liabilities:	837 756	1 085 478
- liabilities in respect of cash collaterals	810 425	1 067 852
- other	27 331	17 626
Public sector customers:	**76 123**	**704 645**
Current accounts	61 276	658 622
Term deposits	13 812	39 480
Other liabilities:	1 035	6 543
- other	1 035	6 543
Total amounts due to customers	**37 438 494**	**32 734 316**
Short-term (up to 1 year)	36 754 107	32 073 720
Long-term (over 1 year)	684 387	660 596

As at 31 December 2008 the majority of the deposits from individual and corporate customers bore variable interest rates. An average interest rate for amounts due to customers (excluding repos) amounted to 3.96% (31 December 2007: 3.03%).

31. Debt Securities in Issue

As at 31 December 2008

Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
Long-term issue					
- Deposit certificates (in PLN)	8 000	7.75%	no collateral	06-05-09	7 829
Debt securities in issue (carrying value in PLN '000)					**7 829**
Short-term (up to 1 year)					7 829
Long-term (over 1 year)					-

As at 31 December 2007

Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
Long-term issue					
- Deposit certificates (in PLN)	3 000	5.95%	no collateral	27-08-08	3 017
- Bonds (in PLN)	11 200	5.35%	no collateral	22-09-08	11 318
- Deposit certificates (in PLN)	5 000	5.69%	no collateral	01-10-08	5 072
- Deposit certificates (in PLN)	10 000	5.34%	no collateral	13-10-08	10 073
- Deposit certificates (in PLN)	8 000	7.75%	no collateral	06-05-09	7 330
Debt securities in issue (carrying value in PLN '000)					**36 810**
Short-term (up to 1 year)					29 480
Long-term (over 1 year)					7 330

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

Movements in Debt Securities in Issue

	31.12.2008	31.12.2007
As at the beginning of the period	**36 810**	**36 215**
Increase (due to):	219	595
- valuation at amortization cost	219	595
Decrease (due to):	(29 200)	-
- redemption	(29 200)	-
Debt securities in issue at the end of the period	**7 829**	**36 810**

32. Subordinated Liabilities

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2008						
- Commerzbank AG	400 000	CHF	3M LIBOR + 0.7*	1.88	08.03.2017	1 121 966
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	2.15	not defined	224 246
- Commerzbank AG	120 000	CHF	3M LIBOR + 1.5%***	2.29	18.12.2017	336 468
- Commerzbank AG	170 000	CHF	3M LIBOR + 2.2%****	5.26	not defined	482 077
- Commerzbank AG	90 000	CHF	3M LIBOR + 4.0%	4.72	not defined	252 390
- Commerzbank AG	90 000	CHF	3M LIBOR + 2.5%	3.22	24.06.2018	252 306
						2 669 453

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

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2007						
- Commerzbank AG	400 000	CHF	3M LIBOR + 0.7%*	3.47	08.03.2017	866 391
- Commerzbank AG	100 000	EUR	3M EURIBOR + 2.5%	7.10	not defined	362 440
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	4.18	not defined	173 153
- Commerzbank AG	120 000	CHF	3M LIBOR + 1.5%***	4.29	18.12.2017	259 801
						1 661 785

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

In 2008 likewise in the year 2007, the Bank did not note any delays in repayments of principal or interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

Subordinated liabilities include the amount of issued subordinated debt securities with an indefinite maturity term. The funds raised through the issue used to change the structure of the Bank's equity by increasing the share of supplementary capital. The Bank obtained the approvals of KNF for the inclusion of the funds obtained from the issues into the Bank's supplementary capital.

IFRS Financial Statements 2008 PLN (000's)

Movements in Subordinated Liabilities

	31.12.2008	31.12.2007
As at the beginning of the period	**1 661 785**	**1 547 354**
Increase (due to:)	1 443 297	1 298 872
- subordinated loan raised	746 852	1 230 184
- interest on subordinated loan	78 807	68 688
- foreign exchange differences	617 638	-
Decrease (due to):	(435 629)	(1 184 441)
- capital repayment	(359 500)	(969 100)
- interest repayment	(76 129)	(66 104)
- foreign exchange differences	-	(149 237)
Subordinated liabilities as at the end of the period	**2 669 453**	**1 661 785**
Long-term (over 1 year)	2 669 453	1 661 785

33. Other Liabilities

	31.12.2008	31.12.2007
Special Funds	**5 835**	**4 197**
- Social Benefits Funds	5 835	4 197
Other liabilities	**648 841**	**548 697**
- tax liabilities	13 610	10 834
- inter-bank settlements	88 285	69 825
- creditors	202 088	169 502
- accrued expenses	112 730	100 291
- deferred income	86 870	63 234
- accrual of pension benefits	2 883	2 807
- accrual of holiday equivalents	1 940	2 110
- accrual of other employee benefits	140 355	129 654
- other	80	440
Total special funds and other liabilities	**654 676**	**552 894**

34. Provisions

	31.12.2008	31.12.2007
For off-balance sheet contingent liabilities *	73 229	58 060
For legal proceedings	2 692	2 704
Other	14 101	8 067
Total provisions	**90 022**	**68 831**

* includes valuation of financial guarantees

The estimated cash flow due to created provisions for legal proceedings is expected to crystallise within one to two years.

IFRS Financial Statements 2008 PLN (000's)

Movements in the Provisions:

	31.12.2008	31.12.2007
As at the beginning of the period (by type)	**68 831**	**67 374**
For off-balance sheet contingent liabilities	58 060	53 370
For legal proceedings	2 704	5 352
Other	8 067	8 652
Increase (due to)	**91 598**	**38 699**
- increase of provisions, due to:	88 969	38 699
for off-balance-sheet contingent liabilities (Note 13)	*78 045*	*35 171*
for legal proceedings	*2 747*	*3 010*
other	*8 177*	*518*
- foreign exchange differences	2 629	-
Decrease (due to)	**(70 407)**	**(37 242)**
- charge-offs	(3 021)	(12)
- release of provisions, due to:	(66 414)	(36 954)
for off-balance-sheet contingent liabilities (Note 13)	*(64 542)*	*(30 205)*
for legal proceedings	*(516)*	*(5 646)*
other	*(1 356)*	*(1 103)*
- reclassification	(972)	-
- foreign exchange differences	-	(276)
As at the end of the period (by type)	**90 022**	**68 831**
For off-balance sheet contingent liabilities	73 229	58 060
For legal proceedings	2 692	2 704
Other	14 101	8 067

Allowance for Impairment of Off-balance Sheet Contingent Liabilities

	31.12.2008	31.12.2007
Incurred but not identified losses		
Off-balance sheet contingent liabilities	18 152 917	16 130 338
Provisions for impairment of exposures analysed according to portfolio approach (negative amount)	(57 787)	(53 546)
Net off-balance sheet contingent liabilities	**18 095 130**	**16 076 792**
Off-balance sheet contingent liabilities with impairment		
Off-balance sheet contingent liabilities	45 840	29 240
Provisions for impairment of exposures analysed individually (negative amount)	(15 442)	(4 514)
Net off-balance sheet contingent liabilities	**30 398**	**24 726**

35. Assets and Provisions for Deferred Income Tax

Assets and provisions for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate 19% in 2008 and 2007.

Below there are presented changes in assets and provisions for deferred income tax:

	31.12.2008	31.12.2007
As at the beginning of the period	**2 762**	**9 720**
Deferred income tax included in the financial result of the period (Note 14)	142 306	(8 740)
Deferred income tax included in equity:	11 617	12 861
- valuation of available for sale securities (Note 41)	11 617	12 861
Other changes	(19)	(11 079)
As at the end of the period	**156 666**	**2 762**
Interest payable on bank deposits	16 332	7 325
Interest payable on customer deposits	21 980	6 278
Valuation of derivatives and futures	161 930	32 471
Valuation of financial instruments at fair value through profit or loss and held for trading	4 833	1 959
Valuation of financial instruments available for sale	46 562	14 698
Provisions for impairment of loans and off-balance sheet exposures	64 008	42 650
Provisions for pensions, holiday equivalents, jubilee and other bonuses	25 475	25 568
Other provisions	-	47
Accruals and prepayments	19 662	19 326
Impairment of shares	-	1 740
Other negative temporary differences	540	17 875

IFRS Financial Statements 2008 PLN (000's)

Interest receivable on loans and advances granted to banks	(3 492)	(1 465)
Interest receivable on loans granted to customers	(25 316)	(16 185)
Valuation of derivatives and futures	(12 403)	(36 542)
Valuation of financial instruments at fair value through profit or loss and held for trading	(11 624)	(6 461)
Valuation of financial instruments available for sale	(61 644)	(29 215)
Investment tax relief	(29 486)	(30 446)
Difference between the amortization and depreciation for tax and accounting purposes	(46 255)	(39 802)
Other positive temporary differences	(14 436)	(7 059)
Total net deferred income tax assets	**156 747**	**2 824**
Total net deferred income tax liabilities	**81**	**62**

