BRE Bank SA

IFRS Financial Statements 2011

Contents

Selected Financial Data

The selected financial data are supplementary information to these Financial Statements of BRE Bank SA for 2011.

		in PLN '000		in EUR '000	
		Year ended 31.12.2011	Year ended 31.12.2010	Year ended 31.12.2011	Year ended 31.12.2010
I.	Interest income	3 419 176	2 973 672	825 868	742 601
II.	Fee and commission income	994 969	894 050	240 325	223 267
III.	Net trading income	402 414	392 518	97 199	98 022
IV.	Operating profit	1 342 200	681 961	324 195	170 303
V.	Profit before income tax	1 342 200	681 961	324 195	170 303
VI.	Net profit	1 066 012	517 724	257 485	129 289
VII.	Net cash flows from operating activities	460 887	(2 616 012)	111 323	(653 284)
VIII.	Net cash flows from investing activities	9 593	(110 819)	2 317	(27 674)
IX.	Net cash flows from financing activities	(1 794 959)	2 143 949	(433 555)	535 398
X.	Net increase / decrease in cash and cash equivalents	(1 324 479)	(582 882)	(319 915)	(145 560)
XI.	Earnings per ordinary share (in PLN/EUR)	25.32	14.11	6.12	3.52
XII.	Diluted earnings per ordinary share (in PLN/EUR)	25.30	14.10	6.11	3.52
XIII.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

		in PLN '000		in EUR '000	
		As at		As at	
		31.12.2011	31.12.2010	31.12.2011	31.12.2010
I.	Total assets	93 895 432	83 519 170	21 258 701	21 089 102
II.	Amounts due to the Central Bank	-	79	-	20
III.	Amounts due to other banks	25 281 169	24 880 962	5 723 865	6 282 595
IV.	Amounts due to customers	54 018 635	46 798 243	12 230 265	11 816 843
V.	Equity	7 610 906	6 530 958	1 723 172	1 649 107
VI.	Share capital	168 411	168 347	38 130	42 509
VII.	Number of shares	42 102 746	42 086 674	42 102 746	42 086 674
VIII.	Book value per share (in PLN/EUR)	180.77	155.18	40.93	39.18
IX.	Capital adequacy ratio	15.28	16.91	15.28	16.91

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

- <u>for items of the Statement of Financial Position</u> – exchange rate announced by the National Bank of Poland as at 31 December 2011 EUR 1 = PLN 4.4168 and exchange rate as at 31 December 2010: EUR 1 = PLN 3.9603.

- <u>for items of the Income Statement</u> – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2011 and 2010: 1 EUR = PLN 4.1401 and 1 EUR = PLN 4.0044 respectively.

IFRS Financial Statements 2011 PLN (000's)

Income Statement

	Note	Year ended 31 December	
		2011	2010
Interest income	5	3 419 176	2 973 672
Interest expense	5	(1 544 826)	(1 440 820)
Net interest income		**1 874 350**	**1 532 852**
Fee and commission income	6	994 969	894 050
Fee and commission expense	6	(362 391)	(360 109)
Net fee and commission income		**632 578**	**533 941**
Dividend income	7	45 806	19 277
Net trading income, including:	8	402 414	392 518
Foreign exchange result		*375 062*	*357 027*
Other net trading income and result on hedge accounting		*27 352*	*35 491*
Gains less losses from investment securities, investments in subsidiaries and associates	22	68 870	11 362
Other operating income	9	69 597	66 617
Net impairment losses on loans and advances	12	(318 684)	(561 942)
Overhead costs	10	(1 180 098)	(1 080 399)
Amortization and depreciation	25,26	(185 077)	(178 692)
Other operating expenses	11	(67 556)	(53 573)
Operating profit		**1 342 200**	**681 961**
Profit before income tax		**1 342 200**	**681 961**
Income tax expense	13	(276 188)	(164 237)
Net profit		**1 066 012**	**517 724**

Net profit		**1 066 012**	**517 724**
Weighted average number of ordinary shares	14	**42 093 950**	**36 679 683**
Earnings per ordinary share (in PLN)	14	**25.32**	**14.11**
Weighted average number of ordinary shares for diluted earnings	14	**42 133 947**	**36 709 325**
Diluted earnings per ordinary share (in PLN)	14	**25.30**	**14.10**

Notes presented on pages 9 – 90 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2011 PLN (000's)

Statement of Comprehensive Income

	Note	Year ended 31 December	
		2011	2010
Net profit		1 066 012	517 724
Other comprehensive income net of tax	15	2 549	227 130
Exchange differences on translating foreign operations (net)		(4 551)	(1 173)
Available-for-sale financial assets (net)		7 100	228 303
Total comprehensive income net of tax, total		1 068 561	744 854

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IFRS Financial Statements 2011 PLN (000's)

Statement of Financial Position

ASSETS	Note	31.12.2011	31.12.2010
Cash and balances with the Central Bank	16	1 032 081	2 340 672
Loans and advances to banks	17	5 222 678	3 762 688
Trading securities	18	1 191 335	1 731 030
Derivative financial instruments	19	1 504 020	1 221 565
Loans and advances to customers	21	61 663 992	51 666 022
Hedge accounting adjustments related to fair value of hedged items	20	1 924	-
Investment securities	22	17 077 797	19 195 574
Pledged assets	18, 22, 36	4 338 332	1 828 724
Investments in subsidiaries	23	546 430	491 761
Intangible assets	25	389 807	379 981
Tangible assets	26	542 410	534 450
Deferred income tax assets	33	63 194	62 291
Other assets	27	321 432	304 412
Total assets		**93 895 432**	**83 519 170**
EQUITY AND LIABILITIES			
Amounts due to the Central Bank	28	-	79
Amounts due to other banks	28	25 281 169	24 880 962
Derivative financial instruments	19	1 857 371	1 361 907
Amounts due to customers	29	54 018 635	46 798 243
Subordinated liabilities	30	3 456 200	3 010 127
Other liabilities	31	1 371 511	841 070
Current income tax liabilities		227 251	19 689
Deferred income tax liabilities	33	85	77
Provisions	32	72 304	76 058
Total liabilities		**86 284 526**	**76 988 212**
Equity			
Share capital:		**3 493 812**	**3 491 812**
- Registered share capital	37	168 411	168 347
- Share premium	38	3 325 401	3 323 465
Retained earnings:	39	**3 972 711**	**2 897 312**
- Profit from the previous years		2 906 699	2 379 588
- Profit for the current year		1 066 012	517 724
Other components of equity	40	**144 383**	**141 834**
Total equity		**7 610 906**	**6 530 958**
Total equity and liabilities		**93 895 432**	**83 519 170**
Capital adequacy ratio	46	**15.28**	**16.91**
Book value		**7 610 906**	**6 530 958**
Number of shares		**42 102 746**	**42 086 674**
Book value per share (in PLN)		**180.77**	**155.18**

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IFRS Financial Statements 2011 PLN (000's)

Statement of Changes in Equity

Changes in equity from 1 January to 31 December 2011

	Note	Share capital		Retained earnings					Other components of equity		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	Exchange differences on translation of foreign operations	Available for sale financial assets	
Equity as at 1 January 2011		**168 347**	**3 323 465**	**1 603 654**	**10 791**	**765 143**	**517 724**		**(3 782)**	**145 616**	**6 530 958**
Total comprehensive income	15							**1 066 012**	**(4 551)**	**7 100**	**1 068 561**
Transfer to General Risk Fund		-	-	-	-	60 000	(60 000)	-	-	-	-
Transfer to supplementary capital		-	-	457 724	-	-	(457 724)	-	-	-	-
Issue of shares		64	-	-	-	-	-	-	-	-	64
Stock option program for employees	39	-	1 936	-	9 387	-	-	-	-	-	11 323
- value of services provided by the employees		-	-	-	*11 323*	-	-	-	-	-	*11 323*
- settlement of exercised options		-	*1 936*	-	*(1 936)*	-	-	-	-	-	-
Equity as at 31 December 2011		**168 411**	**3 325 401**	**2 061 378**	**20 178**	**825 143**	-	**1 066 012**	**(8 333)**	**152 716**	**7 610 906**

Changes in equity from 1 January to 31 December 2010

	Note	Share capital		Retained earnings					Other components of equity		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	Exchange differences on translation of foreign operations	Available for sale financial assets	
Equity as at 1 January 2010		**118 764**	**1 402 919**	**1 603 654**	**8 442**	**708 000**	**57 143**	-	**(2 609)**	**(82 687)**	**3 813 626**
Total comprehensive income	15							**517 724**	**(1 173)**	**228 303**	**744 854**
Transfer to General Risk Fund		-	-	-	-	57 143	(57 143)	-	-	-	-
Issue of shares		49 583	1 929 907	-	-	-	-	-	-	-	1 979 490
Issue expenses		-	(13 287)	-	-	-	-	-	-	-	(13 287)
Stock option program for employees	39	-	3 926	-	2 349	-	-	-	-	-	6 275
- value of services provided by the employees		-	-	-	*6 275*	-	-	-	-	-	*6 275*
- settlement of exercised options		-	*3 926*	-	*(3 926)*	-	-	-	-	-	-
Equity as at 31 December 2010		**168 347**	**3 323 465**	**1 603 654**	**10 791**	**765 143**	-	**517 724**	**(3 782)**	**145 616**	**6 530 958**

Notes presented on pages 9 – 90 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2011 PLN (000's)

Statement of Cash Flows

	Note	Year ended 31 December	
		2011	2010
A. Cash flow from operating activities		**460 887**	**(2 616 012)**
Profit before income tax		**1 342 200**	**681 961**
Adjustments:		***(881 313)***	***(3 297 973)***
Income taxes paid		(69 869)	(20 614)
Amortisation	25, 26	185 077	178 692
Foreign exchange (gains) losses		3 490 529	2 821 496
(Gains) losses on investing activities		(70 737)	3 593
Impairment of financial assets		-	(12 692)
Dividends received	7	(45 806)	(19 277)
Interest received		(2 661 853)	(2 163 569)
Interest paid		1 508 874	1 479 279
Changes in loans and advances to banks		(64 287)	(1 274 168)
Changes in trading securities		(219 416)	241 752
Changes in assets and liabilities on derivative financial instruments		213 009	139 061
Changes in loans and advances to customers		(7 477 681)	(5 391 230)
Changes in investment securities		(907 713)	(3 593 364)
Changes in other assets		(13 823)	27 589
Changes in amounts due to other banks		(7 691)	844 320
Changes in amounts due to customers		4 769 119	3 417 474
Changes in provisions		(3 754)	(32 731)
Changes in other liabilities		494 709	56 416
Net cash generated from operating activities		**460 887**	**(2 616 012)**
B.Cash flows from investing activities		**9 593**	**(110 819)**
Investing activity inflows		**167 767**	**20 542**
Disposal of shares in subsidiaries		108 603	-
Disposal of intangible assets and tangible fixed assets		644	1 265
Dividends received	7	45 806	19 277
Other investing inflows		12 714	-
Investing activity outflows		**158 174**	**131 361**
Purchase of intangible assets and tangible fixed assets		158 174	131 361
Net cash used in investing activities		**9 593**	**(110 819)**
C. Cash flows from financing activities		**(1 794 959)**	**2 143 949**
Financing activity inflows		**1 539 758**	**3 892 958**
Proceeds from loans and advances from other banks		283 734	1 727 495
Proceeds from other loans and advances		1 255 960	199 260
Issue of ordinary shares		64	1 966 203
Financing activity outflows		**3 334 717**	**1 749 009**
Repayments of loans and advances from other banks		2 823 069	1 400 142
Repayments of other loans and advances		9 732	9 454
Acquisition of shares in subsidiaries		107 130	-
Payments of financial lease liabilities		12 339	6 947
Interest paid from loans and advances received from other banks and subordinated liabilities		382 447	332 466
Net cash from financing activities		**(1 794 959)**	**2 143 949**
Net increase / decrease in cash and cash equivalents (A+B+C)		**(1 324 479)**	**(582 882)**
Effects of exchange rate changes on cash and cash equivalents		(18 827)	(24 107)
Cash and cash equivalents at the beginning of the reporting period		5 927 201	6 534 190
Cash and cash equivalents at the end of the reporting period	42	**4 583 895**	**5 927 201**

Notes presented on pages 9 – 90 constitute an integral part of these Financial Statements.

Explanatory Notes to the Financial Statements

1. Information Regarding BRE Bank SA

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

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

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

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 in Polish and foreign banks, and can possess foreign exchange assets and trade in them.

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

As at 31 December 2011 the headcount of BRE Bank SA amounted to 4 729 FTEs (Full Time Equivalents)– 5 683 persons (31 December 2010: 4 416 FTEs – 5 300 persons).

The Management Board of BRE Bank SA approved these Financial Statements for issue on 2 March 2012.

2. Description of Relevant Accounting Policies

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

2.1 Accounting Basis

These Financial Statements of the BRE Bank SA have been prepared for the 12 month period ended 31 December 2011.

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

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

The Bank also prepares Consolidated Financial Statements in accordance with IFRS. BRE Bank SA Group Consolidated Financial Statements for the year 2011 were published on 2 March 2012.

2.2 Interest Income and Expenses

All interest income on financial instruments carried at amortised cost using the effective interest rate method are recognised in the Income Statement.

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

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

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

Interest income, including interest on loans, is recognised in the Income Statement, and on the other side in the Statement of Financial Position as receivables from banks or from other customers.

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

2.3 Fee and Commission Income

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

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

2.4 Financial Assets

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

<u>Financial assets valued at fair value through the Income Statement</u>

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

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

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

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

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

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

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

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

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

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

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

Loans and Receivables

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

Held to Maturity Investments

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

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

Available for Sale Investments

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

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

Regular way purchases and sales of financial assets at fair value through the Income Statement, held to maturity and available for sale are recognised on the settlement date – the date on which the Bank delivers or receives the asset. Changes in fair value in the period between trade and settlement date with respect to assets carried at fair value is recognised in Income Statement or in Other Comprehensive Income. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs, except for financial assets at fair value through the Income Statement. Financial assets are excluded from the Statement of Financial Position when the rights to receive cash flows from the financial assets have expired or have been transferred and where the Bank has transferred substantially all risks and rewards of ownership.

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

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

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

Investments in subsidiaries and associates

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

2.5 Offsetting Financial Instruments

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

2.6 Impairment of Financial Assets

Assets Carried at Amortised Cost

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

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

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

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

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

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

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

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

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

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

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

Assets Measured at Fair Value

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

Renegotiated agreements

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

2.7 Financial Guarantee Contracts

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

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

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

2.8 Cash and Cash Equivalents

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

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

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

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

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

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

Securities borrowed by the Bank are not recognised in the financial statements, unless they are sold to third parties. In such case the purchase and sale transactions are recorded with 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.

2.10 Derivative Financial Instruments and Hedge Accounting

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

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

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

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

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

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

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

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

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

Fair Value Hedges

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

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

Cash Flow Hedges

The effective part of the fair value changes of derivative instruments designated and qualifying as cash flow hedges is recognised in other comprehensive income. The gain or loss concerning the ineffective part is recognised in the Income Statement of the current period.

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

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

Derivative Instruments Not Fulfilling the Criteria of Hedge Accounting

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

The Bank holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

2.11 Gains and Losses on Initial Recognition

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

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

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

2.12 Borrowings and deposits taken

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

2.13 Intangible Assets

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

<u>Computer software</u>

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

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life. Computer software directly connected with the functioning of specific information technology hardware is recognised as 'Tangible fixed assets'.

Development costs

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

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

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

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

2.14 Tangible Fixed Assets

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

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

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

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

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

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

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

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

Gains and losses on account of the disposal of fixed assets are determined by comparing the proceeds from their sale against their carrying value in the Statement of Financial Position and they are recognised in the Income Statement.

2.15 Non-Current Assets Held for Sale and Discontinued Operations

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

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

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

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

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

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

2.16 Deferred Income Tax

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

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

The main temporary differences arise on account of impairment write-offs recognised in relation to the loss of value of credits and granted guarantees of repayment of loans, 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 provisions netted against each other separately for each country where the Bank conducts its business and is obliged to settle corporate income tax. Such assets and provisions may be netted against each other if the Bank possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

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

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

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

2.17 Assets Repossessed for Debt

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

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

2.18 Prepayments, Accruals and Deferred Income

Prepayments are recorded if the respective expenses concern the months succeeding the month in which they were incurred. Prepayments are presented in the Statement of Financial Position under 'Other assets'.

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

2.19 Leasing

<u>BRE Bank SA as a Lessee</u>

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

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

2.20 Provisions

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

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

2.21 Retirement Benefits and Other Employee Benefits

<u>Retirement Benefits</u>

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

<u>Benefits Based on Shares</u>

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

2.22 Equity

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

Registered share capital

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

- Own Shares

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

Share premium

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

- Share Issue Costs

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

Retained earnings

Retained earnings include:

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

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

Moreover, other reserve capital comprises valuation of employee options.

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

Other components of equity

Other components of equity result from:

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

2.23 Valuation of Items Denominated in Foreign Currencies

Functional Currency and Presentation Currency

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

Transactions and Balances

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

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

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

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

2.24 Trust and Fiduciary Activities

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

2.25 New Standards, Interpretations and Amendments to Published Standards

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

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

<u>Published standards and interpretations which have been issued and are binding for the Bank for annual periods beginning on 1 January 2011:</u>

Standards and interpretations endorsed by the European Union:

- *IFRIC 14 (Amended), Prepayments of a Minimum Funding Requirement*, issued by the International Financial Reporting Interpretations Committee on 26 November 2009, binding for annual periods beginning on or after 1 January 2011. The interpretation was endorsed by the European Union on 19 July 2010.

  The interpretation provides guidance on recognition of early payments of contributions to cover minimum funding requirements as an asset in the entity making the payments.

  The Bank is of the opinion that the amendment to this interpretation had no significant impact on the financial statements in the period of its initial application.

- *IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*, issued by the International Financial Reporting Interpretations Committee on 26 November 2009, binding for annual periods beginning on or after 1 July 2010. The interpretation was endorsed by the European Union on 23 July 2010.

  The interpretation clarifies the accounting principles applicable when an entity renegotiates the terms of a financial liability and the liability is settled through the issue of equity instruments addressed to the creditor. The interpretation requires that equity instruments be measured at their fair value and that the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued is recognized as profit or loss.

  The Bank is of the opinion that the application of this interpretation had no significant impact on the financial statements in the period of its initial application.

- *IFRS 1 (Amended), Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters*, published by the International Accounting Standards Board on 28 January 2010, binding for annual periods beginning on or after 1 July 2010. The standard was endorsed by the European Union on 30 June 2010.

  The amendments introduce additional exemptions for first-time adopters of IFRS from the disclosures required by the amended IFRS 7, issued in March 2009, relating to fair value measurements and liquidity risk.

  The Bank is of the opinion that the amendment to this standard had no significant impact on the financial statements in the period of its initial application.

- *IAS 24 (Amended), Related Party Disclosures*, published by the International Accounting Standards Board on 4 November 2009, binding on a retrospective basis for annual periods beginning on or after 1 January 2011. The standard was endorsed by the European Union on 19 July 2010.

The amendments simplify the disclosure requirements for government-related entities and clarify the definition of a related party by means of including in it additional entities, such as associates of the controlling shareholder and entities controlled or jointly controlled by members of key management personnel.

The Bank is of the opinion that the amendment to this standard had no significant impact on the financial statements in the period of its initial application.

- *IAS 32 (Amended), Classification of Rights Issues*, published by the International Accounting Standards Board on 8 October 2009, binding for annual periods beginning on or after 1 February 2010. The standard was endorsed by the European Union on 23 December 2009.

  The amendments pertain to the method for classification of rights issues (rights, options, warrants) denominated in a currency other than the functional currency of the issuer. The previous standard required that such rights issues be accounted for as derivative liabilities. The amendments state that if such rights issues meet specified conditions, they should be classified as equity regardless of the currency in which the exercise price is denominated.

