TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the registered auditor's opinion and report of the above-mentioned Polish Company. In Poland statutory accounts must be prepared and presented in accordance with Polish legislation and in accordance with the accounting principles and practices generally used in Poland.

The accompanying translated opinion has not been reclassified or adjusted in any way to conform to accounting principles generally accepted in countries other than in Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancy in interpreting the terminology, the Polish version is binding.

Independent Registered Auditor's Opinion

To the General Shareholders' Meeting and the Supervisory Board of BRE Bank SA

We have audited the accompanying consolidated financial statements of the BRE Bank SA Group (hereinafter called "the Group"), whose Parent is BRE Bank SA (hereinafter called "the Bank") with its registered office in Warsaw, ul. Senatorska 18, which comprise:

(a) the consolidated balance sheet as at 31 December 2005, showing total assets and total equity and liabilities of PLN 32,817,371 thousand;

(b) the consolidated income statement for the year ended 31 December 2005, showing a net profit including minority interest of PLN 267,905 thousand;

(c) the statement of changes in consolidated equity for the year ended 31 December 2005, showing an increase in equity of PLN 201,069 thousand;

(d) the consolidated cash flow statement for the year ended 31 December 2005, showing a net decrease in cash and cash equivalents of PLN 1,880,542 thousand;

(e) the notes to the consolidated financial statements about the adopted accounting policies and other explanations.

The Bank's Management Board is responsible for preparing the consolidated financial statements and the Group Directors' Report in accordance with applicable regulations. Our responsibility was to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with the following regulations applicable in the Republic of Poland:

(a) the provisions of Chapter 7 of the Accounting Act of 29 September 1994 (Journal of Laws of 2002, No. 76, item 694 with subsequent amendments, hereinafter called the Act).

(b) the auditing standards issued by the National Council of Registered Auditors in Poland.

Our audit was planned and performed to obtain reasonable assurance that the consolidated financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the consolidated financial statements. The audit also included an assessment of the accounting policies applied by the Group and significant estimates made in the preparation of the consolidated financial statements as well as an evaluation of the overall presentation thereof. We believe that our audit provided a reasonable basis for our opinion.

Independent Registered Auditor's Opinion

To the General Shareholders' Meeting and the Supervisory Board of BRE Bank SA (cont.)

The information in the Group Directors' Report for the year ended 31 December 2005 complies with the requirements of the Decree of the Minister of Finance dated 19 October 2005 concerning the publication of current and periodic information by issuers of securities and is consistent with the information presented in the audited consolidated financial statements.

In our opinion, and in all material respects, the accompanying consolidated financial statements:

(a) have been prepared on the basis of properly maintained consolidation documentation;

(b) comply in form and contents with the relevant laws;

(c) give a true and fair view of the Group's financial position as at 31 December 2005 and of the results of its operations for the year then ended in accordance with the International Financial Reporting Standards as adopted for use in the European Union.

On behalf of PricewaterhouseCoopers Sp. z o.o. and conducting the audit:

Adam Celiński Board Member Registered Auditor No. 90033/7039	Registered Audit Company No. 144

Warsaw, 27 February 2006

The BRE Bank SA Group

Registered auditor’s report on the consolidated financial statements as at and for the year ended 31 December 2005

TRANSLATORS’ EXPLANATORY NOTE

The following document is a free translation of the registered auditor’s report of the above-mentioned Polish Company. In Poland statutory accounts must be prepared and presented in accordance with Polish legislation and in accordance with the accounting principles and practices generally used in Poland.

The accompanying translated report has not been reclassified or adjusted in any way to conform to accounting principles generally accepted in countries other than in Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancy in interpreting the terminology, the Polish version is binding.

Registered auditor's report on the consolidated financial statements
To the General Shareholders' Meeting and the Supervisory Board
of BRE Bank SA

This report has been prepared in connection with our audit of the consolidated financial statements of the BRE Bank SA Group (hereinafter called "the Group") whose parent is BRE Bank SA (hereinafter called "the Bank"), with its registered office in Warsaw, ul. Senatorska 18. The consolidated audited financial statements comprise:

(a) the consolidated balance sheet as at 31 December 2005, showing total assets and total equity and liabilities of PLN 32,817,371 thousand;

(b) the consolidated income statement for the year ended 31 December 2005, showing a net profit including minority interest of PLN 267,905 thousand;

(c) the statement of changes in consolidated equity for the year ended 31 December 2005, showing an increase in equity of PLN 201,069 thousand;

(d) the consolidated cash flow statement for the year ended 31 December 2005, showing a net decrease in cash and cash equivalents of PLN 1,880,542 thousand;

(e) the notes to the consolidated financial statements about the adopted accounting policies and other explanations.

The consolidated financial statements were signed by the Bank's Management Board on 27 February 2006. This report should be read in conjunction with the Independent Registered Auditor's Opinion to the General Shareholders' Meeting and the Supervisory Board of BRE Bank SA of 27 February 2006 on the above-mentioned consolidated financial statements. The opinion is a general conclusion drawn from the audit of the consolidated financial statements and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual consolidated financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements as a whole.

This report contains 29 consecutively numbered pages and consists of:

On behalf of PricewaterhouseCoopers Sp. z o.o. and conducting the audit:

Adam Celiński
Board Member
Registered Auditor
No. 90033/7039

Registered Audit Company
No. 144

Warsaw, 27 February 2006

I. General information about the Group

(a) BRE Bank SA commenced operations on 2 January 1987. The Memorandum of Association was in the form of a Notarial Deed drawn up at a State Notary Public's Office in Warsaw, on 11 December 1986 and registered with Rep. A I No. 5919/86. On 11 July 2001, The Company was entered in the Register of Businesses with the number KRS 0000025237 by the District Court in Warsaw, 19th Business Department of the National Court Register.

(b) On 24 June 1993 the Bank was assigned the tax identification number (NIP) 526-021-50-88. For statistical purposes the Bank was assigned the REGON number 001254524 on 2 June 1998.

(c) As at 31 December 2005, the Bank's registered share capital amounted to PLN 115,935,888 and comprised 28,983,972 shares with a nominal value of PLN 4 each.

(d) In the audited year, the Bank's operations comprised:

- operating bank accounts;
- accepting savings deposits and term deposits;
- making cash settlements;
- granting cash loans and advances, and consumer loans and advances within the meaning specified by a separate act;
- handling cheque and bill of exchange operations;
- granting and confirming letters of support;
- granting and confirming bank guarantees and opening letters of credit;
- trading in foreign exchange instruments and providing financial services in respect of foreign trade;
- issuing securities, trading in securities and maintaining securities accounts;
- performing commissioned tasks related to issuing securities;
- conducting forward transactions;
- acquiring interests in banks and companies and acquiring units and certificates of investment in investment funds in Poland and abroad;
- accepting instructions to purchase, repurchase and subscribe to units or certificates of investment in investment funds.

(e) During the audited year the Management Board of the Bank comprised:

- Sławomir Lachowski – Chairman of the Board
- Krzysztof Kokot – Deputy Chairman of the Board, until 8 February 2005
- Anton M. Burghardt – First Deputy Chairman of the Board, until 14 March 2005
- Wiesław Thor – Board Member
- Rainer Peter Ottenstein – Board Member
- Bernd Loewen – Board Member from 22 March 2005
- Janusz Wojtas – Board Member from 4 April 2005
- Jerzy Jóźkowiak – Board Member from 27 January 2005

I. General information about the Group (cont.)

(f) The Bank is an issuer of securities admitted to trading on the Warsaw Stock Exchange and in accordance with the requirements of the Accounting Act it prepares the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union. The audited consolidated financial statements for the year ended 31 December 2005 are the first annual consolidated financial statements prepared in accordance with IFRS as adopted for use in the European Union, and the effects of transition to the new accounting standards are described in Note 45 to the consolidated financial statements. Comparative data included in the audited consolidated financial statements has been appropriately adjusted and differs from the data in the approved financial statements for the prior financial year.

I. General information about the Group (cont.)

(g) As at 31 December 2005, the following entities comprised the BRE Bank SA Group:

Company name	Nature of relationship (% interest)	Consolidation method	Auditor	Opinion type	Balance sheet date
BRE Bank SA	Parent	Not applicable	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2005
Dom Inwestycyjny BRE Banku S.A.	Subsidiary (100.00%)	Purchase	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2005
BRE Corporate Finance S.A.	Subsidiary (100.00%)	Purchase	Grant Thorton Sp z o.o.	unqualified	31 December 2005
BRE International Finance B.V.	Subsidiary (100.00%)	Purchase	PricewaterhouseCoopers Accountants N.V.	unqualified	31 December 2005
BRE Finance France S.A.	Subsidiary (99.98%)	Purchase	PricewaterhouseCoopers Audit	unqualified	31 December 2005
BRE Leasing Sp. z o.o.	Subsidiary (50.004%)	Purchase	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2005
Intermarket Bank AG	Subsidiary (56.24%)	Purchase	Ernst & Young G.m.b.H	unqualified	31 December 2005
Polfactor S.A.	Subsidiary (78.12%)	Purchase	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2005
Transfinance a.s.	Subsidiary (78.22%)	Purchase	Ernst & Young s.r.o.	with an explanatory paragraph	31 December 2005
Centrum Rozliczeń i Informacji CERI Sp. z o.o.	Subsidiary (100.00%)	Purchase	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2005
Magyar Factor Rt.	Subsidiary (78.12%)	Purchase	PricewaterhouseCoopers Kft.	unqualified	31 December 2005
Skarbiec Asset Management Holding S.A.	Subsidiary (100.00%)	Purchase	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2005
TV-Tech Investment 1 Sp.z o.o.	Subsidiary (100.00%), SPE	Purchase	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2005
Tele-Tech Investment Sp. z o.o.	Associate (24.00%), SPE	Purchase	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2005
Garbary Sp. z o.o.	Subsidiary (100.00%)	Purchase	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2005
BRE.locum Sp. z o.o.	Subsidiary (57.19%)	Purchase	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2005
PTE Skarbiec - Emerytura S.A.	Subsidiary (100.00%)	Purchase	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2005

II. Information about the audit

(a) PricewaterhouseCoopers Sp. z o.o. was appointed auditor to the Group by Resolution No. 26 of the General Shareholders' Meeting of BRE Bank SA dated 22 March 2005 in accordance with paragraph 11 of the Bank's Memorandum of Association.

(b) PricewaterhouseCoopers Sp. z o.o. and the registered auditor conducting the audit are independent of the audited entity within the meaning of art. 66, clause 2 of the Accounting Act.

(c) The audit was conducted in accordance with the contract dated 29 September 2004 in the following periods:

- interim audit from 7 November 2005 to 21 December 2005
- final audit from 2 January 2006 to 27 February 2006.

III. The Group's results and financial position

The observations below are based on knowledge obtained during the audit of the consolidated financial statements.

The consolidated financial statements do not take account of the effects of inflation. The consumer price index (on a December to December basis) amounted to 0.7% in the audited year (4.4% in 2004).

BRE Bank SA is the Parent of the Group and had 37 subsidiaries (including 15 consolidated subsidiaries, as others have been assessed as immaterial for the consolidated financial statements), 1 fully consolidated associate, the data of 1 associate was reflected in the consolidated financial statements under the equity method. In the prior year, the Group comprised the Bank and 37 subsidiaries (including 16 consolidated subsidiaries), 1 fully consolidated associate, the data of 1 associate was reflected in the consolidated financial statements under the equity method.

As of 2005, the Group has prepared its consolidated financial statements in accordance with the IFRS as adopted for use in the European Union. In accordance with IFRS 1 the Group restated the comparative data in the scope required by the standard. However, the comparability of the consolidated financial statements as at and for the years ended 31 December 2004 and 31 December 2005 and, consequently, the information value of the ratios for those years, may be limited due to the fact that starting from 1 January 2005, certain financial assets have been measured using the effective interest rate and an impairment loss model for loans and receivables has been introduced based on the restatement exemptions available under IFRS 1 for first-time adopters of IFRS.

In the audited period the factors described below had a significant impact on the Group's results of operations and on its financial position.

- In 2005 the Group continued the strategy of concentrating on retail banking, corporate banking and factoring adopted in the previous years, among other things, by increasing interests held in banking sector companies and reducing interests in developer companies.
  In 2005 the stake held in the subsidiary Intermarket Bank AG was increased, and the stake in the subsidiary BRE.locum Sp. z o.o. was sold.

- As at the end of the financial year the Group's assets amounted to PLN 32,817,371 thousand. During the year, total assets increased by PLN 2,323,923 thousand (i.e. by 8%). The increase in assets was financed mainly by the net profit for the audited year of PLN 247,543 thousand and an increase in amounts due to customers of PLN 3,545,517 thousand with a simultaneous drop in amounts due to banks of PLN 1,225,073 thousand.

III. The Group's results and financial position (cont.)

- In 2005 the structure of assets changed which resulted in a large increase in "Cash and balances with the central bank" (of PLN 1,043,766 thousand), an increase in securities, both trading (of PLN 2,638,952 thousand) and investment securities (of PLN 544,724 thousand), with a simultaneous drop in amounts due from banks (of PLN 2,321,577 thousand - mainly current accounts) and derivative financial instruments (of PLN 541,592 thousand). During the year net loans and advances to customers increased (by PLN 1,133,130 thousand) mainly as a result of an increase in amounts due from customers.
- The net profit for the audited year amounted to PLN 247,543 thousand compared with the net loss in the prior year of PLN 294,017 thousand (after restating the data for 2004 to ensure comparability). This amount comprised mainly: net interest income of PLN 621,728 thousand, net fee and commission income of PLN 393,609 thousand, net trading income of PLN 265,110 thousand, administrative expenses, depreciation and amortization of PLN 939,963 thousand, a surplus of provisions recognised over released of PLN 78,841 thousand, and income tax expense of PLN 70,059 thousand.
- The operating profit was PLN 575,730 thousand higher than in the year ended 31 December 2004, mainly due to an increase in net interest income and net other operating income of PLN 135,783 thousand and PLN 315,833 thousand respectively. Apart from the factors specified above, also the drop in net impairment losses on loans and advances of PLN 45,734 thousand had an impact on the improvement of the operating profit compared with the prior year. This positive trend was partly offset by an increase in administrative expenses compared with 2004. The net profit for 2005 was additionally decreased by a write-down of goodwill of PTE Skarbiec - Emerytura S.A. (PTE) of PLN 36,109 thousand.
- At the same time, the income tax charge for the financial year increased by PLN 34,010 thousand. The increase in the income tax charge resulted from an increase in current income tax expense of PLN 63,028 thousand to the level of PLN 87,680 thousand with a simultaneous drop in deferred income tax liability of PLN 29,018 thousand. As at 31 December 2005 the Group recognized a deferred income tax asset and a deferred income tax liability calculated at the income tax rates binding for particular companies.

The acquisition of a controlling interest in BRE Bank Hipoteczny S.A. by the Group and the sale of shares in PTE Skarbiec - Emerytura SA may have an impact on the Group's operations in the following years:

- In November 2005 the Bank signed a conditional agreement for the sale of shares in PTE Skarbiec – Emerytura S.A. On the basis of the minimum price specified in the agreement, the Group recorded a further impairment loss in respect of the shares in PTE Skarbiec – Emerytura S.A. of PLN 36,109 thousand. In February 2006 The Competition and Consumer Protection Office (UOKiK) has approved the merger of the pension funds PTE Skarbiec - Emerytura and PTE PZU. In order for the merger to go ahead, the approval of the the Insurance and Pension Funds Supervisory Commission (KNUiFE) is still needed.
- In January 2006 the Bank acquired 100% of shares in BRE Bank Hipoteczny S.A.

IV. Discussion of selected financial statement components (cont.)

CONSOLIDATED BALANCE SHEET as at 31 December 2005

	Note	31.12.2005 PLN'000	31.12.2004 PLN'000	Change PLN'000	Change (%)	31.12.2005 Structure (%)	31.12.2004 Structure (%)
ASSETS							
Cash and balances with the central bank	1	1,778,457	734,691	1,043,766	142	5	2
Debt securities eligible for rediscounting at the central bank		37,464	52,832	(15,368)	(29)	-	-
Amounts due from banks	2	4,668,474	6,990,051	(2,321,577)	(33)	14	23
Trading securities	3	5,011,960	2,373,008	2,638,952	111	15	8
Derivative financial instruments	4	1,255,232	1,796,824	(541,592)	(30)	4	6
Loans and advances to customers	5	15,463,514	14,330,384	1,133,130	8	47	47
Investment securities	6	1,124,832	580,108	544,724	94	3	2
Non-current assets held for sale	7	317,349	-	317,349	-	1	-
Pledged assets	8	1,516,212	1,781,725	(265,513)	(15)	5	6
Investments in associates	9	6,477	2,224	4,253	191	-	-
Intangible assets	10	406,380	664,770	(258,390)	(39)	1	2
Property, plant and equipment	11	558,535	522,987	35,548	7	2	2
Deferred income tax assets	31	117,048	90,274	26,774	30	1	-
Other assets	12	555,437	573,570	(18,133)	(3)	2	2
TOTAL ASSETS		**32,817,371**	**30,493,448**	**2,323,923**	**8**	**100**	**100**

IV. Discussion of selected financial statement components (cont.)

CONSOLIDATED BALANCE SHEET as at 31 December 2005 (cont.)

LIABILITIES AND EQUITY	Note	31.12.2005 PLN'000	31.12.2004 PLN'000	Change PLN'000	Change (%)	31.12.2005 Structure (%)	31.12.2004 Structure (%)
Liabilities		**30,708,901**	**28,586,047**	**2,122,854**	**7**	**94**	**94**
Deposits from other banks	13	4,337,056	5,562,129	(1,225,073)	(22)	13	18
Derivative financial instruments and other trading liabilities	14	1,175,070	1,620,713	(445,643)	(27)	4	5
Amounts due to customers	15	20,443,406	16,897,889	3,545,517	21	63	56
Debt securities in issue	16	2,731,157	3,103,322	(372,165)	(12)	8	10
Subordinated liabilities	17	1,362,528	1,020,144	342,384	34	4	4
Other liabilities	18	563,020	340,766	222,254	65	2	1
Current income tax liabilities		3,529	1,444	2,085	144	-	-
Deferred income tax liabilities	31	161	246	(85)	(35)	-	-
Provisions	19	86,135	39,394	46,741	119	-	-
Liabilities held for sale	7	6,839	-	6,839	-	-	-
Equity	20	**2,108,470**	**1,907,401**	**201,069**	**11**	**6**	**6**
Share capital		1,423,843	1,386,017	37,826	3	4	5
Revaluation reserve		(2,975)	1,568	(4,543)	(290)	-	-
Retained earnings		614,371	457,160	157,211	34	2	1
Minority interest		73,231	62,656	10,575	17	-	-
TOTAL LIABILITIES AND EQUITY		**32,817,371**	**30,493,448**	**2,323,923**	**8**	**100**	**100**

IV. Discussion of selected financial statement components (cont.)

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2005

	Note	2005 PLN'000	2004 PLN'000	Change PLN'000	Change (%)	2005 Structure (%)	2004 Structure (%)
Interest income		1,540,005	1,348,673	191,332	14	60	54
Interest expense		(918,277)	(862,728)	(55,549)	6	(41)	(32)
Net interest income	21	**621,728**	**485,945**	**135,783**	**28**	**-**	**-**
Fee and commission income		543,217	524,328	18,889	4	21	21
Fee and commission expense		(149,608)	(142,654)	(6,954)	5	(7)	(5)
Net fee and commission income	22	**393,609**	**381,674**	**11,935**	**3**	**-**	**-**
Dividend income	23	47,033	7,176	39,857	555	2	-
Foreign exchange position		257,887	219,365	38,522	18	10	9
Net other trading income		7,223	11,201	(3,978)	(36)	0	-
Net trading income	24	**265,110**	**230,566**	**34,544**	**15**	**-**	**-**
Net gains / (losses) on investment securities	25	43,145	(8,542)	51,687	(605)	2	-
Other operating income	26	136,176	394,234	(258,058)	(65)	5	16
Net impairment losses on loans and advances	27	(78,841)	(124,575)	45,734	(37)	(3)	(5)
Administrative expenses	28	(800,348)	(731,578)	(68,770)	9	(36)	(27)
Amortization and depreciation	29	(139,615)	(148,742)	9,127	(6)	(6)	(5)
Other operating expenses	30	(149,564)	(723,455)	573,891	(79)	(7)	(26)
Operating profit/(loss)		**338,433**	**(237,297)**	**575,730**	**(243)**	**-**	-
Share in profits/losses of associates		(469)	(35)	(434)	1,240	-	-
Profit/(loss) before income tax		**337,964**	**(237,332)**	**575,296**	**(242)**	**-**	-
Income tax expense	31	(70,059)	(36,049)	(34,010)	94	-	-
Net profit/(loss) attributable to equity holders of the Bank		**267,905**	**(273,381)**	**541,286**	**(198)**	**-**	**-**
Net profit/(loss) attributable to minority interest		20,362	20,636	(274)	(1)	-	-
Net profit/(loss)		247,543	(294,017)	541,560	(184)	-	-
Total revenues		**2,574,686**	**2,504,977**	**69,709**	**3**	**100**	**100**
Total costs		**(2,236,722)**	**(2,742,309)**	**505,587**	**(18)**	**(100)**	**(100)**
Profit/(loss) before income tax		**337,964**	**(237,332)**	**575,296**	**(242)**	**-**	**-**

IV. Discussion of selected financial statement components (cont.)

Selected ratios characterizing the Group's financial position and results

	31.12.2005	31.12.2004
Profitability ratios		
Return on equity (net profit for the financial period / average net assets) (1)	12.33%	(16.42)%
Return on assets (profit before income tax / average assets) (1)	1.07%	(0.79)%
Gross margin (profit before income tax / total revenues)	13.13%	(9.47)%
Interest income to working assets (interest income / average working assets) (1)	6.46%	6.24%
Liability ratios		
Cost of borrowings (interest expense for the year / average interest-paying liabilities) (1)	3.31%	3.33%
Equity to liabilities and equity (equity / liabilities and equity) (1)	6.34%	5.97%
Asset ratios		
Loans to assets (average gross loans and advances to banks and customers / average assets) (1)	68.22%	71.77%
Loans and advances classified as default to gross loans and advances (2)	5.71%	-
Working assets to total assets (working assets / total assets)	75.71%	74.84%
Liquidity ratios		
Liquidity I (assets maturing within 1 month / liabilities maturing within 1 month)	0.63	0.95
Liquidity II (assets maturing within 3 months / liabilities maturing within 3 months)	0.74	0.96
Capital market ratios		
(Loss)/Earnings per share	PLN 8.60	PLN (11.38)
Net book value per share	PLN 70.22	PLN 64.25
Other ratios		
Own funds in accordance with Resolution KNB 5/2004	PLN 2,249,629 thousand	PLN 1,971,985 thousand
The overall regulatory requirement together with the requirement relating to excessive capital exposures (total regulatory capital requirement in accordance with KNB 4/2004) (3)	PLN 1,398,300 thousand	PLN 1,308,191 thousand
The Bank's capital adequacy ratio in accordance with KNB 4/2004 (3)	12.87%	11.78%

(1) The average balance sheet item balances were calculated on the basis of the opening and closing balances for the year.
(2) No comparative data as at 31 December 2004 available due to the application of the impairment model in measuring loans and receivables starting from 1 January 2005.
(3) The consolidated capital adequacy ratio according to Resolution KNB 4/2004 amounted to 11.10%, and the total Group regulatory requirement amounted to PLN 1,645,897 thousand.
(4) Particular ratios may differ from the ratios presented in the financial statements as a result of a different method of calculating them.