	31.12.2008	**31.12.2007**
Deferred income tax included in the profit and loss account		
Interest	13 551	4 518
Provisions for impairment of loans and guarantees determined individually	21 358	(12 590)
Valuation of derivatives and futures	153 598	18 486
Valuation of financial instruments at fair value through profit or loss and held for trading	(2 289)	(1 603)
Valuation of financial instruments available for sale	(12 182)	(16 897)
Investment tax relief	960	700
Provisions for pensions, holiday equivalents, jubilee and other bonuses	(93)	7 009
Other provisions	(47)	-
Accruals and prepayments	336	1 944
Impairment of shares	(1 740)	(4 104)
Difference between the amortization and depreciation for tax and accounting purposes	(6 453)	(7 314)
Other temporary differences	(24 693)	1 111
Total deferred income tax included in the profit and loss account (Note 14)	**142 306**	**(8 740)**

Deferred income tax assets are recognized if it is probable that there will be sufficient taxable income in the future (see also the Note 28 for recognized deferred income tax assets in relation to write-offs due to shares of PTE).

There were no tax losses from previous years which would be included in the deferred income tax assets calculation as at 31 December 2008 and 31 December 2007.

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

As at 31 December 2008, 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 whose value would be equal to or greater than 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the issuer or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2008 also was not greater than 10% of the issuer's equity.

Report on major proceedings concerning contingent liabilities of the issuer

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

   At present proceedings against BRE Bank in the Court of Jerusalem takes place initiated by Bank Leumi and an insurance company of Bank Leumi, Migdal Insurance Company. It is an action for indemnity in the amount of USD 13.5 million (PLN 40.0 million according to the average exchange rate of the National Bank of Poland of 31 December 2008). This action was originally initiated by ART-B Sp. z o.o. Eksport – Import with its registered office in Katowice, under liquidation ("Art-B") against the main defendant Bank Leumi, whereas BRE Bank was garnished by Bank Leumi. Considering a settlement concluded between ART-B and Bank Leumi, and Migdal Insurance Company, on the basis of which ART-B received from Bank Leumi and Migdal Insurance Company an amount of USD 13.5 million, Bank Leumi and Migdal Insurance Company claim from BRE Bank refund of the amount paid to ART-B that is USD 13.5 million. BRE Bank's liability towards Bank Leumi and Migdal Insurance Company is under recourse. The proceeding is at a pre-trial stage, i.e., prior to the first hearing. Parties of the lawsuit consider handing over the case to arbitration in order to an independent specialist should examine legal status of the actual condition arisen.

2. Lawsuit brought by the Official Receiver of bankrupt Zakłady Mięsne POZMEAT SA with its registered office in Poznań ("Pozmeat") against the Bank and Tele-Tech Investment Sp. z o.o. ("TTI")

   The Official Receiver of bankrupt Pozmeat brought the case against the Bank and TTI to court on 29 July 2005. The value of the dispute amounted to PLN 100 000 thousand. The purpose was to cancel Pozmeat's agreements to sell shares of Garbary Sp. z o.o. ("Garbary") to TTI and then to the Bank. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings, representing the only assets of Garbary on the date of sale of Pozmeat's interest in Garbary (19 July 2001). The District Court in

Warsaw has granted the receiver a security by forbidding BRE Bank to dispose of or to encumber the interests in Garbary.

On 8 October 2008 the Court issued a verdict which dismissed the bankrupt's complaint in its entirety. The verdict is not in force yet, the Official Receiver of bankruptcy filed an appeal on 8 December 2008.

3. Lawsuit brought by Bank BPH SA ("BPH") against Garbary

Bank BPH SA 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 recognize actions related to the creation of Garbary and the contribution in kind as ineffective. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings that Zakłady Mięsne POZMEAT contributed in kind to Garbary as payment for Pozmeat's stake in the PLN 100 000 thousand share capital of Garbary. 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, IX Division of Economics, dismissed the claimant's appeal. The claimant filed the last resort appeal against the ruling of the Court of Appeal. On 2 October 2007, the Supreme Court revoked the ruling of the Court of Appeal and referred the case back. After re-examining the case, the Court of Appeal dismissed the ruling of the District Court in Poznań on 4 March 2008 and referred the case back.

The dispute focuses on determination of the value of the right to perpetual usufruct of real estate located at Garbary Street on the day (December 2000) of contribution in kind of the right to perpetual usufruct to Milenium Center Sp. z o.o. (now Garbary Sp. z o.o.).

4. Lawsuit brought by Bank BPH SA against BRE Bank SA and Tele-Tech Investment Sp. z o.o.

Bank BPH SA on 17 November 2007 brought to court a case to pay damages in the amount of PLN 34 880 thousand with statutory interests from 20 November 2004 to the day of payment, due to alleged illegal actions such as the sale by ZM Pozmeat SA to Tele-Tech Investment Sp. z o.o. 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, when insolvency was a threat to the company.

The case was filed with the District Court in Warsaw. The Court has not set the date of the first trial in this case. In the light of the action, the claimed amount of damages of PLN 34 880 thousand is equivalent to the claim of the creditor under a credit agreement between ZM Pozmeat SA and Bank BPH SA not paid to date in the bankruptcy proceeding of ZM Pozmeat SA.

The defendants filed a reply to the claim, where they request for dismissal of the claim due to the lack of right of action on the part of the claimant. In case the District Court does not accept their arguments, the defendants refer to the merit of the claim, raising an objection that their actions were not illegal and that the claimant has not proven to have incurred losses.

5. Claims of the clients of Interbrok

As at 27 February 2009 the Bank was requested by 62 entities who were the client of Interbrok Investment E. Drożdż i Spółka Spółka jawna (further referred to as Interbrok) to pay compensation claims in a total amount of PLN 139 120 thousand. 57 entities called the Bank for settlement of the matter amicably via the District Court in Warsaw. Additionally, by 27 February 2009 8 legal suits have been delivered to the Bank where former clients of Interbrok claimed compensation in the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. Plaintiffs allege that Bank aided in Interbrok's illegal activities, which caused damage to plaintiffs. In all court cases the Bank moves for dismissal of the claims wholly and objects to charges included 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 discussed case. Therefore BRE Bank SA did not create provisions for the above claims.

As at 31 December 2008, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the issuer or its subsidiaries whose value would be equal to or greater than 10% of the issuer's equity. The total value of claims concerning receivables of the issuer or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2008 did not go above 10% of the issuer's equity.

<u>Taxes</u>

Within the period from 14 May to 30 June 2008, the officers of the First Mazovian Treasury Office carried out tax audits at the Bank, concerning correctness of the payment of the corporate income tax to the Treasury for the period from 1 January to 31 December 2005. The audits did not indicate any issues that would have material impact on the financial statements.

IFRS Financial Statements 2008 PLN (000's)

In 2007, tax audits concerning correctness of the payment of the corporate income tax to the Treasury for the year 2002 were carried out at the Bank and the findings of the audits were presented in the report of 21 December 2007. The audits did not indicate essential irregularities and consequently the Bank did not make any reservations or explanations to the report.

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.

37. Off-balance Sheet Liabilities

Off-balance sheet liabilities of the Bank comprise of:

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

(b) Guarantees and other financial facilities
Guarantees are presented in the table below based on the earliest contractual maturity date.

(c) Operating lease liabilities

The following table presents the Bank's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions of the Bank as at 31 December 2008 and 31 December 2007.