  The Bank is of the opinion that the amendment to this standard had no significant impact on the financial statements in the period of its initial application.

- *The amendments to IFRS*, modifying 7 standards, were published by the International Accounting Standards Board on 10 May 2010; the majority of them are binding for annual periods beginning on or after 1 January 2011. The amendments were endorsed by the European Union on 18 February 2011.

  The amendments modify presentation, recognition and measurement, and introduce terminology and editing modifications.

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

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

Standards and interpretations endorsed by the European Union:

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

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

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

Standards and interpretations not yet endorsed by the European Union:

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

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

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

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

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

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

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

  The Bank is of the opinion that the application of the standard on recognition and measurement of financial instruments will have an impact on the presentation of these instruments in the financial statements. The real impact of the IFRS 9 application will be possible to estimate after the publication of the final, complete version of the standard.

- *IFRS 10, Consolidated Financial Statements*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013.

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

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

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

- *IFRS 11, Joint Arrangements*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013.

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

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

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

- *IFRS 12, Disclosure of Interests in Other Entities*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013.

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

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

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

- *IFRS 13, Fair Value Measurement*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013.

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

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

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

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

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

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

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

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

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

- *IAS 27, Separate Financial Statements*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013.

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

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

- *IAS 28, Investments in Associates and Joint Ventures*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013.

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

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

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

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

- *IAS 1, Presentation of Items of Other Comprehensive Income*, published by the International Accounting Standards Board on 16 June 2011, binding for annual periods beginning on or after 1 July 2012.

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

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

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

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

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

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

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

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

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

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

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

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

2.26 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 has introduced modifications to the manner of reflecting liabilities arising from cash funds of the Bank's clients in amount of PLN 269 104 thousand, which were subject to outgoing transfer orders submitted beyond hours enabling execution of the transfer the same day. This change has been introduced in order to reflect the economic nature of the funds in a better way.

Moreover, the Bank has introduced changes to the way of presenting receivables and liabilities arising from the Social Benefits Fund (SBF). In accordance with the legal nature of the funds, receivables and liabilities arising from SBF in amount of PLN 1 484 thousand, were removed from the report on the Bank's Statement of Financial Position.

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Additionally, the Bank ceased to present debt securities eligible for rediscounting at the Central Bank in a separate line in the Statement of Financial Position and present them within the item 'Loans and advances to customers'.

The restatement had no impact on the profit and equity in presented comparative data as at 31 December 2010.

All other data as at 31 December 2010 are comparable with data introduced in the current financial period so they were not adjusted.

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

Changes in the BRE Bank Statement of Financial Position as at 31 December 2010:

	31.12.2010/ 01.01.2011 before adjustments	presentation adjustments	31.12.2010/ 01.01.2011 after adjustments
Debt securities eligible for rediscounting at the Central Bank	3 686	(3 686)	-
Loans and advances to banks	3 764 172	(1 484)	3 762 688
Loans and advances to customers	51 662 336	3 686	51 666 022
Amounts due to customers	47 067 347	(269 104)	46 798 243
Other liabilities	573 450	267 620	841 070
Total assets	83 520 654	(1 484)	83 519 170
Total liabilities	76 989 696	(1 484)	76 988 212

2.27 Business segments

Data concerning business segments were presented in the Consolidated Financial Statements of BRE Bank SA Group for the year 2011, prepared in compliance with the International Financial Reporting Standards and published on 2 March 2012.

3. Financial Risk Management

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

3.1. Division of responsibilities in the risk management process

<u>Authorities of the Bank:</u>

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

<u>Directors of the Bank:</u>

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

<u>Committees:</u>

1. **Risk Committee of BRE Bank SA** is responsible, in particular, for establishing the principles of identifying, measuring, monitoring and controlling risk and for setting limits on each risk type.

2. **Assets and Liabilities Committee of the BRE Bank Group (ALCO)** is responsible, in particular, for developing the Bank's strategy on the structure of assets and liabilities, obligations, and off-balance sheet items, with the aim of optimizing funds allocation.

3. **Capital Management Committee** is responsible, in particular, for managing capital, which includes also issuing recommendations for the Management Board of the Bank on measures in respect of capital management, capital level and structure, and on increasing the effectiveness of capital utilization, and recommendations on the Bank's internal procedures related to capital management and capital planning.

4. **Data Quality Management Committee for the purpose of calculating the Bank's regulatory capital requirement (AIRB)** is responsible, in particular, for creating conditions for the implementation and development of an effective system for managing the quality of credit portfolio data in order to ensure compliance with the requirements of the advanced internal ratings based approach (AIRB), used to calculate the capital requirement for credit risk. AIRB methodology is used for internal purposes.

5. **Credit Committee of the Bank's Management Board (KKZB)** is responsible, in particular, for:
   - making credit decisions concerning companies in accordance with the decision-making matrix, depending on the rating and amount of exposure,
   - making decisions on debt conversion into shares, stocks, etc.,
   - making decisions on taking over properties in return for debts,
   - making any other decisions going beyond the jurisdiction of the lower-level decision-making authorities.

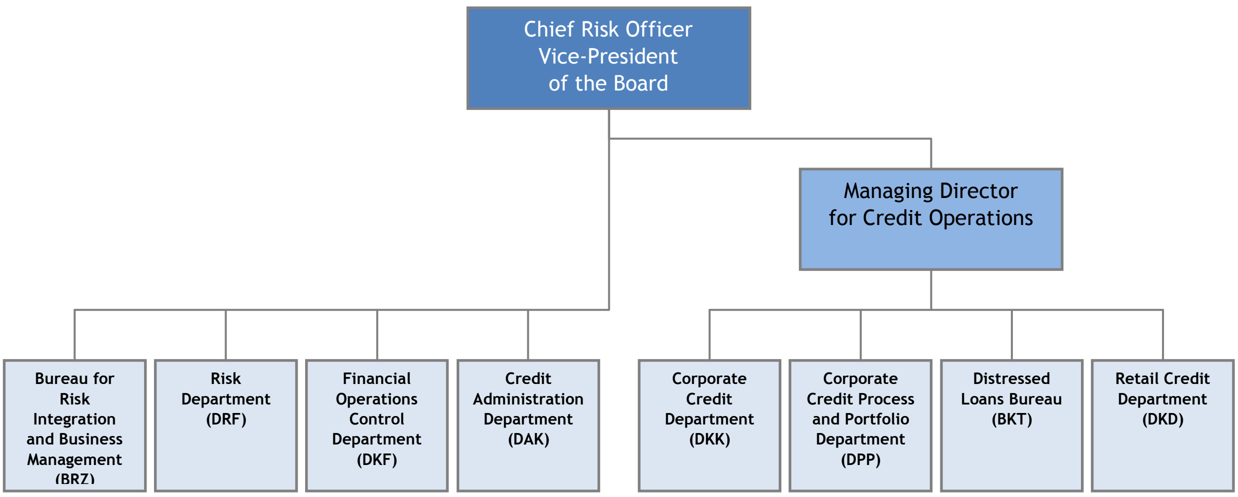
6. **Credit Policy Committee of the Retail Banking (KPK)** is responsible, in particular, for:
   - approving or amending the decision-making methodology for granting credit products of the retail banking,
   - making decisions on admitting credit products to or withdrawing them from sale,
   - monitoring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

7. **Credit Committee of the Retail Banking (KKD)** is responsible, in particular, for:
   - making individual credit decisions concerning retail clients in the case when the exposure to such a client exceeds a specified threshold set for this decision-making level,
   - making decisions on granting decision-making powers to individual employees of the Bank, or on changing or revoking those powers.

Other units:

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

The function of management at the strategic level and the function of control of credit, market, liquidity and operational risks is performed in the Risk Area supervised by the Chief Risk Officer. The chart below presents the organisational structure of this area.



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

Corporate Credit Department (DKK):

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

Credit Administration Department (DAK):

- administering credit risk in the corporate banking and Private Banking area.

Corporate Credit Process and Portfolio Department (DPP):

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

Distressed Loans Bureau (BKT):

- controlling and managing credit risk in the scope of exposures subject to supervision, restructuring and debt collection carried out by the Debt Restructuring and Collection Department.

Retail Credit Department (DKD):

- defining and updating the credit policy principles in the retail banking area, assessing risk, making credit decisions concerning retail clients, on the domestic and foreign markets.

Risk Department (DRF):

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

Financial Operations Control Department (DKF):

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

Bureau for Risk Integration and Business Management (BRZ):

- coordinating and carrying out projects/cases connected with the requirements of consolidated supervision imposed by the main shareholder in the area supervised by the Chief Risk Officer (CRO) arising from the strategy and risk management policy at the Commerzbank Group.

2. **Organizational units outside the Risk Area** are in charge of the management and control of other risks identified in the BRE Bank SA Group's activity (business risk, strategic risk, capital risk, compliance risk and reputational risk).

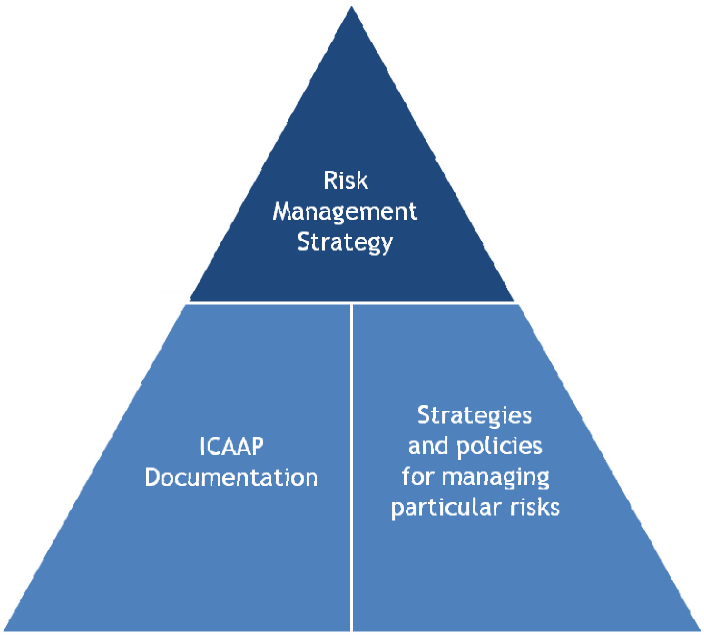
3. **Business units** take part in managing particular risk types by means of taking risk into account in business decisions, in preparing the product offer and in the client acquisition process. The units assume the ultimate responsibility for taking risk within the set limits and for developing the Bank's results.

<u>Control units:</u>

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

3.2. Structure of the risk management process documentation

The risk management strategy implemented by the Bank is documented accordingly. The documentation of the risk management strategy is an important component of the documentation of the internal capital adequacy assessment process at the Bank and the Group (ICAAP).



<u>ICAAP documentation:</u>

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

The document describes the internal capital adequacy assessment process taking place in the BRE Bank Group and the course of the individual process components, including the identification and assessment of risk relevance, the principles of calculating and aggregating internal capital, the stress tests, and the principles of reviewing the process.

2. **Documentation establishing the principles of determining capital for hard to measure risks monitored by means of the risk card**

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

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

Strategies and policies for managing particular risk types:

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

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

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

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

3. **Strategy and Policy of Market Risk Management in BRE Bank SA**

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

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

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

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

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

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

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

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

3.3 Management of Different Types of Risk

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

- **The Retail Credit Department** (DKD) is responsible for management of credit risk in retail banking on the domestic markets and in foreign branches (Czech Republic and Slovakia). The main operational responsibilities of DKD include: credit risk rating and credit decision-making for individual exposures and transactions, supervision over the automated credit process, administration of credit agreements concluded with retail clients, monitoring and collecting loan receivables. Furthermore, DKD develops rules of credit risk rating and calculation of retail client exposure limits and is responsible for their implementation in tools supporting the credit decision-making process.
- **The Corporate Credit Department** (DKK) is responsible for management of the quality of the corporate loans portfolio of the Bank and subsidiaries of BRE Bank Group. DKK's key functions include: decisions on and recommendations for individual exposures and transactions of companies and groups of companies which are clients of the Bank, assessment of and recommendations for large exposures accepted by subsidiaries of BRE Bank Group, monitoring the structure of exposures in the risk portfolio, in particular by sector, and the related concentration risk, calculation of the clients' probability of default (PD) and expected loss (EL) ratings for banks and international financial institutions and related exposure limits and monitoring their utilisation, management of credit risk of exposures by country (setting and monitoring the utilisation of limits). The more extensive scope of credit risk controlling functions at Group level is performed by a dedicated organisational unit: the BRE Bank Group Credit Risk Bureau at the Corporate Credit Department. The main functions of the Bureau include: analysis of credit risk of new exposures of subsidiaries, monitoring credit risk of the largest exposures, analysis of the quality of the risk portfolio, participation in development and modification projects of the risk management strategy, policies and rules in subsidiaries, supervision over plans and methodologies of establishing and releasing provisions, as well as

audits of the largest exposures for all liabilities of the Group. Similar functions of the restructured exposures and subject to a restructuring meets the Distressed Loans Bureau (BKT).

- **The Corporate Credit Process and Portfolio Department** (DPP) is responsible for organisation and supervision of the credit process in the corporate area as well as development, implementation and supervision of the application of the rules of operation of the data quality management system in the corporate area. The Department creates the analysis of corporate credit risk portfolio as well as analysis and reports on the course and effectiveness of the credit process in this area.
- **The Credit Administration Department** (DAK) is responsible for administration of credit risk in the corporate banking area. In particular, DAK is responsible for administration of credit risk provisions and monitoring of concentration risk of large exposures. The Department prepares analyses and reports on lending activities and the risk portfolio for internal and external purposes.
- **The Risk Department** (DRF) is responsible for controlling and evaluating credit risk and monitors its volatility and concentration on portfolio basis. The Department is responsible for the construction and development of scoring and rating models used in the credit risk assessment process and applied in decision-making when approving credit exposures both in the corporate and the retail banking area.

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

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

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

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

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

- **The Settlement and Custody Department** (DRP) – is responsible for operational supervision over cash flows in accounts.
- **The Treasury Department** (DS) is responsible for providing necessary funds for settlements in the Bank's accounts, implementing strategic recommendations made by the BRE Bank Group Assets and Liabilities Management Committee, calibrating the structure of the future cash flows within the limits imposed by the BRE Bank Risk Committee, maintaining defined securities portfolios kept to secure liquidity within the limits imposed by the BRE Bank Risk Committee and the BRE Bank Assets and Liabilities Management Committee. The Treasury Department is supported in these functions by the Financial Institutions Department, in relation to funding from domestic and foreign banks and international financial institutions, and the Financial Markets Department, in relation to issues of the Bank's debt securities.
- **The Risk Department** (DRF) is in charge of controlling and monitoring financial liquidity risk of the Bank on the strategic level and reporting to the Chief Risk Officer and to the BRE Bank Risk Committee. The Department monitors financial liquidity on a daily basis using methods based on cash flow analysis. Liquidity risk measurement is based on the regulatory model and an internal model, which has been established taking into consideration the specific character of the Bank, the volatility of the deposit base, the level of funding concentration, and the projected development of particular portfolios.

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

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

3.4 Credit risk management

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

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

3.4.2 Collateral accepted

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

a) mortgage on real estate,
b) cession of receivables (cession of rights),
c) registered pledge,
d) transfer of ownership to collateral,
e) monetary deposit,

f) guarantee deposit or cash blocked,
g) bill of exchange,
h) guarantees and warranties,
i) a letter of comfort issued by a company whose reliability and fairness is known on the international financial markets.

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

a) for collateral on real estate:
  - type of real estate
  - legal status
  - designation in the local land development plan
  - technical description of buildings and structures
  - description of land
  - situation on the local market
  - other price-making factors

b) for collateral on plant and machinery:
  - general application and function in the technological process / possibilities of alternative use
  - technical description and parameters
  - exploitation and maintenance conditions
  - availability of similar devices and machinery
  - current market situation
  - forecasts of demand for specific machinery in connection with the situation in the industrial sectors applying such machinery

c) for collateral on inventories:
  - formal and legal requirements related to specific products (e.g., a security certificate 'CE' for electrical equipment, permit of UDT (the Office of Technical Inspection) for appliances which operate under pressure, etc.)
  - saleability
  - warehousing conditions required (e.g., for paper materials sensitive to humidity, precise materials sensitive to pollution, etc.)
  - security and insurance of both the warehouse and the goods stored therein.

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

Collateral on securities resulting from buy-sell-back transactions. The Bank accepts collateral in the form of securities in connection with the buy-sell-back transactions concluded. Depending on the agreement, such collateral may be sold or repledged.

Hedge Accounting. Starting from 2011, the Bank has been applying fair value hedge accounting. The interest rate risk is the only type of risk hedged under hedge accounting. At the end of each month, the Bank evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk. The Bank hedges against the risk of change in fair value of a part of the portfolio of mortgage loans for a fixed interest rate granted by foreign branches of BRE Bank in Czech Republic. The hedged risk results from changes in interest rates. The hedged item is a part of the portfolio of mortgage loans for a fixed interest rate denominated in CZK and granted by foreign branches of BRE Bank in Czech Republic. IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

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Adjustment to the fair value of the hedged assets and the valuation of hedging instruments is recognised in the profit and loss account in the income from trading operation.

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

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

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

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

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

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

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

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

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

3.4.4.1 Corporate portfolio

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

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

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

3.4.4.2 Retail portfolio

For the purpose of calculating the provisions, the retail exposures are classified into homogeneous portfolios with similar risk specificity. For each portfolio risk parameters are determined: probability of default (PD) and the value of potential loss so arisen (LGD). Values of these parameters are calculated based on historical data for each portfolio and depend on overdue period. Then, the risk parameters and the amortised cost of the exposures are used in the calculation of the retail portfolio LLP.

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

3.4.5 Measurement of Impairment

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

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

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

The list of definite loss events:

1. The number of days from which any exposure being the obligor's credit obligation becomes overdue is above 90 days and the overdue amount exceeds PLN 3,000 for corporate clients and PLN 500 for clients of Private Banking.
2. The Bank has sold exposures with a significant economic loss related to the change of the debtor creditworthiness.
3. The Bank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:
   a) reduction of financial obligations by remitting part of these obligations, or
   b) postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.
4. Filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.
5. Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.
6. Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.
7. Client's fraud.

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

   a) governments and central banks,
   b) banks,

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c) corporations, including specialised lending,
d) local government units,
e) insurers,
f) pension fund managing companies, investment fund managing companies.

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

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

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

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

Restructured and fraudulent contracts are identified based on an individual analysis while other cases of defaulted loans are automatically marked by the system. The methodology of impairment calculation is based on portfolio approach. The exception are selected mortgage exposures in case of which there occurred events determining the classification of exposure to individual analysis, in accordance with the applicable procedures of the Bank.

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

Sub-portfolio	31.12.2011		31.12.2010	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	41.04	0.08	5.28	0.40
2	24.76	0.10	55.29	0.05
3	12.07	0.24	10.09	0.23
4	10.10	0.57	12.58	0.69
5	1.46	1.51	4.37	1.83
6	0.16	3.01	0.31	3.42
7	0.41	14.77	0.72	10.68
8	5.22	0.63	5.99	-
Default category	4.78	51.52	5.37	55.00
Total	**100.00**	**2.73**	**100.00**	**3.28**

65.80% of the loans and advances portfolio (for balance sheet and off-balance sheet exposures) is categorised in the top two grades of the internal rating system (31 December 2010: 60.57%);

In order to reflect the credit risk embedded in derivative instruments Bank uses correction to fair value that takes into account the element of credit risk of the counterparty. Adjustment due to credit risk of contractor is based on expected loss until maturity of the contract and is calculated on customer level. The value of the adjustment affects P&L and is reported as a correction to the total value of derivatives.