IV. Discussion of selected financial statement components (cont.)

Consolidated balance sheet as at 31 December 2005

1. Cash and balances with the central bank

As at 31 December 2005 the Group’s “Cash and balances with the central bank” amounted to PLN 1,778,457 thousand (PLN 734,691 thousand as at 31 December 2004). The Bank had the largest share in the balance which amounted to PLN 1,776,340 thousand as at the end of the year (net of intercompany balances).

The increase in the balance of “Cash and balances with the central bank of 142% compared with the prior year was caused mainly by a placement made with the National Bank of Poland (NBP) with a value of PLN 1,377,000 thousand. The balance of the current account with the NBP dropped from PLN 666,569 thousand as at 31 December 2004 to PLN 314,402 thousand as at the end of the audited year.

2. Amounts due from banks

As at 31 December 2005 “Amounts due from banks” amounted to PLN 4,668,474 thousand and dropped by PLN 2,321,577 thousand, i.e. by 33% compared with the end of the prior year. This drop was caused mainly by a decrease of PLN 2,657,955 thousand, i.e. 47% in interbank placements maturing within 3 months during the year. At the same time compared with the prior year the balance of “Loans, advances and placements” increased by PLN 658,720 thousand (94%).

Almost the whole drop in the balance (PLN 2,656,910 thousand) is the result of a drop in interbank placements maturing within 3 months made with the Bank.

Other companies which showed significant amounts due from banks (net of intercompany transactions) as at 31 December 2005 were Dom Inwestycyjny BRE Banku S.A. (a balance of PLN 32,972 thousand) and Intermarket Bank AG (a balance of PLN 14,355 thousand).

3. Trading securities

As at 31 December 2005 “Trading securities” amounted to PLN 5,011,960 thousand. Compared with the balance as at 31 December 2004 this balance increased by PLN 2,638,952 thousand (i.e. 111%) which led to an increase in the share of the balance in total assets from 8% as at the end of 2004 to 15% as at the end of the audited year.

The Bank’s share in the balance was highest and amounted to PLN 5,003,347 thousand (net of intercompany balances) (i.e. almost 100% of the Group balance). The value of the Bank’s trading securities increased by PLN 2,642,442 thousand. The increase in the balance was caused mainly by the Bank’s purchase of NBP bills whose value amounted to PLN 2,324,769 thousand as at 31 December 2005, an increase in the balance of bonds and investment certificates issued by other banks (as increase of PLN 280,926 thousand) and an increase in the balance of Government bonds (an increase of PLN 230,966 thousand). The increase in “Trading securities” was partly offset by a drop in the balance of securities issued by financial, non-financial entities and by public sector entities (a drop of PLN 178,444 thousand).

IV. Discussion of selected financial statement components (cont.)

4. Derivative financial instruments

As at 31 December 2005 "Derivative financial instruments" amounted to PLN 1,255,232 thousand. Compared with the balance as at 31 December 2004 the balance dropped by PLN 541,592 thousand (i.e. by 30%).

The whole balance is comprised of derivative financial instruments held by the Bank. The drop in the balance of derivative financial instruments results mainly from a drop in the valuation of FX swap contracts (a drop of PLN 512,349 thousand, i.e. 76%), a drop in the valuation of FX options (of PLN 66,029 thousand, i.e. 39%), a drop in the valuation of FX Forward transactions (of PLN 29,452 thousand, i.e. 7%) and a drop in the valuation of currency interest rate swaps (CIRS) (of PLN 19,434 thousand, i.e. 28%). The drop in the balance was partly offset by an increase in the valuation of interest rate swaps (IRS) (an increase of PLN 61,901 thousand, i.e. 16%) and an increase in the valuation of forward rate agreements (FRA) (an increase of PLN 23,765 thousand, i.e. 50%).

Foreign exchange derivatives (PLN 720,106 thousand) and interest rate derivatives (PLN 530,394 thousand) comprised the largest portion of "Derivative financial instruments".

5. Loans and advances to customers

As at 31 December 2005 "Loans and advances to customers" amounted to PLN 15,463,514 thousand (PLN 14,330,384 thousand as at the end of the prior year) and represented an 8% increase. The gross value of loans and advances to individuals as at 31 December 2005 amounted to PLN 4,326,918 thousand, and the gross value of loans granted to corporate customers amounted to PLN 9,605,119 thousand, while gross value of loans and advances to the public sector amounted to PLN 1,222,449 thousand. Compared with the end of 2004 the share of "Loans and advances to customers" in the Group's total assets as at 31 December 2005 remained unchanged at the level of 47%.

The gross portfolio of amounts due from individual customers which was held solely by the Bank increased in the audited period by PLN 1,668,317 thousand, i.e. 63%. The increase in gross amounts due from individual clients was caused by pursuing the Bank's strategy consisting of expansive development of the retail banking function.

The gross value of amounts due from Group corporate customers dropped by PLN 59,262 thousand (a drop of 1%) compared with the balance as at 31 December 2004. The drop resulted mainly from a drop in the customers' dues in respect of investment loans drawn from the Bank. The Bank had the largest share in amounts due from corporate customers (net of intercompany balances) with a balance of PLN 7,387,241 thousand, with BRE Leasing Sp. z o.o. showing a balance of PLN 1,630,111 thousand and Transfinance a.s. a balance of PLN 406,317 thousand.

IV. Discussion of selected financial statement components (cont.)

5. Loans and advances to customers (cont.)

Gross amounts due from the public sector increased from PLN 1,140,902 thousand to PLN 1,222,449 thousand, which is an increase of 7%. This increase resulted mainly from an increase in the Bank's exposure to a large public sector entity.

Compared with the prior year, the share of provisions in the gross portfolio of amounts due to the Group dropped from 6% to 5%. This was mainly the result of an over 7% increase in the gross value of loans and borrowings to customers with a simultaneous drop in provisions for the Group's balance sheet exposures of PLN 11,634 thousand to the level of PLN 863,611 thousand.

6. Investment securities

As at 31 December 2005 "Investment securities" amounted to PLN 1,124,832 thousand and increased by PLN 544,724 thousand (i.e. by 94%) compared with PLN 580,108 thousand as at the end of the prior year. In accordance with its accounting policies the Group discloses financial assets classified as available for sale (as at 31 December 2005: PLN 1,124,832 thousand; as at 31 December 2004: PLN 564,785 thousand) and held-to-maturity financial assets (the balance as at 31 December 2004, relating wholly to investments hold by PTE Skarbiec – Emerytura S.A., amounted to PLN 15,323 thousand). As at the end of the audited year, held-to-maturity financial assets in PTE Skarbiec – Emerytura S.A.'s portfolio were shown in "Assets held for sale" in relation to the conditional agreement for the sale of share in that company.

The increase in the balance of available-for-sale securities resulted mainly from changes within the Bank where the balance of debt securities increased by PLN 630,963 thousand and the balance of equity instruments decreased by PLN 49,152 thousand. The change in equity instruments resulted mainly from the purchase of shares in Vectra S.A. with a value of PLN 99,963 thousand as at 31 December 2005, the reclassification of shares in TVN S.A. to "Other financial instruments at fair value through profit or loss" in 2005 and the subsequent sale of shares with a value of PLN 129,259 thousand as at 31 December 2004.

7. Non-current assets and liabilities held for sale

Non-current assets held for sale arose as a result of signing by the Bank in November 2005 the "Agreement for the combination of PTE PZU and PTE Skarbiec - Emerytura including the obligation to sell shares to be issued to effect the merger" with PZU S.A.

As at the end of the year the balance comprised Group assets and liabilities related to the investment in PTE Skarbiec – Emerytura S.A. (the company's consolidated balance sheet and goodwill on acquisition).

Compared with 31 December 2004 goodwill dropped from PLN 240,516 thousand as at the beginning of the year to PLN 204,407 thousand as at the end of the year as a result of accounting for respective impairment write-downs in the total amount of PLN 36,109 thousand in 2005 as a result of signing the above-mentioned agreement.

Detailed components of the Groups assets and liabilities held for sale are disclosed in Note 28 to the consolidated financial statements.

IV. Discussion of selected financial statement components (cont.)

8. Pledged assets

As at the balance sheet date "Pledged assets" amounted to PLN 1,516,212 thousand, which is a drop of PLN 265,513 thousand (i.e. 15%) compared with 31 December 2005. This decrease was almost wholly attributable to the change in the Bank's balance resulting from a decrease in the value of Treasury bills and Government bonds which secure the sell-buy-back transactions concluded.

9. Investments in associates

As at 31 December 2005 "Investments in associates" amounted to PLN 6,447 thousand and increased by PLN 4,253 thousand compared with the end of the prior year. This change resulted mainly from a change in the classification of Novitus S.A. (with a carrying amount of PLN 4,823 thousand) from "Investment securities" in connection with the sale of the stake in the company. In this financial statement line the Group also discloses shares in Xtrade S.A. and Transfactor Slovakia a.s. (with a carrying amount of PLN 352 thousand and PLN 1,302 thousand respectively).

10. Intangible assets

As at the balance sheet date "Intangible assets" amounted to PLN 406,380 thousand, which is a drop of PLN 258,390 thousand (i.e. 39%) compared with PLN 664,770 thousand as at 31 December 2005.

The largest drop in this item related to the reclassification of goodwill on acquisition of PTE Skarbiec - Emerytura S.A. of PLN 240,516 thousand to "Assets held for sale" in connection with signing the conditional agreement for the sale of shares in the company in November 2005. Moreover, goodwill relating to PTE Skarbiec - Emerytura S.A. of PLN 35,740 thousand, which had been disclosed in "Intangible assets" was reclassified to assets held for trading.

This drop was partly offset by an increase in the balance caused mainly by changes in the Bank's intangible assets (an increase of PLN 18,356 thousand during 2005). The gross value of this item at the Bank increased by PLN 75,163 thousand mainly as a result of continuing work on the development of new intangible assets (including expenditures on the GLOBUS system), and the purchase of concessions, patents and licenses, partly offset by amortization write-downs recorded in 2005 of PLN 53,474 thousand. Moreover, in 2005 the Bank scrapped intangible assets with a net value of PLN 1,786 thousand.

IV. Discussion of selected financial statement components (cont.)

11. Property, plant and equipment

As at the balance sheet date "Property, plant and equipment" amounted to PLN 585,535 thousand, which is an increase of PLN 35,548 thousand (i.e. 7%) compared with PLN 522,987 thousand as at 31 December 2004. The largest increase was noted in BRE Leasing Sp. z o.o. (of PLN 29,811 thousand compared with the prior year). This increase resulted mainly from an increase in the net value of vehicles purchased during the year in the total amount of PLN 28,906 thousand. At the same time, changes in the balance of this item within the Bank (an increase of PLN 7,020 thousand) had an impact on the increase in the gross balance of property, plant and equipment, mainly due to purchases with a total value of PLN 36,925 thousand and expenditure incurred on assets under construction of PLN 48,678 thousand.

The increase described above was partly offset by depreciation charged by the Group companies of PLN 82.380 thousand during the year. Moreover, the net value of property, plant and equipment dropped as a result of the sale and scrapping of assets with a total net value of PLN 33,748 thousand.

Similarly to the prior years, the Bank's share (87%) and the share of BRE Leasing Sp. z o.o. (9%) represented the largest portion of the balance.

12. Other assets

The value of "Other assets" dropped from PLN 573,570 thousand as at 31 December 2004 to PLN 555,437 thousand as at the end of 2005 (a drop of PLN 18,133 thousand - i.e. 3%).

The largest component of the Group's other assets of PLN 220,880 thousand (i.e. 40% of the balance) related to debtors. The drop in other assets resulted mainly from a drop in the balance of debtors of PLN 90,783 thousand. This drop was partly offset by an increase in inventories of PLN 21,919 thousand, which mainly resulted from an increase in inventories in the developer company BRE.locum Sp. z o.o. (real estate for sale) and an increase in other components of other assets in the total amount of PLN 34,883 thousand (mainly relating to Dom Inwestycyjny BRE Banku S.A.).

13. Deposits from other banks

As at 31 December 2005 deposits from other banks amounted to PLN 4,337,056 thousand, which was a drop of PLN 1,225,073 thousand, i.e. 22% compared with the prior year.

Deposits from other banks included mainly "Loans and advances received" of PLN 2,920,540 thousand, "Term deposits" of PLN 967,307 thousand and "Funds in current accounts" with a value of PLN 317,809 thousand. The total value of these items dropped by PLN 1,145,150 thousand in total (93% of the balance).

The largest share of the balance was attributable to the Bank (54%), BRE Leasing Sp. z o.o. (25%), Intermarket Bank AG (10%) and Transfinance a.s. (7%). The drop in the discussed liabilities comprised mainly a decrease in the balance of the item in the Bank's balance sheet (of PLN 1,111,151 thousand, to PLN 2,346,159 thousand). This change was mainly due to a reduction in the level of term deposits held by the Bank and funds in current accounts representing 56% and 52% respectively.

IV. Discussion of selected financial statement components (cont.)

14. Derivative financial instruments and other trading liabilities

As at 31 December 2005 "Derivative financial instruments and other trading liabilities" amounted to PLN 1,175,070 thousand. Compared with the balance as at 31 December 2004 the balance dropped by PLN 445,643 thousand (i.e. by 27 %). Almost 100% of the balance related to the Bank's liabilities.

The largest impact on the overall balance of the item was caused by a drop in the balance of "Derivative financial instruments and other trading liabilities" at the Bank, which resulted mainly from a drop in the valuation of forex swap contracts (a drop of PLN 248,145 thousand, i.e. 65%), a drop in the valuation of forex forward transactions (a drop of PLN 208,796 thousand, i.e. 38%), a drop in the valuation of currency options (a drop of PLN 35,078 thousand, i.e. 22%), and a drop in the valuation of currency interest rate swap transactions (CIRS) (a drop of PLN 18,167 thousand, i.e. 29%). The drop in the balance was partly offset by an increase in the valuation of interest rate swaps (IRS) (an increase of PLN 53.551 thousand, i.e. 13%) and an increase in the valuation of forward rate agreements (FRA) (an increase of PLN 24,212 thousand, i.e. 65%).

15. Amounts due to customers

As at the balance sheet date "Amounts due to customers" amounted to PLN 20,443,406 thousand, which was an increase of PLN 3,545,517 thousand (i.e. 21%) compared with 31 December 2004.

This increase was caused by an increase in the balance of amounts due to corporate customers (an increase of PLN 2,337,893 thousand, i.e. 23%) and individual customers (an increase of PLN 1,168,895 thousand, i.e. 18%). Funds in current accounts of corporate and individual customers showed the largest increases (of PLN 2,108,553 thousand and PLN 1,573,873 thousand respectively).

The increase in amounts due to customers was mainly caused by an increase in the balance of amounts due to the Bank's customers. As at the balance sheet date, at the Bank this item amounted to PLN 19,959,745 thousand (the share in the total balance amounted to 98%) which compared with PLN 16,375,167 thousand as at 31 December 2004 constituted an increase of PLN 3,584,578 thousand. Moreover, during the year amounts due to customers by Magyar Factor Rt. and Polfactor S.A. increased (by PLN 49,370 thousand and PLN 16,796 thousand respectively), and by Dom Inwestycyjny BRE Banku S.A. and Transfinance a.s. dropped (by PLN 95,841 thousand and PLN 14,398 thousand respectively).

16. Debt securities in issue

As at 31 December 2005 the balance amounted to PLN 2,731,157 thousand and dropped by PLN 372,165 thousand (i.e. 12% during the year).

This item comprised among other things bonds issued by BRE Finance France S.A. of PLN 2,417,142 thousand and bonds and commercial paper with a value of PLN 222,480 thousand issued by BRE Leasing Sp. z o.o. The change in the balance resulted mainly from the issue of Eurobonds of EUR 200,000 thousand by BRE Finance France S.A. which mature in 2008, the redemption of the last tranche

IV. Discussion of selected financial statement components (cont.)

16. Debt securities in issue (cont.)

of Eurobonds of EUR 200,000 thousand by BRE International Finance B.V. and the redemption of all short-term deposit certificates with a value of PLN 316,637 thousand as at 31 December 2004 by the Bank. The drop in the exchange rate of the EUR to the PLN during the period had an additional impact on the carrying amount of the item.

17. Subordinated liabilities

As at 31 December 2005 the value of the item in the Group balance sheet amounted to PLN 1,362,528 thousand which was an increase of 34% compared with the balance as at 31 December 2004 of PLN 1,020,144 thousand. The whole balance relates to the Bank. The increase was caused by the Bank's issuing subordinated bonds of EUR 100,000 thousand.

PLN 1,350,930 thousand of the balance related to three issues of subordinated bonds in the total amount of EUR 350,000 thousand. The remaining balance of "Other borrowed funds" was comprised by accrued interest.

18. Other liabilities

As at 31 December 2005 "Other liabilities" amounted to PLN 563,020 thousand compared with PLN 340,766 thousand as at 31 December 2004, which is an increase of 65% during the audited year.

The increase in "Other liabilities" compared with 31 December 2004 was related mainly to the increase in deferred income of PLN 77,403 thousand (i.e. 272%). The significant increase in the balance also resulted from an increase in provisions for other employee liabilities, comprising the bonus fund (an increase of PLN 59,622 thousand), an increase in "Creditors", comprising among other things settlements with suppliers, bank card settlements (an increase of PLN 61,604 thousand), an increase in interbank settlements (an increase of PLN 48,414 thousand) and accruals (an increase of PLN 19,147 thousand).

19. Provisions

As at the balance sheet date, in the Group "Provisions" amounted to PLN 86,135 thousand (PLN 39,394 thousand as at 31 December 2004) which constituted an increase of 119%. As at 31 December 2005 provisions comprised off-balance sheet liabilities (PLN 63,920 thousand), provisions for disputed claims (PLN 7,926 thousand) and other provisions for liabilities (PLN 14,289 thousand).

Compared with 31 December 2004 the balance of "Provisions" increased by PLN 46,741 thousand mainly as a result of an increase in provisions for off-balance sheet liabilities of PLN 52,103 thousand as a result of the application of the impairment model in measuring loans and advances effective from 1 January 2005.

IV. Discussion of selected financial statement components (cont.)

20. Equity

As at the balance sheet date, "Equity" amounted to PLN 2,108,470 thousand (PLN 1,907,401 thousand as at 31 December 2004).