31.12.2008	**up to 1 year**	**1 - 5 years**	**over 5 years**	**Total**
I. Contingent liabilities granted and received	**14 999 251**	**2 627 593**	**1 349 838**	**18 976 682**
Commitments granted	**14 669 870**	**2 440 485**	**1 308 691**	**18 419 046**
1. Financing	**12 246 760**	**1 498 290**	**1 218 736**	**14 963 786**
a) Lending commitments	12 225 779	1 414 371	1 103 347	14 743 497
b) Operating lease commitments	20 981	83 919	115 389	220 289
2. Guarantees and other financial facilities	**1 988 703**	**942 195**	**89 955**	**3 020 853**
a) Banker's acceptances	2 858	-	-	2 858
b) Guarantees and standby letters of credit	1 582 836	942 195	89 955	2 614 986
c) Guarantees of issue	178 000	-	-	178 000
d) Documentary and commercial letters of credit	225 009	-	-	225 009
3. Other commitments	**434 407**	**-**	**-**	434 407
Commitments received	**329 381**	**187 108**	**41 147**	**557 636**
a) Financing	74 057	-	-	74 057
b) Guarantees	255 324	187 108	41 147	483 579
II. Derivatives	**462 458 467**	**184 359 390**	**9 991 446**	**656 809 303**
1. Interest rate derivatives	390 566 194	163 465 255	9 799 084	563 830 533
2. Currency derivatives	70 838 841	20 549 759	192 362	91 580 962
3. Market risk derivatives	1 053 432	344 376	-	1 397 808
Total off-balance sheet items	**477 457 718**	**186 986 983**	**11 341 284**	**675 785 985**

31.12.2007	**up to 1 year**	**1 - 5 years**	**over 5 years**	**Total**
I. Contingent liabilities granted and received	**12 805 021**	**3 473 017**	**1 072 679**	**17 350 717**
Commitments granted	**11 954 137**	**3 349 551**	**1 063 019**	**16 366 707**
1. Financing	**9 010 267**	**2 361 576**	**1 037 829**	**12 409 672**
a) Lending commitments	8 992 256	2 271 520	938 767	12 202 543
b) Operating lease commitments	18 011	90 056	99 062	207 129
2. Guarantees and other financial facilities	**2 425 960**	**987 975**	**25 190**	**3 439 125**
a) Banker's acceptances	6 454	-	-	6 454
b) Guarantees and standby letters of credit	2 056 868	987 975	25 190	3 070 033
c) Guarantees of issue	219 500	-	-	219 500
d) Documentary and commercial letters of credit	143 138	-	-	143 138
3. Other commitments	**517 910**	**-**	**-**	**517 910**
Commitments received	**850 884**	**123 466**	**9 660**	**984 010**
a) Financing	500 000	-	-	500 000
b) Guarantees	350 884	123 466	9 660	484 010
II. Derivatives	**463 823 893**	**158 240 691**	**9 373 202**	**631 437 786**
1. Interest rate derivatives	381 021 655	145 334 076	9 163 097	535 518 828
2. Currency derivatives	80 933 237	12 824 286	210 105	93 967 628
3. Market risk derivatives	1 869 001	82 329	-	1 951 330
Total off-balance sheet items	**476 628 914**	**161 713 708**	**10 445 881**	**648 788 503**

The above operating lease liabilities fully concerned the lease of buildings.

IFRS Financial Statements 2008 PLN (000's)

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

As at 31 December 2008, the list of issues covered by the guarantee of assumption by BRE Bank SA was as follows:

	Payee	Type of guaranteed securities	Amount of guaratee in PLN	Financial, organizational and personal relationships	Marketability
1.	ABG S.A.	Bonds	15 000 000	none	Marketable
2.	BRE.locum	Bonds	28 000 000	The Bank holds 79.99% of shares in the company.Two Members of the Supervisory Board of the company are related to the BRE Bank Group.	Marketable
3.	ECHO Investment SA	Bonds	35 000 000	none	Marketable
4.	Polnord SA	Bonds	35 000 000	none	Marketable
5.	Polski Koncern Energetyczny SA	Bonds	15 000 000	none	Marketable
6.	Tauron Polska Energia S.A.	Bills of exchange	50 000 000	none	Marketable

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

As at 31 December 2008 BRE Bank SA received commitments in the amount of PLN 557 636 thousand, including both unused credits granted by foreign banks in the amount of PLN 74 057 thousand and guarantees received in the amount of PLN 483 579 thousand, securing given credits and guarantees.

38. Pledged Assets

Assets are pledged as security in connection with sell-buy-back agreements made with other banks and securing deposits are created in connection with conclusion of futures or options contracts and with membership in stock exchanges. Further, deposits are held in the Central Bank, representing statutory provisions required by the law.

	31.12.2008	31.12.2007
Pledged assets, including:	**3 443 989**	**2 812 277**
- Trading securities (Note 19)	1 096 784	2 732 634
- Investment securities (Note 22)	2 347 205	79 643
Liabilities arising from pledged assets, including:	**4 249 517**	**3 936 012**
- Sell-buy back transactions (Note 29,30)	4 098 076	3 860 602
- Funds guaranteed under the Bank Guarantee Fund	151 441	75 410

The Bank did not pledge any assets as collateral for newly received loans in 2008.

39. Registered Share Capital

The total number of ordinary shares as at 31 December 2008 was 29 690 882 shares (29 660 668 as at 31 December 2007 relatively) with PLN 4 nominal value each. All issued shares were fully paid up.

The increase of registered share capital in 2008 results from the issuance of shares connected with realisation of employee option programs. The detailed information concerning the programs is described in the Note 42.

IFRS Financial Statements 2008 PLN (000's)

REGISTERED SHARE CAPITAL (THE STRUCTURE)								
Series / issue	Share type	Type of privilege	Type of limitation	Number of shares	Series / issue value	Paid up	Registered on	Dividend right since
11-12-86	ordinary bearer**	-	-	9 972 500	39 890 000	fully paid up in cash	23-12-86	01-01-89
11-12-86	ordinary registered**	-	-	27 500	110 000	fully paid up in cash	23-12-86	01-01-89
20-10-93	ordinary bearer	-	-	2 500 000	10 000 000	fully paid up in cash	04-03-94	01-01-94
18-10-94	ordinary bearer	-	-	2 000 000	8 000 000	fully paid up in cash	17-02-95	01-01-95
28-05-97	ordinary bearer	-	-	4 500 000	18 000 000	fully paid up in cash	10-10-97	10-10-97
27-05-98	ordinary bearer	-	-	3 800 000	15 200 000	fully paid up in cash	20-08-98	01-01-99
24-05-00	ordinary bearer	-	-	170 500	682 000	fully paid up in cash	15-09-00	01-01-01
21-04-04	ordinary bearer	-	-	5 742 625	22 970 500	fully paid up in cash	30-06-04	01-01-04
21-05-03	ordinary bearer	-	-	2 355	9 420	fully paid up in cash	05-07-05*	01-01-05
21-05-03	ordinary bearer	-	-	11 400	45 600	fully paid up in cash	05-07-05*	01-01-05
21-05-03	ordinary bearer	-	-	37 164	148 656	fully paid up in cash	11-08-05*	01-01-05
21-05-03	ordinary bearer	-	-	44 194	176 776	fully paid up in cash	09-09-05*	01-01-05
21-05-03	ordinary bearer	-	-	60 670	242 680	fully paid up in cash	18-10-05*	01-01-05
21-05-03	ordinary bearer	-	-	13 520	54 080	fully paid up in cash	12-10-05*	01-01-05
21-05-03	ordinary bearer	-	-	4 815	19 260	fully paid up in cash	14-11-05*	01-01-05
21-05-03	ordinary bearer	-	-	28 580	114 320	fully paid up in cash	14-11-05*	01-01-05
21-05-03	ordinary bearer	-	-	53 399	213 596	fully paid up in cash	08-12-05*	01-01-05
21-05-03	ordinary bearer	-	-	14 750	59 000	fully paid up in cash	08-12-05*	01-01-05
21-05-03	ordinary bearer	-	-	53 320	213 280	fully paid up in cash	10-01-06*	10-01-06*
21-05-03	ordinary bearer	-	-	3 040	12 160	fully paid up in cash	10-01-06*	10-01-06*
21-05-03	ordinary bearer	-	-	46 230	184 920	fully paid up in cash	08-02-06*	08-02-06*
21-05-03	ordinary bearer	-	-	19 700	78 800	fully paid up in cash	08-02-06*	08-02-06*
21-05-03	ordinary bearer	-	-	92 015	368 060	fully paid up in cash	09-03-06*	09-03-06*
21-05-03	ordinary bearer	-	-	19 159	76 636	fully paid up in cash	09-03-06*	09-03-06*
21-05-03	ordinary bearer	-	-	8 357	33 428	fully paid up in cash	11-04-06*	11-04-06*
21-05-03	ordinary bearer	-	-	800	3 200	fully paid up in cash	11-04-06*	11-04-06*
21-05-03	ordinary bearer	-	-	108 194	432 776	fully paid up in cash	16-05-06*	16-05-06*
21-05-03	ordinary bearer	-	-	20 541	82 164	fully paid up in cash	16-05-06*	16-05-06*
21-05-03	ordinary bearer	-	-	17 000	68 000	fully paid up in cash	09-06-06*	09-06-06*
21-05-03	ordinary bearer	-	-	2 619	10 476	fully paid up in cash	09-06-06*	09-06-06*
21-05-03	ordinary bearer	-	-	33 007	132 028	fully paid up in cash	10-07-06*	10-07-06*
21-05-03	ordinary bearer	-	-	2 730	10 920	fully paid up in cash	10-07-06*	10-07-06*
21-05-03	ordinary bearer	-	-	48 122	192 488	fully paid up in cash	09-08-06*	09-08-06*
21-05-03	ordinary bearer	-	-	700	2 800	fully paid up in cash	12-09-06*	12-09-06*
21-05-03	ordinary bearer	-	-	3 430	13 720	fully paid up in cash	11-10-06*	11-10-06*
21-05-03	ordinary bearer	-	-	38 094	152 376	fully paid up in cash	10-11-06*	10-11-06*
21-05-03	ordinary bearer	-	-	15 005	60 020	fully paid up in cash	08-12-06*	08-12-06*
21-05-03	ordinary bearer	-	-	800	3 200	fully paid up in cash	10-01-07*	10-01-07*
21-05-03	ordinary bearer	-	-	200	800	fully paid up in cash	16-02-07*	16-02-07*
21-05-03	ordinary bearer	-	-	1 150	4 600	fully paid up in cash	09-03-07*	09-03-07*
21-05-03	ordinary bearer	-	-	9 585	38 340	fully paid up in cash	09-03-07*	09-03-07*
21-05-03	ordinary bearer	-	-	600	2 400	fully paid up in cash	11-04-07*	11-04-07*
21-05-03	ordinary bearer	-	-	32 964	131 856	fully paid up in cash	17-05-07*	17-05-07*
21-05-03	ordinary bearer	-	-	2 700	10 800	fully paid up in cash	15-06-07*	15-06-07*
21-05-03	ordinary bearer	-	-	8 640	34 560	fully paid up in cash	12-07-07*	12-07-07*
21-05-03	ordinary bearer	-	-	41 898	167 592	fully paid up in cash	14-08-07*	14-08-07*
21-05-03	ordinary bearer	-	-	400	1 600	fully paid up in cash	14-09-07*	14-09-07*
21-05-03	ordinary bearer	-	-	2 540	10 160	fully paid up in cash	11-10-07*	11-10-07*
21-05-03	ordinary bearer	-	-	30 807	123 228	fully paid up in cash	15-11-07*	15-11-07*
21-05-03	ordinary bearer	-	-	12 349	49 396	fully paid up in cash	13-12-07*	13-12-07*
21-05-03	ordinary bearer	-	-	700	2 800	fully paid up in cash	13-02-08*	13-02-08*
21-05-03	ordinary bearer	-	-	2 410	9 640	fully paid up in cash	19-03-08*	19-03-08*
21-05-03	ordinary bearer	-	-	650	2 600	fully paid up in cash	15-04-08*	15-04-08*
21-05-03	ordinary bearer	-	-	18 609	74 436	fully paid up in cash	19-05-08*	19-05-08*
21-05-03	ordinary bearer	-	-	4 900	19 600	fully paid up in cash	13-06-08*	13-06-08*
21-05-03	ordinary bearer	-	-	2 945	11 780	fully paid up in cash	10-07-08*	10-07-08*
Total number of shares				**29 690 882**				
Total registered share capital					**118 763 528**			
Nominal value per share			**4**					