The table below presents the percentage of the Bank's derivatives, which constitute the component of financial assets and coverage of their fair value with impairment provision for each of the Bank's internal rating categories (description of the rating model is given above).

Sub-portfolio	31.12.2011		31.12.2010	
	Fair value	Provision coverage (%)	Fair value	Provision coverage (%)
1	33.25	0.01	27.22	0.02
2	23.85	0.11	35.52	0.13
3	18.70	0.57	1.99	5.73
4	7.04	2.31	12.46	1.27
5	1.73	2.42	1.79	1.36
6	0.29	1.66	-	15.69
7	0.06	0.12	1.72	17.10
8	14.99	-	18.41	-
Default category	0.09	-	0.89	-
Total	**100.00**	**0.34**	**100.00**	**0.64**

3.4.6 Maximum Exposure to Credit Risk

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

3.4.7 Loans and Advances to Customers and Banks

Loans and advances to customers	31.12.2011		31.12.2010	
	exposure in PLN '000	share/coverage (%)	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	58 219 937	91.28	49 080 224	91.17
Past due but not impaired	2 758 563	4.33	1 948 856	3.62
Impaired	2 798 505	4.39	2 804 912	5.21
Total, gross	**63 777 005**	**100.00**	**53 833 992**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(2 113 013)	3.31	(2 167 970)	4.03
Total, net	**61 663 992**	**96.69**	**51 666 022**	**95.97**

The table below shows amounts due from banks:

Loans and advances to banks	31.12.2011		31.12.2010	
	exposure in PLN '000	share/coverage (%)	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	5 223 705	100.00	3 732 545	98.30
Past due but not impaired	-	-	-	-
Impaired	-	-	64 390	1.70
Total, gross	**5 223 705**	**100.00**	**3 796 935**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(1 027)	0.02	(34 247)	0.90
Total, net	**5 222 678**	**99.98**	**3 762 688**	**99.10**

The total impairment provision for loans and advances is PLN 2 114 040 thousand (as at 31 December 2010: PLN 2 202 217 thousand) of which PLN 1 930 957 thousand (as at 31 December 2010: PLN 2 014 346 thousand) represents provisions for loans and advances to customers and banks individually impaired and the remaining amount of PLN 182 056 thousand represents the portfolio provision (as at 31 December 2010: PLN 187 871 thousand). Further information on the impairment allowance for loans and advances to banks and to customers is provided in Notes 17 and 21.

91.29% of the loans and advances portfolio is considered to be neither past due nor impaired (31 December 2010: 91.17%);

In 2011, the amount of loans and advances granted to the Bank's customers increased by 18.5% compared to the end of the year 2010.

Loans and advances neither past due nor impaired

31 December 2011	Individuals			Corporate entities				Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including:	Current accounts	Term loans		Reverse repo / buy-sell-back transactions				
Sub-portfolio			housing and mortgage loans		corporate & institutional enterprises	medium & small enterprises					
1	589 056	27 825 770	27 588 173	58 187	18 157	112 302	-	505 591	-	29 109 063	5 223 705
2	1 479 983	4 285 616	1 659 808	859 503	3 153 825	989 620	-	1 621 423	-	12 389 970	-
3	1 108 757	410 861	105 765	826 148	3 318 782	1 064 191	-	384 133	-	7 112 872	-
4	74 013	-	-	1 415 780	1 046 375	2 498 271	-	268 564	-	5 303 003	-
5	-	-	-	216 761	15 951	440 284	-	22 240	-	695 236	-
6	-	-	-	8 571	1 502	34 766	-	-	-	44 839	-
7	-	-	-	19 503	10 005	37 190	-	-	-	66 698	-
8	6	-	-	741	1 052 374	754 337	1 153 508	-	480 790	3 441 756	-
Default category	69	8 225	2 932	20 235	-	27 971	-	-	-	56 500	-
Total	**3 251 884**	**32 530 472**	**29 356 678**	**3 425 429**	**8 616 971**	**5 958 932**	**1 153 508**	**2 801 951**	**480 790**	**58 219 937**	**5 223 705**

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31 December 2010	Individuals			Corporate entities				Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
Sub-portfolio	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions				
1	446 203	153 504	6 622	41 545	33 100	159 012	-	111 701	-	945 065	1 960 330
2	1 462 611	27 004 913	24 958 637	473 488	824 491	629 413	-	742 925	-	31 137 841	1 418 457
3	519 121	621 279	99 846	459 512	1 762 773	1 270 149	-	225 752	-	4 858 586	229 138
4	743 889	-	-	1 211 045	907 515	2 233 346	-	190 409	-	5 286 204	82 393
5	-	-	-	372 331	474 691	1 328 054	-	130 420	-	2 305 496	2 597
6	-	-	-	21 321	88 035	64 274	-	-	-	173 630	18 946
7	-	259	259	37 020	2 701	104 337	-	-	-	144 317	20 684
8	39	-	-	-	-	-	3 338 317	-	668 115	4 006 471	-
Default category	594	8 223	3 172	43 198	61 665	108 934	-	-	-	222 614	-
Total	3 172 457	27 788 178	25 068 536	2 659 460	4 154 971	5 897 519	3 338 317	1 401 207	668 115	49 080 224	3 732 545

Loans and advances past due but not impaired

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

31 December 2011	Individuals			Corporate entities				Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions				
Past due up to 30 days	292 020	978 968	763 266	40 401	1 111	123 050	-	7 667	-	1 443 217	-
Past due 31 - 60 days	30 048	259 369	217 357	9 420	-	29 003	-	-	-	327 840	-
Past due 61 - 90 days	62 982	233 475	152 781	26 348	-	664 701	-	-	-	987 506	-
Total	385 050	1 471 812	1 133 404	76 169	1 111	816 754	-	7 667	-	2 758 563	-

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

Loans and advances individually impaired

Loans and advances individually impaired amounted to PLN 867 548 thousand (as at 31 December 2010: PLN 854 956 thousand). Gross amounts of loans and advances individually impaired (i.e., before taking into consideration the cash flows from collateral held and expected repayments) are presented below by classes of assets, together with the corresponding fair value of collateral.

	Individuals			Corporate entities				Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions				
31 December 2011											
Loans and advances with impairment	496 134	510 259	344 066	375 487	569 332	845 916	-	-	1 377	2 798 505	-
31 December 2010											
Loans and advances with impairment	791 245	351 611	215 228	488 055	454 537	719 464	-	-	-	2 804 912	64 390

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

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Financial effect of collaterals

As at 31 December 2011	Gross amount	Provisions created	Provisions without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	5 223 705	(1 027)	(5 228)	4 201
Loans and advances to customers, including:	63 777 005	(2 113 013)	(3 342 946)	1 229 933
Loans to individuals:	38 645 611	(860 001)	(1 135 660)	275 659
- Current accounts	4 133 068	(523 086)	(547 735)	24 649
- Term loans, including:	34 512 543	(336 915)	(587 925)	251 010
housing and mortgage loans	30 834 148	(199 413)	(384 078)	184 665
Loans to corporate clients:	20 686 101	(1 249 414)	(2 195 449)	946 035
- Current accounts	3 877 085	(315 619)	(374 193)	58 574
- Term loans:	16 809 016	(933 795)	(1 821 256)	887 461
corporate & institutional enterprises	9 187 414	(337 438)	(374 342)	36 904
medium & small enterprises	7 621 602	(596 357)	(1 446 914)	850 557
Loans and advances to public sector	2 809 618	(3 598)	(11 837)	8 239
Total balance sheet data	69 000 710	(2 114 040)	(3 348 174)	1 234 134
Off-balance sheet data:				
Loan commitments and other commitments	13 422 886	(26 963)	(96 510)	69 547
Guarantees, banker's acceptances, documentary and commercial letters of credit	3 037 588	(3 943)	(20 211)	16 268
Total off-balance sheet data:	16 460 474	(30 906)	(116 721)	85 815

As at 31 December 2010	Gross amount	Provisions created	Provisions without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	3 796 935	(34 247)	(34 247)	-
Loans and advances to customers, including:	53 833 992	(2 167 970)	(3 195 272)	1 027 302
Loans to individuals:	33 597 904	(1 051 229)	(1 207 001)	155 772
- Current accounts	4 358 940	(817 237)	(826 470)	9 233
- Term loans, including:	29 238 964	(233 992)	(380 531)	146 539
housing and mortgage loans	26 200 903	(117 927)	(215 423)	97 496
Loans to corporate clients:	14 828 449	(1 111 707)	(1 977 890)	866 183
- Current accounts	3 147 515	(368 350)	(440 414)	72 064
- Term loans:	11 680 934	(743 357)	(1 537 476)	794 119
corporate & institutional enterprises	4 609 508	(167 278)	(335 400)	168 122
medium & small enterprises	7 071 426	(576 079)	(1 202 076)	625 997
Loans and advances to public sector	1 401 207	(5 034)	(10 381)	5 347
Total balance sheet data	57 630 927	(2 202 217)	(3 229 519)	1 027 302
Off-balance sheet data:				
Loan commitments and other commitments	11 026 611	(34 740)	(67 401)	22 365
Guarantees, banker's acceptances, documentary and commercial letters of credit	2 463 498	(4 638)	(16 062)	11 424
Total off-balance sheet data:	13 490 109	(39 378)	(83 463)	33 789

Other financial assets

	31.12.2011	31.12.2010
Gross other financial assets, including:	207 265	219 611
- Not past due	198 110	215 539
- Past due over 90 days	9 155	4 072
- Provisions for impaired assets (negative amount)	(15 619)	(6 800)
Net other financial assets (Note 27)	191 646	212 811

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3.4.8 Debt Instruments: Treasury Bonds and Other Eligible Debt Securities

31 December 2011 Rating	Trading securities and pledged assets			Investment debt securities and pledged assets	Total
	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	-	-
AA- to AA+	-	-	115 769	499 331	615 100
A- to A+	928 520	148	110 508	19 911 802	20 950 978
BBB+ to BBB-	-	-	187 097	262 697	449 794
BB+ to BB-	-	-	172 325	-	172 325
B+ to B-	-	-	12 275	-	12 275
Lower than B-	-	-	-	2	2
Unrated	-	-	150 156	-	150 156
Total	**928 520**	**148**	**748 130**	**20 673 832**	**22 350 630**

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

96.49% of the investments in debt securities is rated at least on A- credit rating (31 December 2010: 95.41%).

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

3.4.9 Repossessed Collateral

The Bank classifies repossessed collaterals as assets repossessed for debt and measures them in accordance with the adopted accounting policies described in Note 2.17. Repossessed collaterals classified as assets held for sale shall be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified by the Restructuring and Collection Department for individual types of repossessed collaterals. The policy of the Bank is to sell repossessed assets. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Bank's urgent need, and must each time be approved by the Management Board. In 2011, the Bank did not have any repossessed collaterals that were difficult to sell.

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

Geographic concentration risk

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

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

Sector concentration risk

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

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

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

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

The tables below present the structure of concentration of BRE Bank exposures in particular business sectors.

The structure of concentration of carrying amounts of exposure of BRE Bank SA

No.	Sectors	Principal exposure (in PLN million)	%	Principal exposure (in PLN million)	%
		31.12.2011		31.12.2010	
1.	Household customers	38 645 611	60.59%	33 597 905	62.41%
2.	Leasing and renting	2 803 521	4.40%	1 521 166	2.83%
3.	Public administration	2 243 161	3.52%	1 297 175	2.41%
4.	Liquid fuels and natural gas	1 911 876	3.00%	931 103	1.73%
5.	Real estate management	1 401 232	2.20%	1 063 495	1.97%
6.	Building industry	1 072 706	1.68%	872 600	1.62%
7.	Financial agencies	997 813	1.56%	424 326	0.79%
8.	Metals	917 646	1.44%	962 531	1.79%
9.	Transport and travel agencies	840 325	1.32%	616 527	1.14%
10.	Management, consulting, advertising	762 104	1.19%	553 070	1.03%
11.	Wood and furniture	710 255	1.11%	854 057	1.59%
12.	Power industry and heat engineering	705 033	1.11%	449 742	0.84%
13.	Motorization	661 301	1.04%	538 105	1.00%
14.	Wholesale trade	635 155	1.00%	564 578	1.05%
15.	Building materials	530 042	0.83%	439 804	0.82%
16.	Meat processing industry	528 178	0.83%	474 263	0.88%
17.	Telecommunication	525 987	0.82%	210 531	0.58%
18.	Chemistry and plastics	512 059	0.80%	438 829	0.82%
19.	Household goods	495 326	0.78%	468 155	0.87%

In 2011, the total exposure of the Bank in the above sectors (excluding household customers) amounts to 28.63% (2010: 23.76%) of the credit portfolio. The risk of investing in these sectors (in a 3-point scale, i.e., small, medium, large) estimated by the Bank's credit risk advisors as at the end of 2011, was assessed as follows:

Leasing and renting	- medium
Public administration	- small
Liquid fuels and natural gas	- medium
Real estate management	- medium
Building industry	- medium
Financial agencies	- small
Metals	- large
Transport and travel agencies	- medium

Management, consulting, advertising	- n/a
Wood and furniture	- large
Power industry and heat engineering	- medium
Motorization	- large
Wholesale trade	- n/a
Building materials	- medium
Meat processing industry	- n/a
Telecommunication	- medium
Chemistry and plastics	- medium
Household goods	- n/a

In the previous year, the risk of investing was assesed in a 5-point scale, i.e., small, medium, increased, large and very large and assessed according to the study of The Gdańsk Institute for Market Economics as well as on the basis of recommendations of sector analysts from the Bank. As at the end of 2010 the risk of above sectors was as follows:

Leasing and renting	- medium
Public administration	- small
Liquid fuels and natural gas	- medium
Real estate management	- medium
Building industry	- large
Financial agencies	- small
Metals	- very large
Transport and travel agencies	- large
Management, consulting, advertising	- increased
Wood and furniture	- very large
Power industry and heat engineering	- medium
Motorization	- large
Wholesale trade	- medium
Building materials	- increased
Meat processing industry	- medium
Telecommunication	- medium
Chemistry and plastics	- medium
Household goods	- medium

Large exposures concentration risk

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

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

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

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

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

3.6 Market risk

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

The fundamental principle applied in the organisation of the market risk management in the Bank is the separation of risk control and monitoring functions from structures undertaking and operationally managing Bank's risk positions. Independent monitoring and controlling of the market risk exposition is performed by the Risk Department and the Financial Operations Control Department, both units in the Risk Area of the Bank under supervision of and reporting to the Chief Risk Officer, while the market risk positions are operationally managed by Financial Markets Department and Treasury Department reporting to the Management Board member in charge of investment banking.

In the course of Bank's operations, the Bank is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of the Bank's open positions in interest rate, foreign currency and equity instruments due to changes of the appropriate market risk factors, in particular interest rates, foreign exchange rates, stock share prices and indices, and implied volatilities of relevant options. The Bank identifies market risk primarily on the trading book positions valuated at fair value (either directly to market prices or via models) and as such may lead to losses reported in Bank's financial results. Furthermore, the Bank assigns market risk to its banking positions independently of the accounting rules of calculating financial results on these positions. Market risk measures applicable to interest rate banking book positions are based on net present value (NPV) models. Exposure to market risk is quantified by measurement of the value at risk (VaR), stress tests values, and scenario analyses based on markets behaviour during the past financial crises. Market risk, in particular interest rate risk of the banking book is also quantified by calculation of the earning at risk (EaR) measure for the banking portfolio.

In order to mitigate market risk exposure BRE Bank Risk Committee establishes limits for VaR figures and management action triggers limits.

Value at Risk

In 2011 Bank's market risk exposure, as measured by the value at risk (VaR, for one day holding period, at 97.5% confidence level), was in relation to the established limits on moderate level. The average value of Bank's VaR in 2011 was PLN 11.1 million, while the highest observed VaR in this period was PLN 14.2 million. The average utilisation of VaR limit for Financial Markets Department, whose positions consist primarily of trading book portfolios, amounted to 26%, while for the Treasury Department, whose positions are classified solely to the banking book, it was 64%. BRE VaR figures are driven mainly by positions sensitive to interest rates – i.e. by banking book T-bonds portfolios managed by Treasury Department and in the trading book managed by Financial Markets Department by interest rates exchange positions and to a lesser extent by portfolios of instruments sensitive to changes in exchange rates, such as currency exchange transactions and currency options.

BRE Bank VaR

PLN 000's	2011				2010			
	31.12.2011	Mean	Maximum	Minimum	31.12.2010	Mean	Maximum	Minimum
VaR IR	12 157	11 166	14 480	8 219	9 529	7 242	10 411	3 895
VaR FX	229	258	719	29	222	651	2 786	178
VaR EQ	3	30	160	0	25	184	906	2
VaR	**12 217**	**11 118**	**14 238**	**8 118**	**9 423**	**7 314**	**10 375**	**3 951**

Stress testing

Stress tests are additional measures of market risk, supplementing the measurement of the value at risk. The tests show the hypothetical changes in the current valuation of the Bank's portfolios, which would take place as a result of realization of the so-called stress scenarios – i.e. market situations at which the risk factors would reach specified extreme values in a one-day period. The Bank applies two methods for carrying out stress tests: in one, the scenarios are composed of large changes in risk factors - perfectly correlated and having the same magnitude in each risk factor group, and in the other, the scenarios of changes in risk factors have been constructed on the basis of large changes in market parameters observed during past market crisis situations.

The values of the stress tests calculated by the second method are subject to the limits treated as the management action triggers. The average utilization of these limits in 2011 was 83% (PLN 103.6 million) – in 2010 was 49% (PLN 59.2 million) for the Treasury Department portfolio and 19% (PLN 14.3 million) – in 2010 was 17% (PLN 12.9 million) for Financial Markets Department portfolio. Among scenarios used in these tests, the highest potential loss was due to large changes of interest rates (mostly PLN rates). For the scenario of 15% overnight increase of interest rates, average potential loss on BRE portfolios was PLN 112.1 million. Realization of such scenario, would impact mostly (i.e. due to change in mark-to-market value of debt instruments of Treasury Department having accounting category available for sale) the Bank's funds, and to lesser extend would impact Bank's financial results. For this scenario the average potential loss in 2011 on Treasury Department portfolio was PLN 102.1 million.

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The average value of a stress test (based on observed crisis situations in the past) in 2011 was for the Financial Markets Department portfolio - PLN 14.6 million (in 2010 – PLN 11.7 million), and for the Treasury Department - PLN 102.4 million (in 2010 – PLN 72 million).