	31.12.2004	Changes in adopted accounting policies	Income (costs) recognized in equity	Capital increase in connection with exercising management options	Net profit	Other changes	31.12.2005
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Share capital	1,386,017	-	-	37,826	-	-	1,423,843
Revaluation reserve	1,568	-	(4,543)	-	-	-	(2,975)
Retained earnings	457,160	(86,879)	4,536	(6,909)	247,543	(1,080)	614,371
Minority interests	62,656	(2,809)	(39)		20,362	(6,939)	73,231
Total	**1,907,401**	**(89.688)**	**(46)**	**30.917**	**267.905**	**(8.019)**	**2,108,470**

IV. Discussion of selected financial statement components (cont.)

20. Equity (cont.)

The Bank's Shareholders as at 31 December 2005 were as follows:

Shareholder	**Number of shares held**	**Nominal value of shares held (PLN)**	**Type of shares held (ordinary/ preference)**	**% of voting rights**
Commerzbank Auslandsbanken Holding AG	*20,719,692*	*82,878,768*	*Ordinary*	*71.49%*
Other	*8,264,280*	*33,057,120*	*Ordinary*	*28.51%*
	28,983,972	***115.935.888***		***100.00%***

In 2005 the key shareholder of BRE Bank SA. changed as a result of the former shareholder, Commerzbank AG, transferring its shares in BRE Bank SA in the form of an in-kind contribution to Commerzbank Auslandsbanken Holding AG, which is a 100% subsidiary of Commerzbank AG.

As a result of issue of shares in 2005 in connection with exercising the Management Share Option Scheme, the share of the key shareholder in the Bank's share capital dropped from 72.16% as at the end of the prior year to 71.49% as at the end of the audited year. Thus the interests of other shareholders in the share capital increased from 27.84% to 28.51%.

In the audited year the value of registered capital increased by PLN 1,083 thousand as a result of the issue of 270,847 shares with a nominal value of PLN 4 each. The increase in share capital by the remaining PLN 29,834 thousand results from recognizing share premium. The issue of shares was related to exercising two Management Share Option Schemes. Under the First Management Share Option Scheme implemented on the basis of Resolution No. 7 of the General Shareholders' Meeting of BRE Bank SA dated 24 May 2000, amended by Resolution No. 27 of the General Shareholders' Meeting of BRE Bank SA dated 21 May 2003. The Bank issued 118,884 shares at an issue price of PLN 135.80 each. Under the Second Management Share Option Scheme implemented based on Resolution No. 29 of the General Shareholders' Meeting of BRE Bank SA dated 21 May 2003 the Bank issued 151,963 shares at an issue price of PLN 96.16 each. In connection with realization of the second phase of the Management Share Option Scheme, the value of exercised options in the amount of PLN 6,909 thousand, which had previously been disclosed in "Retained earnings", was transferred to share capital.

In the audited period the amount of the revaluation reserve decreased by PLN 4,543 thousand. The drop resulted from the valuation of the financial assets classified as available-for-sale in the net amount of PLN 2,444 thousand and recognizing foreign exchange losses of PLN 4,715 thousand. The increase in the Group's revaluation reserve of PLN 2,616 thousand was caused by the net change in the value resulting from applying cash flow hedge accounting.

IV. Discussion of selected financial statement components (cont.)

20. Equity (cont.)

As a result of applying IAS 39 as of 1 January 2005, the Group adjusted its retained earnings by PLN 86,879 thousand, at the same time decreasing the value of the item. The amount comprised the following adjustments: applying the effective interest rate to value some financial assets (PLN 49,860 thousand), applying the value impairment model to the measurement of loans and advances (PLN 28,699 thousand) and a one-off charge to costs of the commission paid in connection with a contract for the purchase of financial assets previously deferred (PLN 8,320 thousand).

Retained earnings for 2005 increased due to recognition of the remeasurement of the Management Share Option Scheme of PLN 4,536 thousand and decreased as a result of the transfer of the effect of the exercised options in the amount of PLN 6,909 thousand to the share capital.

Retained earnings increased by the net profit achieved by the Group in 2005 in the amount of PLN 247,543 thousand.

Minority interests increased from PLN 62,656 thousand in the prior year to PLN 73,231 thousand in the audited year. This increase was related to recognizing the profits of subsidiaries attributable to minority shareholders and to increasing their share in BRE.locum Sp. z o.o. The drop in the said balance-sheet item was mainly the result of including the minority interests in the adjustments relating to applying the impairment model to the measurement of loans and receivables (PLN 2,809 thousand) and obtaining refunds of additional contributions to capital in the subsidiary BRE Leasing Sp. z o.o.(PLN 8,996 thousand).

Minority interests included their share in the equity of the following companies:

	31.12.2005 PLN'000	**31.12.2004 PLN'000**
BRE Leasing Sp. z o.o.	23,059	24,993
Intermarket Bank AG	27,220	24,241
Polfactor S.A.	5,248	4,134
BRE.locum Sp. z o.o.	5,560	(2,205)
Magyar Factor Rt.	4,340	3,932
Transfinance a.s.	7,049	6,416
Tele-Tech Investment Sp. z o.o.	755	1,145
TOTAL	**73,231**	**62,656**

IV. Discussion of selected financial statement components (cont.)

Reconciliation of the net results of the consolidated companies and the consolidated net result of the Group

		31.12.2005 PLN'000
a)	Net profit of BRE Bank SA	207,310
	Net profit of consolidated subsidiaries	84,771
	Net loss of consolidated subsidiaries	(2,430)
	Total net profit according to the financial statements (consolidation packages) of the consolidated companies	**289,651**
(b)	Impairment write-downs in respect of goodwill	(4,816)
(c)	Share in losses of associates	(462)
(d)	Difference between the profit on sale of shares in subsidiaries realized by the Bank and the Group	(451)
(e)	Dividends	(17,891)
(f)	Other consolidation adjustments	1,874
	Net profit of the Group	**267,905**

Reconciliation of the net assets of the consolidated companies and the consolidated net assets of the Group

		31.12.2005 PLN'000
(a)	Net assets of BRE Bank SA	1,954,871
	Net assets of consolidated subsidiaries	585,185
	Total net assets	**2,540,056**
(b)	Adjustments (b-f; as above)	(21,746)
(c)	Elimination of the share capital of subsidiaries	(374,988)
(d)	Elimination of other capitals and reserves of subsidiaries	(34,852)
	Consolidated net assets	**2,108,470**

IV. Discussion of selected financial statement components (cont.)

Consolidated income statement for the year ended 31 December 2005

21. Net interest income

In the audited year the Group's net interest income increased from PLN 485,945 thousand to PLN 621,728 thousand, i.e. PLN 135,783 thousand (28%).

The increase in net interest income resulted mainly from a faster increase in interest income (an increase of 14%) than in interest expense (an increase of 6%).

The increase in interest income included the increase in interest income on loans and advances of PLN 91,507 thousand to PLN 1,051,439 thousand resulting mainly from an increase in the gross value of loans granted to customers (a balance higher by 7%) and an increase in income from debt securities classified as trading securities of PLN 63,804 thousand, resulting from an increase in the balance of trading debt securities (a balance higher by 111%). Interest expense comprised mainly interest on settlements with banks and customers (PLN 709,462 thousand) and interest on debt securities (PLN 89,068 thousand).

The interest margin (calculated as the net interest income to interest income) increased from 36% in the prior year to 40% in the audited year.

The Bank's net interest income (net of intercompany transactions) for the audited year amounted to PLN 551,704 thousand (PLN 374,295 thousand in the prior year), which represents an increase of PLN 177,409 thousand, i.e. 47% compared with 2004. In the audited year the Bank' interest income increased by 29% to PLN 1,285,930 thousand, whereas interest expenses increased by 18% to PLN 734,226 thousand during the audited year.

A high net interest income of PLN 71,128 thousand was also noted by BRE Leasing Sp. z o.o. The net interest income earned by BRE Leasing Sp. z o.o. dropped by PLN 5,630 thousand compared with the prior year.

22. Net fee and commission income

Net fee and commission income during the financial year amounted to PLN 393,609 thousand, which is an increase of PLN 11,935 thousand, i.e. 3% compared with the prior year.

The increase in the net fee and commission income was caused by an increase in fee and commission income of PLN 18,889 thousand and, at the same time, an increase in fee and commission expense of PLN 6,954 thousand.

The increase in fee and commission income was mainly a result of increase of income from servicing payment cards, making bank transfers, maintaining bank accounts and other commission income which increased by PLN 43,234 thousand in total. At the same time during the year fees and commissions on lending activity dropped by PLN 35,123 thousand as a result of changing the method of their presentation following the application of the effective interest rate to their measurement.

IV. Discussion of selected financial statement components (cont.)

23. Dividend income

In 2005 dividend income amounted to PLN 47,033 thousand, which represented an increase of PLN 39,857 thousand compared with the prior year. This income comprised among other things dividends from Novitus S.A. (PLN 8,884 thousand), PZU S.A. (PLN 5,344 thousand) and Polish Pre-IPO Fund LP (PLN 2,779 thousand). Dividends from other companies whose shares are held by the Group amounted to PLN 7,759 thousand.

The Group included revenues generated on the distribution of assets of the liquidated companies: AMBRESA Sp. z o.o., BRELLA Sp. k. and BRELINVEST Sp. z o.o. Fly 1 Sp. k. in the total amount of PLN 22,267 thousand in its dividend income for 2005.

24. Net trading income

In 2005 net trading income amounted to PLN 265,110 thousand. Compared with 2004 it was PLN 34,544 thousand, i.e. 15% higher than in the prior year.

Net trading income comprised the foreign exchange position and the other net trading income described below.

- **Foreign exchange position**

In 2005 the foreign exchange position amounted to PLN 257,887 thousand (PLN 219,365 thousand in the prior year), which constituted an increase of PLN 38,522 thousand, i.e. 18%.

The foreign exchange position comprised mainly realized foreign exchange gains (PLN 362,756 thousand) and the net losses on forex forward and forex swap transactions (a loss in the total amount of PLN 104,869 thousand).

- **Net other trading income**

Other net trading income amounted to PLN 7,223 thousand in 2005 (PLN 11,201 thousand in the prior year), which is a drop of PLN 3,978 thousand.

This decrease in the net trading income was caused mainly by a drop in the net income on equities of PLN 8,750 thousand and on market risk intruments of PLN 5,811 thousand. The decrease was compensated by an increase of result on interest-bearing instruments of PLN 10,583 thousand.

IV. Discussion of selected financial statement components (cont.)

25. Net gains / (losses) on investment securities

In 2005 the Group noted a profit on investment securities of PLN 43,145 thousand, compared with the loss of PLN 8,542 thousand incurred in 2004. The profit comprised a profit on the sale of equities in the amount of PLN 48,426 thousand and impairment losses of PLN 5,281 thousand.

The major component of profit on sale of investment securities was the profit on sale of shares in Novitus S.A. The Bank made a profit of PLN 32,434 thousand (less costs of sale, including commissions to brokerage house presented in "Net fee and commission income").

Impairment losses in 2005 related mainly to the impairment of foreign funds classified as available-for-sale financial instruments in the total amount of PLN 5,144 thousand.

26. Other operating income

Other operating income amounted to PLN 136,176 thousand and dropped compared with 2004 by PLN 258,058 thousand (i.e. 65%). The highest drop of PLN 229,267 thousand was noted on sales or scrapping of property, plant and equipment, intangible assets and other assets. This drop related mainly from the recognition of the sale of the Bank's head office in the Group's results for 2004 in the amount of PLN 254,766 thousand.

27. Net impairment losses on loans and advances

The net surplus of impairment losses corresponding to release of provisions during the year amounted to PLN 78,841 thousand, compared with the net surplus of impairment losses of PLN 124,575 thousand in the prior year.

Net impairment losses comprised impairment write-downs in respect of loans and advances granted to customers and costs of provisions for off-balance sheet liabilities.

28. Administrative expenses

In 2005, the Group's administrative expenses amounted to PLN 800,348 thousand compared with the costs incurred in the prior year of PLN 731,578 thousand, which represented an increase of PLN 68,770 thousand (i.e. 9%).

This increase was related mainly to an increase in personnel costs of PLN 73,712 thousand to the level of PLN 423,743 thousand. The increase in personnel costs was due among other things to setting up a bonus fund and to an increase in wages and salaries.

In the audited year, the highest administrative expenses were incurred by the Bank (PLN 616,329 thousand), BRE Leasing Sp. z o.o. (PLN 36,225 thousand), Skarbiec Asset Management Holding S.A. (PLN 30,565 thousand), Intermarket Bank AG (PLN 27,419 thousand) and Dom Inwestycyjny BRE Banku S.A. (PLN 27,140 thousand).

IV. Discussion of selected financial statement components (cont.)

29. Amortization and depreciation

In 2005, amortization and depreciation charges amounted to PLN 139,615 thousand and were PLN 9,127 thousand (i.e. 6% lower than in the prior year). In the audited year amortization charges amounted to PLN 57,235 thousand and depreciation charges amounted to PLN 82,380 thousand.

30. Other operating expenses

Other operating expenses dropped from PLN 723,455 thousand in 2004 to PLN 149,564 thousand in 2005 (i.e. by PLN 573,891 thousand). The highest drop of PLN 260,339 thousand was noted in the cost of sale or scrapping of property, plant and equipment, intangible assets and other assets. This drop resulted mainly from the recognition of the cost of sale of the Bank's head office in 2004 (the net value of the property sold amounted to PLN 225,736 thousand).

The drop in impairment of property, plant and equipment, and of intangible assets of PLN 174,885 thousand resulted mainly from the Group having recognized impairment of goodwill of PTE Skarbiec – Emerytura S.A. of PLN 188,597 thousand in 2004. In 2005 the respective impairment loss amounted to PLN 36,109 thousand.

The Group noted a significant decrease in impairment losses on non-financial assets compared with the prior year, mainly as a result of having recorded impairment losses on property, plant and equipment (in respect of property held for sale and the Bank's property) in the total amount of PLN 87,350 thousand in 2004, compared with PLN 6,944 thousand in the audited year.

31. Income tax expense

	12 months ended 31.12.2005	12 months ended 31.12.2004	Change
	PLN'000	PLN'000	PLN'000
Current income tax	(87,680)	(24,652)	(63,028)
Deferred income tax	17,621	(11,397)	29,018
Income tax expense	**(70,059)**	**(36,049)**	**(34,010)**

The Bank's current and deferred income tax of PLN 42,837 thousand had the largest impact on the Group's income tax expense.

IV. Discussion of selected financial statement components (cont.)

31. Income tax expense (cont.)

Other Group companies also contributed to the Group's income tax expense, where the largest income tax charges related to the following companies:

Consolidated entity	Current income tax **PLN'000**	Entity's share in current income tax **(%)**	Deferred income tax **PLN'000**	Entity's share in deferred income tax **(%)**
BRE Leasing Sp. z o.o.	(21,193)	24	15,858	90
Intermarket Bank AG	(4,104)	5	(68)	0
Transfinance a.s.	(3,827)	4	16	0
Dom Inwestycyjny BRE Banku S.A.	(3,752)	4	739	4
Polfactor SA	(1,920)	2	(25)	0
Magyar Factor Rt.	(1,844)	2	463	3
BRE.locum	(1,199)	2	(130)	(1)
Other	(1,472)	2	(4,764)	(27)
Total, companies	**(39,311)**	**45**	**12,089**	**69**
Bank	(48,369)	55	5,532	31
Total	**(87,680)**	**100**	**17,621**	**100**

32. Off-balance sheet items

As at the balance sheet date, "Off-balance sheet items" amounted to PLN 406,098,756 thousand, which represented an increase in relation to the balance as at the prior year-end of PLN 170,015,235 thousand (i.e. 72%). Detailed components of "Off-balance sheet items" are disclosed in Note 36 to the consolidated financial statements.

As at 31 December 2005, "Commitments related to purchase / sale transactions", involving derivatives and amounting to PLN 394,102,705 thousand (i.e. 97% of the balance) was the major component of "Off-balance sheet items".

V. The registered auditor's statement

(a) The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the accounting records and the consolidation documents and the disclosure of all contingent liabilities and post-balance-sheet events which occurred up to the date on which that letter was signed.

(b) The scope of the audit was not limited.

(c) The consolidation documents were complete and correct, and maintained in a manner ensuring proper protection.

(d) In all material respects, the accounting policies specified by the Parent's Management complied with the International Financial Reporting Standards as adopted for use in the European Union. Changes in the accounting policies applied and their effects were correctly disclosed in the notes to the financial statements.

(e) Equity was consolidated and minority interests were determined correctly.

(f) Eliminations of mutual settlements (receivables and payables) and intercompany sales (income and expenses) of the consolidated entities were conducted in compliance with IFRS as adopted for use in by the European Union in all material respects.

(g) Eliminations of gains/losses unrealized by the consolidated entities included in the value of assets and in respect of dividends were conducted in accordance with IFRS as adopted for use in the European Union in all material respects.

(h) The effects of selling all or a portion of shares in subordinated entities were recognized correctly in all material respects.

(i) The Notes to the consolidated financial statements present all the material information required by the International Financial Reporting Standards approved by the European Union.

(j) The Group Directors' Report includes all the information required by the Decree of the Minister of Finance dated 19 October 2005 concerning the publication of current and periodic information by issuers of securities.

(k) The consolidated financial statements for the prior year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued a qualified opinion.

(l) The consolidated financial statements of the Group as at and for the year ended 31 December 2004 were approved by Resolution No. 22 passed by the General Shareholders' Meeting of the Bank on 22 March 2005, filed with the National Court Register in Warsaw on 31 March 2005 and published in *Monitor Polski B* No. 875, item 7048 on 30 May 2005.

Letter of the President of BRE Bank's Management Board to the Shareholders

Dear Shareholders,

In early 2005, the newly appointed Management Board of BRE Bank had to regain the market's trust in the Bank's potential of further growth and thus its capacity of generating high profitability. A year ago, in my letter to the Shareholders, I said that 2005 would be a break-through year. The key goals we set out for ourselves included:

- To restructure and to grow the business lines. The main challenges included the BREactivation strategy of restructuring the corporate banking model and on-going expansion in the retail banking market.
- To mitigate the risk profile while sustaining the profitability of the investment banking business.
- Guided by the goal of growing the Bank's shareholder value, to take measures improving corporate transparency and consequently improving the Bank's market image.

Have we achieved these goals?

I am proud to say that 2005 indeed was a break-through year for BRE Bank, important for several reasons. It was a year of great challenges and of hard work both in term of organic growth and thorough restructuring of BRE Bank's business and operational models.

Our efforts produced tangible results: the BRE Bank Group successfully restored profitability; the Bank's shareholder value grew significantly; the risk profile was mitigated; the BRE Bank Group's position on the Polish financial market was strengthened. All this created a strong and stable foundation for our business and goals in 2006 and onward.

I believe that the financial performance of the BRE Bank Group in 2005 is best proof of all that.

- The consolidated pre-tax profit was PLN 338 million, much (16.5%) above the original target of PLN 290 million.
- The return on equity was 18.4% gross, compared to the target of 14.2%. Importantly, the ratio was achieved while growing our equity. The consolidated solvency ratio also increased to 11.1%.
- The only target we failed to achieve was the reduction of the cost/income ratio to 68%, but the actual 69.3% was not much below the target.

Dear Shareholders,

I am proud to say that all four business lines of BRE Bank as well as the subsidiaries of the Group contributed to the good performance of 2005. We implemented sweeping changes and grew our business in the areas of corporate banking, investment banking, retail banking, and asset management.

- The major projects of 2005 included BREactivation which restructured the corporate banking business model and added SMEs to the customers base of BRE Bank. The main phase of the project was closed by the year-end according to the plan; all project components, including reorganisation of the Branches, separation and centralisation of the back-office functions, and a new approach to credit risk rating, were completed successfully.

- In investment banking, the portfolio of proprietary investments was reduced by 37% while profitability was sustained, mainly through a growing volume of transactions with corporate and private banking customers.
- As expected, the retail banking business reported its first annual pre-tax profit. Market expansion continued and the Bank's market share grew significantly. New products were launched, including the mBank brokerage service eMAKLER and the life assurance product combined with an investment fund LeoLife; both set new benchmarks in terms of functionalities and low cost to customer.
- The asset management line continued to restructure and an agreement to sell PTE Skarbiec Emerytura was signed in late 2005.
- The strategic companies of the BRE Bank Group: BRE Leasing, Intermarket Bank, Polfactor, Dom Inwestycyjny BRE Banku, SAMH, PTE Skarbiec-Emerytura, BRE.locum, reported very good performance and grew their business significantly. They all outperformed their targets and strengthened their market position. As of 2006, the BRE Bank Group includes BRE Bank Hipoteczny which reported its highest-ever profit in 2005.

The financial results and the changes at BRE Bank were appreciated by investors, which helped to grow the Bank's market value significantly. In 2005, BRE Bank's stock price grew 48%, much above the growth in Warsaw Stock Exchange indexes (WIG20 was up 35% during the year). In 2006, BRE Bank's stock price reached new record highs, and on 18 January it was PLN 199, the highest quotation in the Bank's history. For us, this comes both as a reward and as an obligation.

Dear Shareholders,

The performance of 2005 proves that we are on the right track. We realise that we still have a long way to go. We have embarked upon many new projects which are crucial to fast growth of our business. One of the key factors of our competitive advantage will be to recruit the best people and to continually improve the expertise of all our staff. We want BRE Bank to be a market leader in terms of professional staff building partnership-based relations with customers. To this end, in late 2005 we developed a canon of BRE Bank corporate values as a basis for recruitment, an important part of training, and the foundation of employee assessment determining bonuses and career prospects at BRE Bank. We understand the right BRE-WAY (in Polish: DROGA) as an acronym for the values which determine out growth; these are: Excellence, Execution, Accountability, Readiness and Commitment.

Dear Shareholders,

I believe that BRE Bank still has a large growth potential. In 2006 we will make new steps on the way to achieving the mid-term targets of the BRE Bank Group including a return on equity of at least 20% gross as of 2007.