* date of registration of shares in National Securities Deposit (KDPW SA)
** as at the balance sheet date

Commerzbank Auslandsbanken Holding AG is a shareholder holding over 5% of the share capital and votes at the General Meeting. As at 31 December 2008 Commerzbank Auslandsbanken Holding AG held 69.847% of the share capital and votes at the General Meeting of BRE Bank SA (as at 31 December 2007 – 69.8558%).

On 19 March 2008 BRE Bank informed in Current Report No. 43/2008 that it received from BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych SA a notification concerning a decrease of its stake in both the share capital and the votes at the General Meeting of BRE Bank SA below 5%.

On 8 April 2008 BRE Bank informed in the Current Report No. 51/2008 that it received from BZ WBK AIB Asset Management SA a notification concerning a decrease of its stake in both the share capital and the votes at the General Meeting of BRE Bank SA below 5%.

In accordance with the notification sent to BRE Bank on 7 November 2008, the Bank informed in Current Report No. 139/2008 that Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK held 1 498 598 shares of BRE Bank which at 31 December 2008 constituted 5.05% of the share capital of BRE Bank SA and authorized to exercise 1 498 598 votes at the General Meeting of BRE Bank SA which at 31 December constituted 5.05% of general number of votes at the General Meeting of BRE Bank SA.

IFRS Financial Statements 2008 PLN (000's)

40. 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. This capital is intended to cover all balance sheet losses that may result from the business activity of the Bank.

The increase of share premium in 2008 results from realization of employee option programs. The detailed information concerning the programs is described in Note 42.

Hyperinflationary restatements of the equity

According to IAS 29 *Financial Reporting in Hyperinflationary Economies,* paragraph 25, the components of equity (except retained earnings and any revaluation surplus) are restated by applying a general price index from the dates the components were contributed or otherwise arose for a period when the economy of the carrying business entity was recognised as (according to IAS 29) a hyperinflationary economy.

The effect of restating the components of share capital by applying a general price index is recognised with a corresponding impact on retained earnings. The adoption of IAS 29 paragraph 25 results in an increase of the share capital and at the same time it reduces retained earnings by the same amount.

The Management Board has carried out an analysis to estimate the value of such adjustment, which would result in a growth of the share capital and growth of the share premium as well as in a corresponding decrease in the retained earnings by PLN 107 219 thousand.

Because the effect of the restatement:

- represents 2.96% of own equity of the Bank (the effect of the restatement would represent 7.05% of the item "Share capital");
- consists of reallocation of funds between various items of the own equity, which has no effect on the equity as a whole;
- has no material effect on the presented financial data, both as a whole and on line items;

the Management Board of the Bank believes that such restatement will have no material effect on the accuracy and fairness of the presentation of the Bank's financial position as at, and for the period ended 31 December 2008.

Hyperinflationary adjustments would also have no material effect for the period ended 31 December 2007 (the effect of the restatement would represent 3.48% of the owners' equity of the Bank and 7.07% of the item "Share capital").

41. Revaluation Reserve

Movements in Revaluation Reserve

	31.12.2008	31.12.2007
Translation reserve		
As at the beginning of the period	**(2 552)**	**342**
Exchange differences	(8 058)	(2 894)
As at the end of the period	**(10 610)**	**(2 552)**
Revaluation reserve - securities available for sale		
As at the beginning of the period	**81 783**	**3 617**
Net gains / (losses) from changes in fair value (Note 22)	(165 579)	67 282
- increase	*4 530*	*407 542*
- decrease	*(170 109)*	*(340 260)*
Net (gains) / losses transferred to net profit on disposal and impairment	*(138 514)*	(1 977)
Deferred income tax (Note 35)	*11 617*	12 861
As at the end of the period	**(210 693)**	**81 783**
Other capital and reserves	**(221 303)**	**79 231**

Losses on valuation of securities available for sale in 2008 were connected with increasing interest rates in PLN in the first half of the year. Market interest rate, WIBOR6M, increased from 5.64% to 6.81% in this period. Following the increase, valuation of debt securities of the Treasury held by the Bank, classified into portfolio of debt securities available for sale and denominated in PLN, in particular securities with fixed interest rate constituting a considerable part of the portfolio of bonds available for sale, decreased. In the second half of the year the Bank increased the portfolio of debt investment securities, purchasing government bonds in the amount of above PLN 2 billion, which were pledged in sell-buy-back transactions. These bonds will be held to maturity by the Bank in a significant part (liquidity portfolio of securities available for sale) and will be redeemed by the Treasury at their nominal value.

IFRS Financial Statements 2008 PLN (000's)

The net gain of PLN 139 514 thousand representing on securities (bonds, treasury notes and stocks) sold in 2008 was released from the revaluation reserve and recognized in the Profit and Loss Account (as at 31 December 2007: net profit PLN 1 977 thousand).

The biggest material impact on the change in revaluation reserve in 2008 was caused by the release to the Profit and Loss Account of the change in value of the investment in Vectra SA and the release on sale of shares disposed by the Bank on 25 January 2008 (Note 22). Earlier, following the negotiations concerning the sale of shares of Vectra SA and carried out in 2007, the Bank revalued shares held to the fair value and the effect of revaluation was reflected in the revaluation reserve.

42. Retained Earnings

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

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

	31.12.2008	**31.12.2007**
Other supplementary capital	874 123	286 893
Other reserve capital	12 113	1 346
General Risk Fund	608 000	558 000
Profit for the current year	829 531	637 231
Total retained earnings	**2 323 767**	**1 483 470**

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

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

Share Options

Between 1 January 2007 and 31 December 2008, the Bank had two active option programs. Their valuation was determined in accordance with IFRS 2. Moreover, on 27 October 2008 the Extraordinary General Meeting of the Bank gave its consent to start a new option program for the key managers of the Bank since 2009.