3.7 Currency Risk

The Bank is exposed to changes in currency exchange rates. The following tables present the exposure of the Bank to currency risk as at 31 December 2011 and 31 December 2010. The tables present assets and liabilities of the Bank at balance sheet carrying amount, for each currency:

31.12.2011	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	929 202	57 240	9 160	118	1 729	34 632	1 032 081
Loans and advances to banks	1 908 024	2 399 099	703 524	37 093	28 983	145 955	5 222 678
Trading securities	1 187 489	-	3 846	-	-	-	1 191 335
Derivative financial instruments	1 397 947	71 353	24 603	1 355	-	8 762	1 504 020
Loans and advances to customers	24 880 859	8 878 153	2 352 442	23 985 607	49 251	1 517 680	61 663 992
Hedge accounting adjustments related to fair value of hedged items	-	-	-	-	-	1 924	1 924
Investment securities	16 533 018	351	7 991	-	-	536 437	17 077 797
Pledged assets	4 338 332	-	-	-	-	-	4 338 332
Investments in subsidiaries	545 406	994	-	-	-	30	546 430
Intangible assets	388 763	377	-	-	-	667	389 807
Tangible fixed assets	524 114	6 956	-	-	-	11 340	542 410
Other assets, including tax assets	370 451	6 386	(13)	1 799	14	5 989	384 626
Total assets	53 003 605	11 420 909	3 101 553	24 025 972	79 977	2 263 416	93 895 432
LIABILITIES							
Amounts due to other banks	2 776 786	2 016 202	1 210 298	19 183 950	105	93 828	25 281 169
Derivative financial instruments and other trading liabilities	1 762 032	66 678	22 743	638	-	5 280	1 857 371
Amounts due to customers	42 467 866	7 302 770	1 402 270	59 852	98 474	2 687 403	54 018 635
Subordinated liabilities	-	-	-	3 456 200	-	-	3 456 200
Other liabilities including tax liabilities	1 264 276	204 690	75 363	4 361	2 768	47 389	1 598 847
Provisions	59 991	1 650	10 590	-	20	53	72 304
Total liabilities	48 330 951	9 591 990	2 721 264	22 705 001	101 367	2 833 953	86 284 526
Net on-balance sheet position	4 672 654	1 828 919	380 289	1 320 971	(21 390)	(570 537)	7 610 906
Loan commitments and other commitments	12 268 330	891 562	99 528	-	6 806	156 660	13 422 886
Guarantees, banker's acceptances, documentary and commercial letters of credit	2 226 067	558 923	141 826	-	53	110 719	3 037 588

31.12.2010	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	2 246 879	38 595	5 577	117	469	49 035	2 340 672
Loans and advances to banks	1 360 394	1 734 630	304 095	2 020	14 266	347 283	3 762 688
Trading securities	1 729 667	1 100	263	-	-	-	1 731 030
Derivative financial instruments	1 038 838	99 766	62 728	3 632	-	16 601	1 221 565
Loans and advances to customers	21 876 711	5 107 488	1 511 968	21 864 363	26 121	1 279 371	51 666 022
Investment securities	19 100 913	80 560	14 101	-	-	-	19 195 574
Pledged assets	1 828 724	-	-	-	-	-	1 828 724
Investments in subsidiaries	427 345	37 959	-	-	-	26 457	491 761
Intangible assets	378 581	370	-	-	-	1 030	379 981
Tangible fixed assets	514 663	7 517	-	-	-	12 270	534 450
Other assets, including tax assets	353 142	5 341	22	297	10	7 891	366 703
Total assets	50 855 857	7 113 326	1 898 754	21 870 429	40 866	1 739 938	83 519 170
LIABILITIES							
Amounts due to the Central Bank	-	79	-	-	-	-	79
Amounts due to other banks	2 997 018	2 178 680	1 126 648	18 578 614	2	-	24 880 962
Derivative financial instruments and other trading liabilities	1 255 071	59 520	39 939	1 687	-	5 690	1 361 907
Amounts due to customers	38 668 117	4 786 461	684 474	37 503	77 786	2 543 902	46 798 243
Subordinated liabilities	-	-	-	3 010 127	-	-	3 010 127
Other liabilities including tax liabilities	613 653	189 635	26 344	619	3 224	27 361	860 836
Provisions	67 424	3 490	4 875	-	19	250	76 058
Total liabilities	43 601 283	7 217 865	1 882 280	21 628 550	81 031	2 577 203	76 988 212
Net on-balance sheet position	7 254 574	(104 539)	16 474	241 879	(40 165)	(837 265)	6 530 958
Loan commitments and other commitments	10 050 146	726 950	118 902	81	4 319	126 213	11 026 611
Guarantees, banker's acceptances, documentary and commercial letters of credit	1 692 302	604 575	158 038	137	46	8 400	2 463 498

3.8 Interest Rate Risk

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

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

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

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

Interest income subject to risk

As at 31 December 2011 and 31 December 2010 a sudden, lasting and unfavourable shift change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income within 12 months after the year end date by the following amounts:

31.12.2011		31.12.2010	
in PLN million	currency	in PLN million	currency
35.06	PLN	35.83	PLN
2.19	EUR	4.56	EUR
4.50	USD	0.12	USD
18.90	CHF	16.28	CHF
7.63	CZK	5.49	CZK

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

Stress tests

The Bank runs also other analyses of the changes of the economic value of the banking book under stress test scenarios. Under the stress test, which assumes unfavorable shift of the interest rates for respective currencies by 200 bps, the economic value of the banking book at the end of 2011 would change by PLN 375 million (2010: PLN 293 million), out of which PLN 333 million (2010: PLN 310 million) due to available for sale instruments. During the calculation of these values no correlation between currencies was taken into account and it was assumed that taking into account small interest rate values after the negative shift cannot become less than or equal to zero.

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

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31.12.2011	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	811 980	-	-	-	-	220 101	1 032 081
Loans and advances to banks	3 982 093	635 903	507 276	-	-	97 406	5 222 678
Securities (trading securities, investment securities and pledged assets)	12 358 644	465 491	5 424 295	3 071 699	1 030 501	803 264	23 153 894
Loans and advances to customers	56 497 985	2 832 249	1 415 089	431 506	4 093	483 070	61 663 992
Other assets and derivative financial instruments	245 036	286 796	677 217	260 730	14 497	341 176	1 825 452
Total assets	73 895 738	4 220 439	8 023 877	3 763 935	1 049 091	1 945 017	92 898 097
LIABILITIES							
Amounts due to other banks	12 016 415	13 126 153	132 096	-	-	6 505	25 281 169
Amounts due to customers	47 214 001	5 091 093	1 087 338	147 939	400 891	77 373	54 018 635
Subordinated liabilities	1 238 818	2 217 382	-	-	-	-	3 456 200
Other liabilities and derivative financial instruments	245 932	348 942	950 343	327 333	18 074	1 338 258	3 228 882
Total liabilities	60 715 166	20 783 570	2 169 777	475 272	418 965	1 422 136	85 984 886
Total interest repricing gap	13 180 572	(16 563 131)	5 854 100	3 288 663	630 126		

31.12.2010	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	2 173 759	-	-	-	-	166 913	2 340 672
Loans and advances to banks	2 671 553	630 608	415 383	-	-	45 144	3 762 688
Securities (trading securities, investment securities and pledged assets)	11 798 892	2 098 104	2 492 252	5 118 756	991 355	747 730	23 247 089
Loans and advances to customers	48 421 374	1 541 950	654 002	378 696	931	669 069	51 666 022
Other assets and derivative financial instruments	254 484	225 102	464 130	179 176	16 517	386 568	1 525 977
Total assets	65 320 062	4 495 764	4 025 767	5 676 628	1 008 803	2 015 424	82 542 448
LIABILITIES							
Amounts due to the Central Bank	79	-	-	-	-	-	79
Amounts due to other banks	10 980 806	13 302 957	595 685	-	-	1 514	24 880 962
Amounts due to customers	41 828 955	2 984 969	1 125 640	191 279	615 657	51 743	46 798 243
Subordinated liabilities	1 079 035	1 931 092	-	-	-	-	3 010 127
Other liabilities and derivative financial instruments	542 305	225 693	629 090	196 416	18 164	591 309	2 202 977
Total liabilities	54 431 180	18 444 711	2 350 415	387 695	633 821	644 566	76 892 388
Total interest repricing gap	10 888 882	(13 948 947)	1 675 352	5 288 933	374 982		

3.9 Liquidity Risk

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

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

- taking day-to-day business decisions and structuring the balance sheet in compliance with the Bank's strategy, which affects the current and future level of exposure to liquidity risk
- identifying, measuring, controlling and limiting liquidity risk.

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

Financial liquidity risk management at the strategic level in the Bank is executed by decisions of:

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

The responsibility for monitoring and managing liquidity at the operational level within the limits approved by the Risk Committee rests with the Treasury Department, which in cooperation with the Custody and Settlement Services Department is also responsible for the settlement liquidity area in the following areas:

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

The Risk Department, which monitors the liquidity situation on an ongoing basis, is responsible for measuring and controlling liquidity risk.
As part of liquidity risk management, a range of risk measures are being analysed. The basic measure reflecting the Bank's liquidity situation is the mismatch account of future cash flows, and the mismatch gap related with it. It covers all the assets, liabilities and off-balance sheet items of the Bank in all the currencies and time-bands set by the Bank. The aim to secure liquidity is realized by active management of the structure of future cash flows and in maintaining sufficient liquidity surplus, adequate to the liquidity needs arising from the Bank's activity and current market situation. To achieve that, the Bank holds a reserve of liquid assets, which secure its liquidity and may be pledged or sold at any time without any considerable loss in value. In accordance with KNF Resolution No. 386/2008 on establishing liquidity measures binding on banks, the Bank calculates the supervisory liquidity measures and maintains them above the set limits. Moreover, in line with the Resolution, the Bank conducts an in-depth analysis of long-term liquidity and sets internal limits on involvement in long-term assets. There are analysed the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts. Additionally, the Bank analyses the variability of the balance sheet and off-balance sheet items, in particular the open credit line facilities and current account overdraft facilities.

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

For the purpose of current monitoring of liquidity, the Bank establishes values of realistic, cumulated gap of cash flows misfit. The gap is calculated on the basis of contractual cash flows (Note 3.9.1). Cash flows in portfolios of non-banking customers' deposits, overdrafts and term loans are mainly amended. In the calculation of liquidity measures the Bank takes into account the possibilities of raising funds by selling or pledging the debt securities from Bank's Liquidity Reserves.

Value of realistic, cumulative gap of cash flows misfit (in PLN million)		
Time range	31.12.2011	31.12.2010
up to 3 working days	7 065	8 854
up to 7 calendar days	11 222	16 905
up to 15 calendar days	11 148	17 218
up to 1 month	12 339	18 765
up to 2 months	12 011	18 941
up to 3 months	12 280	19 125
up to 4 months	12 705	18 637
up to 5 months	13 073	18 948
up to 6 months	12 658	19 131
up to 7 months	12 741	19 231
up to 8 months	12 851	19 309
up to 9 months	11 851	19 370
up to 10 months	12 110	19 667
up to 11 months	12 134	19 361
up to 12 months	12 259	17 812

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

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

- In 2011, the level of liquidity and funding was adequate to the Bank's needs. The funding structure was stable. The biggest position in this structure was the current and term customers deposit portfolio. The second biggest source of funding, were long-term borrowings from banks (over 1 year), especially from Commerzbank (Note 28). The abovementioned borrowings and subordinated loans (Note 30) were the main sources of financing the mortgage loan portfolio in CHF. BRE Bank's dependency on money market funding was low (<2.5 % of total funding), and fully resulted from the market maker's operations on the interbank market.
- In order to secure funding in foreign currencies, the Bank uses mid-term and long-term instruments, including credit line facilities within Commerzbank Group and on the international market as well as the FX Swap transactions. Moreover, the Bank plans capital market issues. The amounts due in CHF have been decreasing gradually along with the gradual repayment of the portfolio of mortgage loans in CHF. The funds obtained from the repayment of those loans are used to reduce the Bank's debt in CHF to Commerzbank, its main shareholder.
- BRE Bank analyses liquidity risk on a daily basis. Moreover, taking into account the situation of banks in the euro zone and the sensitivity of liquidity risk to any potential market disturbances, the Bank has intensified its monitoring of the current liquidity situation. The Bank has increased the number and broadened the scope of analyses, especially stress test analyses, whose results have been presented and discussed during the ALCO, Risk Committee meetings and to Management Board Members
- During 2011, the Bank had been maintaining an appropriate liquidity surplus, adequate to the needs arising from the Bank's activity and current market situation, in the form of liquid treasury and money securities which may be pledged or sold at any time without any considerable loss in value.

3.9.1 Cash Flows from Transactions in Non-derivative Financial Instruments

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

Liabilities (by contractual maturity dates)	as at 31.12.2011					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to other banks	3 746 190	390 763	2 870 725	13 779 911	5 556 075	26 343 664
Amounts due to customers	46 477 359	4 195 978	1 178 653	399 722	2 433 267	54 684 979
Subordinated liabilities	1 243 173	7 028	19 887	105 652	2 238 497	3 614 237
Other liabilities	1 122 298	-	-	-	-	1 122 298
Total liabilities	52 589 020	4 593 769	4 069 265	14 285 285	10 227 839	85 765 178
Assets (by remaining contractual maturity dates)						
Total assets	15 494 994	3 293 601	19 519 701	26 308 742	46 859 778	111 476 816
Net liquidity gap	(37 094 026)	(1 300 168)	15 450 436	12 023 457	36 631 939	25 711 638

Liabilities (by contractual maturity dates)	as at 31.12.2010					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to the Central Bank	79	-	-	-	-	79
Amounts due to other banks	3 775 812	74 072	2 805 425	12 033 597	7 492 253	26 181 159
Amounts due to customers	42 012 328	2 577 968	1 267 229	339 072	1 323 278	47 519 875
Subordinated liabilities	1 083 167	6 779	19 045	101 181	1 976 002	3 186 174
Other liabilities	379 239	58	458	666	70	380 491
Total liabilities	47 250 625	2 658 877	4 092 157	12 474 516	10 791 603	77 267 778
Assets (by remaining contractual maturity dates)						
Total assets	19 980 485	3 113 249	13 528 460	23 209 714	37 487 849	97 319 757
Net liquidity gap	(27 270 140)	454 372	9 436 303	10 735 198	26 696 246	20 051 979

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

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

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

3.9.2 Cash Flows from Derivatives

Derivative financial instruments settled in net amounts

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

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

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

31.12.2011

Derivatives settled on a net basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	8 207	15 169	26 359	2 638	-	52 373
Overnight Index Swaps (OIS)	663	1 470	8 809	-	-	10 942
Interest Rate Swaps (IRS)	50 506	252 958	193 313	630 749	134 439	1 261 965
Cross Currency Interest Rate Swaps (CIRS)	-	820	696	199 777	-	201 293
Options	5 351	28 403	143 895	12 942	-	190 591
Futures contracts	-	1	-	-	-	1
Other	399	-	631	-	-	1 030
Total derivatives settled on a net basis	65 126	298 821	373 703	846 106	134 439	1 718 195

31.12.2010

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

Derivative financial instruments settled in gross amounts

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

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

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31.12.2011

Derivatives settled on a gross basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
-outflows	9 126 237	3 952 184	5 578 434	258 135	-	18 914 990
-inflows	9 143 395	3 886 216	5 593 960	271 787	-	18 895 358

31.12.2010

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

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

The amounts presented in the table above are nominal cash flows of currency derivatives, which have not been settled, while the Note 19 shows contractual nominal values of all open derivative transactions.

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

3.10 Fair Value of Financial Assets and Financial Liabilities

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

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

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

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

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

	31.12.2011		31.12.2010	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and advances to banks	5 222 678	5 222 676	3 762 688	3 762 687
Loans and advances to customers	61 663 992	61 671 225	51 666 022	51 657 238
Loans and advances to individuals	37 785 610	37 785 561	32 546 675	32 546 419
current accounts	3 609 982	3 609 982	3 541 703	3 541 703
term loans including:	34 175 628	34 175 579	29 004 972	29 004 716
- housing and mortgage loans	30 634 735	30 634 686	26 082 976	26 082 846
Loans and advances to corporate entities	20 590 195	20 600 965	17 055 059	17 047 652
current accounts	3 561 466	3 561 466	2 779 165	2 779 165
term loans	15 875 221	15 885 991	10 937 577	10 930 170
- corporate & institutional enterprises	8 849 976	8 861 073	4 442 230	4 436 751
- medium & small enterprises	7 025 245	7 024 918	6 495 347	6 493 419
reverse repo / buy sell back transactions	1 153 508	1 153 508	3 338 317	3 338 317
Loans and advances to public sector	2 806 020	2 802 532	1 396 173	1 395 052
Other receivables	482 167	482 167	668 115	668 115
Financial liabilities				
Amounts due to other banks	25 281 169	25 281 169	24 880 962	24 881 459
Amounts due to customers	54 018 635	54 057 175	46 798 243	46 773 739
Other financial liabilities	1 122 298	1 122 298	648 111	648 111

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

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

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

Available for sale financial assets. Listed available for sale financial instruments held by the Bank are valued at fair value. The fair value of debt securities unlisted at an active market is calculated by the use of zero-coupon curve (including credit spread). The model of spread determination in the case of illiquid commercial papers was extended in order to reflect the costs of unexpected loss component of the credit spread more precisely.

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

- Contracted borrowings;
- Deposits.

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

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

Credit risk exposures relating to off-balance sheet items. As at 31 December 2011, the fair value of financial guarantees amounted to PLN 4 711 thousand (31 December 2010: PLN 4 242 thousand). The fair values of other off-balance sheet items are equal to their carrying amounts.

The following table presents the hierarchy of fair values of financial assets and liabilities recognised in the Statement of Financial Position of the Bank at their fair values at 31 December 2011 and 31 December 2010.

31.12.2011	Including:	Level 1 Quoted prices in active markets for identical instruments	Level 2 Valuation techniques based on observable market data	Level 3 Value measurements for inputs that are not based on observable market data
Financial assets				
Trading securities	**1 676 798**	**928 668**	**-**	**748 130**
Debt*	1 676 798	928 668	-	748 130
Derivative financial instruments, including	**1 504 020**	**6 680**	**1 497 340**	**-**
Investment securities	**20 930 666**	**13 403 339**	**6 591 176**	**936 151**
Debt*	20 673 832	13 392 375	6 346 571	934 886
Equity	256 834	10 964	244 605	1 265
Total financial assets	**24 111 484**	**14 338 687**	**8 088 516**	**1 684 281**
Financial liabilities				
Derivative financial instruments	**1 857 371**	**296**	**1 857 075**	**-**
Total financial liabilities	**1 857 371**	**296**	**1 857 075**	**-**

* the amount includes pledged assets

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

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Assets Measured at Fair Value Based on Level 3	Debt trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	528 714	752 727	1 236
Gains and losses for the period:	2 913	19 192	36
Recognised in profit or loss	*2 913*	*4 392*	-
Recognised in other comprehensive income	-	*14 800*	*36*
Purchases	1 381 497	219 849	-
Redemptions	(2 244 062)	(261 000)	-
Sales	(11 058 124)	(1 147 831)	-
Issues	12 111 662	1 353 007	-
Settlements	25 530	(1 058)	-
As at the end of the period	748 130	934 886	1 265

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

* the amount includes pledged assets

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

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

Assets Measured at Fair Value Based on Level 3	Debt trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	767 872	661 251	115 755
Gains and losses for the period:	1 744	11 448	-
Recognised in profit or loss	*1 744*	-	-
Recognised in other comprehensive income	-	*11 448*	-
Purchases	525 058	3 511	-
Redemptions	(763 000)	(75 000)	-
Sales	(9 902 847)	(263 985)	-
Issues	9 888 697	415 148	-
Settlements	11 190	354	(11)
Transfers out of Level 3	-	-	(114 508)
As at the end of the period	528 714	752 727	1 236

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

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

Level 1

As at 31 December 2011, at level 1 of the hierarchy of values, the Bank presented the fair values of government bonds and T-bills held for trading in the amount of PLN 928 668 thousand (see Note 18) and the fair values of investment government bonds and T-bills in amount of PLN 13 358 760 thousand (31 December 2010 respectively: PLN 2 220 974 thousand, PLN 10 875 174 thousand). Level 1 also includes the fair value of local government bonds in amount of PLN 33 615 thousand (31 December 2010: PLN 33 503).

In 2010, Level 1 also included the fair values of bonds issued by foreign banks in the amount of PLN 94 346 thousand (31 December 2011: PLN 0)

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

Level 2

Level 2 of the hierarchy includes the fair values of monetary bills issued by NBP in the amount of PLN 6 346 571 thousand (31 December 2010: PLN 7 993 922 thousand) whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

In addition, Level 2 includes investment certificates issued by BRE GOLD FIZ Aktywów Niepublicznych in the fair value of PLN 235 258 thousand (31 December 2010: PLN 242 405 thousand).

The value of investment certificates was determined by Towarzystwo Funduszy Inwestycyjnych Ipopema SA, the fund manager of BRE GOLD FIZ Aktywów Niepublicznych, based on the valuation of PZU SA shares, which are the only significant asset of BRE GOLD FIZ Aktywów Niepublicznych.