The main growth targets of the BRE Bank Group in 2006 include:

- to increase the BRE Bank Group's pre-tax profit to PLN 380 million;
- to sustain high profitability as measured by return on equity of at least 18% gross;
- to reduce the cost/income ratio to 66%.

In order to achieve these targets, we need to leverage the changes implemented in the corporate banking business in 2005 by intensifying customer acquisition and expanding sales to the existing customers. The same goals are the key success factor in retail banking and investment banking. The strategic subsidiaries of the BRE Bank Group are an integral part of our business (they contribute nearly a third of the consolidated profit) and we attach great importance to their strategic growth.

In conclusion of this summary of BRE Bank's performance in 2005, I wish to thank our Shareholders for their trust at the time of restructuring at the Bank. I assure you that I will make best efforts to fulfil your expectations. I thank the Members of the Supervisory Board for good and close co-operation. I thank all our employees for their efficient work in 2005.

Looking towards the future challenges, I believe that high profitability as measured by return on equity and behaviour based on principles and values respected and appreciated by customers, competitors, and employees will create an image of BRE Bank we can be proud of.

Yours sincerely,

Sławomir Lachowski

President of the Management Board

of BRE Bank

BRE BANK SA

BRE Bank SA Group

IFRS Consolidated Financial Statements 2005

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IFRS Consolidated Financial Statements 2005 PLN (000's)

Consolidated Profit and Loss Account

	Note	Year ended 31 December 2005	2004
Interest income	6	1 540 005	1 348 673
Interest expense	6	(918 277)	(862 728)
Net interest income		**621 728**	**485 945**
Fee and commission income	7	543 217	524 328
Fee and commission expense	7	(149 608)	(142 654)
Net fee and commission income		**393 609**	**381 674**
Dividend income	8	47 033	7 176
Net trading income, including:	9	265 110	230 566
Foreign exchange result		*257 887*	*219 365*
Other trading income		*7 223*	*11 201*
Gains less losses from investment securities	23	43 145	(8 542)
Other operating income	10	136 176	394 234
Impairment losses on loans and advances	14	(78 841)	(124 575)
Overhead costs	11	(800 348)	(731 578)
Amortization and depreciation	25, 26	(139 615)	(148 742)
Other operating expenses	12	(149 564)	(723 455)
Operating profit		**338 433**	**(237 297)**
Share of profit of associates	24	(469)	(35)
Profit before income tax		**337 964**	**(237 332)**
Income tax expense	15	(70 059)	(36 049)
Net profit (loss) including minority interest, of which:		**267 905**	**(273 381)**
Net profit (loss) attributable to minority interest		20 362	20 636
Net profit (loss)		**247 543**	**(294 017)**
Net profit (loss) attributable to the Company's equity holders		**247 543**	**(294 017)**
Weighted average number of ordinary shares		**28 780 011**	**25 841 813**
Earnings per 1 ordinary share (in PLN per share)	16	**8.60**	**(11.38)**
Weighted average number of ordinary shares for diluted earnings		**28 878 173**	**25 879 124**
Diluted earnings per 1 ordinary share (in PLN per share)	16	**8.57**	**(11.36)**

IFRS Consolidated Financial Statements 2005 PLN (000's)

Consolidated Balance Sheet

Consolidated Balance Sheet as at 31 December 2005 and 31 December 2004

	Note	31.12.2005	31.12.2004
ASSETS			
Cash and balances with Central Bank	17	1 778 457	734 691
Debt securities eligible for rediscounting at the Central Bank		37 464	52 832
Loans and advances to banks	19	4 668 474	6 990 051
Trading securities	20	5 011 960	2 373 008
Derivative financial instruments	21	1 255 232	1 796 824
Loans and advances to customers	22	15 463 514	14 330 384
Investment securities	23	1 124 832	580 108
- Available for sale		1 124 832	564 785
- Held to maturity		-	15 323
Non-current assets held for sale	28	317 349	-
Pledged assets	20, 23,36	1 516 212	1 781 725
Investments in associated undertakings	24	6 477	2 224
Intangible assets	25	406 380	664 770
Tangible fixed assets	26	558 535	522 987
Deferred income tax assets	35	117 048	90 274
Other assets	27	555 437	573 570
Total assets		**32 817 371**	**30 493 448**
EQUITY AND LIABILITIES			
Amounts due to other banks	29	4 337 056	5 562 129
Derivative financial instruments and other trading liabilities	21	1 175 070	1 620 713
Amounts due to customers	30	20 443 406	16 897 889
Debt securities in issue	31	2 731 157	3 103 322
Subordinated liabilities	32	1 362 528	1 020 144
Other liabilities	33	563 020	340 766
Current income tax liabilities		3 529	1 444
Provisions for deferred income tax	35	161	246
Provisions	34	86 135	39 394
Libilities held for sale	28	6 839	-
Total liabilities		**30 708 901**	**28 586 047**
Equity			
Capital and reserves attributable to the Company's equity holders		**2 035 239**	**1 844 745**
Share capital:		**1 423 843**	**1 386 017**
- Registered share capital	37	115 936	114 853
- Share premium	38	1 307 907	1 271 164
Other capital and reserves	39	**(2 975)**	**1 568**
Retained earnings:	40	**614 371**	**457 160**
- Profit (loss) from the previous year		366 828	751 177
- Profit (loss) for the current year		247 543	(294 017)
Minority interest		73 231	62 656
Total equity		**2 108 470**	**1 907 401**
Total equity and liabilities		32 817 371	30 493 448
Capital adequacy ratio	47	**11.10**	**10.03**
Book value		**2 035 239**	**1 844 745**
Number of shares		**28 983 972**	**28 713 125**
Book value per share (in PLN)		**70.22**	**64.25**
Diluted number of shares		**29 082 134**	**28 750 436**
Diluted book value per share (in PLN)		**69.98**	**64.16**

IFRS Consolidated Financial Statements 2005 (PLN 000's)

Statements of changes in consolidated equity

Changes in consolidated equity from 1 January 2005 to 31 December 2005	Note	Share capital		Other capital and reserves	Retained earnings					Minority interest	Total
		Registered share capital	Share premium (aggio)		Other supplementary capital	Other reserve capital	General risk fund	Profit (loss) from the previous year	Profit (loss) for the current year		
Equity as at 1 January 2005		**114 853**	**1 271 164**	**1 568**	**8 303**	**206 049**	**558 000**	**(315 192)**		**62 656**	**1 907 401**
- reclassification to book value through profit and loss account										-	-
- changes to accounting policies								**(86 879)**		**(2 809)**	**(89 688)**
- adjustment of errors										-	-
Adjusted equity as at 1 January 2005		**114 853**	**1 271 164**	**1 568**	**8 303**	**206 049**	**558 000**	**(402 071)**		**59 847**	**1 817 713**
Net change in investments available for sale, net of tax	39			(2 444)						-	(2 444)
Net change in cash flow hedges, net of tax	39			2 616						2 616	5 232
Currency translation differences	39			(4 715)						(2 655)	(7 370)
Net profit not recognised in the profit & loss account				**(4 543)**						**(39)**	**(4 582)**
Net profit (loss)	40								**247 543**	**20 362**	**267 905**
Total profit recognised in current year				**(4 543)**					**247 543**	**20 323**	**263 323**
Dividends paid										(1 967)	(1 967)
Transfer to General Banking Risk Fund											-
Transfer to supplementary capital											-
Transfer to reserve capital					10 006			(10 006)			-
Loss coverage with reserve capital						(208 301)		208 301			-
Loss coverage with supplementary capital					(18 309)			18 309			-
Issue of shares	37,38	1 083	29 834								30 917
Redemption of shares											-
Purchase/sale of own shares											-
Premium											-
Issue expenses											-
Additional shareholder payments										(8 996)	(8 996)
Sale of fixed assets											-
Change in the scope of consolidation											-
Increase of share in consolidated company										3 803	3 803
Other changes						321		(1 401)		221	(859)
Stock option program for employees		-	6 909	-	-	(2 373)	-	-	-	-	4 536
- value of services provided by the employees						4 536					4 536
- settlement of exercised options			6 909			(6 909)					-
Equity as at 31 December 2005		**115 936**	**1 307 907**	**(2 975)**	**-**	**(4 304)**	**558 000**	**(186 868)**	**247 543**	**73 231**	**2 108 470**

IFRS Consolidated Financial Statements 2005 (PLN 000's)

Changes in consolidated equity from 1 January 2004 to 31 December 2004	Note	Share capital		Other capital and reserves	Retained earnings					Minority interest	Total
		Registered share capital	Share premium (aggio)		Other supplementary capital	Other reserve capital	General risk fund	Profit (loss) from the previous year	Profit (loss) for the current year		
Equity as at 1 January 2004		**91 882**	**744 320**	**(1 749)**	**-**	**195 167**	**558 000**	**(25 139)**		**111 594**	**1 674 075**
- reclassification to book value through profit and loss account										-	-
- changes to accounting policies										-	-
- adjustment of errors										-	-
Adjusted equity as at 1 January 2004		**91 882**	**744 320**	**(1 749)**	**-**	**195 167**	**558 000**	**(25 139)**		**111 594**	**1 674 075**
Net change in investments available for sale, net of tax	39			8 209						-	**8 209**
Net change in cash flow hedges, net of tax	39			5 626						5 626	**11 252**
Currency translation differences	39			(2 539)						(6 410)	**(8 949)**
Net profit not recognised in income statement				**11 296**						**(784)**	**10 512**
Net profit (loss)	40								**(294 017)**	**20 636**	**(273 381)**
Total profit recognised in current year				**11 296**					**(294 017)**	**19 852**	**(262 869)**
Dividends paid										(1 854)	(1 854)
Transfer to General Banking Risk Fund							1 595	(1 595)			-
Transfer to supplementary capital						2 025		(2 025)			-
Transfer to reserve capital					3 414			(3 414)			-
Loss coverage with reserve capital						(702)		702			-
Loss coverage with supplementary capital											-
Issue of shares	37,38	22 971	528 321								551 292
Redemption of shares											-
Purchase/sale of own shares											-
Premium											-
Issue expenses			(1 477)								(1 477)
Additional shareholder payments											-
Sale of fixed assets				(7 979)	7 979						-
Change in the scope of consolidation					(3 090)		(1 595)	4 685		(69 778)	(69 778)
Increase of share in consolidated company						-					-
Other changes						873		5 611		2 842	9 326
Stock option program for employees		-	-	-	-	8 686	-	-	-	-	8 686
- value of services provided by the employees						8 686					8 686
- settlement of exercised options											-
Equity as at 31 December 2004		**114 853**	**1 271 164**	**1 568**	**8 303**	**206 049**	**558 000**	**(21 175)**	**(294 017)**	**62 656**	**1 907 401**

IFRS Consolidated Financial Statements 2005 (PLN 000's)

Consolidated Cash Flow Statement

Consolidated Cash Flow Statement for 2005 and 2004

	Year ended 31 December	
	2005	**2004**
A. Cash flow from operating activities - indirect method	**(2 163 880)**	**1 061 101**
Profit before income tax	**337 964**	**(237 332)**
Adjustments:	***(2 501 844)***	***1 298 433***
Income taxes paid (negative amount)	(74 403)	(22 593)
Amortisation	139 615	148 742
Foreign exchange gains (losses)	(138 984)	(324 042)
Gains (losses) on investing activities	(18 882)	(31 181)
Impairment of financial assets	41 252	42 452
Dividends received	(46 310)	(7 176)
Interest paid	708 153	767 389
Change in loans and advances to banks	(358 451)	(2 087 702)
Change in trading securities	(2 876 390)	337 826
Change in derivative financial instruments	541 592	(101 985)
Change in loans and advances to customers	(1 204 979)	2 030 618
Change in investment securities	(595 532)	(181 675)
Change in other assets	285 834	(429 879)
Change in amounts due to other banks	(1 117 832)	249 050
Change in financial instruments and other trading liabilities	(445 638)	(9 097)
Change in amounts due to customers	2 851 543	1 583 997
Change in debt securities in issue	(393 734)	(840 284)
Change in provisions	(11 677)	5 720
Change in other liabilities	212 979	168 253
Net cash from operating activities	**(2 163 880)**	**1 061 101**
B.Cash flows from investing activities	**(95 256)**	**98 944**
Investing activity inflows	**149 019**	**465 491**
Disposal of shares in associates	-	8 040
Disposal of shares in subsidiaries, net of cash disposed	69 087	169 273
Proceeds from sale of intangible assets and tangible fixed assets	10 650	265 351
Other investing inflows	69 282	22 827
Investing activity outflows	**244 275**	**366 547**
Acquisition of subsidiaries, net of cash acquired	11 173	147 302
Purchase of intangible assets and tangible fixed assets	153 412	205 150
Other investing outflows	79 690	14 095
Net cash used in investing activities	**(95 256)**	**98 944**
C. Cash flows from financing activities	**378 594**	**878 023**
Financing activity inflows	**2 996 818**	**1 995 218**
Proceeds from loans and advances from other banks	999 036	196 218
Proceeds from other loans and advances	120 975	124 879
Issue of debt securities	1 440 060	1 124 305
Increase of subordinated liabilities	405 830	-
Issue of ordinary shares	30 917	549 816
Financing activity outflows	**2 618 224**	**1 117 195**
Repayments of loans and advances from other banks	1 028 390	451 670
Redemption of debt securities	1 418 260	509 875

IFRS Consolidated Financial Statements 2005 (PLN 000's)

Other financing outflows	171 574	155 650
Net cash from financing activities	**378 594**	**878 023**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(1 880 542)**	**2 038 068**
(Decrease)/increase in cash and cash equivalents in respect of foreign exchange gains and losses	(3 325)	(94 278)
Cash and cash equivalents at the beginning of the reporting period	10 047 287	8 103 497
Cash and cash equivalents at the end of the reporting period (Note 42)	**8 163 420**	**10 047 287**

Notes presented on pages 9 – 89 constitute an integral part of these Consolidated Financial Statements.

Explanatory Notes to the Consolidated Financial Statements

1. Information concerning the Group of BRE Bank SA

The Group of the BRE Bank SA ("Group") consists of entities of the following nature in relation to the BRE Bank SA (the "Bank"):

- Strategic and infrastructural: Shares and equity interests in companies supporting the different particular business lines of the BRE Bank SA (investment banking business, corporate banking, retail banking, asset management), as well as shares and equity interests in companies providing financial infrastructure or handling spheres that are complementary to the statutory scope of business of the BRE Bank SA. The formation or acquisition of these companies was intended to expand the range of services offered to the clients of the Bank;
- Long term: Investments with an assumed high rate of return and an investment horizon of not less than 2 years; they also comprise equity investments placed in companies listed on the Warsaw Stock Exchange SA with anticipated duration of not less than 6 months, as well as investments in investment funds (National Investment Funds /NIF/ and foreign closed end funds);
- Other: Company shares and equity interests acquired in exchange for receivables, in transactions resulting from composition and work out agreements with creditors, with the intention to recover a part or all claims to loan receivables and insolvent companies under liquidation or receivership.

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

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

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

As a result of adaptation to the requirements of the International Financial Reporting Standards (IFRS) as adopted for use in the European Union the composition of the subsidiary companies subject to the application of the full consolidation method was modified. Since 1 January 2004, the full consolidation method has been applied to all the subsidiaries of the parent company regardless of the nature of the business of any such subsidiary, the omission of which would be of material significance for the consolidated financial statements other than entities acquired with the exclusive purpose of their disposal within the next 12 months.

As at 31 December 2005, the BRE Bank's Group covered by the Consolidated Financial Statements comprised the following companies:

BRE Bank SA: the Parent Company

Bank Rozwoju Eksportu S.A. (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 (Commercial) 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 ("Bank"). 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 Registry (KRS) under number KRS 0000025237.

According to the Polish Classification of Business Activities, the business of the Bank was classified as "Other banking business" under number 6512A.

According to the Stock Exchange Quotation, the Bank is classified as pertaining to the "Banks" sector of the "Finance" macro-sector.

According to the Bylaws of the Bank, the scope of its business consists of providing banking services and consulting-advisory services in financial matters, as well as the conduct of business activities within the scope described in its Bylaws. The Bank operates within the scope of corporate, investment and retail banking throughout the whole country.

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

The Bank may open and maintain accounts with Polish and foreign banks, as well as having the right to possess foreign exchange assets and to trade with them.

The average employment in 2005 in BRE Bank SA was 3,410 persons and in the Group was 4,297 persons (2004: BRE Bank – 3,037, Group – 4,164).

Investment Banking

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

The company is in the BRE Bank's Group since July 1998. The company's core business is to provide services related to trading in securities, rights in property other than securities, and other financial instruments on the capital market in accordance with the applicable law and the licences held by the company.

- **BRE Corporate Finance SA**, subsidiary

The Company focuses on four key areas: mergers and acquisitions, privatization, strategic consulting, and fund resourcing, including public and private issues of stocks.

- **BRE International Finance BV** and **BRE Finance France SA**, subsidiaries

These are special purpose companies. Their core business is to raise funds for the Bank through issues of debt securities in international financial markets

- **TV-Tech Investment 1 Sp. z o.o.**, special-purpose subsidiary company

The Company invests in securities, trades in receivables, manages controlled companies, and provides consulting services.

- **Tele-Tech Investment Sp. z o.o**., special-purpose associated company

The company is in the BRE Bank's Group since 1999. The company's core business involves investment in securities and trade in receivables, executing securities transactions on its own account, management of controlled companies as well as business and management consulting services. Because this is a special-purpose company, much of the operating risk of which is the responsibility of the Bank, it was fully consolidated in the Consolidated Financial Statements of the Group. The Company has no employees.

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

Management of a real estate located at 101/111 Garbary St. in Poznań is the only business of the Company. The real estate consists of several partially wasted factory properties. The Company employs 2 persons.

Corporate Banking

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

The Bank has been holding the company in its portfolio since June 1991. The company's business is to acquire, rent, lease, and hire real estate properties, and to acquire, build, rent and lease all types of plots of land, buildings, and facilities. The company may execute transactions and take actions aimed at direct or indirect pursuit of its business objectives, including purchase of receivables and agency services in real estate trading. The Company has a network of offices in the largest cities of Poland.

- **Intermarket Bank AG**, subsidiary

This group consists of four companies, Transfinance a.s. (Czech Republic), Magyar Factor Rt. (Hungary) and Polfactor SA (Poland), centred around Austrian Intermarket Bank AG. They carry on local and international factoring business and they are market leaders in their home markets. The Group offers its services to the metal sector, food sector, fast moving consumer goods sector and building materials.

Intermarket Bank AG is in the BRE Bank's Group since July 2000. The main products of the company are: finance factoring and full finance.

- **Magyar Factor Rt.**, subsidiary

The Company is in the BRE Bank's Group since January 2003.

Magyar Factor Rt. provides domestic, export and import factoring services as part of Factors Chain International, an international organisation of factoring companies. The Bank holds 50% of Magyar Factor Rt.'s stocks and Intermarket Bank AG holds the remaining 50%.

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

The Bank has been holding the company in its portfolio since October 2000. The core business of the company includes purchase of receivables and intermediary services in collection of these receivables.
The Company was consolidated on 31 March 2001 for the first time.
The Bank holds 50% of Transfinance's stocks and Intermarket Bank AG holds the remaining 50%.

- **Polfactor SA**, subsidiary

The Company was established in 1995. As at 31 December 2005, the Bank had a direct 50% stake in the share capital and votes in the General Meeting of Shareholders of the Company and Intermarket Bank AG held the rest of the shares. The Company provides factoring services for domestic, export and import transactions under Factors Chain International.

Asset Management

- **Powszechne Towarzystwo Emerytalne Skarbiec-Emerytura SA**, subsidiary

The Company is in the BRE Bank's Group since August 1998. The business of the Company includes managing an open pension fund and representing OFE Skarbiec Emerytura. On 7 August 2002, the District Court for the Capital City of Warsaw registered the merger of Powszechne Towarzystwo Emerytalne Skarbiec Emerytura SA with Powszechne Towarzystwo BIG Banku Gdańskiego SA. The merger was effected by transferring all assets of PTE BIG BG SA to PTE Skarbiec Emerytura SA in return for stocks handed over to BIG Bank Gdański SA, representing 38.61% of the increased share capital and votes in the General Meeting of Stockholders of PTE Skarbiec Emerytura SA. In September 2002, BRE BANK SA purchased PTE Skarbiec-Emerytura SA's stocks representing 38.61% of share capital and votes in the General Meeting of Stockholders of the Company from BIG Bank Gdański SA. Accordingly, BRE BANK SA holds 100% of shares and votes in the General Meeting of Shareholders of PTE Skarbiec-Emerytura SA.

- **Skarbiec Asset Management Holding SA**, subsidiary

The companies of BRE Bank for which the main activity is asset management have been centralised under Skarbiec Asset Management.

The Holding consists of the following (wholly owned) companies:

- Skarbiec TFI SA: Creation of investment funds, introduction of new investment products, and sales to the corporate customers' market.
- Skarbiec Investment Management S.A: Securities portfolio management. The Company manages its own customers' portfolio and provides management services to investment funds created by Skarbiec TFI and consulting services to PTE Skarbiec-Emerytura.
- Skarbiec Serwis Finansowy Sp. z o.o.: Distributor of TFI and OFE products to end clients of SAMH. The Company promotes and markets all business lines.
- BRE Agent Transferowy Sp. z o.o.: Support of investment funds, corporate and fund accounting, administration, pension fund and information technology.