2003 Employee Option Program

Share options were granted to BRE Bank SA managers as an incentive. For the options to be exercised, new BRE Bank SA shares were issued.

471 300 share options were granted at 15 October 2003 with an issue price of PLN 96.16 per share; they expired on 30 June 2008. At 31 July 2004, another 21 700 options were granted. The remaining 7 000 options were granted at 1 July 2005. The program comprised a total of 500 000 options, including 175 000 options for the Management Board and 325 000 options for other managers. The options were stated at fair value.

Options were acquired for 0.1% of the share issue price. Options were allocated on a straight line basis, 20% each year in advance starting on 15 October 2003 until 30 June 2007. Options could be exercised not earlier than 1 June 2005 and not later than 30 June 2008 concerning already acquired options. Options could not be sold. The program ended on 30 June 2008.

The following table presents changes in the number of issued share options under the option program that was active up to 30 June 2008 :

	31.12.2008	**31.12.2007**
As at the beginning of the period	**29 464**	**174 097**
Granted	-	-
Realized	29 364	144 633
Expired	100	-
As at the end of the period	**-**	**29 464**
Exercisable at the end of period	-	29 464

Until 31 December 2008, 499 900 shares were issued in implementation of the employee option program.

By 30 June 2008, all options were exercised with the exception of 100 options which expired.

30 214 shares were issued under options exercised in 2008 (144 633 shares in 2007) under this option program. The weighted average market price of shares at the option exercise date was PLN 390.05 per share in 2008 (the weighted average market price of shares at the option exercise date was PLN 491.54 per share in 2007).

The fair value of options granted as at 15 October 2003, determined using the Black-Scholes valuation model was PLN 45.57 per option. The fair value of options granted as at 31 July 2004 also determined using the Black-Scholes valuation model was PLN 40.15 per option. The valuation model was selected mainly due to the terms of the program. The volatility of BRE Bank shares was calculated based on a standard deviation estimator with a sample of 252 prices (one year back) and an interest rate based on zero-coupon rates capitalized on an on-going basis as required under the Black-Scholes model, determined in the structure of interest rates on the valuation date.

2008 Incentive Program for the Management Board Members of the Bank

On 14 March 2008, the Ordinary General Meeting of BRE Bank adopted a resolution approving an incentive program for Management Board Members of the Bank. Under the program, the Management Board Members can acquire bonds with the pre-emptive right to acquire shares of the Bank and shares of the ultimate parent of the Group, Commerzbank AG.

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

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

The fair value of BRE Bank share options has been estimated as at the grant date of the program that is 14 March 2008 by using the Monte Carlo simulation. This value is placed in range from PLN 334.55 up to PLN 339.91, depending on the date of possible exercising of the options. The choice of the valuation model has been significantly influenced by the conditions of the program. For the Management Board Members who took up their offices afterwards (as of 5 September 2008 and as of 19 November 2008) the fair value of BRE Bank share options was estimated as at the date of taking up the offices by the Management Board Members by using Monte Carlo simulation. This value is placed in range from PLN 328.81 to PLN 332.10 (for the first case) and from PLN 177.15 to PLN 177.70 (for the second case).

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

The expected volatility of BRE Bank shares has been estimated based on the historical volatility on the sample of quotations for the period between 14 March 2000 and 13 March 2008 in the case of valuation as at 14 March 2008, for the period between 5 September 2000 to 5 September 2008 in the case of valuation as at 5 September 2008 as well as for the period from 19 November 2000 to 19 November 2008 in the case of valuation as at 19 November 2008 – equivalent to the duration of the Incentive Program. The risk-free interest rate has been estimated based on zero-coupon yield curve created according to, available as at the grant date, zero-coupon bonds issued by Polish Government, denominated in PLN. Zero-coupon yield curve has been generated by Nelson-Siegel approximation model.

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

IFRS Financial Statements 2008 PLN (000's)

	31.12.2008	31.12.2007
Option program ended 30 June 2008		
As at the beginning of the period	**1 346**	**7 275**
- value of services provided (Note 12)	-	648
- settlement of exercised options	(1 346)	(6 577)
As at the end of the period	**-**	**1 346**
New incentive program		
As at the beginning of the period	**-**	**-**
- value of services provided (Note 12)	12 113	-
- settlement of exercised options	-	-
As at the end of the period	**12 113**	**-**
As at the end of the period, total	**12 113**	**1 346**

In addition, under the incentive program, the Management Board Members of the Bank can acquire shares of Commerzbank AG. Shares will be transferred to the Management Board Members by BRE Bank. The right to acquire bonds and the value of shares transferred will also depend on the degree of fulfilment of the above mentioned conditions. The number of granted Commerzbank shares will depend on the market price of the shares within 30 days before their allocation date in 2010 – 2018.

The fair value of Commerzbank AG share options has been estimated as at grant date of the program that is 14 March 2008 by using the Monte Carlo simulation. This value is placed in the range from PLN 62.79 up to PLN 63.50, depending on the date of possible exercising of the options. The choice of the valuation model has been significantly influenced by the conditions of the program.

For the Management Board Members who took up their offices afterwards (as of 5 September 2008 and as of 19 November 2008) the fair value of Commerzbank AG share options was estimated as at the date of taking up the offices by the Management Board Members by using Monte Carlo simulation. This value is placed in range from PLN 57.0 to PLN 57.8 (for the first case) and from PLN 21.4 to PLN 22.7 (for the second case).

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

The expected volatility of Commerzbank AG shares has been estimated based on the historical volatility on the sample of quotations (period between 14 March 2000 and 13 March 2008 in the case of valuation as at 14 March 2008, for the period between 5 September 2000 to 5 September 2008 in the case of valuation as at 5 September 2008 as well as for the period from 19 November 2000 to 19 November 2008 in the case of valuation as at 19 November 2008 – equivalent to the duration of the Incentive Program.

The risk-free interest rate has been estimated based on zero-coupon yield curve created according to, available as at the grant date, zero-coupon bonds issued by Polish Government, denominated in PLN. Zero-coupon yield curve has been generated by Nelson-Siegel approximation model.

The new incentive program for the Management Board of the Bank in the part comprising Commerzbank shares has no impact on other reserves as its cost is taken to the Profit and Loss Account in correspondence with liabilities. The value of provided services associated with this part of the program was PLN 6 785 thousand in 2008 (Note 12).

2008 Incentive Program for key managers of the BRE Bank Group

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

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

The scheme participants include:

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

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

The maximum size of the programme is 700 000 shares. The lifetime of the programme is 10 years (2009-2019), and the first 3 tranches will be available in 2009. The first tranche of share option will be available as of 1 May 2010.

IFRS Financial Statements 2008 PLN (000's)

43. Dividend per Share

On 17 February 2009, the Management Board of BRE Bank SA passed a resolution related to considering a motion by 22nd Ordinary General Meeting, concerning non-payment of dividend for the year 2008 to the shareholders. The Management Board's motion will be presented to the Supervisory Board of the Bank.

The recommendation of the Management Board is connected with continued unstable situation on the financial markets which has caused deterioration of economic conditions of both the Bank and its customers' environment. Providing safety in functioning of the Bank in such conditions requires ensuring a stable capital base.

44. Cash and Cash Equivalents

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

	31.12.2008	**31.12.2007**
Cash and balances with the Central Bank (Note 16)	2 491 851	1 998 380
Debt securities eligible for rediscounting at the Central Bank	9 238	23 259
Loans and advances to banks (Note 18)	4 341 668	727 356
Trading securities (Note 19)	1 670 506	4 759 158
Total cash and cash equivalents	**8 513 263**	**7 508 153**

45. Transactions with Related Entities

BRE Bank SA is a parent entity of BRE Bank SA Group and Commerzbank AG is the ultimate parent of the Group. The direct parent entity of BRE Bank SA is Commerzbank Auslandsbanken Holding AG which is in 100% controlled by Commerzbank AG.

All transactions between the Bank and related entities, exceeding the equivalent of EUR 500 000 and presented in PLN, were typical and routine transactions concluded on market terms and their nature and conditions resulted from the current operating activities conducted by the Bank. Transactions concluded with related entities as a part of regular operating activities include loans, deposits and foreign currency transactions.