Level 3

Level 3 of the hierarchy shows the fair values of commercial debt securities issued by local banks and companies (notes, mortgage bonds, certificates of deposit) in the amount of PLN 1 683 016 thousand (31 December 2010: PLN 1 281 441 thousand).

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

If credit spread used in the valuation increased by 20 basis points, the value of commercial debt securities would decrease by PLN 4.0 million.

3.11 Other Business

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

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

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

Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the Income Statement, the Bank assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows for portfolio of loans and advances which are impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 89.3 million or increase by PLN 116.0 million respectively. This estimation was performed for portfolio of loans and advances individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral.

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Fair value of derivative instruments

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

5. Net Interest Income

	Year ended 31 December	
	2011	2010
Interest income		
Loans and advances including the unwind of the impairment provision discount	2 385 276	2 003 143
Investment securities	827 931	793 803
Cash and short-term placements	103 735	112 666
Trading debt securities	91 820	54 511
Other	10 414	9 549
Total interest income	**3 419 176**	**2 973 672**
Interest expense		
Arising from amounts due to banks and customers	(1 483 106)	(1 386 512)
Other borrowed funds	(56 045)	(50 157)
Other	(5 675)	(4 151)
Total interest expense	**(1 544 826)**	**(1 440 820)**

Interest income related to impaired financial assets amounted to PLN 176 526 thousand (31 December 2010: PLN 187 175 thousand).

Net interest income per client groups is as follows:

	Year ended 31 December	
	2011	2010
Interest income		
From banking sector	390 159	430 375
From clients, including:	3 029 017	2 543 297
- individual clients	1 383 031	1 181 660
- corporate clients	891 194	774 059
- public sector	754 792	587 578
Total interest income	**3 419 176**	**2 973 672**
Interest expense		
From banking sector	(410 232)	(392 769)
From clients, including:	(1 134 594)	(1 048 051)
- individual clients	(580 906)	(648 333)
- corporate clients	(515 242)	(372 746)
- public sector	(38 446)	(26 972)
Total interest expense	**(1 544 826)**	**(1 440 820)**

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6. Net Fee and Commission Income

	Year ended 31 December	
	2011	2010
Fee and commission income		
Credit-related fees and commissions	271 488	223 683
Payment cards-related fees	351 819	321 626
Commissions from bank accounts	108 941	102 740
Commissions from money transfers	85 619	78 409
Commission for agency service regarding selling products of external financial entities	53 123	58 257
Commissions due to guarantees granted and trade finance commissions	38 756	39 952
Commissions on trust and fiduciary activities	16 525	11 972
Other	68 698	57 411
Fee and commission income	**994 969**	**894 050**
Fee and commission expense		
Payment cards-related fees	(176 594)	(187 586)
Commissions paid to external entities for sale of the Bank's products	(84 809)	(86 434)
Discharged brokerage fees	(6 032)	(4 493)
Other discharged fees	(94 956)	(81 596)
Total fee and commision expense	**(362 391)**	**(360 109)**

7. Dividend Income

	Year ended 31 December	
	2011	2010
Securities available for sale	45 806	19 277
Total dividend income	**45 806**	**19 277**

8. Net Trading Income

	Year ended 31 December	
	2011	2010
Foreign exchange result	**375 062**	**357 027**
Net exchange differences on translation	345 542	437 799
Net transaction gains/(losses)	29 520	(80 772)
Other net trading income and result on hedge accounting	**27 352**	**35 491**
Interest-bearing instruments	29 487	17 546
Equity instruments	-	2 173
Market risk instruments	(1 956)	15 772
Result on hedge accounting, including:	(179)	-
- Net profit on hedged items	1 924	-
- Net profit on hedging instruments	(2 103)	-
Total net trading income	**402 414**	**392 518**

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

Starting from 2011, the Bank applies fair value hedge accounting for part of the portfolio of fixed interest rate mortgage loans granted by foreign branches of the Bank in the Czech Republic. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate. The risk of change in interest rates is the only type of risk hedged within hedge accounting. Result from valuation of the hedged item and hedging instruments is presented in the aforementioned note.

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9. Other Operating Income

	Year ended 31 December	
	2011	2010
Income from services provided	26 498	23 013
Income due to release of provisions for future commitments	19 025	16 791
Income from sale or liquidation of fixed assets, intangible assets and assets held for sale	945	1 327
Compensations, penalties and fines received	408	157
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	1 225	23
Other	21 496	25 306
Total other operating income	**69 597**	**66 617**

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

10. Overhead Costs

	Year ended 31 December	
	2011	2010
Staff-related expenses	(615 923)	(550 430)
Material costs	(490 017)	(485 094)
Taxes and fees	(21 210)	(19 839)
Contributions and transfers to the Bank Guarantee Fund	(47 826)	(20 473)
Contributions to the Social Benefits Fund	(5 122)	(4 563)
Total overhead costs	**(1 180 098)**	**(1 080 399)**

'Material costs' consist of tangible assets operating lease payment costs (mainly real estate) of PLN 26 720 thousand (2010: PLN 26 012 thousand).

Staff-related expenses in 2011 and 2010 are presented below.

	Year ended 31 December	
	2011	2010
Wages and salaries	(497 471)	(449 542)
Social security expenses	(71 511)	(63 697)
Remuneration concerning share-based payments, including:	(13 021)	(8 807)
- share-based payments settled in BRE Bank SA shares	(11 323)	(6 275)
- cash-settled share-based payments	(1 698)	(2 532)
Other staff expenses	(33 920)	(28 384)
Staff-related expenses, total	**(615 923)**	**(550 430)**

Cash-settled share-based payments relate to the cost of 2008 incentive program for the Management Board Members of the Bank in its part based on Commerzbank shares. In 2010, under this caption was included cash compensation in the amount of PLN 794 736 paid as a settlement of bonus for 2008 to Mr. Mariusz Grendowicz, who acted as the President of the Bank till 2 August 2010. Detailed information regarding incentive programs, to which share-based payments relate, is included under the Note 39 'Retained earnings'.

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11. Other Operating Expenses

	Year ended 31 December	
	2011	2010
Provisions for future commitments	(31 213)	(22 320)
Costs arising from impairment provisions created for other receivables (excluding loans and advances)	(9 932)	(623)
Donations made	(3 242)	(3 105)
Costs arising from sale or liquidation of fixed assets, intangible assets and assets held for resale	(2 311)	(1 868)
Compensations, penalties and fines paid	(443)	(1 513)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(10)	(21)
Other operating costs	(20 405)	(24 123)
Total other operating expenses	**(67 556)**	**(53 573)**

In 2011, provisions for future commitments include provisions for legal proceedings of PLN 25 644 thousand (2010: PLN 19 058 thousand) (Note 32).

12. Net Impairment Losses on Loans and Advances

	Year ended 31 December	
	2011	2010
Net impairment losses on amounts due from other banks (Note 17)	8 257	(11 318)
Net impairment losses on loans and advances to customers (Note 21)	(336 018)	(572 211)
Changes in provisions on off-balance sheet items (Note 32)	9 077	21 587
Total net impairment losses on loans and advances	**(318 684)**	**(561 942)**

13. Income Tax Expense

	Year ended 31 December	
	2011	2010
Current tax	(279 736)	(156 383)
Deferred income tax (Note 33)	3 548	(7 854)
Total income tax	**(276 188)**	**(164 237)**

Profit before tax	**1 342 200**	**681 961**
Tax calculated at Polish current tax rate (19%)	(255 018)	(129 573)
Income not subject to tax	16 591	8 475
Costs other than tax deductible costs	(33 185)	(25 446)
Other positions affecting income tax	-	(7 013)
Losses of foreign branches of the Bank	(4 576)	(10 680)
Income tax expense	**(276 188)**	**(164 237)**

Effective tax rate calculation		
Profit before income tax	1 342 200	681 961
Income tax	(276 188)	(164 237)
Effective tax rate	**20.58%**	**24.08%**

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

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14. Earnings per Share

Earnings per share for 12 months

	Year ended 31 December	
	2011	2010
Basic:		
Net profit	1 066 012	517 724
Weighted average number of ordinary shares	42 093 950	36 679 683
Net basic profit per share (in PLN per share)	**25.32**	**14.11**
Diluted:		
Net profit applied for calculation of diluted earnings per share	1 066 012	517 724
Weighted average number of ordinary shares	42 093 950	36 679 683
Adjustments for:		
- share options	39 997	29 642
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 133 947	36 709 325
Diluted earnings per share (in PLN per share)	**25.30**	**14.10**

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

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

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

15. Other Comprehensive Income

Disclosure of tax effects relating to each component of other comprehensive income	Year ended 31 December 2011			Year ended 31 December 2010		
	Before-tax amount	Tax (expense) benefit	Net amount	Before-tax amount	Tax (expense) benefit	Net amount
Exchange differences on translating foreign operations	(4 551)	-	(4 551)	(1 173)	-	(1 173)
Available-for-sale financial assets	9 745	(2 645)	7 100	267 133	(38 830)	228 303
Total other comprehensive income	**5 194**	**(2 645)**	**2 549**	**265 960**	**(38 830)**	**227 130**

The table presents detailed information concerning other comprehensive income for the years 2011 and 2010.

	Year ended 31 December	
	2011	2010
Exchange differences on translating foreign operations	**(4 551)**	**(1 173)**
Unrealized gains (positive differences) arising during the year (net)	1 034	12 409
Unrealized losses (negative differences) arising during the year (net)	(6 760)	(13 582)
Reclassification adjustments for gains (losses) included in the income statement (net)	1 175	-
Available-for-sale financial assets	**7 100**	**228 303**
Unrealized gains on debt instruments arising during the year (net)	67 599	151 267
Unrealized losses on debt instruments arising during the year (net)	(63 091)	(28 819)
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	611	1 079
Unrealized gains on equity instruments arising during the year (net)	9 221	104 776
Unrealized losses on equity instruments arising during the year (net)	(8 328)	-
Reclassification adjustments of gains (losses) on equity instruments to the income statement (net)	1 088	-
Total other comprehensive income (net)	**2 549**	**227 130**

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In 2011, there were no factors with significant impact on changing the status of other components of equity beyond the current valuation of available for sale debt securities.

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

Moreover, amount of unrealised profits on debt instruments for 2010 results from the increase of valuation of the securities portfolio available for sale in 2010 against the valuation at the end of 2009. The main factor that affected the valuation growth was the growth of value of variable coupon treasury securities held by the Bank.

16. Cash and Balances with Central Bank

	31.12.2011	31.12.2010
Cash in hand	213 831	166 841
Current account	680 239	2 173 831
Term placements	138 011	-
Total cash and balances with the Central Bank (Note 42)	**1 032 081**	**2 340 672**

On the basis of the National Bank of Poland Act dated 29 August 1997, BRE Bank SA holds a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve that the Bank is obliged to maintain during a given period in the current account with NBP amounts to:

- PLN 1 439 004 thousand for the period from 30 November 2011 to 1 January 2012.
- PLN 1 394 153 thousand for the period from 31 December 2010 to 30 January 2011,

As at 31 December 2011, the former part of the reserve bore 4.28% interest (31 December 2010: 3.38%).

17. Loans and Advances to Banks

	31.12.2011	31.12.2010
Current accounts	190 644	136 414
Placements with other banks (up to 3 months)	2 430 344	1 225 455
Included in cash equivalents (Note 42)	**2 620 988**	**1 361 869**
Loans and advances	1 511 382	1 111 373
Term placements with other banks	158 134	242 009
Reverse repo / buy-sell-back transactions	574 506	919 553
Other receivables	358 695	162 131
Total (gross) loans and advances to banks	**5 223 705**	**3 796 935**
Provisions created for loans and advances to banks (negative amount)	(1 027)	(34 247)
Total (net) loans and advances to banks	**5 222 678**	**3 762 688**

Short-term (up to 1 year)	4 917 563	2 790 590
Long-term (over 1 year)	305 115	972 098

The following table presents receivables from Polish and foreign banks:

	31.12.2011	31.12.2010
Loans and advances to Polish banks (gross)	2 420 965	2 652 687
Provisions created for loans and advances to Polish banks	(181)	(159)
Loans and advances to foreign banks (gross)	2 802 740	1 144 248
Provisions created for loans and advances to foreign banks	(846)	(34 088)
Total (net) loans and advances to banks	**5 222 678**	**3 762 688**

As at 31 December 2011, the variable rate loans to banks amounted to PLN 1 446 243 thousand and the fixed rate loans to banks amounted to PLN 65 139 thousand (as at 31 December 2010 – variable rate loans to banks amounted to PLN 1 109 184 thousand and fixed rate loans to PLN 2 189 thousand).

As at 31 December 2011 and 31 December 2010, the term placements with other banks were fixed rated and amounted to PLN 2 588 478 thousand and PLN 1 467 464 thousand respectively.

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An average deposit interest rate for deposits in other banks and loans granted to banks amounted to 2.77% (31 December 2010: 1.92%).

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

	31.12.2011	31.12.2010
Provisions for loans and advances to banks as at the beginning of the period	(34 247)	(38 087)
- provisions created (Note 12)	(3 068)	(20 821)
- release of provision (Note 12)	11 325	9 503
- foreign exchange differences	860	(1 035)
- write-offs	24 103	16 193
Provisions for loans and advances to banks as at the end of the period	(1 027)	(34 247)

As at 31 December 2011, provisions for loans and advances to banks relates to the loans with incurred but not identified losses. As at 31 December 2010, provisions related to loans and advances to banks impaired on individual basis and amounted to PLN 33 181 thousand.

18. Trading Securities and Pledged Assets

	31.12.2011			31.12.2010		
	Trading securities	Pledged assets	Total	Trading securities	Pledged assets	Total
Debt securities:	1 191 335	485 463	1 676 798	1 731 030	1 018 658	2 749 688
Issued by government	443 205	485 463	928 668	1 202 316	1 018 658	2 220 974
- government bonds	443 057	485 463	928 520	108 949	1 011 107	1 120 056
- treasury bills	148	-	148	1 093 367	7 551	1 100 918
Other debt securities	748 130	-	748 130	528 714	-	528 714
- bank's bonds	270 866	-	270 866	133 129	-	133 129
- deposit certificates	171 134	-	171 134	102 605	-	102 605
- corporate bonds	287 998	-	287 998	274 886	-	274 886
- communal bonds	18 132	-	18 132	18 094	-	18 094
Equity securities:	-	-	-	-	-	-
Total debt and equity securities:	1 191 335	485 463	1 676 798	1 731 030	1 018 658	2 749 688

Trading securities include securities used to secure sell-buy-back transactions with customers, the market value of which as at 31 December 2011 amounted to PLN 485 463 thousand (31 December 2010: PLN 1 018 658 thousand). These securities are disclosed separately within the 'Pledged assets' in the Statement of Financial Position.

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

19. Derivative Financial Instruments

The Bank has the following derivative instruments:

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

Currency and interest rate swap contracts are commitments to exchange one cash flow for another cash flow. Such a transaction results in swap of currencies or interest rates (e.g., fixed to variable interest rate) or combination of all these factors (e.g., cross-currency CIRS). With the exception of specific currency swap contracts, such transactions do not result in swaps of capital. The credit risk of the 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.

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Starting from 2011, the Bank applies fair value hedge accounting using an Interest Rate Swap as the hedging instrument. Hedge accounting is described under the Note 20.

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

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

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

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

	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2011				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	6 771 792	6 779 318	103 249	35 486
- Currency swaps	13 920 750	13 993 242	154 056	275 332
- Cross-currency interest rate swaps	1 457 145	1 517 730	140 256	199 518
- OTC currency options bought and sold	1 489 253	1 145 147	46 545	5 945
Total OTC derivatives	23 638 940	23 435 437	444 106	516 281
- Stock exchange traded currency options - bought and sold	-	-	-	18 213
Total foreign exchange derivatives	23 638 940	23 435 437	444 106	534 494
Interest rate derivatives				
- Interest rate swap, OIS	133 861 508	133 861 508	986 299	1 259 463
- Forward rate agreements	57 100 000	116 975 000	54 715	54 742
- OTC interest rate options	198 779	351 143	1 505	1 400
Total OTC interest rate derivatives	191 160 287	251 187 651	1 042 519	1 315 605
Total interest rate derivatives	191 160 287	251 187 651	1 042 519	1 315 605
Market risk transactions	523 888	729 506	17 395	5 034
Total derivative assets / liabilities held for trading	215 323 115	275 352 594	1 504 020	1 855 133
Derivatives held for hedging				
Derivatives designated as fair value hedges	92 553	92 553	-	2 238
- Interest rate swaps	92 553	92 553	-	2 238
Total derivatives held for hedging	92 553	92 553	-	2 238
Total recognised derivative assets/ liabilities	215 415 668	275 445 147	1 504 020	1 857 371
Short-term (up to 1 year)	142 047 742	192 176 505	681 966	888 151
Long-term (over 1 year)	73 367 926	83 268 642	822 054	969 220

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

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

Under financial derivative instruments the Bank presented derivative instruments in the amount of PLN 1 215 thousand (liabilities), which have been separated from the structured investment deposits (31 December 2010: PLN 9 924 thousand).

As at 31 December 2011 and 31 December 2010 the Bank did not have any other financial assets or liabilities initially recognised in the category priced at fair value through the Income Statement.

20. Hedge Accounting

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

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

Description of the hedging relation

The Bank hedges against the risk of change in fair value of a part of the portfolio of mortgage loans for a fixed interest rate granted by foreign branches of BRE Bank in Czech Republic. The hedged risk results from changes in interest rates.

Hedged items

The hedged item is a part of the portfolio of mortgage loans for a fixed interest rate denominated in CZK and granted by foreign branches of BRE Bank in Czech Republic.

Hedging instruments

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

Presentation of the result from hedged and hedging transactions

Adjustment to the fair value of the hedged assets and the valuation of hedging instruments is recognised in the profit and loss account in the income from trading operation.

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21. Loans and Advances to Customers

	31.12.2011	31.12.2010
Loans and advances to individuals:	38 645 611	33 597 904
- current accounts	4 133 068	4 358 940
- term loans, including:	34 512 543	29 238 964
housing and mortgage loans	30 834 148	26 200 903
Loans and advances to corporate entities:	21 839 609	18 166 766
- current accounts	3 877 085	3 147 515
- term loans:	16 809 016	11 680 934
corporate & institutional enterprises	9 187 414	4 609 508
medium & small enterprises	7 621 602	7 071 426
- reverse repo / buy-sell-back transactions	1 153 508	3 338 317
Loans and advances to public sector	2 809 618	1 401 207
Other receivables	482 167	668 115
Total (gross) loans and advances to customers	63 777 005	53 833 992
Provisions for loans and advances to customers (negative amount)	(2 113 013)	(2 167 970)
Total (net) loans and advances to customers	61 663 992	51 666 022

Short-term (up to 1 year)	22 250 530	19 657 541
Long-term (over 1 year)	39 413 462	32 008 481

As at 31 December 2011, variable rate credits amounted to PLN 63 167 794 thousand and fixed rate credits amounted to PLN 609 211 thousand (as at 31 December 2010: PLN 50 090 652 thousand and PLN 3 743 340 thousand respectively). The values mentioned above relate to loans granted to individual clients, corporate clients and the budget sector. An average interest rate for loans granted to customers (excluding reverse repos) amounted to 4.35% (31 December 2010: 4.28%).

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

Provisions for Loans and Advances:

	31.12.2011	31.12.2010
Incurred but not identified losses		
Gross balance sheet exposure	60 978 500	51 029 080
Impairment provisions for exposures analysed according to portfolio approach	(182 056)	(186 805)
Net balance sheet exposure	60 796 444	50 842 275
Receivables with impairment		
Gross balance sheet exposure	2 798 505	2 804 912
Provisions for receivables with impairment	(1 930 957)	(1 981 165)
Net balance sheet exposure	867 548	823 747

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In June 2011, BRE Bank sold a part of its retail loans portfolio in the total nominal value of PLN 621 500 thousand. Gross balance sheet value of the sold portfolio was PLN 449 619 thousand and impairment provisions for this exposure were PLN 449 511 thousand. After transaction costs, profit on sale before income tax, included in the Bank's Income Statement for the year 2011, amounted to PLN 89 304 thousand.