Other Business

- **Centrum Rozliczeń i Informacji CERI Sp. z o.o.**, subsidiary

The business of the Company includes the provision of services such as database servicing, electronic and document archiving and introducing data to the system.

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

BRE Locum is a building developer. It invests in real estates (primarily residential buildings), manages property and provides consulting service. As its core business, the Company develops and assesses investment projects; arranges for, supervises and prepares building designs; supervises and performs building work; acts as a 'substitute investor' for building projects; resources funds for investments; finds lessees; operates commercial real estates; trades in real estates; provides real estate trading services; offers advice for development and sale/acquisition projects; and mediates in real estate trading.

The Consolidated Financial Statements of the Bank cover the following companies:

IFRS Consolidated Financial Statements 2005 (PLN 000's)

Company	Share of voting rights (direct and indirect)	Consolidation method
Dom Inwestycyjny BRE BANK SA	100%	Full
BRE Leasing Sp. z o.o.	50.004%	Full
PTE - Skarbiec Emerytura SA	100%	Full
Skarbiec Asset Management Holding SA	100%	Full
BRE Corporate Finance SA	100%	Full
Polfactor SA	78.12%	Full
Tele-Tech Investment Sp. z o.o.	24%	Full
BRE International Finance	100%	Full
Intermarket Bank AG	56.24%	Full
Transfinance a.s.	78.12%	Full
Magyar Factor Rt.	78.12%	Full
BRE Finance France SA	99.98%	Full
TV-TECH Investment 1 Sp. z o.o.	100%	Full
CERI Sp. z o.o.	100%	Full
BRE Locum	57.19%	Full
Garbary Sp. z o.o.	100%	Full

The Management Board approved these Consolidated Financial Statements on February 27, 2006.

2. Description of Relevant Accounting Policies

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

2.1. Accounting Basis

These Consolidated Financial Statements of BRE Bank Group have been prepared for the year ended 31 December 2005.

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

These are the first complete annual consolidated financial statements of BRE Bank Group.

Until 31 December 2004 the consolidated financial statements of the BRE Bank Group were prepared in compliance with the Accounting Act dated 29 September 1994 ("The Act" – full text – Dz.U. 2002 No 76 pos. 694). The Accounting Act is different in some areas from IFRS as adopted for use in the European Union. The comparative data of the Group at 31 December 2004 have been presented to adjust to International Financial Reporting Standards as adopted for use in the European Union. As the presented financial statements are the first in which there are comparative data of profit and loss for 2004, the Note 45 includes the additional information of reconciliation of differences between IFRS as adopted for use in the European Union and Polish GAAP. The balance sheet and profit and loss effect of transition from Polish Accounting Standards to International Financial Reporting Standards as adopted for use in the European Union was included in consolidated financial statements for the 1st half 2005 published as at 30 September 2005.

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

The Bank's financial statements for the year ended 31 December 2005 will be the first annual financial statements that comply with IFRS.

The Bank's transition date is 1 January 2004. The Group prepared its opening IFRS balance sheet at that date. The reporting date of these consolidated financial statements is 31 December 2005. The Bank's IFRS adoption date is 1 January 2005.
In preparing consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

1. Exemptions from full retrospective application – elected by the Group (facultative exemptions)
The Bank has elected to apply the following optional exemptions from full retrospective application.

a) Business combination
The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2004 transition date.

b) Fair value or revaluation as deemed cost
The Group has elected to measure certain items of property at deemed cost being the depreciated cost adjusted by inflation index as required by Polish GAAP as of 1 January 2004. The revaluation has met the requirement of IFRS1p17 at the date of the revaluation.

c) Employment benefits
As the Group under previous GAAP recognised all cumulative actuarial gains and losses, this exemption is not applicable.

d) Cumulative translation differences
The Group has not elected for this exemption to be applied to its subsidiaries

e) Compound financial instruments
The Group has not issued any compound instruments; this exemption is not applicable.

f) Assets and liabilities of subsidiaries, associates and joint ventures
This exemption is not applicable, as the subsidiaries and associates adopted IFRS at the same date as their parent company

g) Comparative data to financial instruments
The Group elected to apply this exemption. It applies previous GAAP rules to derivatives, financial assets and financial liabilities and to hedging relationships for the 2004 comparative information. The adjustments required for differences between previously adopted GAAP and IAS 32 and IAS 39 are determined and recognised at 1 January 2005.

h) Financial instruments: disclosure and valuation
The Group reclassified securities as available-for-sale investments and as financial assets at fair value through profit and loss at the opening balance sheet date of 1 January 2005, being the IAS 32 and IAS 39 transition date.

i) Share-based payments
The Group has elected to apply the share-based payment exemption. It applied IFRS 2 from 1 January 2004 to those options that were issued after 7 November 2002 but that have not vested by 1 January 2005.

j) Insurance contracts
The Group does not issue insurance contracts; this exemption is not applicable.

k) Designation of financial assets and financial liabilities at fair value
The Group has applied the exemption offered by the revision of IAS 39 on the initial recognition of the financial instruments measured at fair value through profit and loss where there is no active market.

2. Exceptions from full retrospective application followed by the Bank (obligatory exemptions)
The Group has applied the following mandatory exceptions from retrospective application.

IFRS Consolidated Financial Statements 2005 (PLN 000's)

a) Derecognition of financial assets and financial liabilities
Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS. The application of the exemption from restating comparatives for IAS 32 and IAS 39 means that the Group recognised from 1 January 2005 any financial assets and financial liabilities derecognised since 1 January 2004 that do not meet the IAS 39 derecognition criteria.

b) Hedge accounting
Management has claimed hedge accounting from 1 January 2005 only if the hedge relationship meets all the hedge accounting criteria under IAS 39.

c) Estimates
Estimates under IFRS at 1 January 2004 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

d) Assets held for sale and discontinued operations
Management applies IFRS 5 prospectively from 1 January 2005. Any assets held for sale or discontinued operations are recognised in accordance with IFRS 5 only from 1 January 2005.

IFRS 3 must be adopted at the same time as revised standards IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*.

The adoption of the above specified standards did not affect the balance of retained profits/(losses) of previous years as at 1 January 2004.

According to IFRS 1 par. 36A the Group decided to use the exemption from the requirement to restate comparative information for IAS 32, IAS 39 related to: valuation at amortised cost using effective interest rate, impairment of financial assets carried at amortised cost measured using effective interest rate.

The following table presents the consequences of adoption of IFRS 2 regarding the management options program which started after 7 November 2002:

	31.12.2005	**31.12.2004**
The adoption of IFRS 2 has resulted in		
- increase of employment costs	4 536	8 686
- decrease of basic profit per share	0.98	-
- decrease of diluted profit per share	(0.03)	0.02
- decrease of retained financial result	15 340	6 654
- increase of share capital	1 083	-

2.2. Consolidation

Subsidiaries

Subsidiaries comprise any entities (including special purpose vehicles) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of majority of the voting rights. When assessing whether the Group actually controls the given entity, the existence and impact of potential voting rights that are currently exercisable or convertible are considered. Subsidiary entities are subject to full consolidation from the date of acquisition of control over them by the Group. Their consolidation is discontinued from the date when control is not exercised any longer. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement (see Note 2.13).
Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the

asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.13).

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

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

Such an accounting treatment does not cover those companies whose scale of business operations is immaterial in relation to the volume of business of the Group, as well as companies acquired for the purpose of their resale or liquidation.

2.3. Interest Income and Expenses

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

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

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

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

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

Interest income on impaired loans is recognised using the interest used to discount the future cash flows for the purpose of measuring impairment loss.

2.4. Fee and Commission Income

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

Commissions comprise payments collected by the Group on account of cash management operations, keeping of customer accounts, managing bank transfers and providing letters of credit. Moreover, commissions comprise revenues from brokerage business activities, as well as commissions received through pension funds.

2.5. Segment Reporting

A business segment consists of a group of assets and operations engaged in the delivery of products and services which are subject to risks and rewards from the capital expenditure incurred other than the remaining business segments. A geographic segment supplies products and services in a specific economic environment, which is exposed to risks and returns other than in the case of segments functioning in other economic environments.

2.6. Financial Assets

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

Financial assets valued at fair value

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

Disposals of debt securities held for trading are accounted for according to the FIFO method, which implies that the securities are derecognised successively proceeding with the purchases made first.

Loans and Receivables

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

Held to Maturity Investments

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

In the case of sale by the Group 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.

Available for Sale Investments

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

Transactions consisting of buying and selling of financial assets valued at fair value through the Profit and Loss Account, held to their maturity date, and available for sale are recognised at the date of transaction – the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. A financial asset or financial liability is recognised initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit and loss, transaction costs. Financial assets are derecognised when the rights to receive cash flows have expired or where the Group has transferred substantially all rights and rewards of ownership.

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

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

2.7. Offsetting Financial Instruments

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

2.8. Impairment of Financial Assets

Assets Carried at Amortised Cost

At each Balance Sheet date, the Group estimates whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated 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 Group about the following loss events:

a) significant financial difficulties of an issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) concessions granted by the Group 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 Group first assesses whether objective indications exist individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that for the given financial asset assessed individually there are no objective indications of its impairment (regardless of whether that particular item is material or not), the given asset is included in a group of financial assets featuring similar credit risk characteristics, which is subsequently collectively assessed in terms of its possible impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

In the event of existence of objective evidence indicating the 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 Balance Sheet of the respective asset and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account, and the resulting impairment loss is charged to the Profit and Loss Account. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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 security provided, overdue status outstanding, maturities and their combinations. Such features influence the estimation of the future cash flows attached to specific groups of assets as they indicate the capabilities of repayment on the part of debtors of their total liabilities in conformity with the terms and conditions of the contracts concerning the assessed assets.

Future cash flows concerning groups of financial assets assessed collectively in terms of their possible impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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

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

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

Assets Measured at Fair Value

At each Balance Sheet date the Group estimates whether there is 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 is considered in determining whether the assets are impaired. If such kind of evidence concerning available for sale financial assets exists, the cumulative loss – determined as the difference between the cost of acquisition and the current fair value, less any impairment loss on that financial asset previously recognised in the Profit and Loss Account – is removed from equity and recognised in the Profit and Loss Account. Impairment losses concerning equity instruments recorded in the Profit and Loss Account are not reversed through the Profit and Loss Account, but through equity. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and such increase can be objectively related to an event occurring after the recording of the impairment loss in the Profit and Loss Account, then the respective impairment loss is reversed in the Profit and Loss Account.

2.9. Cash and Cash Equivalents

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

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

2.10. Sell-buy-back 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.

Repos (securities sold with a repurchase clause) 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 from customers, depending on its nature. Reverse repos (securities purchased together with a resale clause) are recognised as loans and advances to other banks or other customers, depending on their nature.

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

Securities borrowed by the Group are not recognized in the financial statements, unless these are sold to third parties, in which 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.

2.11. Derivative Financial Instruments and Hedging Accounting

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

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

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

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

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

Fair Value Hedges

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

In case a hedge has ceased to fulfil the criteria of hedging accounting, the adjustment to the carrying value of the hedged item for which the effective interest method is used is amortised to Profit and Loss Account over the period to maturity. The adjustment to the carrying amount of the hedged equity security remains in the revaluation reserve until the disposal of the equity security.

Cash Flow Hedges

The effective part of the fair value changes of derivative instruments designated and qualifying as cash flow hedges is recognised in equity. The gain or loss concerning the ineffective part is recognised in the Profit and Loss Account of the current period.

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

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

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 Profit and Loss Account of the current period.

The Bank holds the following derivative instruments in its portfolio:

Market risk instruments:
a) Futures contracts for bonds, index futures
b) Options for securities and for stock-market indices
c) Options for futures contracts
d) Forward transactions for securities

Interest rate risk instruments:
a) Forward Rate Agreement (FRA)
b) Interest Rate Swap (IRS), Cross Currency Interest Rate Swap (CIRS), Overnight Index Swap (OIS)
c) Interest Rate Options

Foreign exchange risk instruments:
a) Currency forwards, fx swap, fx forward
b) Currency options

2.12. Loans and advances

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

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.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill on acquisition of associates is recognised in "investment in associates". Goodwill is not amortised, but it is tested annually for impairment, and it is carried in the Balance Sheet at cost reduced by accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Each of those cash generating units is represented by the investments of the Bank classified by basic reporting business segments.

Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. These costs are amortised on the basis of the expected useful life of the software (2-5 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 probably future economic benefits and fulfil the following requirements described in IAS 38: the Bank has the intention and technical feasibility to complete and to use or sell the intangible asset, the availability of adequate technical, financial and other resources to complete and to use the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs' useful lives are finite and the amortization period does not exceed 3 years. The Group 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.

2.14. Tangible Fixed Assets

Land and buildings consist mainly of branch outlets and offices. 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 Group and the cost of the item can be measured reliably.

Any other expenses incurred on repairs and maintenance are expensed to the Profit and Loss Account in the reporting period in which they were incurred.

Fixed assets designated for liquidation or decommissioning are measured at net book value or at fair value less selling costs, depending on which value is lower: the difference arising on this account is recognised under "Other operating profit/loss".

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

– Buildings and constructed structures	25-40 years,
– Technical plant and equipment	8-17 years,
– Transport vehicles	5 years,
– Information technology hardware	3 years,
– Investments in third party (leased) fixed assets	10-40 years or the period of the lease contract, if it is shorter than 25 years
– Office equipment, furniture	5-7 years.

Residual values and estimated useful life periods are verified at each Balance Sheet date and adjusted accordingly as the need arises.

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

If there is any indication that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the cash-generating unit to which the asset belongs.

Gains and losses on account of the disposal of fixed assets are determined by comparing the proceeds from their sale against their carrying value in the Balance Sheet and they are recognised in the Profit and Loss Account.

2.15. Deferred Tax Assets and Liabilities

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

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

The main temporary differences arise on account of impairment loss 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 Group presents the deferred tax assets and liabilities netted in the Balance Sheet (for each associate separately). Such assets and provisions may be netted against each other if the Group possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

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

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is possible that the difference will not reverse in the foreseeable future.

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

2.16. Assets Taken Over for Debts

Assets taken over in return for debts are measured at fair value. The difference between the debt amount and the value of assets acquired that is lower than the amount of the debt is charged to a specific provision formed on such account or written off and charged to the revaluation of such assets owing to their impairment. In the case when the fair value of acquired assets is higher than the debt amount, the difference constitutes a liability toward the debtor.

2.17. Prepayments, Accruals and Deferred Income

Prepayments are recorded if the respective expenses concern the months succeeding the month in which they were incurred. Prepayments are presented in the Balance Sheet under "Other assets".

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

2.18. Leasing

BRE Bank SA Group as a Lessor

In the case of assets in use on the basis of a finance lease agreement, the current value of lease payments is recognised under receivables. The difference between the gross receivable amount and the present value of the receivables is recognised as unrealised financial income. Income on account of leasing is recorded over the period of the lease according to the net-of-tax investment method, which reflects the fixed periodical rate of return on the lease.

BRE Bank SA Group as a Lessee

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

2.19. Provisions

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

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

2.20. Retirement Benefits and Other Employee Benefits

Retirement Benefits

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

Benefits Based on Shares

The Group runs a programme of employee remuneration based on and settled in shares. These benefits are accounted for in compliance with IFRS 2 *Share-based Payment*. The fair value of the work performed by employees in return for options granted increases the costs of the respective period, corresponding to equity. The total amount which needs to be expensed over the period when the outstanding rights of the employees for their options to become exercisable are vested is determined on the basis of the fair value of the granted options. There are no market conditions that shall be taken into account when estimating the fair value of share options at the measurement date. Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. In accordance with IFRS 2, in spite of the fact that the fair value of the options are changing it is not necessary to recognize the change in fair value of the share-based payment over the term of the program.

2.21. Equity

Equity consists of capital and funds created in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the Company by-laws, or a founding deed.

Registered share capital
Share capital is presented at its nominal value, in accordance with the Bylaws and with the entry in the business register.

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

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

c) Own Shares
In the case of acquisition of stocks or shares in the Company by the Company or by other entities consolidated as part of the Group, the amount paid reduces the value of equity as Treasury shares until the time when they are cancelled. In the case of sale or reallocation of such shares, the payment received in return is recognised in equity.

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

Other capital and reserves
Other capital and reserves is formed as a result of:
- valuation of available for sale ,
- valuation of cash flow hedge financial assets.

Retained earnings
Retained earnings include:
- other supplementary capital,
- other capital and reserves,
- general banking risk fund,
- undistributed profit for the previous year,
- net profit (loss) for the current year.

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

2.22. Valuation of Items Denominated in Foreign Currencies

Functional Currency and Presentation Currency

The items contained in financial reports of particular entities of the Group are valued in the currency of the basic economic environment in which the given entity conducts its business activities ("functional currency"). The

Consolidated Financial Statements are presented in Polish zloty, which is the functional currency and the currency in which Company presents its accounts.

Transactions and Balances

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

Foreign exchange differences arising on account of non-monetary items, such as financial assets measured at fair value through the Profit and Loss Account, are recognised under gains or losses arising in connection with changes of fair value. Foreign exchange differences on account of such non-monetary assets as equity instruments classified as available for sale financial assets are recognised under equity arising on revaluation at fair value.

Companies Belonging to the Group

The performance and the financial position of all the entities belonging to the Group, none of which conduct their operations under hyperinflationary conditions, the functional currencies of which do not differ from the reporting currency, are converted to the reporting currency as follows:

a) assets and liabilities in each presented Balance Sheet are converted at the mid rate of exchange of the National Bank of Poland (NBP) in force at the Balance Sheet date;

b) revenues and expenses in each Profit and Loss Account are converted at the rate equal to the arithmetic mean of the mid rates quoted by NBP on the last day of each of twelve months of each presented periods; whereas

c) all resulting foreign exchange differences are recognised as a distinct item of equity.

Upon consolidation, foreign exchange differences arising from the conversion of net investments in companies operating abroad, as well as loans, advances and other FX instruments designated as hedges attached to such investments are recognised in equity. Upon the disposal of a company operating abroad, such foreign exchange differences are recognised in the Profit and Loss Account as part of the profit or loss arising upon disposal.

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

Leasing Business

Negative or positive foreign exchange differences (gains/losses) from the valuation of liabilities on account of credit financing of purchases of assets under operating leasing schemes are recognised in the Profit and Loss Account. In the operating leasing agreements recognised in the Balance Sheet of the Subsidiary Company (BRE Leasing Sp. z o.o.), the fixed assets subject to the respective contracts are recognised at the starting date of the appropriate contract as converted to PLN, whereas the foreign currency loans with which they were financed are subject to valuation according to the respective foreign exchange rates.

Additionally, in the case of operating lease agreements, all future receivables on account of leasing payments (including receivables in foreign currencies) are not presented on the face of the financial reports, but off-Balance Sheet. In case of finance lease agreements the foreign exchange differences arising from the valuation of leasing payments due as well as of liabilities denominated in foreign currency are recognised through the Profit and Loss Account at the time of valuation.

2.23. Custody Services Business

BRE Bank SA operates a custody business including domestic and foreign securities and services provided to investment and pension funds.

Dom Inwestycyjny BRE Banku SA operates a custody business in connection with the handling of securities accounts of the clients.

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

Other companies belonging to the Group do not conduct any custody business operations.

2.24. Comparative Data

Where necessary comparative data have been adjusted so as to account for the changes in presentation introduced in the current financial year.

The Group used the exemption from the requirement to restate comparative information for IAS 32 and IAS 39 according to IFRS 1 par. 36A. Hence, comparative information does not comply with IAS 32 and IAS 39 in its first year of transition. The reconciliation of comparative data from Polish GAAP to IFRS has been presented in Note 45.

According to the accounting principle of netting assets and liabilities of deferred income tax described in the Note 2.13, which has been introduced at the end of 2005, the Bank made a reclassification of comparative data. As a result of this, total assets were reduced by PLN 688 347 thousand as at 31 December 2004.

3. Financial Risk Management

3.1 Strategy in using Financial Instruments

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

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

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

Hedge Accounting

BRE Bank SA

The Bank does not use hedge accounting.

BRE Leasing Sp. z o.o.

The purpose of a hedging transaction is to hedge a fixed level of cash flows resulting from payments of interest on variable rate credits.

Interest rate swap (IRS) transactions are used to hedge the level of interest cash flows resulting from variable rate credit agreements. IRS transactions were made with the same banks with which BRE Leasing concluded variable rate credit agreements.

The hedged item is the level of interest cash flows resulting from payments under variable rate credits.

Cash flows resulting from IRS transactions are used to offset changes in cash flows under the hedged items (loan). A hedging instrument secures a fixed level of cash flows resulting from interest payments under contracted variable rate credits during the term of the hedge.

It is expected that changes in the fair value of interest cash flows from the hedged instrument (loan transaction) will offset changes in value of the hedging instrument (IRS) in full because:

a) Loan and swap (IRS) transactions have the same face values in each interest period, the same dates of payment, and the same reference rate;
b) In case of differences (temporary) in the face values, interest periods or reference rates for the hedging item and the hedged item, a hedging efficiency ratio would remain within required range (the criterion of hedging efficiency would be met).

Hedging efficiency ratio is measured as a coefficient of correlation between the present value of cash flows from the hedged item and the present value of hedged cash flows from the hedging item.