- On 9 January 2008 BRE Bank issued subordinated bonds of unspecified maturity, with variable interest rate, of total value of CHF 170 000 thousand (PLN 373 388 thousand at the average NBP exchange rate of 9 January 2008). The issue fulfilled conditions of the agreement, concluded with Commerzbank AG on 12 December 2007 upon which Commerzbank committed itself to take up the issue. On 16 January 2008, in accordance with the next agreement concluded on 12 December 2007 with Commerzbank AG, BRE Bank repurchased bonds of value of EUR 100 000 thousand (PLN 359 500 thousand at average NBP exchange rate of 16 January 2008) which were redeemed on the same day. The bond repurchase and the redemption was connected with the issue described above and the main reason for such action was the change in the currency of the Bank's subordinated debt from EUR to CHF.
- On 5 February 2008, in accordance with the agreement concluded with BRE Holding, the Bank transferred shares and stocks of certain of the Bank's subsidiaries. The transfer resulted from restructuring, conducted within BRE Bank Group with the purpose of maintenance of effective supervision over selected Companies of Corporate Banking. The foregoing transaction was described in Note 1.
- On 17 March 2008, in accordance with the agreement as of 10 March 2008 concluded between the Bank and Commerzbank AG, the Bank received a loan in the amount of CHF 500 000 thousand (PLN 1 147 850 thousand according to average NBP exchange rate as of 17 March 2008) and it was assigned to fulfil general financial needs of the Bank. The loan was granted for a period of 3 years, the interest on the loan consists of 3M LIBOR plus bank margin.
- On 25 April 2008, in accordance with the service sub-issue agreement concluded between BRE Bank and BRE Bank Hipoteczny ("BBH") on 23 April 2008, BRE Bank took up 250 thousand 3-year mortgage bonds issued by BBH of PLN 250 000 thousand in total.
- On 25 April 2008 BRE Bank entered into a loan agreement with Commerzbank AG. In accordance with the agreement, the Bank received a loan in the amount of CHF 1 000 000 thousand (PLN 2 119 600 thousand at average NBP exchange rate of 25 April 2008) for the purpose of fulfilling general financial needs of the Bank. The loan is granted for 3 years, interest rate is based on LIBOR 3M plus margin. On 28 April 2008 the Bank received the first tranche in the amount of CHF 700 000 thousand (PLN 1 490 580 thousand at average NBP exchange rate of 28 April 2008). The Bank received the second tranche in the amount of CHF 300 000 thousand (PLN 623 130 thousand at average NBP exchange rate of 29 May 2008) on 29 May 2008.

- On 24 June 2008 the Bank entered into the Agreement on Underwriting Rate with BRE.locum (the Bank's subsidiary). On the basis of the agreement, the Bank was committed to underwrite the assumption of bonds issued by the company up to the maximum amount of PLN 180 000 thousand. The agreement was concluded for the period from 1 July 2008 to 30 June 2009. The aforementioned agreement is the highest-value agreement entered into with the company within 12 months preceding 24 June 2008. The total amount of agreements concerning the issue of bonds by BRE.locum and their assumption underwriting by the Bank amounts to PLN 363 000 thousand.
- On 24 June 2008 the Bank issued subordinated bonds of unspecified maturity, with variable interest rate, of total par value of CHF 90 000 thousand (PLN 186 732 thousand at average NBP exchange rate of 24 June 2008). The bonds were fully acquired, at par value, by Commerzbank AG, on the basis of the Note Issuance Facility Agreement of 11 June 2008.
- On 24 June 2008 on the basis of the agreement of 11 June 2008, Commerzbank AG granted a subordinated loan to the Bank of value of CHF 90 000 thousand (PLN 186 732 thousand at average NBP exchange rate of 24 June 2008) with a ten-year repayment term and variable interest rate.
- On 4 July 2008 BRE Bank entered into a loan agreement with Commerzbank AG. In accordance with the agreement the Bank received a loan in the amount of CHF 1 000 000 thousand (PLN 2 066 300 thousand at average NBP exchange rate of 4 July 2008). On 15 July 2008 the Bank received the first tranche in the amount of CHF 500 000 thousand (PLN 1 012 400 thousand at average NBP exchange rate of 15 July 2008). The second tranche in the amount of CHF 500 000 thousand the Bank received on 15 September 2008 (PLN 1 058 050 thousand at average NBP exchange rate of 15 September 2008).
- In accordance with the agreement as of 4 November 2008 between BRE Bank and Commerzbank AG, the Bank received a loan in the amount of CHF 1 000 000 thousand (PLN 2 386 200 thousand at average NBP exchange rate of 4 November 2008) for the purpose of fulfilling general financial needs of the Bank. The loan is granted for 3 years, interest rate is based on LIBOR 3M plus margin.
- In accordance with the agreement as of 5 December 2008 between BRE Bank and Commerzbank AG, the Bank received a loan in the amount of CHF 1 000 000 thousand (PLN 2 535 900 thousand at average NBP exchange rate of 5 December 2008) for the purpose of fulfilling general financial needs of the Bank. The loan is granted for 3 years, interest rate is based on LIBOR 3M plus margin.

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

The amounts of transactions with related entities, i.e., balances of receivables and obligations and related expenses and income as at 31 December 2008 and 31 December 2007 and for the respective periods then ended were as follows:

Numerical data concerning transactions with related entities (in PLN 000's) as at 31 December 2008

No.	Company's name	Balance sheet		Profit and loss account				Off-balance sheet items	
		Receivables	Liabilities	Interest income	Interest cost	Commission income	Commission cost	Commitments granted	Commitments received
	Subsidiaries								
1	AMBRESA Sp. z o.o.	-	847	-	-	2	-	-	-
2	BRE Bank Hipoteczny SA *)	696 622	56 877	37 093	-	-	-	269 046	-
3	BRE Corporate Finance SA	-	-	-	-	-	-	1 573	-
4	BRE Finance France SA	-	17 577	-	(18 993)	-	-	29 980	-
5	BRE Holding Sp. z o.o.	-	11 743	-	-	-	-	-	-
6	BRE Leasing Sp. z o.o. *)	206 293	46 229	11 030	(2 738)	-	-	102 375	-
7	BRE Ubezpieczenia TU SA	16 776	38 933	-	-	121 032	(11 338)	-	-
8	BRE Wealth Management SA	-	3 972	-	-	1 881	-	-	-
9	BRE.locum SA	151 109	-	9 881	-	-	-	28 000	-
10	BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	-	715	-	(1)	1	-	-	-
11	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	20 000	37 937	-	-	-	(26 352)	3 000	-
12	Dom Inwestycyjny BRE Bank SA	-	299 009	-	(21 468)	7 302	(3 961)	50 000	-
13	emFinanse Sp. z o.o.	-	-	-	-	-	(4 496)	-	-
14	Intermarket Bank AG	-	-	3 889	-	-	-	-	-
15	Polfactor SA *)	347 181	3 464	19 614	-	-	-	53 232	-
16	BRE Systems Sp. z o.o. (previously Service Point Sp. z o.o.)	-	150	9	(6)	17	-	1 000	-
17	Tele-Tech Investment Sp. z o.o.	51 972	-	5 563	-	-	-	-	-
	Associates								
	Xtrade SA	-	34	-	(4)	7	-	-	-
	Commerzbank AG Capital Group (Ultimate Parent Group)	1 834 878	24 587 002	38 424	(549 414)	-	-	580 504	557 636

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

In connection with restructuring of the company emFinanse in the second half of 2008 it was created a provision for credit exposures in the amount of PLN 5 320 thousand. On 15 July 2008 the provision was recorded as a provision for shares as a result of conversion of the company's debts to equity.

Numerical data concerning transactions with related entities (in PLN 000's) as at 31 December 2007

No.	Company's name	Balance sheet		Profit and loss account				Off-balance sheet items	
		Receivables	Liabilities	Interest income	Interest cost	Commission income	Commission cost	Commitments granted	Commitments received
	Subsidiaries								
1	AMBRESA Sp. z o.o.	-	354	-	-	2	-	-	-
2	BRE Bank Hipoteczny SA	425 374	27 769	6 625	-	-	-	16 189	-
3	BRE Corporate Finance SA	-	3 195	-	-	-	-	-	-
4	BRE Finance France SA	-	731 809	-	(64 423)	-	-	740 733	-
5	BRE Holding Sp. z o.o.	-	98	-	-	-	-	-	-
6	BRE Leasing Sp. z o.o.	174 441	52 692	9 737	(5 944)	-	-	25 000	-
7	BRE Ubezpieczenia TU SA	-	8 383	-	(121)	2	-	-	-
8	BRE Wealth Management SA	-	3 712	-	-	2 307	-	-	-
9	BRE.locum SA	82 475	1 938	2 842	-	-	-	18 500	-
10	BRELINVEST Sp. z o.o. Fly 2 Commandite company	-	1	-	(8)	1	-	-	-
11	BREL-MAR Sp. z o.o.	-	1	-	-	1	-	-	-
12	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	3 465	12 684	-	-	-	-	16 535	-
13	Dom Inwestycyjny BRE Bank SA	3 939	581 333	-	(21 808)	13 995	(6 447)	70 000	-
14	emFinanse Sp. z o.o.	6 803	-	-	-	-	(6 082)	-	-
15	Garbary Sp. z o.o.	3 000	2 138	-	-	-	-	-	-
16	Intermarket Bank AG	82 386	-	4 377	-	-	-	-	-
17	Polfactor SA	234 968	-	13 272	-	-	-	165 032	-
18	PTE Skarbiec Emerytura SA	-	4 055	-	-	-	-	-	-
19	ServicePoint Sp. z o.o.	155	74	1	(14)	10	-	345	-
20	Tele-Tech Investment Sp. z o.o.	38 978	-	3 867	-	-	-	-	-
	Associates								
	Xtrade SA	-	61	-	(4)	7	-	-	-
	Commerzbank AG Capital Group (Ultimate Parent Group)	387 525	9 861 963	25 838	(246 096)	-	-	54 308	106 369