Movements in provisions for loans and advances:

MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AS OF 2011	Provisions as at 1 January 2011	Provisions created	Release of provisions	Reclassification and foreign exchange differences	Write-offs	Provisions as at 31 December 2011
Loans and advances to individuals	(1 051 229)	(169 067)	9 852	(1 078)	351 521	(860 001)
Current accounts	(817 237)	(40 261)	1 545	4	332 863	(523 086)
Term loans, including:	(233 992)	(128 806)	8 307	(1 082)	18 658	(336 915)
Housing and mortgage loans	(117 927)	(85 353)	-	(1)	3 868	(199 413)
Loans and advances to corporate entities	(1 111 707)	(920 363)	742 102	(23 841)	64 395	(1 249 414)
Current accounts	(368 350)	(296 277)	325 133	(774)	24 649	(315 619)
Term loans, including:	(743 357)	(624 086)	416 969	(23 067)	39 746	(933 795)
Corporate & institutional enterprises	(167 278)	(300 211)	141 543	(17 923)	6 431	(337 438)
Medium & small enterprises	(576 079)	(323 875)	275 426	(5 144)	33 315	(596 357)
Loans and advances to public sector	(5 034)	(5 320)	6 778	(22)	-	(3 598)
Total movements for loans and advances to customers	(2 167 970)	(1 094 750)	758 732	(24 941)	415 916	(2 113 013)

MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AS OF 2010	Provisions as at 1 January 2010	Provisions created	Release of provisions	Reclassification and foreign exchange differences	Write-offs	Provisions as at 31 December 2010
Loans and advances to individuals	(708 229)	(344 814)	5 829	(4 382)	367	(1 051 229)
Current accounts	(586 775)	(232 756)	2 066	(23)	251	(817 237)
Term loans, including:	(121 454)	(112 058)	3 763	(4 359)	116	(233 992)
Housing and mortgage loans	(40 080)	(73 897)	556	(4 506)	-	(117 927)
Loans and advances to corporate entities	(958 935)	(966 848)	736 072	(5 627)	83 631	(1 111 707)
Current accounts	(334 824)	(339 721)	265 858	1 634	38 703	(368 350)
Term loans, including:	(624 111)	(627 127)	470 214	(7 261)	44 928	(743 357)
Corporate & institutional enterprises	(108 412)	(171 307)	112 066	(51)	426	(167 278)
Medium & small enterprises	(515 699)	(455 820)	358 148	(7 210)	44 502	(576 079)
Loans and advances to public sector	(2 625)	(11 090)	8 640	41	-	(5 034)
Total movements for loans and advances to customers	(1 669 789)	(1 322 752)	750 541	(9 968)	83 998	(2 167 970)

22. Investment Securities and Pledged Assets

	31.12.2011			31.12.2010		
	Investment securities	Pledged assets	Total	Investment securities	Pledged assets	Total
Debt securities	16 820 963	3 852 869	20 673 832	18 939 606	810 066	19 749 672
Listed, including:	16 820 963	3 852 869	20 673 832	18 849 861	810 066	19 659 927
Issued by government	9 505 891	3 852 869	13 358 760	10 065 108	810 066	10 875 174
- government bonds	9 505 891	3 852 869	13 358 760	9 711 309	790 299	10 501 608
- treasury bills	-	-	-	353 799	19 767	373 566
Issued by central bank	6 346 571	-	6 346 571	7 993 922	-	7 993 922
Other debt securities	968 501	-	968 501	790 831	-	790 831
- bank's bonds	327 811	-	327 811	94 346	-	94 346
- deposit certificates	607 075	-	607 075	662 982	-	662 982
- communal bonds	33 615	-	33 615	33 503	-	33 503
Unlisted	-	-	-	89 745	-	89 745
Equity securities:	256 834	-	256 834	255 968	-	255 968
Listed	10 964	-	10 964	12 327	-	12 327
Unlisted	245 870	-	245 870	243 641	-	243 641
Total debt and equity securities:	17 077 797	3 852 869	20 930 666	19 195 574	810 066	20 005 640

Short-term (up to 1 year)	10 046 103	585 763	10 631 866	10 437 808	19 767	10 457 575
Long-term (over 1 year)	7 031 694	3 267 106	10 298 800	8 757 766	790 299	9 548 065

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Presented above value of equity securities includes provision for impairment of PLN 125 thousand (31 December 2010: PLN 125 thousand).

As at 31 December 2011, unlisted equity securities include fair value of BRE GOLD FIZ certificates in amount of PLN 235 258 thousand (31 December 2010 - PLN 242 405 thousand).

As at 31 December 2011, the carrying values of debt securities with fixed interest rates amounted to PLN 14 153 795 thousand and debt securities with variable interest rates PLN 6 520 037 thousand respectively (31 December 2010 respectively: PLN 14 108 005 thousand and PLN 5 641 667 thousand).

The above includes government bonds and treasury bills under the Bank Guarantee Fund (BFG), investment government bonds pledged as sell-buy-back transactions and government bonds pledged as collateral for the loans received from the European Investment Bank (EIB), which are presented in the Statement of Financial Position in a separate position 'Pledged assets' (Note 36).

In accordance with the BFG Law of 14 December 1994, the Bank held PLN 269 892 thousand, at face value PLN 268 000 thousand of treasury securities (bonds and bills) disclosed in its Statement of Financial Position as at 31 December 2011 (face value as at 31 December 2010: PLN 203 000 thousand), which 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, Investments in Subsidiaries and Associates:

	Year ended 31 December	
	31.12.2011	31.12.2010
Sale/redemption of financial assets available for sale, investments in subsidiaries and associates	68 870	(1 330)
Impairment of available for sale equity securities	-	12 692
Total gains and losses from investment securities	**68 870**	**11 362**

In 2011, the biggest impact on the item 'Sale/redemption of financial assets available for sale, investments in subsidiaries and associaates' had the result on the sale of BRE's shareholding in Intermarket Bank AG and Magyar Factor zRt. The transaction was described in Note 44 'Acquisitions and disposals' of these Financial Statements.

Moreover, this item includes the result on sale of shares of BRELINVEST Sp. z o.o. Fly 2 Commandite.

Movements in investment securities and pledged assets are presented as follows:

	31.12.2011	31.12.2010
Available for sale securities and pledged assets		
As at the beginning of the period	**20 005 640**	**16 145 194**
Exchange differences	11 442	(2 431)
Additions	241 820 886	357 351 180
Disposals (sale, redemption and forfeiture)	(240 917 443)	(353 754 160)
Gains / (losses) from changes in fair value	10 141	265 857
As at the end of the period	**20 930 666**	**20 005 640**

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

	31.12.2011	31.12.2010
Provisions for losses on equity securities		
Listed		
As at the beginning of the period	**(125)**	**(125)**
As at the end of the period	**(125)**	**(125)**
Total provisions for investment securities		
As at the beginning of the period	**(125)**	**(125)**
As at the end of the period	**(125)**	**(125)**

23. Investments in Subsidiaries

31 December 2011 (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	526	5	32	(68)	100.00	588
2.	Aspiro Sp. z o.o.	Poland	49 381	24 182	122 847	7 940	100.00	22 900
3.	BRE Bank Hipoteczny SA	Poland	4 510 572	4 121 386	251 309	20 878	100.00	52 103
4.	BRE Corporate Finance SA	Poland	3 365	388	6 696	(188)	100.00	3 532
5.	BRE Finance France SA	France	737	119	2	(94)	99.98	993
6.	BRE Holding Sp. z o.o.	Poland	465 944	40	15 589	14 374	100.00	284 123
7.	BRE Systems Sp. z o.o.	Poland	126	136	37	(89)	100.00	50
8.	BRE Ubezpieczenia TUiR S.A.	Poland	291 303	194 612	188 867	43 966	-	26 353
9.	BRE Wealth Management SA	Poland	26 679	3 463	26 236	8 827	100.00	12 000
10.	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	Poland	69 706	33 614	44 684	531	100.00	31 072
11.	Dom Inwestycyjny BRE Banku SA	Poland	776 487	697 038	142 146	26 824	100.00	26 719
12.	Garbary Sp. z o.o.	Poland	49 047	8 623	475	(3 296)	100.00	56 384
13.	Tele -Tech Investment Sp. z o.o.	Poland	75 527	75 595	11 629	(165)	100.00	50
14.	TRANSFINANCE a.s.	Czech Republic	340 864	294 759	26 789	2 847	100.00	29 563
								546 430

31 December 2010 (in PLN 000's)

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

Moreover, as at 31 December 2011 and as at 31 December 2010, the Bank held 100% of investment certificates of BRE GOLF FIZ Aktywów Niepublicznych whose value has been included in Note 22 "Investment securities and pledged assets ." The main asset of the fund is the package of PZU SA shares which was previously held by the Bank directly.

Changes in investments in subsidiaries:

	31.12.2011	31.12.2010
Investmentss in subsidiaries		
As at the beginning of the period	491 761	480 709
Foreign exchange differences	(4 455)	(1 640)
Increase (purchase)	107 130	22 252
Decrease (sale)	(48 006)	(22 252)
Impairment/release of impairment	-	12 692
As at the end of the period	546 430	491 761

In 2011, the position 'Increase' relates to increase of the stake in BRE Holding Sp. z o.o. (BRE Holding) and the purchase of shares of Transfinance a.s..

On 31 January 2011, under the agreement concluded on 26 January 2011 between BRE Holding - 100% subsidiary of BRE Bank SA, and Commerz Real - 100% subsidiary of Commerzbank AG, BRE Holding acquired 49.99% of shares of BRE Leasing from Commerz Real. In connection with the transaction, on 27 January 2011, the capital of BRE Holding was increased by the amount of PLN 67 276 thousand and all new shares were taken up by BRE Bank SA.

Moreover, on 28 July 2011, in connection with the transaction described in Note 44, BRE Holding acquired 50% of shares of BRE Factoring SA (former Polfactor SA) from Intermarket Bank AG. In connection with this transaction, on 4 April 2011, the capital in the BRE Holding was increased and BRE Bank and all new shares were taken by BRE Bank.

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In addition, as a result of finalization of the transaction described in Note 44, BRE Bank acquired 50% shares of Transfinance a.s. from Intermarket Bank AG, becoming the sole owner of the company.

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

24. Investments in associates

As at the end of 2011 and 2010 the Bank had no investments in associates.

25. Intangible Assets

	31.12.2011	31.12.2010
Development costs	711	1 369
Patents, licences and similar assets, including:	280 458	305 414
- computer software	214 607	252 063
Other intangible assets	8 895	9 907
Intangible assets under development	99 743	63 291
Total intangible assets	**389 807**	**379 981**

Movements in intangible assets:

Movements in intangible assets from 1 January to 31 December 2011	Development costs	Acquired concessions, patents, licences and other similar assets	including: acquired computer software	Other intangible assets	Intangible assets under development	Total intangible assets
Gross value of intangible assets as at the beginning of the period: 01.01.2011	31 774	704 330	546 296	14 815	63 291	814 210
Increase (due to)	-	73 017	32 613	2	83 810	156 829
- purchase	-	35 543	-	2	66 318	101 863
- transfer from intangible assets under development	-	33 172	28 558	-	-	33 172
- development costs	-	-	-	-	13 275	13 275
- other increases	-	4 302	4 055	-	4 217	8 519
Decrease (due to)	(4 054)	(45 697)	(13 390)	-	(47 358)	(97 109)
- liquidation	-	(45 697)	(13 390)	-	-	(45 697)
- transfer to intangible assets given to use	-	-	-	-	(33 172)	(33 172)
- other decreases	(4 054)	-	-	-	(14 186)	(18 240)
Gross value of intangible assets as at the end of the period: 31.12.2011	27 720	731 650	565 519	14 817	99 743	873 930
Accumulated amortization as at the beginning of the period: 01.01.2011	(30 405)	(398 916)	(294 233)	(4 908)	-	(434 229)
Amortization for the period (due to)	3 396	(52 276)	(56 679)	(1 014)	-	(49 894)
- amortization	(237)	(94 190)	(66 437)	(1 014)	-	(95 441)
- other increases	-	(3 783)	(3 632)	-	-	(3 783)
- liquidation	-	45 697	13 390	-	-	45 697
- other decreases	3 633	-	-	-	-	3 633
Accumulated amortization as at the end of the period: 31.12.2011	(27 009)	(451 192)	(350 912)	(5 922)	-	(484 123)
Net value of intangible assets as at the end of the period: 31.12.2011	711	280 458	214 607	8 895	99 743	389 807

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

26. Tangible Assets

	31.12.2011	31.12.2010
Tangible assets, including:	477 403	495 340
- land	1 733	1 733
- buildings and structures	186 473	190 757
- equipment	112 535	104 477
- vehicles	31 416	36 661
- other tangible assets	145 246	161 712
Tangible assets under construction	65 007	39 110
Total tangible assets	**542 410**	**534 450**

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Movements in tangible assets:

Movements in tangible assets from 1 January to 31 December 2011	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period: 01.01.2011	1 733	311 172	481 832	54 832	386 562	39 246	1 275 377
Increase (due to)	-	896	47 744	5 025	23 654	66 321	143 640
- purchase	-	162	25 345	-	5 085	65 453	96 045
- transfer from tangible assets under construction	-	734	21 553	-	16 400	-	38 687
- other increases	-	-	846	5 025	2 169	868	8 908
Decrease (due to)	-	-	(12 916)	(5 477)	(12 613)	(40 424)	(71 430)
- sale	-	-	(4 350)	(50)	(3 816)	-	(8 216)
- liquidation	-	-	(8 566)	-	(8 793)	-	(17 359)
- transfer to tangible assets	-	-	-	-	-	(38 687)	(38 687)
- other decreases	-	-	-	(5 427)	(4)	(1 737)	(7 168)
Gross value of tangible assets as at the end of the period: 31.12.2011	1 733	312 068	516 660	54 380	397 603	65 143	1 347 587
Accumulated depreciation as at the beginning of the period: 01.01.2011	-	(68 729)	(377 355)	(18 171)	(224 719)	-	(688 974)
Depreciation for the period (due to)	-	(5 180)	(26 770)	(4 793)	(27 507)	-	(64 250)
- depreciation charge	-	(5 180)	(39 060)	(7 651)	(37 745)	-	(89 636)
- other increases	-	-	(293)	-	(671)	-	(964)
- sale	-	-	4 143	49	3 440	-	7 632
- liquidation	-	-	8 440	-	7 469	-	15 909
- other decreases	-	-	-	2 809	-	-	2 809
Accumulated depreciation as at the end of the period: 31.12.2011	-	(73 909)	(404 125)	(22 964)	(252 226)	-	(753 224)
Impairment losses as at the beginning of the period: 01.01.2011	-	(51 686)	-	-	(131)	(136)	(51 953)
Impairment losses as at the end of the period: 31.12.2011	-	(51 686)	-	-	(131)	(136)	(51 953)
Net value of tangible assets as at the end of the period: 31.12.2011	1 733	186 473	112 535	31 416	145 246	65 007	542 410

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

The entire value of vehicles is related to finance lease agreement

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

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27. Other Assets

	31.12.2011	31.12.2010
Other, including:	**321 432**	**304 412**
- debtors	189 563	211 519
- interbank balances	2 083	1 292
- other accruals	65 824	65 364
- accrued income	61 388	23 124
- inventories	2 574	3 113
Total other assets	**321 432**	**304 412**

Short-term (up to 1 year)	196 856	220 328
Long-term (over 1 year)	124 576	84 084

As at 31 December 2011, the above note includes financial assets in the amount of PLN 191 646 thousand (31 December 2010: PLN 212 811 thousand).

28. Amounts due to Other Banks

	31.12.2011	31.12.2010
Current accounts	1 880 538	1 133 692
Term deposits	1 395 273	1 149 498
Loans and advances received	20 719 089	20 360 624
Repo / sell-buy-back transactions	1 173 097	2 047 864
Liabilities in respect of cash collaterals	73 865	167 782
Payables to be settled	6 505	1 514
Other	32 802	19 988
Amounts due to other banks	**25 281 169**	**24 880 962**

Short-term (up to 1 year)	6 734 909	6 319 805
Long-term (over 1 year)	18 546 260	18 561 157

As at 31 December 2011, the fixed rate term deposits accepted from other banks amounted to PLN 510 162 thousand and variable rate term deposits amounted to PLN 885 111 thousand (31 December 2010: PLN 356 439 thousand and PLN 793 059 thousand, respectively).

As at 31 December 2011 and as at 31 December 2010, loans and advances received were variable rate loans.

The average interest rate for loans and deposits obtained from banks in 2011 amounted to 1.55% (31 December 2010: 1.46%).

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

As at 31 December 2010, apart from amounts due to other banks, the Bank holds amounts due to the Central Bank in the amount of PLN 79 thousand.

29. Amounts due to Customers

	31.12.2011	31.12.2010
Individual customers:	**26 462 410**	**24 308 392**
Current accounts	16 722 827	14 938 701
Term deposits	9 698 858	9 339 901
Other liabilities:	40 725	29 790
- liabilities in respect of cash collaterals	33 150	23 984
- other	7 575	5 806
Corporate customers:	**27 028 221**	**21 562 952**
Current accounts	11 098 555	10 075 280
Term deposits	11 716 136	7 875 327
Loans and advances received	1 848 575	473 606
Repo transactions	1 818 532	2 708 164
Other liabilities:	546 423	430 575
- liabilities in respect of cash collaterals	475 201	375 208
- other	71 222	55 367
Public sector customers:	**528 004**	**926 899**
Current accounts	447 481	896 406
Term deposits	64 783	22 141
Other liabilities:	15 740	8 352
- liabilities in respect of cash collaterals	18	-
- other	15 722	8 352
Total amounts due to customers	**54 018 635**	**46 798 243**

Short-term (up to 1 year)	51 452 115	45 275 564
Long-term (over 1 year)	2 566 520	1 522 679

As at 31 December 2011 the majority of the deposits from retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repos) amounted to 2.52% (31 December 2010: 2.43%).

As at 31 December 2011 the balance of loans and advances received included a loan received from European Investment Bank amounting to PLN 1 848 575 thousand (31 December 2010: PLN 396 030 thousand). The loan was collateralized with Treasury bonds, which were disclosed in the Statement of Financial Position under the line 'Pledged assets' (Note 36).

30. Subordinated Liabilities

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2011						
- Commerzbank AG	400 000	CHF	3M LIBOR + 0.7%*	0.75	08.03.2017	1 454 048
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	1.45	not defined	290 805
- Commerzbank AG	120 000	CHF	3M LIBOR + 1.5%***	1.55	18.12.2017	436 221
- Commerzbank AG	170 000	CHF	3M LIBOR + 2.2%****	2.23	not defined	620 832
- Commerzbank AG	90 000	CHF	3M LIBOR + 4.0%	4.05	not defined	327 181
- Commerzbank AG	90 000	CHF	3M LIBOR + 2.5%	2.55	24.06.2018	327 113
						3 456 200

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

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

In 2011 and 2010, the Bank did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

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

Movements in Subordinated Liabilities:

	31.12.2011	31.12.2010
As at the beginning of the period	3 010 127	2 631 951
- additions (issue)	-	50 153
- disposals (repayment)	-	(51 222)
- exchange differences	446 958	379 245
- other changes	(885)	-
Subordinated liabilities as at the end of the period	3 456 200	3 010 127

Short-term (up to 1 year)	4 565	4 422
Long-term (over 1 year)	3 451 635	3 005 705

31. Other Liabilities

	31.12.2011	31.12.2010
Other liabilities, including		
- tax liabilities	16 313	8 891
- interbank settlements	765 326	349 236
- creditors	214 390	146 453
- accrued expenses	142 582	152 422
- deferred income	75 177	75 727
- accrual of pension benefits	3 455	2 928
- accrual of holiday equivalents	14 747	1 195
- accrual of other employee benefits	139 521	104 218
Total other liabilities	1 371 511	841 070

As at 31 December 2011, the presented note includes financial liabilities of PLN 1 122 298 thousand (31 December 2010: PLN 397 007 thousand). Cash flows resulting from those financial liabilities are presented under the Note 3.9.1. The other components of presented liabilities, except for part of accrual of pension benefits that were calculated on actuarial basis as a rule, are short-term liabilities.