BRE Leasing defines the hedging efficiency criterion as a hedging efficiency ratio ranging between 0.8<=corr<=1.25.

A hedging relationship is a cash flow hedge against variability attributable to all interest payments under the hedged item (variable rate credit agreements), which will affect the disclosed net profit or loss because the amount of the future cash flow (amount of interest) from the hedged instrument (variable rate credit) is unknown.

A change in the fair value of a derivative instrument (IRS) is recognized in the Balance Sheet in accordance with the following rule:

- The effective part of a hedge is reflected as an equity fund (revaluation fund); and
- The ineffective part of the hedge is reflected in the Profit and Loss Account.

There are no hedges for proposed transactions or likely future liabilities.

3.2 Credit Risk

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

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

The Group manages the level of its credit exposure by setting limits for risks acceptable to each borrower or group of related borrowers and by using a structure of sub-limits.

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

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

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

Derivative Instruments

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

Master Netting Agreements

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

Off-balance sheet Credit-related Commitments

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

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

Concentration of the exposure of BRE Bank SA per client, sector, capital group including risk assessment related to this exposure

Loan portfolio as at 31.12.2005

Sector (European Business Classification)	Principal exposure (PLN 000's)	Portfolio share (%)
1. Household customers	4,322,670	29.3%
2. Financial mediation * (65)	2,028,926	13.8%
including mediation with banks	729,836	5.0%
3. Wholesale and consignment trade ** (51)	1,539,102	10.4%
4. Mandatory Insurance (75)	1,095,495	7.4%
5. Production of foodstuffs and beverages (15)	549,882	3.7%
6. Real estate services (70)	541,899	3.7%
7. Production/generation and supplies of power, gas, steam and hot water (40)	336,011	2.3%
8. Construction industry (45)	288,423	2.0%
9. Production of wood and manufacture of wooden goods (20)	235,365	1.6%
10. Manufacture of metal (27)	224,938	1.5%
Total	**14,737,566**	**75.7%**

* Except insurance and retirement/pension funds
** Except trade with motor vehicles

The total exposure of the Bank with these sectors (other than households) represents approximately 46% of the loan portfolio. A recent study of the Market Economy Research Institute *(Instytut Badań nad Gospodarką Rynkową)* assessed the risks of investing in these segments (in a 5-point scale: small, medium, increased, large and very large) as follows:

Financial mediation	not classified
including mediation with banks	not classified
Wholesale and consignment trade	medium
Insurance and retirement/pension funds	not classified
Real estate services	increased
Production of foodstuffs and beverages	small
Production/generation and supplies of power, gas, steam and hot water	small
Production of wood and manufacture of wooden goods	small
Construction industry	increased

Concentration of the exposure of BRE Bank per entity and capital group (balance sheet and off-balance sheet exposure)

Entity	PLN 000's	Share of the total gross exposure
Customer 1	2,444,988	9.2%
Customer 2	1,810,000	6.8%
Customer 3	394,888	1.5%
Customer 4	290,570	1.1%
Customer 5	213,633	0.8%
Customer 6	207,300	0.8%
Customer 7	202,982	0.8%
Customer 8	195,398	0.7%
Customer 9	189,392	0.7%
Customer 10	188,300	0.7%

These items include credit exposure and off-balance sheet exposures (guarantees, letters of credit, unused parts of credits) with the customers.

The first item concerns mainly guarantees for redemption of Eurobonds issued by a subsidiary of the Bank. The second exposure consists of loans and an open credit line for a public/government organization. Exposure to customers 3 and 4 relate mainly to subsidiaries. Number 5 represents exposure to a subsidiary, related to loans, open credit lines, stocks and bonds; it is classified as "standard" exposure. Item 6 represents credit exposure related to securities and a measure of credit risk related to transactions with derivatives. Item 7 relates to open credit lines and guarantees for a company with stable financial standing. Number 8 is mainly loans and open credit lines. Row 9 represents credit exposure only, classified as "standard". Finally, item 10 consists of a mid-term revolving credit and a short-term credit line classified as "standard" exposures.

Capital groups	PLN 000's	Share of the total gross exposure
Group 1	363,574	1.4%
Group 2	279,296	1.1%
Group 3	265,396	1.0%
Group 4	238,759	0.9%
Group 5	221,218	0.8%
Group 6	202,982	0.8%
Group 7	161,103	0.6%
Group 8	140,100	0.5%
Group 9	130,000	0.5%
Group 10	125,664	0.5%

These items represent credit exposures and off-balance sheet exposures (guarantees, letters of credits, unused parts of credits) with the listed capital groups. The standing of each of these groups is considered good or very good.

IFRS Consolidated Financial Statements 2005 (PLN 000's)

More than 90% of these receivables are classified as "standard" debts. The items presented above do not represent exposure under the Group and due to the budget sector.

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

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

3.4 Market Risk

The Bank is exposed to market risk resulting from open items in interest rate, currency and equity instruments that are exposed to market-driven changes in the values of relevant risks. The Bank quantifies the level of the market risk of the Bank's position by measuring values at risk (VaR*) and by testing edge conditions. To alleviate the exposure of the Bank to market risk, the Management Board of the Bank sets limits for values at risk and limits for edge condition tests, acting through the Financial Risk Committee. Market risk limits of the Bank's trade book are monitored on a daily basis.

* Value at Risk (VaR) is a statistical measure of market risk level. It represents the potential loss a portfolio is exposed to over a certain time, for a given confidence interval, under normal market conditions on the account of changes in risk factors (such as interest rates, currency exchange rates, stock prices) and volatility of certain risk factors (currency exchange rates, interest rates and prices). The potentiality of loss means that a loss smaller than the determined VaR can be expected within the predefined period with predefined large probability for which the value at risk is determined.

Portfolios of instruments sensitive to interest rates (such as treasury bonds, commercial papers, IRS and CIRS transactions) and secondly, portfolios of instruments sensitive to currency exchange rates (such as currency options and currency exchange transactions) are the major determinants of VaR. Other risk factor groups have relatively smaller effect on VaR.

At 31 December 2005, the one-day total VaR in the trade book of the Bank amounted to PLN 743,000 at 95% relevance. The following table presents values of mean one-day VAR of the Bank's trade book between 1 January 2005 and 31 December 2005 and between 1 January 2004 and 31 December 2004.

	12 months to 31.12.2005			**12 months to 31.12.2004**		
	mean	**max.**	**min.**	**mean**	**max.**	**min.**
Interest rate risk	568	1459	151	940	3983	256
Foreign exchange risk	401	1327	90	457	2145	67
Equities risk	261	472	57	316	715	30
Total VaR	838	1694	409	1158	3847	369

3.5 Currency Risk

The Group is exposed to changes in currency exchange rates. The following table presents the exposure of the Group to currency risk as at 31 December 2005 and 2004. The table presents assets and liabilities of the Group at balance sheet carrying amount, for each currency:

IFRS Consolidated Financial Statements 2005 (PLN 000's)

31.12.2005	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with Central Bank	1 741 404	24 385	9 744	624	1 306	994	1 778 457
Debt securities eligible for rediscounting at the Central Bank	37 464	-	-	-	-	-	37 464
Loans and advances to banks	2 495 658	526 681	1 431 333	9 008	3 230	202 564	4 668 474
Financial instruments at fair value through profit or loss (including trading)	4 307 128	447 640	257 192	-	-	-	5 011 960
Derivative financial instruments	1 225 537	15 619	13 646	-	205	225	1 255 232
Loans and advances to customers	8 676 436	2 447 015	711 670	3 012 049	9 230	607 114	15 463 514
Investment securities	588 228	162 973	373 618	-	-	13	1 124 832
- Available for sale	588 228	162 973	373 618	-	-	13	1 124 832
- Held to maturity	-	-	-	-	-	-	-
Pledged assets	1 488 188	28 024	-	-	-	-	1 516 212
Investments in associated undertakings	5 175	1 302	-	-	-	-	6 477
Intangible assets	405 916	289	-	-	-	175	406 380
Tangible fixed assets	550 624	6 193	-	-	-	1 718	558 535
Other assets, including deferred income tax assets	979 014	4 239	5 315	3	8	1 255	989 834
Total assets	**22 500 772**	**3 664 360**	**2 802 518**	**3 021 684**	**13 979**	**814 058**	**32 817 371**
							-
LIABILITIES							-
Amounts due to the Central Bank	-	-	-	-	-	-	-
Amounts due to other banks	1 571 104	1 936 418	44 668	371 422	1 685	411 759	4 337 056
Other deposits	-	-	-	-	-	-	-
Derivative financial instruments and other trading liabilities	1 148 693	17 552	8 369	-	205	251	1 175 070
Amounts due to customers	16 430 579	2 415 780	1 412 781	11 414	42 023	130 829	20 443 406
Debt securities in issue	314 015	2 390 987	26 155	-	-	-	2 731 157
Other borrowed funds	-	1 362 528	-	-	-	-	1 362 528
Other liabilities including tax liabilities	531 370	28 715	8 593	-	-	4 871	573 549
Provisions	78 780	6 456	131	-	-	768	86 135
Total liabilities	**20 074 541**	**8 158 436**	**1 500 697**	**382 836**	**43 913**	**548 478**	**30 708 901**
Net on-balance sheet position	**2 426 231**	**(4 494 076)**	**1 301 821**	**2 638 848**	**(29 934)**	**265 580**	**2 108 470**
Credit commitments	**6 097 653**	**823 954**	**337 376**	**158 976**	**5 568**	**5 217**	**7 428 744**

31.12.2004	PLN	EUR	USD	CHF	GBP	Other	Total
Total assets	19 725 699	5 013 907	3 248 959	1 846 018	35 503	623 362	30 493 448
Total liabilities	18 835 913	7 612 660	1 370 060	351 561	50 334	365 519	28 586 047
Net on-balance sheet position	**889 786**	**(2 598 753)**	**1 878 899**	**1 494 457**	**(14 831)**	**257 843**	**1 907 401**
Credit commitments	**4 971 879**	**622 531**	**311 403**	**96 850**	**1 716**	**4 615**	**6 008 994**

3.6 Trade Book Interest Rate Risk

Restatement date misfit gap and interest earnings at risk (EaR) based on the former are the key trade book interest rate risk measures at BRE Bank SA. In addition, the Bank performs stress test analyses based on these methods.

A sudden, lasting and disadvantageous change of market interest rates by 100 base points for all maturities in 2005 would result in decrease in the annual interest income by the following amounts, on average:

- PLN 15.91 million for PLN
- PLN 4.81 million for USD
- PLN 1.70 million for EUR
- PLN 4.58 million for CHF

To calculate these values, the Bank assumed that the structure of financial assets and liabilities disclosed in the financial statements as of 31 December 2005 would be fixed during the year and the Bank would not take any measures to change related exposure to interest rate change risk.

The following table presents the Bank's exposure to interest rate risk. The table presents assets and liabilities of the Bank at balance sheet carrying amounts, for the earlier of the following dates: a change of the interest rate set in an agreement or maturity.

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According to the Group Accounting Policies, the Group used the exemption from the requirement to restate comparative information for IAS 32 and IAS 39. Hence, comparative information does not comply with IAS 32, IAS 39 in its first year of transition.

31.12.2005	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	
Interest bearing assets	19 254 254	4 679 741	2 050 615	1 315 012	694 346	
Interest bearing liabilities	(19 898 731)	(5 921 859)	(1 044 998)	(134 910)	(14 306)	
Net neutral positions						(979 164)
Balance sheet gap	**(644 477)**	**(1 242 118)**	**1 005 617**	**1 180 102**	**680 040**	
Off-balance sheet long	28 848 841	42 304 716	95 160 770	33 104 827	906 539	
Off-balance sheet short	(29 227 565)	(40 100 322)	(96 971 486)	(34 110 638)	(1 318 682)	
Net neutral positions						1 403 000
Off-balance sheet gap	**(378 724)**	**2 204 394**	**(1 810 716)**	**(1 005 811)**	**(412 143)**	
Total gap	**(1 023 201)**	**962 276**	**(805 099)**	**174 291**	**267 897**	
						423 836

The table below summarises the effective interest rate by major currencies for financial instruments:

31.12.2005	PLN %	EUR %	USD %	CHF %	GBP %
ASSETS					
Cash and balances with Central Bank	3.55	0.71	-	-	-
Loans and advances to banks	4.45	2.46	4.45	0.68	4.80
Trading securities	4.46	2.53	4.88	-	-
Loans and advances granted to customers	6.72	4.14	6.23	3.62	9.58
Investment securities	4.56	3.29	5.00	-	-
EQUITY AND LIABILITIES					
Amounts due to other banks	4.21	2.53	4.32	1.20	4.78
Amounts due to customers	4.04	2.42	4.35	0.73	4.63
Debt securities in issue	4.66	-	-	-	-
Other borrowed funds	-	2.52	-	-	-

3.7 Liquidity Risk

BRE Bank SA monitors its financial liquidity daily, using methods based on cash flows analysis. The measurement of liquidity risk is based on an internal model based on analyses of the Bank's specificity, deposit base variability, financing concentration and developments planned for each item. The following are monitored daily: value of mismatch in specific time intervals (gap), the level of liquidity provisions of the Bank, and the rate of usage of internal limits.

The Bank uses methods based on estimation of cash flows mismatch to measure liquidity risk. Among others, the Bank monitors liquidity ratios, including short-term liquidity ratio that identifies cash flows mismatch within up to one month.

In addition to liquidity ratios, the Bank monitors the level of concentration of deposits and the status of coverage of estimated deposit outflows under predefined scenarios with liquidity provisions of the Bank.

In 2005, the liquidity rate stayed within the 0.82-1.17 range with the mean value of 0.99. As at 31 December 2005, the ratio increased to 1.12.

The following table presents the structure of maturities of assets and liabilities of the Group based on the time to maturity remaining as at the Balance Sheet date.

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According to the Group Accounting Policies comparative information does not comply with IAS 32, IAS 39 in its first year of transition according to IFRS 1 it has not been presented.

31.12.2005	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total
ASSETS						
Cash and balances with Central Bank	1 778 457	-	-	-	-	**1 778 457**
Debt securities eligible for rediscounting at the Central Bank	-	37 464	-	-	-	**37 464**
Loans and advances to banks	2 230 586	1 117 956	1 071 798	213 430	34 704	**4 668 474**
Trading securities and other financial instruments at fair value through profit or loss	3 308 619	979 103	258 634	944 954	1 014 375	**6 505 685**
Loans and advances to customers	3 463 954	2 038 746	3 383 431	3 375 179	3 202 204	**15 463 514**
Investment securities	28 837	988	286 263	699 688	131 543	**1 147 319**
- Available for sale	28 837	988	286 263	699 688	131 543	**1 147 319**
- Held to maturity	-	-	-	-	-	**-**
Other assets	1 621 618	7 375	147 073	547 709	892 683	**3 216 458**
						-
Total assets	**12 432 071**	**4 181 632**	**5 147 199**	**5 780 960**	**5 275 509**	**32 817 371**
LIABILITIES						
Amounts due to the Central Bank	-	-	-	-	-	-
Amounts due to other banks	996 365	725 972	1 483 025	1 100 889	30 805	**4 337 056**
Other deposits	-	-	-	-	-	-
Amounts due to customers	17 096 896	1 846 843	712 965	407 861	378 841	**20 443 406**
Debt securities in issue	64 063	-	819 889	1 847 205	-	**2 731 157**
Other borrowed funds	-	-	-	-	1 362 528	**1 362 528**
Other liabilities	1 588 215	19 079	20 528	47 759	73 038	**1 748 619**
Provisions	14 189	-	6 522	65 002	422	**86 135**
	-	-	-	-	-	
Total liabilities	**19 759 728**	**2 591 894**	**3 042 929**	**3 468 716**	**1 845 634**	**30 708 901**
Net liquidity gap	**(7 327 657)**	**1 589 738**	**2 104 270**	**2 312 244**	**3 429 875**	**2 108 470**

3.8 Fair Value of Financial Assets and Liabilities

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

According to IFRS 1, par. 36A, the Group took benefit of the exemption from the obligation to disclose comparable fair value information.

The Group 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 value of such items.

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

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

	Carrying value 31.12.2005	Fair value 31.12.2005
Financial assets		
Loans and advances to banks	4 668 474	4 696 884
Loans and advances to customers	15 463 514	15 505 431
Assets available for sale	1 124 832	1 124 832

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Financial liabilities		
Amounts due to other banks	4 337 056	4 337 893
Amounts due to customers	20 443 406	20 451 181
Debt securities in issue	2 731 157	2 734 706

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

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

<u>Loans and advances to customers</u> 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 discounted value of expected future receivables on the account of principal and interest. It was assumed that credits and loans would be repaid on dates set in agreements. The fair values of substandard credits are equal to their net balance sheet values that take account of all premises indicative of impairment of the value of such credits. So estimated fair value of credits and loans reflects changes in credit risk since the grant of each credit/loan and changes in interest rates for fixed rate credits.

<u>Securities held to maturity.</u> The group has no interest bearing assets held to maturity with more than 1 year to maturity.

<u>Available for sale financial assets.</u> Listed available for sale financial instruments held by the Group are priced at their fair values. The Group was unable to prepare reliable fair value estimates for unlisted instruments and it used amortised cost valuation (taking account of effective interest rates for debt instruments) or purchase price adjusted (for impairment write-offs for equity instruments) for the balance sheet valuation purposes.

Financial instruments on the liabilities side include the following:

1. Contracted loans;
2. Liabilities resulting from the issue of deposit certificates by BRE;
3. Deposits.

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

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

3.9 Other Business

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties.

In connection with these, the Group makes decisions concerning allocation, purchase and sale of numerous financial instruments of many types. Assets held in a fiduciary capacity are not disclosed in these financial statements.

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

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

<u>Impairment of loans and advances</u>

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the Profit and Loss Account, the Group assesses, whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio, before such a decrease will be able to be attributed to a specific loan. The estimates may take into account any observable indications pointing at the occurrence of an unfavourable change in the solvency position of debtors belonging to any particular group or in the economic situation of a given country or part of a country, which is associated with the problems appearing in that group of assets. The Management plans future cash flows based on estimates drawing on historical experience of losses incurred on assets featuring the traits of credit risk exposure and objective impairment symptoms similar to those, which characterise the portfolio. The methodology and the assumptions on the basis of which the estimated cash flow amounts and their anticipated timing will be regularly reviewed in order to reduce the discrepancies between the estimated and the actual magnitude of the impairment losses concerned.

Fair value of derivative instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, the models applied resort exclusively to observable data, originating from an active market.

Impairment of equity securities available for sale

Impairment is regarded to occur if over a period of at least three months the listed price of the given security continues to be lower than the cost of its acquisition or the issuer incurs loss not covered by its equity within the period of one year, as well as the occurrence of other facts and circumstances providing indications of the impairment of value.

In addition, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

Impairment of debt instruments available for sale

Impairment and increase in value of debt securities available for sale is determined at the date of valuation, i.e. the Balance Sheet date, separately for each category of debt security. Impairment is recognised, if over a period of at least three months the listed price of the given security persists at a level lower than its cost of acquisition, if the issuer incurs a loss not covered by his equity capital over a period of one year or in the event of other circumstances indicating impairment. Value is deemed to have increased if over a period of at least three successive months the listed price of a security has been higher than its previous valuation or, if other circumstances indicating such an increase persist over such a period. An increase in value is determined according to the value recognised on the last day of the three month period, but it cannot be higher than the cost of acquisition.

Goodwill

The Bank tests the value of goodwill arising from acquisition of shares in Group member companies consolidated in the financial statements in terms of the risk of goodwill impairment during each annual period. For further information see Note 25.

5. Business Segments

The classification by business segments is based on the internal organisational structure of the BRE Bank SA Capital Group. This implies that the business segments were distinguished by attributing to them the business activities conducted by operating units of BRE Bank SA and by the companies of its Group.

The business activities of the Group are conducted in the following business segments:

1) Retail banking, including private banking services, current accounts for retail customers, savings accounts, deposits, investment products, custody services, credit and debit cards, consumer and mortgage loans, term deposits from natural persons and small and medium-sized enterprises, financial settlements, operations on bills of exchange, cheques, and issuing of guarantees.

2) Investment banking, including dealing in financial instruments, financing of a structural nature, leasing services for enterprises, consulting concerning mergers and acquisitions, as well as consulting services on corporate restructuring and the implementation of all forms of privatisation of enterprises, and offerings of securities admitted to public trading, acquisition and sale of securities in own name but on the account of

clients, safekeeping of securities in custody, acquisition and sale of securities in own name and on proprietary account, management of portfolios of securities entrusted by clients.

The Bank is a money market participant both in transactions concluded on the inter-bank market and with non-bank clients. This line of business also comprises transactions in securities such as Treasury bills and bonds, monetary bills of the National Bank of Poland, investment-deposit and FX SWAP transactions. The Bank is also a participant of the securities market, focusing on operations consisting of buying and selling securities on the primary and secondary markets, as well as repo and reverse repo transactions on the inter-bank market. The Bank also offers financial instruments used in interest rate risk management, including forward rate agreements (FRA), interest rate swaps (IRS), interest rate options, as well as cross-currency interest rate swaps (CIRS).

Recently, the Bank has introduced a new product: investment deposit combining the benefits of time deposit and capital market investment.