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

(in PLN '000s)	**Directors and key management personnel of the Bank**	
As at the end of the period	**31.12.2008**	**31.12.2007**
Loans outstanding	6 731	7 218
Deposits received	11 704	34 187
Interest expense on deposits	(352)	(370)
Interest, fee and commission income	250	322
Directors and key management personnel of the Bank remuneration	41 379	28 471

Management Board Compensation

The composition of the Management Board of BRE Bank which consists of seven persons was as follows at the end of 2008:

1. Mariusz Grendowicz – President of the Management Board, Director General of the Bank,
2. Wiesław Thor – Deputy President of the Management Board, the Chief Risk Officer,
3. Przemysław Gdański – Member of the Management Board, Head of Corporate Banking,
4. Karin Katerbau – Member of the Management Board, Chief Financial Officer,
5. Bernd Loewen - Member of the Management Board, Head of Investment Banking,
6. Jarosław Mastalerz – Member of the Management Board, Head of Retail Banking,
7. Christian Rhino – Member of the Management Board, Chief Operation Officer.

On 14 March 2008, the Supervisory Board of BRE Bank SA appointed Management Board Members, as of 15 March 2008, for a joint five-year term of office:

1. Mr Mariusz Grendowicz as the President of the Management Board of BRE Bank SA, General Director of the Bank,
2. Mr Andre Carls as Deputy President of the Management Board of BRE Bank SA, Chief Financial Officer,
3. Mr Wiesław Thor as Deputy President of the Management Board of BRE Bank SA, Chief Risk Officer,
4. Mr Bernd Loewen as Member of the Management Board of BRE Bank SA, Head of Investment Banking,
5. Mr Jarosław Mastalerz as Member of the Management Board of BRE Bank SA, Head of Retail Banking,
6. Mr Christian Rhino as Member of the Management Board of BRE Bank SA, Chief Operation Officer.

Simultaneously, the following persons ceased performing their functions on the Management Board of BRE Bank SA:

1. Mr Sławomir Lachowski – the President of the Management Board, Director General of the Bank,
2. Mr Jerzy Jóźkowiak – Member of the Management Board, Chief Financial Officer,
3. Mr Rainer Ottenstein – Member of the Management Board, Chief Operation Officer,
4. Mr Janusz Wojtas – Member of the Management Board, Head of Corporate Banking.

On 8 August 2008 the Bank received the information on consent of the Polish Financial Supervision Authority for appointment of Mr Mariusz Grendowicz to the position of the President of the Management Board of BRE Bank SA.

On 15 July 2008 Mr Andre Carls, Member of the Management Board and the Chief Financial Officer of the Bank, resigned from the office as of 4 September 2008.

According to Resolution of the Supervisory Board of BRE Bank SA as of 5 September 2008 the following persons were appointed to the positions:

1. Ms Karin Katerbau as a Member of the Management Board, Bank Executive Director as of 5 September 2008 until the end of the current term of office of the Management Board,

2. Mr Przemysław Gdański as a Member of the Management Board, Bank Executive Director as of 19 November 2008 until the end of the current term of office of the Management Board.

Information on the Board members' salaries, bonuses and benefits paid out and due to the members of the Management Board of the Bank who were the members at the end of 2008 as at 31 December 2008 and 31 December 2007 is presented below:

IFRS Financial Statements 2008 PLN (000's)

	Remuneration paid in 2008 (in PLN)		
	Basic salary	**Other benefits**	**Bonus for 2007**
Mariusz Grendowicz	1 425 000	45 954	-
Wiesław Thor	1 341 250	117 347	2 583 000
Przemysław Gdański	142 105	5 402	-
Karin Katerbau	384 478	29 242	-
Bernd Loewen	1 110 726	107 912	2 400 000
Jarosław Mastalerz	1 103 750	146 988	999 375
Christian Rhino	970 988	129 057	-
Total	**6 478 297**	**581 902**	**5 982 375**

Remuneration of the Management Board Members who ceased performing their functions in the year 2008.

	Remuneration paid in 2008 (in PLN)		
	Basic salary	**Other benefits**	**Bonus for 2007**
Sławomir Lachowski	659 730	1 995 417	4 300 000
Jerzy Jóźkowiak	433 571	1 565 502	2 583 000
Andre Carls	543 240	26 063	-
Rainer Ottenstein	168 878	32 425	2 400 000
Janusz Wojtas	420 393	466 353	2 583 000
Total	**2 225 812**	**4 085 761**	**11 866 000**

	Remuneration paid in 2007 (in PLN)		
	Basic salary	**Other benefits**	**Bonus for 2006**
Sławomir Lachowski	1 200 000	95 000	3 930 395
Jerzy Jóźkowiak	738 000	39 145	2 355 693
Bernd Loewen	681 522	201 847	2 298 237
Jarosław Mastalerz	307 500	36 838	-
Rainer Ottenstein	681 522	242 870	2 298 237
Wiesław Thor	738 000	53 781	2 355 693
Janusz Wojtas	738 000	53 781	2 083 157
Total	**5 084 544**	**723 262**	**15 321 412**

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

The above mentioned benefits are short-term employee benefits.

In accordance with the Bank's remuneration system in force, the members of the Management Board of the Bank are bonuses eligible for the year 2008, which will be paid out in 2009. The final decision concerning the level of the bonus will be taken by the Executive Committee of the Supervisory Board on 16 March 2009.

Additionally, in 2008 the members of the Management Board of BRE Bank SA received in aggregate PLN 331 569 as a compensation for their role as members of the management boards and supervisory boards of the Bank's related companies (in 2007: PLN 331 127 thousand).

The total amount of remuneration received in 2008 by Bank's Management Board members was PLN 31 551 716 (2007: PLN 21 460 345).

Supervisory Board Compensation

The composition of the Supervisory Board at the end of 2008 was as follows:

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

On 14 March 2008, the Ordinary General Meeting of BRE Bank SA elected three new persons to the Supervisory Board of the Bank SA:

1. Mr Waldemar Stawski,
2. Mr Marek Wierzbowski,
3. Mr Martin Zielke.

IFRS Financial Statements 2008 PLN (000's)

The following persons were re-elected to the Supervisory Board for another term of office:

1. Mr Maciej Leśny,
2. Mr Martin Blessing,
3. Mr Achim Kassow,
4. Ms Teresa Mokrysz,
5. Mr Michael Schmid,
6. Mr Jan Szomburg.

On 15 July 2008 Mr Martin Blessing, Member of the Supervisory Board of the Bank, resigned from the office as of 4 September 2008.

According to Resolution of the Supervisory Board of BRE Bank SA as of 5 September, Mr Andre Carls was appointed as a Member of the Supervisory Board and as Deputy Chairman of the Bank Supervisory Board as of 5 September 2008 until the end of the current term of office of the Supervisory Board, a Member of the Executive Committee of the Bank Supervisory Board, Member of the Audit Committee of the Bank Supervisory Board and a Member of the Risk Committee of the Bank Supervisory Board as of 5 September 2008 for the current term of office of the Supervisory Board.

Information about the Supervisory Board members' salaries, bonuses and benefits paid as at 31 December 2008 and 31 December 2007 is presented below:

		Remuneration paid in 2008 (in PLN)	Remuneration paid in 2007 (in PLN)
1.	Maciej Leśny	315 000	315 000
2.	Andre Carls	86 864	-
3.	Jan Szomburg	231 000	231 000
4.	Teresa Mokrysz	132 000	132 000
5.	Waldemar Stawski	156 750	-
6.	Michael Schmid	198 000	198 000
7.	Martin Zielke	156 750	-
8.	Achim Kassow	213 625	198 000
9.	Marek Wierzbowski	104 500	-
	Krzysztof Szwarc*	-	33 000
	Gromosław Czempiński**	27 500	132 000
	Nicholas Teller**	48 125	231 000
	Martin Blessing***	178 011	234 000
	Total	**1 848 125**	**1 704 000**

* On 28 February 2007 Mr Krzysztof Szwarc resigned from the office.
** On 14 March 2008 the members completed their term of office.
*** On 4 September 2008 Mr Martin Blessing resigned from the office.