In 2011, liabilities from creditors include the value of financial lease amounted to PLN 33 932 thousand (in 2010: PLN 39 185 thousand).

32. Provisions

	31.12.2011	31.12.2010
For off-balance sheet granted contingent liabilities *	30 906	39 378
For legal proceedings	25 644	19 058
Other	15 754	17 622
Total provisions	72 304	76 058

* includes valuation of financial guarantees

Provision policies for off-balance sheet commitments granted are described in Note 3.4.4.

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

Movements in the Provisions:

	31.12.2011	31.12.2010
As at the beginning of the period (by type)	76 058	108 789
For off-balance sheet granted contingent liabilities	39 378	61 323
For legal proceedings	19 058	2 088
Other	17 622	45 378
Change in the period (due to)	(3 754)	(32 731)
- increase of provisions, due to:	177 777	199 744
for off-balance-sheet granted contingent liabilities (Note 12)	159 183	179 909
for legal proceedings	6 508	18 656
other	12 086	1 179
- release of provisions, due to:	(168 892)	(210 665)
for off-balance-sheet granted contingent liabilities (Note 12)	(168 260)	(201 496)
for legal proceedings	(632)	(778)
other	-	(8 391)
- write-offs	(9 722)	(9 531)
- reclassification	(4 243)	(11 668)
- foreign exchange differences	1 326	(611)
As at the end of the period (by type)	72 304	76 058
For off-balance sheet granted contingent liabilities	30 906	39 378
For legal proceedings	25 644	19 058
Other	15 754	17 622

Provisions for Off-Balance Sheet Granted Contingent Liabilities:

	31.12.2011	31.12.2010
Incurred but not identified losses		
Off-balance sheet contingent liabilities	16 450 953	13 447 574
Provisions for off-balance sheet contingent liabilities analysed according to portfolio approach (negative amount)	(25 264)	(32 288)
Net off-balance sheet contingent liabilities	16 425 689	13 415 286
Off-balance sheet granted contingent liabilities with impairment		
Off-balance sheet contingent liabilities	9 521	42 535
Provisions for off-balance sheet contingent liabilities analysed individually (negative amount)	(5 642)	(7 090)
Net off-balance sheet contingent liabilities	3 879	35 445

33. Assets and Provisions for Deferred Income Tax

Assets and provisions for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate of 19% in 2011 and 2010.

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

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Deferred income tax assets	As at 1 January 2011	Charged/(credited) to the income statement	Charged/(credited) to other comprehensive income	As at 31 December 2011
Interest	24 237	3 073	-	27 310
Valuation of derivative financial instruments	47 722	28 279	-	76 001
Valuation of investment securities	8 542	(915)	(2 016)	5 611
Provisions for impairment of loans and advances	153 973	43 957	-	197 930
Provisions for employee benefits	19 788	8 520	-	28 308
Other provisions	3 689	(1 057)	-	2 632
Prepayments/accruals	27 981	(1 977)	-	26 004
Other negative temporary differences	12 286	(182)	-	12 104
Total deferred income tax assets	298 218	79 698	(2 016)	375 900

Short-term (up to 1 year)	325 702
Long-term (over 1 year)	50 198

Deferred income tax liabilities	As at 1 January 2011	Charged/(credited) to the income statement	Charged/(credited) to other comprehensive income	Other changes	As at 31 December 2011
Interest	(34 442)	(8 412)	-	-	(42 854)
Valuation of investment securities	(97 062)	(42 683)	(629)	-	(140 374)
Prepayments regarding amortization of applyed investment relief	(40 840)	(16 472)	-	-	(57 312)
Difference between tax and book value of fixed and tangible assets	(32 860)	4 759	-	-	(28 101)
Deferred income	(18 657)	-	-	-	(18 657)
Other positive temporary differences	(12 143)	(13 342)	-	(8)	(25 493)
Total deferred income tax liabilities	(236 004)	(76 150)	(629)	(8)	(312 791)

Short-term (up to 1 year)	(276 219)
Long-term (over 1 year)	(36 572)

Deferred income tax assets	As at 1 January 2010	Charged/(credited) to the income statement	Charged/(credited) to other comprehensive income	As at 31 December 2010
Interest	24 212	25	-	24 237
Valuation of derivative financial instruments	63 604	(15 882)	-	47 722
Valuation of investment securities	21 432	(26 857)	13 967	8 542
Provisions for impairment of loans and advances	178 871	(24 898)	-	153 973
Provisions for employee benefits	8 822	10 966	-	19 788
Other provisions	4 773	(1 084)	-	3 689
Prepayments/accruals	17 925	10 056	-	27 981
Other negative temporary differences	12 666	(380)	-	12 286
Total deferred income tax assets	332 305	(48 054)	13 967	298 218

Short-term (up to 1 year)	226 033
Long-term (over 1 year)	72 185

Deferred income tax liabilities	As at 1 January 2010	Charged/(credited) to the income statement	Charged/(credited) to other comprehensive income	Other changes	As at 31 December 2010
Interest	(31 071)	(3 371)	-	-	(34 442)
Valuation of derivative financial instruments	(19 631)	19 631	-	-	-
Valuation of investment securities	(45 283)	1 018	(52 797)	-	(97 062)
Difference between tax and book value of fixed and tangible assets	(39 268)	6 408	-	-	(32 860)
Deferred income	(28 111)	9 454	-	-	(18 657)
Other positive temporary differences	(60 045)	7 060	-	2	(52 983)
Total deferred income tax liabilities	(223 409)	40 200	(52 797)	2	(236 004)

Short-term (up to 1 year)	(190 700)
Long-term (over 1 year)	(45 304)

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	31.12.2011	31.12.2010
Deferred income tax included in the profit and loss account		
Interest	(5 339)	(3 346)
Valuation of derivative financial instruments	28 279	3 749
Valuation of securities	(43 598)	(25 839)
Provisions for impairment of loans and advances	43 957	(24 898)
Provisions for employee benefits	8 520	10 966
Other provisions	(1 057)	(1 084)
Prepayments/accruals	(1 977)	10 056
Prepayments regarding amortization of applyed investment relief	-	9 454
Difference between tax and book value of fixed and tangible assets	4 759	6 408
Other temporary differences *	(29 996)	6 680
Total deferred income tax included in the profit and loss account (Note 13)	**3 548**	**(7 854)**

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

Due to the improbability of occurrence of taxable income enabling to use tax losses incurred in Foreign Branches, the Bank does not include those losses in the deferred tax asset calculation. The unused tax losses not included in deferred tax asset calculation amount to PLN 276 185 thousand on 31 December 2011 and PLN 223 439 thousand on 31 December 2010. Right to tax losses' settlement expires between 2012 – 2017 year.

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

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

As at 31 December 2011, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries which represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 31 December 2011 was also not higher than 10% of the Bank's equity.

Report on major proceedings brought against the issuer

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

   At present proceedings are pending against BRE Bank in the Court of Jerusalem initiated by Bank Leumi and an insurance company of Bank Leumi, Migdal Insurance Company. It is an action for indemnity in the amount of USD 13.5 million (PLN 46.1 million translated at the average exchange rate of the National Bank of Poland as at 31 December 2011). This action was originally initiated by Art-B Sp. z o.o. Eksport – Import with its registered office in Katowice, under liquidation ('Art-B') against the main defendant Bank Leumi, whereas BRE Bank was garnished by Bank Leumi. Considering a settlement concluded between Art-B and Bank Leumi, and Migdal Insurance Company, on the basis of which Art-B received from Bank Leumi and Migdal Insurance Company an amount of USD 13.5 million, Bank Leumi and Migdal Insurance Company claim from BRE Bank refund of the amount paid to Art-B that is USD 13.5 million. BRE Bank's liability towards Bank Leumi and Migdal Insurance Company is under recourse.

2. Lawsuit brought by Bank BPH SA ('BPH') against Garbary Sp. z o.o. ('Garbary')

   BPH brought the case to court on 17 February 2005. The value of the dispute was estimated at PLN 42 854 thousand. The purpose was to cancel actions related to the creation of Garbary and the contribution in kind. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings that ZM Pozmeat SA contributed in kind to Garbary as payment for a stake in ZM Pozmeat SA share capital worth PLN 100 000 thousand. On 6 June 2006, the District Court in Poznań issued a verdict according to which the claims were dismissed in their entirety. The claimant filed an appeal against that verdict. On 6 February 2007, the Court of Appeal dismissed the claimant's appeal. The claimant filed the last resort appeal against the ruling of the Court of Appeal. On 2 October 2007, the Supreme Court revoked the ruling of the Court of Appeal and referred the case back. After re-examining the case, the Court of Appeal dismissed the ruling of the District Court in Poznań on 4 March 2008 and referred the case back. On 16 September 2010, the District Court in Poznań dismissed the claim in whole; the decision is not legally valid. On 19 October 2010, BPH filed an appeal against the ruling in question. On 24 February 2011, the Court of Appeal made a decision on revoking the ruling and discontinuance of proceedings involving Bank Pekao S.A. (the Bank entered in the proceedings as successor of BPH) justified by lack of title to bring the action before the court on the side of the Bank. The case was returned to the court of the first instance where it will be continued with the participation of BPH as the claimant. Bank Pekao SA filed the last resort appeal against the aforesaid decision with the Supreme Court.

3. Lawsuit brought by Bank BPH SA against the Bank and Tele-Tech Investment Sp. z o.o. ('TTI')

   On 17 November 2007, BPH brought to court a case for damages in the amount of PLN 34 880 thousand plus statutory interest from 20 November 2004 to the date of payment, due to alleged illegal actions such as the sale by ZM Pozmeat SA to TTI of all shares in the equity of Garbary Sp. z o.o. (previously Milenium Center Sp. z o.o.), an important part of its assets, while ZM Pozmeat SA was at risk of insolvency.

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

4. Claims of clients of Interbrok

   Up to 24 February 2012, 153 entities who were clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter referred to as Interbrok) called the Bank for amicable settlement in the total amount of PLN 296 461 thousand and via the District Court in Warsaw. In addition, up to 24 February 2012, 8 legal suits have been delivered to the Bank where former clients of Interbrok claimed compensation in the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. Plaintiffs allege that the Bank aided in Interbrok's illegal activities, which caused damage to plaintiffs. In all court cases the Bank moves for dismissal of the claims in entirety and objects to charges raised in the legal suits. The legal analysis of the abovementioned claims indicates that there are not significant grounds to state that the Bank bears liability in the case. Therefore, BRE Bank Group did not create provisions for the above claims. The District Court in Warsaw settled the aforementioned court cases and dismissed actions in all cases. As a consequence of the Court of Appeal verdict on 4 March 2010, one of the judgments becomes final and valid. On 22 June 2011, the Supreme Court dismissed the plaintiff's cassation appeal in the said case. As far as the remaining cases are concerned, on 21 December 2010 and 17 January 2012, the Court of Appeals revoked the judgments of the District Court and remanded the cases to the District Court in Warsaw for re-examination.

5. Class action against BRE Bank

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

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

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

   On 6 May 2011, the District Court in Łódź decided to reject the application of BRE Bank SA for dismissing the claim and decided that the case will proceed as a class action.

   On 13 June 2011, BRE Bank SA lodged a complaint against this decision with the Court of Appeal in Łódź. On 28 September 2011, the Court of Appeal dismissed the complaint of BRE Bank SA and so the case will proceed as a class action.

As at 31 December 2011, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2011 was also not higher than 10% of the Bank's equity.

Taxes

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

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

35. Off-Balance Sheet Liabilities

Off-balance sheet liabilities of the Bank comprise:

- Loan commitments

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

- Guarantees and other financial facilities

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

- Operating lease liabilities

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 2011 and 31 December 2010.

31.12.2011	Up to 1 year	1 - 5 years	Over 5 years	Total
Contingent liabilities granted and received	13 763 385	2 625 847	1 251 562	17 640 794
Commitments granted	13 258 633	2 420 918	947 489	16 627 040
1. Financing	11 193 210	1 637 853	755 045	13 586 108
a) Loan commitments	11 171 001	1 549 018	699 523	13 419 542
b) Operating lease commitments	22 209	88 835	55 522	166 566
2. Guarantees and other financial facilities	2 062 079	783 065	192 444	3 037 588
a) Banker's acceptances	3 042	-	-	3 042
b) Guarantees and standby letters of credit	1 670 897	771 739	192 444	2 635 080
c) Guarantees of issue	223 000	-	-	223 000
d) Documentary and commercial letters of credit	165 140	11 326	-	176 466
3. Other commitments	3 344	-	-	3 344
Commitments received	504 752	204 929	304 073	1 013 754
1. Financial commitments received	430	-	-	430
2. Guarantees received	504 322	204 929	304 073	1 013 324
Derivative financial instruments (nominal value of contracts)	334 224 245	146 169 595	10 466 975	490 860 815
1. Interest rate derivatives	290 742 871	141 341 059	10 449 114	442 533 044
2. Currency derivatives	42 271 858	4 784 658	17 861	47 074 377
3. Market risk derivatives	1 209 516	43 878	-	1 253 394
Total off-balance sheet items	347 987 630	148 795 442	11 718 537	508 501 609

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

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

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

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The nominal values of derivatives are presented in the Note 19.

As at 31 December 2011 BRE Bank SA received commitments in the amount of PLN 1 013 754 thousand, including unused loans granted by foreign banks in the amount of PLN 430 thousand and guarantees received as collateral in the amount of PLN 1 013 324 thousand.

36. Pledged Assets

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

	31.12.2011	31.12.2010
Pledged assets, including:	**4 338 332**	**1 828 724**
- Trading securities (Note 18)	485 463	1 018 658
- Investment securities (Note 22)	3 852 869	810 066
Liabilities arising from pledged assets, including:	**5 650 794**	**5 548 163**
- Sell-buy-back transactions (Note 28, 29), including	2 991 629	4 756 028
sell-buy-back transactions on securities which are subject to buy-sell-back transaction	1 314 260	3 279 087
- Collateral for the loan received from the European Investment Bank	2 474 685	613 757
- Funds guaranteed under the Bank Guarantee Fund	184 480	178 378

37. Registered Share Capital

The total number of ordinary shares as at 31 December 2011 was 42 102 746 shares (31 December 2010: 42 086 674 shares) of PLN 4 nominal value each (31 December 2010: PLN 4 each). All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 DECEMBER 2011						
Share type	Type of preference	Type of restrictions	Number of shares	Series / issue value	Paid up	Year of registration
ordinary bearer*	-	-	9 978 500	39 914 000	fully paid in cash	1 986
ordinary registered*	-	-	21 500	86 000	fully paid in cash	1 986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
Total number of shares			**42 102 746**			
Total registered share capital				**168 410 984**		
Nominal value per share		**4**				

* As at the end of the reporting period

On 18 July 2011 and on 1 December 2011, the National Depository for Securities ('KDPW') made a registration of respectively 15 864 and 208 shares of BRE Bank SA which were issued as part of the conditional increase in the share capital of the Bank pursuant to the resolution No. 21 of the 21st Ordinary General Meeting of the Bank of 14 March 2008 on the issuance of bonds with pre-emptive right to acquire shares of BRE Bank SA and the conditional increase of the share capital by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the long term incentive programme to take up shares in BRE Bank SA, on application for admission of the shares to trading on the regulated market and on dematerialisation of the shares.

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As a result of the above registration, in the year 2011 the Bank's share capital increased by PLN 64 288.

In 2011, there were changes in the structure of material share packages of the Bank.

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

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

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

Commerzbank Auslandsbanken Holding AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 December 2011 it held 69.72% of the share capital and votes at the General Meeting of BRE Bank SA (as at 31 December 2010 – 69.74%).

38. Share Premium

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

The increase of share premium in 2011 results from shares' issue in Q2, Q3 and Q4 2011.

39. Retained Earnings

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

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

	31.12.2011	31.12.2010
Other supplementary capital	2 061 378	1 603 654
Other reserve capital	20 178	10 791
General Risk Fund	825 143	765 143
Profit for the current year	1 066 012	517 724
Total retained earnings	**3 972 711**	**2 897 312**

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

In addition, the 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 shareholders at a general meeting.

2008 Incentive Program for the Management Board Members of the Bank

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

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

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

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

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

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

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

	31.12.2011		31.12.2010	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	33 356	4	47 077	4
Granted during the period	17 934	-	10 871	4
Forfeited during the period	-	-	-	-
Exercised during the period*	16 072	4	24 592	4
Expired during the period	-	-	-	-
Outstanding at the end of the period	35 218	4	33 356	4
Exercisable at the end of the period	-	-	-	-

* In 2011, the weighted average share price at the date of option exercise amounted to PLN 332.95 (2010: PLN 266.92).

Options outstanding as at the end of 2010 and at the end of 2011 expire on 31 December 2018.

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

2008 Incentive Program for key managers of BRE Bank Group

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

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

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

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

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

In 2010, the Management Board of the Bank took the decision to launch the program and approved the list of participants for Tranche III. Not granted options from Tranche I and II may be granted in the future years of the program execution. There were 12.650 options granted from Tranche III. Additionally, in 2011 there were 20.000 options granted from Tranche IV and 19.990 options granted from Tranche V. The options granted will allow participants to purchase the Bank shares with an issue price of PLN 4 per share. Realisation of rights stemming from Tranches III, IV and V is conditional and the options will be exercisable between 1 May 2012 and 31 December 2019 (Tranche III), 1 May 2013 and 31 December 2019 (Tranche IV) and 1 May 2014 and 31 December 2019 (Tranche V), respectively. The right to acquire shares is conditional upon the achievement of the following conditions: being employed over the period of the tranche, achievement of the economic factor set by Management Board for BRE Bank Group and achievement of the individual yearly assessment grade in each year of the tranche.

The fair values of options granted were determined as at 23 August 2010 (Tranche III) and as at 1 February 2011 (Tranches IV and V) using the Monte-Carlo simulation and amounted to PLN 245.9 (Tranche III), PLN 306.4 (Tranche IV) and PLN 306.6 (Tranche V), respectively. The valuation model was selected mainly due to the terms of the program, particularly its length and flexibility given to the participants in setting the exercise dates for vested options. The volatility of BRE Bank shares was calculated based on historical data for the period adequate to the length of the program (data from 12 April 2001 up to 23 August 2010 for Tranche III and from 5 March 2002 up to 1 February 2011 for Tranches IV and V). Calculations were based on a standard deviation of daily share price changes in the given period as well as the yield curve based on zero-coupon rates as at the valuation date.

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

	31.12.2011		31.12.2010	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	12 650	4	-	-
Granted during the period	39 990	-	12 650	4
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Expired during the period	3 360	-	-	-
Outstanding at the end of the period	49 280	4	12 650	4
Exercisable at the end of the period	-	-	-	-

Options outstanding at the end of 2010 and 2011 expire on 31 December 2019.