Independently or in syndicates with other banks, the Bank enters into agreements concerning issues of debt securities (bonds, investment notes and certificates of deposit).

Co-operation with local and international financial institutions (apart from transactions conducted through nostro and loro accounts) helps to raise loans on the international inter-bank market. Moreover, the Bank also has access to credit lines for the financing of imports and for refinancing of investment loans dedicated for small and medium-sized enterprises, drawn mainly from the funds of the European Investment Bank (EIB).

Investment banking includes the following companies: Dom Inwestycyjny BRE Banku SA, BRE Corporate Finance SA, BRE International Finance BV, BRE Finance France SA.

The Bank earns income from capital gains on its portfolio of proprietary investments including direct and indirect stakes (held via SPV – special-purpose vehicles) acquired with a view to high long-term yields. Apart from the specialised organisational unit of the Bank managing the long-term investment portfolio, the segment also comprises the activities of the companies Tele-Tech Investment Sp. z o.o. and TV-Tech Investment Sp. z o.o., whose core business is to invest in securities, to trade in debts, to manage controlled companies, and to provide consultancy. Proprietary investment also includes the results of the company Garbary Sp. z o.o.

3) Asset Management, including the results of Skarbiec Asset Management Holding SA and PTE Skarbiec-Emerytura SA. SAMH performs services consisting of the management of assets entrusted to it for management directly, as well as the management of assets of other companies belonging to the Group. PTE Skarbiec-Emerytura S.A. manages the open-end pension fund OFE Skarbiec-Emerytura, its tasks also include the representation of that fund.

4) Corporate banking, including the keeping of current accounts, savings accounts and term deposits, FX products and derivative instruments, offering of investment products, credit cards and debit cards, business credit, as well as finance and operating leasing of motor cars, machines, office equipment, leasing of real estate, as well as administration support of the leasing of the above indicated categories of fixed assets.

   The Bank’s product offer in this business segment targets large firms, small and medium-sized enterprises, as well as local governments. A significant part of the activities in the corporate banking segment consists of services supporting foreign trade transactions. The Bank’s offer addressed to businesses includes currency exchange, international transfers, cheques, collection of payments, short-term loans, as well as a whole range of financial tools, such as the purchasing of claims to receivables, forfeiting, letters of credit, bank guarantees, and others. Moreover, clients are offered financial instruments designed to hedge against foreign exchange risk exposure.

   Corporate banking includes the results of the following companies: BRE Leasing Sp. z o.o., Intermarket Factoring Bank AG, Polfactor SA, Transfinance a.s., and Magyar Factor Rt.

5) The remaining business of the Group includes results on transactions not classified as business areas and the results of the companies BRE Locum Sp. z o.o. and CERI Sp. z o.o.

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

   Resources are allocated to particular business segments, which results in transfers of financing costs recorded in operating income. Interest accruing on such funds is based on the cost of capital to the Group. No other substantial income or expense items exist in transactions between the business segments.

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

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

The business operations of particular companies of the Capital Group are attributed in full to a relevant business segment (including consolidation adjustments).

Transfer prices in transactions between the business segments are determined on the basis of current market interest rates adjusted by the margin of the Bank. Transfer rates are determined according to the same principles for all the organisational units of the Bank, so their differentiation results exclusively from the currency and maturity structure of the respective assets and liabilities.

Internal charges and adjustments on account of transfer pricing are taken into account in the performance figures of each particular business segment.

The primary basis used by the Group in the segment reporting is business line. The Group does not distinguish geographic segments as reportable segments due to their immateriality.

Business segment reporting on the activities of the BRE Bank Group
for the period from 01.01.2005 - 31.12.2005
(PLN'000)

	Retail Banking (including Private Banking)	Corporate Banking	Investment Banking	Asset Management	Other	Eliminations	Group
Net interest income	**222 421**	**303 034**	**129 875**	**(25 439)**	**291**	**(8 454)**	**621 728**
- sales to external clients	(36 232)	449 145	216 550	2 535	(1 816)	-	630 182
- sales to other segments	258 653	(146 111)	(86 675)	(27 974)	2 107	(8 454)	(8 454)
Net fee and commission income	**48 183**	**273 652**	**16 215**	**61 872**	**1 796**	**(8 108)**	**393 609**
- sales to external clients	48 990	259 300	29 776	61 872	1 779	-	401 717
- sales to other segments	(808)	14 352	(13 562)	-	17	(8 108)	(8 108)
Gross profit / (loss) of the segment	**19 110**	**175 034**	**199 193**	**(39 941)**	**(11 577)**	**(3 855)**	**337 964**
Profit / (loss) on operating acitivities							338 433
Contribution of profit / (loss) sharing in associated companies (before tax)			(7)			(462)	(469)
Gross profit (before tax)							337 964
Corporate income tax							(70 059)
Net profit (loss) attributable to minority interest							20 362
Net profit (after tax)							247 543
Asset of the segment	**4 578 528**	**10 563 033**	**20 022 725**	**747 128**	**811 055**	**(3 905 098)**	**32 817 371**
Total assets							32 817 371
Segment's liabilities	**7 229 632**	**9 916 727**	**17 707 284**	**233 194**	**1 635 632**	**(3 905 098)**	**32 817 371**
Total liabilities							32 817 371
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(65 919)	(110 658)	(31 708)	(3 137)	(2 586)	-	(214 008)
Amortisation/depreciation	(45 873)	(63 373)	(25 274)	(2 871)	(2 224)	-	(139 615)
Losses on credits and loans	(82 781)	(276 653)	(42 269)	-	-	-	(401 703)
Other costs without cash outflows	-	-	(1 040 455)	-	(71)	-	(1 040 526)

The net profit of Asset Management segment affects goodwill impairment of PTE in amount of PLN 36 109 thousand (Note 28).

Business segment reporting on the activities of the BRE Bank Group for the period from 01.01.2004 - 31.12.2004 (PLN'000)

	Retail Banking (including Private Banking)	Corporate Banking	Investment Banking	Asset Management	Other	Extraordinary adjustment	Eliminations	Group
Net interest income	**135 113**	**295 357**	**91 767**	**(27 959)**	**(5 271)**		**(3 063)**	**485 945**
- sales to external clients	(98 555)	460 634	127 827	1 442	(2 340)		-	489 008
- sales to other segments	233 668	(165 277)	(36 060)	(29 401)	(2 931)		(3 063)	(3 063)
Net fee and commission income	**23 939**	**277 297**	**13 422**	**73 956**	**994**		**(7 934)**	**381 674**
- sales to external clients	24 504	260 742	25 419	72 098	1 214		-	383 977
- sales to other segments	(565)	16 555	(11 997)	1 858	(220)		(7 934)	(2 303)
Unallocated costs								(408 019)
Gross profit / (loss) of the segment	**(36 583)**	**126 074**	**127 331**	**(31 945)**	**(3 087)**	**(408 019)**	**(11 105)**	**(237 332)**
Profit / (loss) on operating acitivities								(237 278)
Contribution of profit / (loss) sharing in associated	-	-	(35)	-	-		-	(35)
Gross profit (before tax)								(237 332)
Corporate income tax								(36 050)
Net profit (loss) including minority interest, of which:								(273 381)
Net profit (loss) attributable to minority interest								20 636
Net profit (after tax)								(294 017)
Asset of the segment	**2 951 406**	**11 029 703**	**18 837 996**	**829 660**	**758 356**		**(3 913 673)**	**30 493 448**
Total assets								30 493 448
Segment's liabilities	**5 834 736**	**8 593 137**	**18 028 571**	**206 350**	**1 756 707**		**(3 926 053)**	**30 493 448**
Total liabilities								30 493 448
Other items of the segment								
Expenditures incurred on fixed assets and intangible assets	(53 491)	(101 456)	(43 522)	(3 355)	(1 681)	-	-	(203 505)
Amortisation/depreciation	(46 602)	(67 668)	(28 000)	(3 838)	(2 633)	-	-	(148 742)
Losses on credits and loans	(120 848)	(278 191)	(64 960)	-	(840)	-	-	(464 839)
Other costs without cash outflows	-	(1 301)	(170 877)	(64)	-	-	12 116	(160 126)

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6. Net interest income

	31.12.2005	**31.12.2004**
Interest income		
Cash and short-term investments	229 883	208 103
Investment securities	34 722	28 763
Amounts due arising from purchased securities with a sale clause	2 409	4 050
Loans and advances including the unwind of the impairment provision discount	1 051 439	959 932
Debt securities	197 248	133 444
Other	24 304	14 381
	1 540 005	**1 348 673**

Interest expense		
Arising from amounts due to banks and customers	(709 462)	(656 494)
Arising from issue of debt securities	(89 068)	(153 950)
Amounts due arising from sold securities with a repurchase clause	-	(2 478)
Other borrowed funds	(52 267)	(37 610)
Trading debt securities	(9 386)	(10 008)
IRS, CIRS and OIS contracts	(35 990)	(224)
Other	(22 104)	(1 964)
	(918 277)	**(862 728)**

Net interest income per segment is as follows:

	31.12.2005	**31.12.2004**
Interest income		
From banking sector	349 394	218 093
From clients, including:	1 190 611	1 130 580
- corporate clients	732 617	754 056
- individual clients	215 760	142 629
- public sector	242 234	233 895
	1 540 005	**1 348 673**

Interest expense		
From banking sector	(241 263)	(314 676)
From clients, including:	(652 028)	(518 701)
- corporate clients	(395 161)	(272 255)
- individual clients	(245 445)	(230 577)
- public sector	(11 422)	(15 869)
Debt securities in issue	(24 986)	(29 351)
	(918 277)	**(862 728)**

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7. Net Fee and Commission Income

	31.12.2005	31.12.2004
Fee and commission income		
Credit related fees and commissions	100 501	135 625
Fees from brokerage activity	40 257	32 629
Fees from portfolio-management services and other management-related fees	92 755	89 053
Guarantees granted and trade finance commissions	29 412	29 963
Commissions from credit cards	76 330	49 194
Commissions from money transfers	62 163	51 982
Commissions from bank accounts	44 702	42 175
Other	97 097	93 707
	543 217	**524 328**
Fee and commission expense		
Brokerage fees	(18 133)	(15 045)
Credit cards related fees	(64 149)	(51 577)
Other fees	(67 326)	(76 032)
	(149 608)	**(142 654)**

8. Dividend Income

	31.12.2005	31.12.2004
Trading securities	723	372
Securities available for sale	46 310	6 804
Dividend income, total	**47 033**	**7 176**

9. Net Trading Income

	31.12.2005	31.12.2004
Foreign exchange result	**257 887**	**219 365**
Foreign exchange differences from the translation (net)	362 756	122 817
Transaction gains less losses	(104 869)	96 548
Other trading income	**7 223**	**11 201**
Interest-bearing instruments	17 934	7 351
Equities	(2 818)	5 932
Market risk instruments	(7 893)	(2 082)
Total net trading income	**265 110**	**230 566**

Net trading income includes PLN 5,344,000 of net profits and losses on financial instruments that were classified as "at fair value through the profit and loss account" under the initial mode of recognition and trading securities. The "Profit/(loss) on exchange position" includes profits and losses on spot transactions and forward contracts, options, futures and translated assets and liabilities denominated in foreign currencies. The "Interest instruments" include the profit/(loss) on money market instrument trading, swap contracts for interest rates and currencies, options and other derivative instruments. The profit/(loss) on equity instrument transactions includes the profit/(loss) on the global trade with equity securities and derivative equity instruments, such as swap contracts, options, futures and forward contracts.

10. Other Operating Income

	31.12.2005	31.12.2004
Sale of tangible and intangible fixed assets and assets held for resale	74 048	303 315
Income from recovering previously designated as uncollectible receivables	580	3 323

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Income from compensation, penalties and fines received	3 129	5 249
Income due to release of provisions	10 388	7 074
Proceeds from services provided	19 979	35 226
Other	28 052	40 047
Total other operating income	**136 176**	**394 234**

11. Overhead Costs

	31.12.2005	**31.12.2004**
Staff-related expenses (Note 13)	(423 743)	(350 031)
Material costs	(341 960)	(346 976)
Taxes and fees	(13 179)	(11 265)
Contributions and transfers to the Banking Guarantee Fund	(3 895)	(6 075)
Contribution to the Social Benefits Fund	(1 251)	(999)
Other	(16 320)	(16 232)
Total overhead costs	**(800 348)**	**(731 578)**

The position Material costs consist of tangible assets operating lease payment costs (mainly real estate) of PLN 35 732 thousand (2004:. PLN 28 937 thousand).

12. Other Operating Expenses

	31.12.2005	**31.12.2004**
Costs of selling or scrapping fixed assets, intangible assets and assets held for resale	(57.559)	(317.897)
Impairment provisions created for tangible and intangible assets	(36.177)	(211.062)
Impairment provisions created for other receivables (excluding loans and advances)	(1.497)	(19.903)
Receivables and liabilities recognised as uncollectible and written off	(6.595)	(1.878)
Compensation, penalties and fines paid	(11.744)	(1.399)
Donations made	(3.228)	(3.128)
Impairment losses on other non-financial assets	(6.944)	(87.350)
Other, due to:	(25.820)	(80.838)
- provisions	(10.915)	(31.675)
- costs of services sale	(958)	(505)
- other operating costs	(13.726)	(48.566)
- accessory expenses	(112)	(144)
- net other items	(109)	52
Total other operating expenses	**(149.564)**	**(723.455)**

13. Staff costs

	31.12.2005	**31.12.2004**
Wages and salaries	(337 131)	(267 325)
Social security expenses	(55 940)	(38 055)
Pension fund expenses	(667)	(646)
Salaries in form of share option program for employees	(4 536)	(8 686)
Other staff expenses	(25 469)	(35 319)
Staff-related expenses, total	**(423 743)**	**(350 031)**

The average level of employment in the Group in 2005 was 4,297 persons (vs. 4,164 in 2004).
The additional information related to share-based payment has been presented in the Note 40 “Retained earnings”.

14. Impairment losses on loans and advances

	31.12.2005	31.12.2004
Loans and advances to customers (Notes 22, 34)	(78 841)	(124 575)
Total impairment losses on loans and advances	**(78 841)**	**(124 575)**

15. Income Tax Expense

	31.12.2005	31.12.2004
Current tax	(87 680)	(24 652)
Deferred income tax (Note 35)	17 621	(11 397)
Total income tax	**(70 059)**	**(36 049)**
Profit before tax	337 964	(237 332)
The amount of tax according to the tax rate binding in current tax year	(64 213)	45 093
Effect of different tax rates in other countries	(2 389)	(1 066)
Income not subject to tax	16 010	214 258
Expenses not deductible for tax purposes	(22 849)	(288 445)
Other items affecting the amount of income tax expense	3 382	(9 100)
Tax losses carried forward	-	3 211
Income tax expense	**(70 059)**	**(36 049)**
Effective tax rate calculation		
Profit before income tax	337 964	(237 332)
Income tax	(70 059)	(36 049)
Effective tax rate	**20,73%**	**(15,19%)**

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

16. Earnings per Share

Earnings per share for 12 months

	31.12.2005	31.12.2004
Basic:		
Net profit (loss) attributable to shareholders	247 543	(294 017)
Weighted average number of ordinary shares	28 780 011	25 841 813
Net basic profit (loss) per share (in PLN per share)	**8,60**	**(11,38)**
Diluted:		
Net profit (loss) attributable to shareholders	247 543	(294 017)
Net profit (loss) applied for calculation of diluted earnings per share (in thousand PLN)	247 543	(294 017)
Weighted average number of ordinary shares in issue	28 780 011	25 841 813
Adjustments for:		
- stock options for employees (in thousand PLN)	98 162	37 311
Weighted average number of ordinary shares for calculation of diluted earnings per share	28 878 173	25 879 124
Diluted earnings per share (in PLN per share)	**8,57**	**(11,36)**

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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 could be purchased at fair value (determined as the average annual price of the Bank's shares), based on the monetary value of the drawing rights related to the existing shares options.

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

BRE Bank operates two employee options programs.

Under the first program (started in May 2000 and modified in May 2003), members of the Bank's Management were granted 479,500 options valid until 30 June 2006. The options make the employees eligible to assume 479,500 of new issue shares.

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

17. Cash and Balances with central bank

	31.12.2005	31.12.2004
Cash in hand	86 829	68 116
Current account	314 402	666 569
Other	1 377 226	6
Total cash and balances with central bank (Note 42)	**1 778 457**	**734 691**
Including: mandatory reserve deposit	585 227	485 544

The mandatory reserve is held in an account with the central bank and in the Bank's hand. As at 31 December 2005, the former part of the reserve bore 4.28% interest (2004: 6,30%).

18. Debt Securities Eligible for Rediscounting at the central bank

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

19. Loans and Advances to Banks

	31.12.2005	31.12.2004
Current accounts	223 766	244 980
Placements with other banks	3 005 623	5 663 578
Included in cash equivalents (Note 42)	**3 229 389**	**5 908 558**
Loans and advances	1 362 670	823 500
Reverse repo / buy sell back transactions	33 430	110 280
Other receivables	42 985	150 000
Total (gross) loans and advances to banks	**4 668 474**	**6 992 338**
Provisions created for loans and advances to banks (negative amount) (Note 14)	-	(2 287)
Total (net) loans and advances to banks	**4 668 474**	**6 990 051**

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The following table presents receivables from Polish and foreign banks:

	31.12.2005	31.12.2004
Loans and advances to Polish banks (gross)	805 444	2 127 305
Provisions created for loans and advances to Polish banks	-	(2 287)
Loans and advances to foreign banks (gross)	3 863 030	4 865 033
Total (net) loans and advances to banks	**4 668 474**	**6 990 051**

Loans and advances to banks are variable rate credits amounting to PLN 748,226,000 (vs. PLN 711,277,000 31 December 2004).

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

Provisions for loans and advances to banks as at the beginning of the period	(2 287)	(28 471)
Release (due to)	**2 287**	**26 184**
- write-offs	-	20 933
- reclassification	2 287	-
- foreign exchange differences	-	5 251
Provisions for loans and advances to banks as at the end of the period	**-**	**(2 287)**

20. Trading Securities and Pledged Assets

	31.12.2005	31.12.2004
Debt securities:	**6 461 131**	**4 109 723**
Government bonds included in cash equivalents and pledged government bonds (sell buy back transactions) (Note 42), including:	1 473 639	1 163 355
- pledged government bonds (sell buy back transactions)	40 804	225 753
Treasury bills included in cash equivalents and pledged treasury bills (sell buy back transactions) (Note 42), including:	1 640 129	2 187 851
- pledged treasury bills (sell buy back transactions)	1 298 166	1 524 472
Other debt securities	3 347 363	758 517
- pledged deposit certificates (sell buy back transactions)	64 767	-
- pledged corporate bonds (sell buy back transactions)	89 988	-
Equity securities:	**44 554**	**13 510**
- listed	44 554	10 933
- unlisted	-	2 577
Debt and equity securities, including:	**6 505 685**	**4 123 233**
- Trading securities	*5 011 960*	*2 373 008*
- Pledged assets	*1 493 725*	*1 750 225*

Government bonds include securities used to secure sell-buy-back transactions with customers, the market value of which as at 31 December 2005 amounted to PLN 40,804 thousand (PLN 225,753 thousand on 31 December 2004). The bonds are disclosed separately within the "Pledged assets" in the Balance Sheet.

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

The note above does not include securities under the Bank Guarantee Fund of PLN 22,487 thousand (2004: PLN 31,500 thousand), which have been presented in the Note 23 “Investment securities”.

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21. Derivative Financial Instruments and Other Trading Liabilities

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

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

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

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

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

	Contract amount	Fair value of asset	Fair value of liability
As at 31 December 2005			
Derivatives held for trading			
Foreign exchange derivatives			
- Currency forwards	-	403 464	335 501
- Currency swaps	169 329 631	162 359	133 551
- Cross-currency interest rate swaps	195 639	49 475	45 512
- OTC currency options bought and sold	6 132 571	104 808	123 246
Total foreign exchange derivatives	**175 657 841**	**720 106**	**637 810**
Interest rate derivatives			
- Interest rate swaps	200 000	458 659	469 122
- Forward rate agreements	111 492 406	70 877	61 605
- OTC interest rate options	5 333	19	19
- Other OTC derivatives	39 016	839	779
Total OTC interest rate derivatives	**111 736 755**	**530 394**	**531 525**
- Interest rate futures	538 546	-	-
Total interest rate derivatives	**112 275 301**	**530 394**	**531 525**
Stock exchange traded market risk transactions	259 293	4 732	4 801

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Total derivative assets / (liabilities) held for trading	**288 192 435**	**1 255 232**	**1 174 136**
Derivatives held for hedging			
Derivatives designated as cash flow hedges	*99 983*	-	*792*
- Currency swaps	99 983	-	792
- Stock exchange traded currency options bought	-	-	-
Total derivatives held for hedging	**99 983**	**-**	**792**
Total recognised derivative assets/(liabilities)	**288 292 418**	**1 255 232**	**1 174 928**
Other trading liabilities	-	-	142
- Other	-	-	142
Total recognised derivative assets/(liabilities) and other trading liabilities	**288 292 418**	**1 255 232**	**1 175 070**

	Fair value of asset	Fair value of liability
<u>**As at 31 December 2004**</u>		
Derivatives held for trading		
Foreign exchange derivatives		
- Currency forwards	432 916	544 298
- Currency swaps	674 708	381 696
- Cross-currency interest rate swaps	68 909	63 679
- OTC currency options bought and sold	170 837	158 324
Total OTC derivatives	**1 347 370**	**1 147 997**
- Stock exchange traded currency options - bought and sold	36	8
Total foreign exchange derivatives	**1 347 406**	**1 148 005**
Interest rate derivatives		
- Interest rate swaps	396 757	415 567
- Forward rate agreements	47 112	37 392
Total OTC interest rate derivatives	**443 869**	**452 959**
- Stock exchange traded interest rate options	45	-
Total interest rate derivatives	**443 914**	**452 959**
Stock exchange traded market risk transactions	**5 504**	**12 355**
Total derivative assets / (liabilities) held for trading	**1 796 824**	**1 613 319**
Derivatives held for hedging		
Derivatives designated as fair value hedges	-	7 251
- Currency futures	-	-
- Interest rate swaps	-	7 251
Total derivatives held for hedging	-	7 251
Total recognised derivative assets/(liabilities)	**1 796 824**	**1 620 570**
Other trading liabilities	-	143
- Other	-	143
Total recognised derivative assets/(liabilities) and other trading liabilities	**1 796 824**	**1 620 713**

The Group does not have any financial liabilities in the category of financial liabilities priced at fair value through the profit and loss account.