In accordance with the wording of paragraph 11 letter j) of the Bylaws of BRE Bank SA the General Meeting determines remuneration for members of the Supervisory Board. In relation to remuneration of the Management Board members - competences with this respect holds the Supervisory Board (paragraph 22 section 1 letter e) of the By-laws of BRE Bank SA).

46. Acquisitions and Disposals

On 30 June 2008, in connection with the transaction of merger of PTE Skarbiec-Emerytura SA and Aegon PTE SA, the Bank took up 54 812 shares of Aegon PTE SA constituting 49.7% of the share capital and general number of votes at the General Meeting of the company. The detailed information on the sale of the shares of Aegon PTE SA as well as assets held for sale and discontinued operations ,was presented in the Note 28 of these financial statements.

47. Information about the Registered Audit Company

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

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to the audit and review of stand-alone financial statements and consolidated financial statements of BRE Bank SA was PLN 3 308 thousand in 2008 (2007: PLN 2 924 thousand).

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to consulting services for BRE Bank SA was PLN 1 223 thousand in 2008 (2007: PLN 1 130 thousand).

48. Capital Adequacy Ratio / Capital Adequacy

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

- are consistent with valid external regulations and internal regulations of the Bank,
- place in safety continuation of accomplishment of financial aims providing a suitable level of return for shareholders,
- provide maintaining a stable capital basis which is the basis for progress of the business.

Capital management policy in BRE Bank is based on:

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

Effective utilization of the capital is an integral part of the capital management policy oriented to reach an optimal rate of return on capital and thanks to it, forming a stable basis of reinforcement of capital basis in future periods, which enables to maintain the capital adequacy ratio at least on the level required by the supervision authority (the Polish Financial Supervision Authority). Adequacy ratio is calculated as a quotient of own funds by total capital charge, multiplied by 12.5, and it is to equal 8% at least.

Own funds comprise:

a) core funds comprise:

- principal funds (paid and registered initial capital, capital surplus fund and reserve funds excluding any liabilities due to preference shares),
- additional items of core funds (general risk fund for unidentified banking business risk, profit from previous years, profit under approval by shareholders and net profit for the current reporting year, calculated in accordance with valid accounting principles, less any expected costs and dividends in the amounts not greater than the profit verified by auditors, other balance sheet items determined by KNF),
- items reducing core funds – own shares held by the Bank, valued at carrying amount and reduced by impairment losses on them, intangible assets measured according to the balance sheet method, loss from previous years, loss under approval by shareholders, net loss for the current year, other decreases of core funds of the Bank determined by KNF (including missing provisions for banking business risk and exposure to securitization items),

b) supplementary funds comprise:

- revaluation reserve resulting from valuation of tangible fixed assets – formed on the basis of separate regulations,
- balance sheet items on including which KNF takes decisions (including subordinated liabilities, liabilities due to securities with unlimited maturities and other similar instruments),
- items determined by KNF for the purpose of providing business safety and proper risk management within the Bank,
- decreases of supplementary funds, determined by KNF.

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

Internal capital is an estimated by the Bank capital level needed to cover all identified, material types of risk within the Bank's activity, including so-called permanent material risks and other material risks being difficult to measure. The permanent material risks are to be covered by the economic capital, while other risks are to be covered by the capital for coverage of risks being difficult to measure.

The process of internal risk assessment in BRE Bank SA is performed constantly and is based on the following tasks completed by the organisational units of the Bank:

- identification and description of the significant risks distinguished in the business of the Bank,
- calculation of the capital to cover each of the material risks,
- aggregation of the capital to cover risks,

- allocation of capital on business lines and the Group's companies,
- monitoring containing permanent identification of the risks occurring in the business activities of the BRE Bank SA and analysis of the level of consumed capital in the scope of the risks expected to be significant.

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

Total capital charge comprises:

- credit capital charge,
- market risk capital charge comprising of: foreign exchange risk capital charge, commodities risk capital charge, specific risk for equity instruments capital charge, specific risk for debt instruments capital charge, general interest rate risk capital charge,
- settlement risk capital charge, delivery risk capital charge and counterparty risk capital charge,
- capital charges due to: risk of exceeding the limit of concentration of exposures and risk of exceeding the limit of concentration of large exposures,
- capital charge due to risk of exceeding the level of capital concentration,
- operational risk capital charge.

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

- Banking Act dated at 29 August 1997 (Dz.U. from the year 2002 No. 72, pos. 665, with amendments),
- Resolution No. 1/2007 of the Polish Banking Supervision Authority dated at 13 March 2007 (Dz. Urz. NBP from the year 2007 No. 2 pos. 3),
- Resolution No. 2/2007 of the Polish Banking Supervision Authority dated at 13 March 2007 (Dz. Urz. NBP from the year 2007 No. 3 pos. 4),
- Resolution No. 3/2007 of the Polish Banking Supervision Authority dated at 13 March 2007 (Dz. Urz. NBP from the year 2007 No. 3 pos. 5),
- Resolution No. 4/2007 of the Polish Banking Supervision Authority dated at 13 March 2007 (Dz. Urz. NBP from the year 2007 No. 3 pos. 6),
- Resolution No. 5/2007 of the Polish Banking Supervision Authority dated at 13 March 2007 (Dz. Urz. NBP from the year 2007 No. 3 pos. 7).

Capital adequacy ratio of the BRE Bank amounted to 10.04% as at 31 December 2008. Due to significant trading activity full calculation of the capital charges is being made. Total capital charge of the Bank amounted to PLN 3 893 689 thousand as at 31 December 2008, including PLN 3 435 735 thousand of credit capital charge (31 December 2007 respectively: 2 566 080 thousand and PLN 2 448 716 thousand).

Due to the fact that total capital requirement of the BRE Bank calculated according to Resolution No. 1/2007 is higher than the internal capital calculated according to Resolution No. 4/2007, the Bank's own funds were kept as at 31 December 2008 at the level not lower than the total capital requirement calculated according to Resolution No. 1/2007.

IFRS Financial Statements 2008 PLN (000's)

Capital adequacy	**31.12.2008**	**31.12.2007**
Own funds:		
- Share capital	118 764	118 643
- Supplementary fund	2 277 042	1 685 682
- Reserve fund	620 113	559 346
- Revaluation reserve arising from valuation of non-current and financial assets available for sale	(254 208)	7 051
- Profit for the current year	660 072	342 224
- Uncovered loss from previous years	-	-
- Investments in financial institutions	(466 173)	(456 996)
- Additional increase	-	-
- Additional decrease	-	-
- Intangible assets	(406 359)	(379 503)
- Subordinated liabilities	2 337 756	1 539 527
I. Total own funds	**4 887 007**	**3 415 974**
Risk weighted off-balance sheet assets and liabilities:		
- applying a 20% risk weight	1 078 281	251 662
- applying a 35% risk weight	207 008	-
- applying a 50% risk weight	1 208 737	377 247
- applying a 75% risk weight	19 701 272	-
- applying a 100% risk weight	21 952 918	26 809 417
- applying a 150% risk weight	297 309	-
- applying other risk weights	-	3 170 621
II. Total risk weighted off-balance sheet assets and liabilities	**44 445 525**	**30 608 947**
III. Credit risk	**3 435 735**	**2 448 716**
IV. Foreign exchange risk	**13 023**	**14 050**
V. Equity instruments price risk	**114**	**231**
VI. Specific risk for debt instruments	**48 997**	**44 027**
VII. General interest rate risk	**37 674**	**35 366**
VIII. Settlement, delivery and counterparty credit risk	**119 907**	**23 661**
IX. Commodities risk	**1**	**29**
X. Operational risk	**238 238**	**-**
XI. Total capital charge	**3 893 689**	**2 566 080**
XII. Capital adequacy ratio (%)	**10.04%**	**10.65%**

49. Events after the Balance Sheet Date

As a reaction for economy situation changes in Poland, after 31 December 2008 the Bank introduced further changes to the creditworthiness calculation model in respect of customers applying for loans denominated in CHF to reduce the risk related to sudden adverse rate movements. Additionally, availability of loans was limited for high-risk customers and the catalogue of acceptable real-property collaterals has been shortened. Despite the significant increase of CHF/PLN exchange rate, the Bank didn't notice substantial increase in the number of defaulted loans. The effect of increased exchange rates was reduced by the decrease of CHF interest rates.