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

	31.12.2011	31.12.2010
Incentive programs		
As at the beginning of the period	**10 791**	**8 442**
- value of services provided (Note 10)	11 323	6 275
- settlement of exercised options	(1 936)	(3 926)
As at the end of the period	**20 178**	**10 791**

The incentive program for the Management Board of the Bank in the part comprising Commerzbank shares has no impact on other reserves as its cost is taken to the Income Statement in correspondence with liabilities. The value of provided services associated with this part of the program was PLN 1 698 thousand in 2011 (31 December 2010: PLN 1 738 thousand) (Note 10). As at 31 December 2011, liabilities due to this program amounted to PLN 3 179 thousand (31 December 2010: PLN 2 925 thousand).

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40. Other Components of Equity

	31.12.2011	31.12.2010
Exchange differences on translating foreign operations	(8 333)	(3 782)
Unrealized gains (positive differences)	4 075	6 645
Unrealized losses (negative differences)	(12 408)	(10 427)
Available-for-sale financial assets	152 716	145 616
Unrealized gains on debt instruments	21 621	19 447
Unrealized losses on debt instruments	(38 841)	(43 966)
Unrealized gains on equity instruments	208 918	206 472
Deferred income tax	(38 982)	(36 337)
Total other components of equity	144 383	141 834

41. Dividend per Share

On 2 March 2012, the Management Board of BRE Bank SA passed a resolution on submitting to the 25th Ordinary General Meeting a motion concerning non-payment of dividend for the year 2011 to the shareholders. The Management Board's motion will be presented for review to the Supervisory Board of the Bank.

42. Cash and Cash Equivalents

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

	31.12.2011	31.12.2010
Cash and balances with the Central Bank (Note 16)	1 032 081	2 340 672
Debt securities eligible for rediscounting at the Central Bank (Note 21)	2 158	3 686
Loans and advances to banks (Note 17)	2 620 988	1 361 869
Trading securities (Note 18)	928 668	2 220 974
Total cash and cash equivalents	4 583 895	5 927 201

43. Transactions with Related Entities

BRE Bank SA is the parent entity of the BRE Bank SA Group and Commerzbank AG is the ultimate parent of the Group. The direct parent entity of BRE Bank SA is Commerzbank Auslandsbanken Holding AG, which is 100% subsidiary of Commerzbank AG.

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

The most important transactions with related entities in 2011:

- On 31 January 2011, under the agreement concluded on 26 January 2011 between BRE Holding - 100% subsidiary of BRE Bank SA, and Commerz Real - 100% subsidiary of Commerzbank AG, BRE Holding acquired 49.996% of shares of BRE Leasing from Commerz Real. The purchase price was EUR 17 144 thousand (equivalent PLN 66 876 thousand). After this transaction, BRE Bank Group holds 100% shares in BRE Leasing.

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

- From 27 July 2010 to 9 June 2011 BRE Bank concluded several agreements with BRE Bank Hipoteczny, the Bank's subsidiary ('BBH') totalling PLN 800 000 thousand. Agreements concluded for the largest amounts were as follows:

  - The Underwriting Agreement between the Bank and BBH as of 20 April 2011 (the 'Underwriting Agreement I'). Under this Agreement, on 28 April 2011, the Bank acquired 200 thousand 5-year mortgage bonds issued by BBH in amount of PLN 200 000 thousand.

    The aforesaid mortgage bonds are to be quoted on the regulated market.

  - The Agreement between the Bank and BBH as of 9 June 2011 (the 'Underwriting Agreement II'). Under this Agreement, on 15 June 2011, the Bank acquired 200 thousand 6-year mortgage bonds issued by BBH in amount of PLN 200 000 thousand.

- From 2 August to 29 November 2011, the Bank concluded several agreements with its subsidiary entity BRE Leasing Sp. z o.o. on a total amount of PLN 828 640 thousand. The agreement concluded for the largest amount was the agreement concluded on 19 August 2011 regarding loan of amount of PLN 274 907 thousand with maturity to 30 August 2013. Moreover, from 29 November 2011 to 10 January 2012 the Bank concluded several further agreements on a total amount of PLN 752 000 thousand. The agreement for the largest amount was the agreement concluded on 28 December 2011 regarding multicurrency loan in amount of PLN 512 000 thousand.

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

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

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

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

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

The table below presents the values of transactions between the Bank and companies of BRE Bank Group and: Members of the Supervisory Board and the Management Board of BRE Bank, key executive management of BRE Bank, Members of the Supervisory Board and the Management Board of Commerzbank and other related persons and entities. The amounts of transactions include assets, liabilities and related costs and income as at 31 December 2011 and 31 December 2010 and for the respective periods then ended are as follows:

(in PLN 000's)	Supervisory Board, Management Board and key management personnel of BRE Bank SA as well as Supervisory Board and Management Board of Commerzbank AG		Other related persons *		BRE Bank's subsidiaries		Commerzbank AG	
As at the end of the period	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Statement of Financial Position								
Assets	9 030	6 400	31	31	4 767 591	4 001 848	229 071	390 441
Liabilities	13 078	13 267	4 258	2 862	738 793	763 082	24 549 139	23 934 174
Separate Income Statement								
Interest income	95	87	3	2	134 860	143 012	11 123	9 947
Interest expense	(428)	(397)	(96)	(99)	(20 324)	(17 825)	(365 566)	(320 112)
Commission income	25	-	3	1	83 275	113 606	-	-
Commission expense	(6)	-	-	-	(112 551)	(128 682)	-	-
Other operating income	-	-	-	-	13 712	11 797	97	6 367
Overhead costs amortization and depreciation and other operating expenses	1	-	-	-	(8 484)	(5 960)	(14 577)	(20 768)
Contingent liabilities granted and received								
Commitments granted	918	360	66	46	367 890	391 813	777 286	748 003
Commitments received	-	-	-	-	-	-	707 467	809 258

* Other related persons and entities include: close members of the family of Members of the Supervisory and the Management Board of BRE Bank, key executive management of BRE Bank, Members of the Supervisory Board and the Management Board of Commerzbank, entities controlled or jointly controlled by above mentioned persons.

In 2011 and 2010 no provisions were created in connection with credits granted to related entities.

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Management Board Remuneration

The composition of the Management Board of BRE Bank which consists of seven persons was as follows at the end of 2011:

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

On 9 December 2011 Ms Karin Katerbau, Vice-President of the Management Board announced her intention to resign from BRE Bank in the first half of 2012. Following her departure from BRE Bank, Ms Karin Katerbau will become a Member of the Management Board of Oldenburgische Landesbank.

On 27 January 2012, BRE Bank made public an information concerning intention of Mr. Christian Rhino, BRE Bank's Management Board Member and Chief Operation Officer, to resign from his function as of 31 March 2012. The reason for his resignation is a planned transfer to a new function in Commerzbank AG.

Information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2011, as at 31 December 2011 and 31 December 2010, is presented below.

		Remuneration paid in 2011 (in PLN)			
		Basic salary	Other benefits	Bonus for 2010	Cash settlement of the incentive program based on Commerzbank shares*
1.	Cezary Stypułkowski	2 071 179	183 230	352 844	-
2.	Karin Katerbau	1 500 000	80 291	1 312 500	94 583
3.	Wiesław Thor	1 505 225	154 506	1 312 500	309 081
4.	Przemysław Gdański	1 200 000	130 684	1 000 000	11 854
5.	Hans-Dieter Kemler	1 203 161	409 614	1 000 000	9 254
6.	Jarosław Mastalerz	1 200 000	93 891	1 000 000	307 655
7.	Christian Rhino	1 207 107	145 826	1 000 000	201 608
	Total	9 886 672	1 198 042	6 977 844	934 035

* The settlement relates to 2008 incentive program for the Management Board Members of the Bank in the part based on Commerzbank shares. In 2011, the entitled Management Board Members received cash equivalent for Commerzbank shares as a settlement of the second tranche of the incentive program for 2008 and of the first tranche of the incentive program for 2009.

Remuneration of the former Management Board Members paid in the year 2011.

		Remuneration paid in 2011 (in PLN)			
		Basic salary	Other benefits, payoff and compensations	Bonus for 2010	Cash settlement of the incentive program based on Commerzbank shares*
Remuneration of the former Management Board Members who ceased performing their functions in the year 2010					
1.	Mariusz Grendowicz	-	129	1 098 082	358 663
Remuneration of the former Management Board Members who ceased performing their functions in the year 2008					
2.	Andre Carls	-	-	-	104 055
	Total	-	129	1 098 082	462 718

* The settlement relates to 2008 incentive program for the Management Board Members of the Bank in the part based on Commerzbank shares. In 2011, the entitled former Management Board Members received: Mr. Mariusz Grendowicz cash equivalent for Commerzbank shares as a settlement of the second and third tranche of the incentive program for 2008 as well as first, second and third tranche of the incentive program for 2009, Mr. Andre Carls cash equivalent for Commerzbank shares as a settlement of the second tranche of the incentive program for 2008.

Mr. Mariusz Grendowicz, who acted as the President of the Bank until 2 August 2010, was paid bonus for 2010 in the amount of PLN 1 098 082.

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

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

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

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

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

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

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

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

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

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

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

The above mentioned benefits are short-term employee benefits.

In accordance with the Bank's remuneration system in force, Members of the Management Board of the Bank may be eligible to receive bonuses for the year 2011, which would be paid out in 2012. The final decision concerning the level of the bonus will be taken by the Executive Committee of the Supervisory Board by 30 March 2012.

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In 2011 and 2010, Members of the Management Board of BRE Bank SA did not receive compensation for their role as members of the management boards and supervisory boards of the Bank's related companies.

The total amount of remuneration received in 2011 by the Bank's Management Board Members was PLN 18 996 593 (2010: PLN 17 378 763).

Supervisory Board Compensation

The composition of the Supervisory Board at the end of 2011 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. Ulrich Sieber - Deputy Chairman of the Supervisory Board, Member of the Executive Committee,
3. Andre Carls - Deputy Chairman of the Supervisory Board, Member of the Executive Committee, Member of the Audit Committee,
4. Sascha Klaus - Member of the Supervisory Board, Chairman of the Risk Committee,
5. Eric Strutz - Member of the Supervisory Board, Chairmen of the Audit Committee,
6. Thorsten Kanzler - Member of the Supervisory Board, Member of the Risk Committee,
7. Teresa Mokrysz - Member of the Supervisory Board, Member of the Audit Committee,
8. Waldemar Stawski - Member of the Supervisory Board, Member of the Risk Committee,
9. Jan Szomburg - Member of the Supervisory Board, Member of the Executive Committee,
10. Marek Wierzbowski - Member of the Supervisory Board.

On 21 June 2011, the Management Board of BRE Bank SA received information from Member of the Supervisory Board, Mr. Achim Kassow about his resignation from membership in the Supervisory Board of BRE Bank. The resignation took place on 12 July 2011.

With effect from 13 July 2011, the Supervisory Board of BRE Bank appointed Mr. Ulrich Sieber as Supervisory Board Member of BRE Bank and Member of the Executive Committee of the Supervisory Board for the period until the end of the current term of the Supervisory Board.

On 13 February 2012, the Bank received information from Member of the Supervisory Board, Mr. Eric Strutz about his resignation from membership in the Supervisory Board of BRE bank. The resignation will take place on 30 March 2012.

Information about the Supervisory Board members' salaries, bonuses and benefits paid as at 31 December 2011 and 31 December 2010 is presented below.

		Remuneration paid in 2011 (in PLN)	Remuneration paid in 2010 (in PLN)
1.	Maciej Leśny	319 862	318 557
2.	Ulrich Sieber	109 571	-
3.	Andre Carls	241 500	273 000
4.	Thorsten Kanzler	149 935	-
5.	Sascha Klaus	206 250	173 250
6.	Teresa Mokrysz	185 747	134 927
7.	Waldemar Stawski	202 862	201 557
8.	Eric Strutz	149 935	-
9.	Jan Szomburg	211 112	234 557
10.	Marek Wierzbowski	132 000	132 000
	Michael Schmid*	-	57 750
	Martin Zielke**	49 500	198 000
	Stefan Schmittmann**	-	-
	Achim Kassow***	99 668	132 000
	Total	**2 057 942**	**1 855 598**

* On 31 March 2010 Mr. Michael Schmid resigned from the office
** Term expired on 30 March 2011
*** On 12 July 2011 Mr. Achim Kassow resigned from the office

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

The total compensation of Members of the Supervisory Board, the Management Board and other key executive management of the Bank that perform their duties in 2011 amounted to PLN 29 730 191 (2010: PLN 29 072 962).

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

As at 31 December 2011, Bank shares were held by five Members of the Management Board: Vice-president, Mrs. Karin Katerbau – 2 611, Vice-president, Mr. Wiesław Thor – 4 805 shares and Members of the Management Board, Mr. Przemysław Gdański - 156 shares, Mr. Jarosław Mastalerz – 2 603 shares and Mr. Christian Rhino – 6 046 shares.

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

As at 31 December 2011 and 31 December 2010, one Member of the Supervisory Board of BRE Bank SA held shares of BRE Bank SA, Mr. Andre Carls respectively: 3 269 shares and 1 635 shares.

As at 31 December 2011 and 31 December 2010, the other Members of the Supervisory Board of BRE Bank SA had no Bank shares.

44. Acquisitions and Disposals

- On 31 January 2011, under the agreement concluded on 26 January 2011 between BRE Holding - 100% subsidiary of BRE Bank SA, and Commerz Real - 100% subsidiary of Commerzbank AG, BRE Holding acquired 49.996% of shares of BRE Leasing from Commerz Real. The purchase price was EUR 17 144 thousand (equivalent PLN 66 876 thousand). After this transaction, BRE Bank Group holds 100% shares in BRE Leasing.

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

- On 8 April 2011, an agreement was concluded between entities of BRE Bank Group and entities of Erste Group. Under this agreement, the Group sold its stakes in Intermarket Bank AG and Magyar Factor zRt. to Erste Group entities and acquired from Intermarket Bank AG its respective stakes in Polfactor SA and Transfinance a.s. The completion of the above transactions was on 28 July 2011, following the receipt of all necessary regulatory approvals and the materialisation of all contractual suspending conditions. As a result of this transaction BRE Bank Group became the sole owner of Polfactor SA and Transfinance a.s., leading factoring providers in Poland and in the Czech Republic respectively.

  The transaction was aiming at unwinding the factoring operations of BRE Bank Group. The Group will concentrate on factoring activities in Poland and Czech Republic, where it is also present with mBank Czech Republic banking operations.

45. Information about the Registered Audit Company

The registered audit company with whom BRE Bank SA signed an agreement is PricewaterhouseCoopers Sp. z o.o. The agreement to conduct an audit of stand-alone financial statements of BRE Bank SA and consolidated financial statements of BRE Bank SA Group was signed on 1 June 2010.

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to the audit and review of stand-alone financial statements and consolidated financial statements of BRE Bank SA was PLN 3 005 thousand in 2011 (2010: PLN 3 029 thousand).

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to consulting services for BRE Bank SA was PLN 1 280 thousand in 2011 (2010: PLN 2 351 thousand).

46. Capital Adequacy Ratio / Capital Adequacy

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

- are consistent with valid external regulations and internal regulations of the Bank,
- assure safe continuation of accomplishment of financial targets providing a suitable level of return for shareholders,
- enable to maintain a stable capital base which is the basis for growth of business.

The capital management policy in BRE Bank is based on:

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

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

Own funds comprise:

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

The total capital requirement comprises:

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

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

The internal capital is the amount of capital estimated by the Bank to cover all material risks identified in the Bank's operations, i.e. measurable risks for which capital is estimated at the assumed confidence level over a one-year time horizon and hard-to-quantify risks. The internal capital is the total of the economic capital to cover permanently material measurable risks and the capital to cover material hard-to-quantify risks.

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

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

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

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

- Banking Act dated 29 August 1997 (Dz.U. from the year 2002 No 72, item 665, with later amendments),
- Resolution No. 325/2011 of the Polish Financial Supervision Authority dated 20 December 2011 (Dz. Urz. KNF from the year 2011 No 13 item 49),
- Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 (Dz. Urz. KNF from the year 2010 No 2 item 11) with later amendments,
- Resolution No. 258/2011 of the Polish Financial Supervision Authority dated 4 October 2011 (Dz. Urz. KNF from the year 2011 No 11 item 42),
- Resolution No. 208/2011 of the Polish Financial Supervision Authority dated 22 August 2011 (Dz. Urz. KNF from the year 2011 No 9 item 34),
- Resolution No. 384/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 38) with later amendments,
- Resolution No. 387/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 41),

The capital adequacy ratio of BRE Bank amounted to 15.28% as at 31 December 2011.

Due to significant trading activity, full calculation of the capital requirements is being made. The total capital requirement of the Bank amounted to PLN 4 735 731 thousand as at 31 December 2011, including PLN 4 321 334 thousand of credit capital requirement (31 December 2010 respectively: 3 864 756 thousand and PLN 3 494 179 thousand).

Due to the fact that both total capital requirement of the Bank calculated according to the Resolution No. 76/2010 with later amendments and internal capital assessed for the Bank according to the Resolution No. 258/2011 are lower than the Bank's own funds, the Bank's own funds as at 31 December 2011 were kept on the level consistent with the Banking Act requirements.

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Capital adequacy	31.12.2011	31.12.2010
Own funds:		
- Share capital	168 411	168 347
- Supplementary fund	5 386 779	4 927 119
- Reserve fund	845 320	775 934
- Revaluation reserve arising from valuation of non-current and financial assets available for sale	133 510	130 734
- Investments in financial institutions	(513 772)	(459 104)
- Additional decrease	(38 535)	-
- Intangible assets	(389 807)	(379 981)
- Subordinated liabilities	3 451 635	3 005 705
I. Total own funds	**9 043 541**	**8 168 754**
Risk weighted off-balance sheet assets and liabilities:		
- applying a 20% risk weight	1 226 942	744 514
- applying a 35% risk weight	1 109 174	544 822
- applying a 50% risk weight	2 376 203	1 950 063
- applying a 75% risk weight	26 051 376	23 336 476
- applying a 100% risk weight	22 958 113	16 897 159
- applying a 150% risk weight	725 242	743 134
II. Total risk weighted assets and off-balance sheet liabilities	**54 447 050**	**44 216 168**
III. Credit risk	**4 321 334**	**3 494 179**
IV. Foreign exchange risk	**-**	**-**
V. Equity instruments price risk	**240**	**279**
VI. Specific risk for debt instruments	**34 687**	**26 306**
VII. General interest rate risk	**31 736**	**21 467**
VIII. Settlement, delivery and counterparty credit risk	**34 430**	**42 988**
IX. Commodities risk	**-**	**-**
X. Operational risk	**313 304**	**279 537**
XI. Total capital charge	**4 735 731**	**3 864 756**
XII. Capital adequacy ratio (%)	**15.28%**	**16.91%**

47. Events after the Balance Sheet Date

In December 2011, a decision was made to reorganise the outsourcing services area of BRE Bank Group by means of transferring the operations and processes related to services provided to clients from outside BRE Bank Group from Centrum Rozliczeń i Informacji CERI Sp. z o.o. (CERI) to BRE Systems Sp. z o.o. (BRE Systems). On 29 February 2012, an agreement was signed on the sale of 100% of BRE Systems to Commerzbank AG. BRE Bank and CERI sold their respective shareholdings of 0.42% and 99.58% in BRE Systems for a total amount of PLN 13.2 million to Commerzbank AG.

Moreover, in December 2011, the General Meetings of CERI and BRE Systems adopted resolutions on changing the registered business names of both companies. Consequently, following the registration of the aforesaid resolutions with the Commercial Court, Centrum Rozliczeń i Informacji Sp. z o.o. changed its registered business name to BRE Centrum Operacji Sp. z o.o. and BRE Systems Sp. z o.o. changed its registered business name to CERI International Sp. z o.o.

As a result of the changes, BRE Centrum Operacji (formerly – CERI) will be providing outsourcing services to BRE Bank and the subsidiaries of BRE Group, while CERI International Sp. z o.o.(formerly – BRE Systems) will be rendering its services to Commerzbank AG and entities from outside BRE Bank Group.