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22. Loans and Advances to Customers

	31.12.2005	31.12.2004
Loans and advances to individuals:	***4 326 918***	***2 658 601***
- overdrafts	823 395	529 414
- credit cards	16 191	9 743
- term loans	3 487 332	2 119 444
Loans and advances to corporate entities:	***9 605 119***	***9 664 381***
- overdrafts	1 766 850	1 598 229
- credit cards	2 422	1 785
- direct commercial loans	7 121 662	5 837 876
- consortium loans	305 580	703 634
- reverse repo / buy sell back transactions	-	10 061
- other	408 605	1 512 796
Loans and advances to public sector	**1 222 449**	**1 140 902**
Receivables purchased	**1 034 831**	**1 173 080**
Realised guarantees and warranties	**18 894**	**20 127**
Other receivables	**118 914**	**548 538**
Total (gross) loans and advances to customers	**16 327 125**	**15 205 629**
Provisions for loans and advances to customers (negative amount)	(863 611)	(875 245)
Total (net) loans and advances to customers	**15 463 514**	**14 330 384**

As at 31 December 2005, variable and fixed rate credits amounted to PLN 14 216 610 thousand and PLN 937 876 thousand, respectively. The values mentioned above relate to loans granted to individual clients, corporate clients and budget sector.

The Group accepted exchange-listed securities at the fair value of PLN 331,640 thousand (PLN 777,983 thousand in 2004) as collateral for commercial loans.

Allowance for Losses on Loans and Advances

	31.12.2005
Receivables classified as „non-default"	
Gross balance sheet exposure	15.127.680
Value adjustments to exposures analysed according to portfolio approach	(113.783)
Net balance sheet exposure	**15.013.897**
Receivables classified as "default"	
Gross balance sheet exposure	1.199.445
Value adjustment to exposures analysed individually	(749.828)
Net balance sheet exposure	**449.617**

Changes in Allowance for Losses on Loans and Advances

	31.12.2005	31.12.2004
Provisions as at the beginning of the period for loans and advances	**(888 564)**	**(849 763)**
Increase (due to)	**(399 411)**	**(492 240)**
- provisions created (Note 14)	(398 937)	(491 251)
- foreign exchange differences	(474)	-
- other	-	(989)
	424 364	**466 758**

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Decrease (due to)		
- provisions release (Note 14)	330 320	356 851
- reclassification	36 649	-
- foreign exchange differences	666	34 001
- charge-offs	44 388	62 375
- other	12 341	13 531
Provisions as at the end of the period	**(863 611)**	**(875 245)**

Loans and advances to Customers, Including Finance Lease Receivables

	31.12.2005	31.12.2004
Gross investment in finance leases, receivable:	**1 801 971**	**1 556 815**
- No later than 1 year	692 780	652 267
- Later than 1 year and no later than 5 years	1 061 436	878 034
- Later than 5 years	47 755	26 514
Unearned future finance income on finance leases (negative amount)	(244 902)	(69 304)
Net investment in finance leases	**1 557 069**	**1 487 511**
Net investment in finance leases, receivable:		
- No later than 1 year	566 414	582 963
- Later than 1 year and no later than 5 years	946 827	878 034
- Later than 5 years	43 828	26 514
	1 557 069	**1 487 511**

23. Investment Securities and pledged assets

	31.12.2005	31.12.2004
Debt securities	**931 059**	**322 273**
- listed	898 210	291 674
- unlisted	32 849	30 599
Equity securities	**274 069**	**305 719**
- listed	15 246	151 401
- unlisted	258 823	154 318
Total securities	**1 205 128**	**627 992**
Impairment of investment securities	**(57 809)**	**(16 384)**
Total investment securities, including:	**1 147 319**	**611 608**
- Available for sale securities	*1 124 832*	*564 785*
- Held to maturity securities	*-*	*15 323*
- Pledged assets	*22487*	*31500*

As at 31 December 2005, the carrying values of debt securities based on fixed and variable interest rates amounted to PLN 723,584,000 and PLN 119,789,000 respectively.

Treasury notes held to maturity by one of the Group Companies were assets classified as "assets held to maturity".

The Group did not change the classification of any financial assets at fair value to financial assets valued under the amortised cost method during the year.

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The Polish Brady bonds were issued in the execution of agreements made on 14 September 1994 between the Republic of Poland and commercial banks associated in the London Club pursuant to the Regulation N° 78 of the Minister of Finance of 26 October 1994 concerning the issue of bonds for the performance of agreements for reduction and restructuring of Poland's debts, made with commercial banks associated in the London Club. These are denominated in US Dollars. The carrying value of Brady bonds was PLN 54 943 thousand as at 31 December 2005 (2004: PLN 144 533 thousand)

In accordance with the Bank Guarantee Fund Law of 14 December 1994, BRE BANK SA had PLN 22,487,000 (PLN 23,000,000 at face value) worth of treasury notes disclosed in its Balance Sheet as at 31 December 2005. The notes were used as security under the Bank Guarantee Fund and they were deposited in a separate account with the National Bank of Poland.

The above note includes treasury bills pledged in accordance of the Bank Guarantee Fund, which are presented in the balance sheet in a separate position "Pledged assets" (see Note 36).

Gains and Losses from Investment Securities

	31.12.2005	**31.12.2004**
Redemption / sale by the issuer of the financial assets available for sale	48 426	33 300
Impairment of available for sale equity securities	(5 281)	(41 842)
Total gains and losses from investment securities	**43 145**	**(8 542)**

Movement in Investment Securities

	Available for sale	**Held to maturity**
As at 1 January 2005	**596 285**	**15 323**
Exchange differences	8 846	-
Additions	7 049 168	43 927
Disposals (sale and redemption)	(6 482 673)	(59 250)
Losses from impairment	(14 518)	-
Gains / (losses) from changes in fair value	(9 789)	-
As at 31 December 2005	**1 147 319**	**-**

	Available for sale	**Held to maturity**
As at 1 January 2004	**778 103**	**-**
Exchange differences	(88 246)	-
Additions	4 401 057	40 323
Disposals (sale and redemption)	(4 437 464)	(25 000)
Losses from impairment	(41 842)	-
As at 31 December 2004	**611 608**	**15 323**

24. Investments in Associates

The Group had the following shares in its major unlisted associates:

31 December 2005 (in PLN '000)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held
Xtrade S.A.	Poland	1 521	1 063	1 793	(1 863)	24.90
NOVITUS S.A.	Poland	36 077	10 202	58 751	6 929	24.88
Transfactor Slovakia A.S.	Słowacja					56.24

31 December 2004 (in PLN '000)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held
Xtrade SA	Poland	3 121	800	2 470	(1 842)	24.90
Tv-Tech Investment 2 Sp. z o.o.	Poland	39	-	-	(9)	24.00
Transfactor Slovakia A.S.	Słowacja					54.84

Change in Investments in Associates:

	31.12.2005	31.12.2004
As at the beginning of the period	**2.224**	**13.446**
Increase due to:	**4.828**	**50**
- purchase	-	26
- reclassification of shares	4.823	-
- foreign exchange differences	-	24
- other	5	-
Decrease due to:	**(575)**	**(11.272)**
- sale	(36)	(6.542)
- reclassification of shares	-	(50)
- foreign exchange differences	(73)	(102)
- share in financial result	(466)	(4.459)
- other	-	(119)
As at the end of the period	**6.477**	**2.224**

The increase of Investments In Associates was due to reclassification of shares of Novitus SA. The Bank sold shares of Novitus that represented 67.7% of company's share capital under a stock exchange transaction that was settled on 16 December 2005. As a result of this sale transaction, the Bank reclassified in the balance sheet the remaining shares of Novitus from the position "Investments in subsidiaries" to "Investments in associates".

25. Intangible Assets

	31.12.2005	31.12.2004
Development costs	5,574	7,719
Concessions, patents, licenses and similar assets, including	328,957	202,739
- computer software	290,382	172,547
Other intangible assets	2,801	1,703
Prepayments for intangible assets	37,436	144,741
Goodwill	31,612	307,868
Total intangible assets	**406,380**	**664,770**

As at 31 December 2005, the Bank made a test for goodwill impairment of SAMH. Each company of SAMH Group was tested separately and treated as a separate cash flow generator. The test showed that there is no goodwill impairment as at 31 December 2005. The goodwill on SAMH was PLN 35,769 thousand as at 31 December 2005.

As at 31 December 2005, the Group made a test for impairment of goodwill resulting from the acquisition of PTE Skarbiec-Emerytura SA. The transaction with PZU on selling PTE shares for minimum PLN 315 million in November 2005 had an influence on the amount of goodwill impairment of PTE. As a result, the Bank wrote off PLN 36,109 thousand of goodwill of PTE as at 31 December 2005.

According to IFRS 5 "Assets held for sale and discontinued operations" assets and liabilities of PTE Skarbiec-Emerytura have been presented in a separate position as assets and liabilities held for sale. The description of the transaction is in the Note 28.

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Movements in Intangible Assets

Movements in intangible assets from 1 January 2005 to 31 December 2005	Development costs	Acquired concessions, patents, licences and other similar assets, including:		Other intangible assets	Advances for intangible asssets, including:		Goodwill	Total intangible assets	Assets held for sale
			acquired computer software			investment expenditure			
Gross value of intangible assets as at the beginning of the period: 01.01.2005	**33 119**	**325 166**	**268 427**	**8 571**	**144 741**	**-**	**496 465**	**1 008 062**	**-**
Increase (due to)	**-**	**182 662**	**153 864**	**1 884**	**55 708**	**1 335**	**-**	**240 254**	**466 854**
- purchase	-	25 838	5 792	65	54 650	1 314	-	**80 553**	-
- transfer from assets under construction and prepayments for intangible assets	-	1 212	7	18	747	-	-	**1 977**	-
- included in consolidation for the first time	-	154 807	147 562	1 771	-	-	-	**156 578**	-
- assets held for sale	-	-	-	-	-	-	-	-	466 854
- other increases	-	805	503	30	311	21	-	**1 146**	-
Decrease (due to)	**-**	**(11 946)**	**(6 985)**	**(731)**	**(163 013)**	**-**	**(464 853)**	**(640 543)**	**-**
- liquidation	-	(9 736)	(6 473)	(731)	-	-	-	**(10 467)**	-
- transfer from investment expenditure	-	-	-	-	(156 578)	-	-	**(156 578)**	-
- assets held for sale	-	(2 001)	(318)	-	-	-	(464 853)	**(466 854)**	-
- other decreases	-	(209)	(194)	-	(6 435)	-	-	**(6 644)**	-
Gross value of intangible assets as at the end of the period: 31.12.2005	**33 119**	**495 882**	**415 306**	**9 724**	**37 436**	**1 335**	**31 612**	**607 773**	**466 854**
Accumulated depreciation as at the beginning of the period: 01.01.2005	**(25 400)**	**(122 426)**	**(95 813)**	**(6 868)**	**-**	**-**	**-**	**(154 694)**	**-**
Depraciation for the period (due to)	**(2 145)**	**(44 431)**	**(29 043)**	**(55)**	**-**	**-**	**-**	**(46 631)**	**(1 933)**
- depreciation charges	(2 145)	(54 335)	(34 896)	(755)	-	-	-	**(57 235)**	-
- assets held for sale	-	-	-	-	-	-	-	-	(1 933)
- other increases	-	(1)	(1)	(31)	-	-	-	**(32)**	-
- liquidation	-	7 457	5 440	731	-	-	-	**8 188**	-
- assets held for sale	-	1 933	292	-	-	-	-	**1 933**	-
- other decreases	-	515	122	-	-	-	-	**515**	-
Accumulated depreciation as at the end of the period: 31.12.2005	**(27 545)**	**(166 857)**	**(124 856)**	**(6 923)**	**-**	**-**	**-**	**(201 325)**	**(1 933)**
Impairment losses as at the beginning of the period: 01.01.2005	**-**	**-**	**-**	**-**	**-**	**-**	**(188 597)**	**(188 597)**	**-**
- increase	-	(117)	(117)	-	-	-	(36 109)	**(36 226)**	(224 706)
- decrease	-	49	49	-	-	-	224 706	**224 755**	-
Impairment losses as at the end of the period: 31.12.2005	**-**	**(68)**	**(68)**	**-**	**-**	**-**	**-**	**(68)**	**(224 706)**
Net value of intangible assets as at the end of the period: 31.12.2005	**5 574**	**328 957**	**290 382**	**2 801**	**37 436**	**1 335**	**31 612**	**406 380**	**240 215**

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Movements in intangible assets from 1 January 2004 to 31 December 2004	Development costs	Acquired concessions, patents, licences and other similar assets, including:	acquired computer software	Other intangible assets	Advances for intangible asssets	Goodwill	Total intangible assets
Gross value of intangible assets as at the beginning of the period: 01.01.2004	**26 449**	**267 945**	**228 603**	**8 060**	**150 760**	**551 672**	**1 004 886**
Increase (due to)	**6 670**	**103 125**	**82 258**	**518**	**55 382**	**18 021**	**183 716**
- purchase	-	12 945	3 884	273	45 202	18 021	**76 441**
- transfer from assets under construction and prepayments for intangible assets	-	36 249	33 662	245	-	-	**36 494**
- other increases	6 670	53 931	44 712	-	10 180	-	**70 781**
Decrease (due to)	**-**	**(45 904)**	**(42 433)**	**(7)**	**(61 401)**	**(73 228)**	**(180 540)**
- sale	-	-	-	-	-	(18 167)	**(18 167)**
- liquidation	-	(28 572)	(28 572)	(5)	-	(55 061)	**(83 638)**
- sale of previously consolidated company	-	(9 253)	(9 253)	-	-	-	**(9 253)**
- other decreases	-	(8 079)	(4 608)	(2)	(61 401)	-	**(69 482)**
Gross value of intangible assets as at the end of the period: 31.12.2004	**33 119**	**325 166**	**268 428**	**8 571**	**144 741**	**496 465**	**1 008 062**
Accumulated depreciation as at the beginning of the period: 01.01.2004	**(18 548)**	**(98 472)**	**(82 038)**	**(6 022)**	**-**	**-**	**(123 042)**
Depreciation for the period (due to)	**(6 852)**	**(23 955)**	**(13 843)**	**(846)**	**-**	**-**	**(31 653)**
- depreciation charges	(5 959)	(58 072)	(33 277)	(852)	-	-	**(64 883)**
- other increases	(893)	(569)	(423)	-	-	-	**(1 462)**
- sale	-	-	-	-	-	-	**-**
- liquidation	-	21 250	10 348	5	-	-	**21 255**
- sale of previously consolidated company	-	6 473	6 473	-	-	-	**6 473**
- other decreases	-	6 963	3 036	1	-	-	**6 964**
Accumulated depraciation as at the end of the period: 31.12.2004	**(25 400)**	**(122 427)**	**(95 881)**	**(6 868)**	**-**	**-**	**(154 695)**
Impairment losses as at the beginning of the period: 01.01.2004	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- increase	-	(17 686)	(17 686)	-	-	(232 757)	**(250 443)**
- decrease	-	17 686	17 686	-	-	44 160	**61 846**
Impairment losses as at the end of the period: 31.12.2004	**-**	**-**	**-**	**-**	**-**	**(188 597)**	**(188 597)**
Net value of intangible assets as at the end of the period: 31.12.2004	**7 719**	**202 739**	**172 547**	**1 703**	**144 741**	**307 868**	**664 770**

The whole amount of additions in “Development costs” presented in movements in intangible assets is from internal development. As at 31 December 2005 and 2004 there were no development costs acquired through business combinations.

26. Tangible fixed assets

	31.12.2005	31.12.2004
Tangible fixed assets, including:	525 470	476 632
- land	2 559	1 515
- buildings and constructions	248 665	246 556
- equipment	119 081	109 092
- vehicles	53 437	29 590
- other tangible fixed assets	101 728	89 879
Assets under construction	33 065	46 355
Total tangible fixed assets	**558 535**	**522 987**

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Movements in Fixed Assets

Movements in tangible fixed assets from 1 January 2005 to 31 December 2005	Land	Buildings	Equipment	Vehicles	Other tangible fixed assets	Total	Assets held for sale
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2005	**1 692**	**355 603**	**344 931**	**48 405**	**198 272**	**948 903**	**-**
Increase (due to)	**1 080**	**14 382**	**48 931**	**41 193**	**41 618**	**147 204**	**1 855**
- purchase	1 080	11 110	25 865	41 003	5 557	**84 615**	-
- transfer from assets under construction	-	2 476	20 808	-	36 061	**59 345**	-
- included in consolidation for the first time	-	36	33	-	-	**69**	-
- assets held for sale	-	-	-	-	-	**-**	1 855
- other increases	-	760	2 225	190	-	**3 175**	-
Decrease (due to)	**(40)**	**(291)**	**(28 038)**	**(12 410)**	**(23 297)**	**(64 076)**	**-**
- sale	-	-	(14 535)	(10 456)	(768)	**(25 759)**	-
- liquidation	-	-	(10 920)	(1 372)	(16 626)	**(28 918)**	-
- assets held for sale	-	-	(1 356)	(354)	(145)	**(1 855)**	-
- other decreases	(40)	(291)	(1 227)	(228)	(5 758)	**(7 544)**	-
Gross value of tangible fixed assets as at the end of the period: 31.12.2005	**2 732**	**369 694**	**365 824**	**77 188**	**216 593**	**1 032 031**	**1 855**
Accumulated depreciation as at the beginning of the period: 01.01.2005 r.	**(73)**	**(41 845)**	**(223 091)**	**(18 610)**	**(107 197)**	**(390 816)**	**-**
Depreciation for the period (due to)	**4**	**(7 472)**	**(22 086)**	**(4 852)**	**(6 472)**	**(40 878)**	**(1 555)**
- depreciation charge	-	(7 459)	(37 511)	(12 954)	(24 456)	**(82 380)**	-
- included in consolidation for the first time	-	(2)	(12)	-	-	**(14)**	-
- assets held for sale	-	-	-	-	-	**-**	(1 555)
- other increases	-	(29)	(79)	(87)	(25)	**(220)**	-
- sale	-	-	2 915	7 236	677	**10 828**	-
- liquidation	-	-	9 861	640	12 419	**22 920**	-
- assets held for sale	-	-	1 286	132	137	**1 555**	-
- other decreases	4	18	1 454	181	4 776	**6 433**	-
Accumulated depreciation as at the end of the period: 31.12.2005	**(69)**	**(49 317)**	**(245 177)**	**(23 462)**	**(113 669)**	**(431 694)**	**(1 555)**
Impairment losses as at the beginning of the period: 01.01.2005	**(104)**	**(67 202)**	**(12 748)**	**(204)**	**(1 196)**	**(81 454)**	**-**
- increase	-	(4 517)	(405)	(96)	-	**(5 018)**	-
- decrease	-	7	11 587	11	-	**11 605**	-
Impairment losses as at the end of the period: 31.12.2005	**(104)**	**(71 712)**	**(1 566)**	**(289)**	**(1 196)**	**(74 867)**	**-**
Net value of tangible fixed assets as at the end of the period: 31.12.2005	**2 559**	**248 665**	**119 081**	**53 437**	**101 728**	**525 470**	**300**

The 2005 write-offs for impairment relate mainly to the Bank's real estate property.

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Movements in tangible fixed assets from 1 January 2004 to 31 December 2004	Land	Buildings	Equipment	Vehicles	Other tangible fixed assets	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2004	**1 811**	**536 469**	**349 676**	**42 957**	**165 788**	**1 096 701**
Increase (due to)	**-**	**21 561**	**60 265**	**14 674**	**54 452**	**150 952**
- purchase	-	7 211	27 161	14 231	6 808	**55 411**
- transfer from assets under construction	-	1 075	32 907	-	40 247	**74 229**
- other increases	-	13 275	197	443	7 397	**21 312**
Decrease (due to)	**(119)**	**(202 427)**	**(65 010)**	**(9 226)**	**(21 968)**	**(298 750)**
- sale	-	(201 357)	(42 431)	(7 006)	(1 734)	**(252 528)**
- liquidation	-	(400)	(9 401)	(494)	(9 757)	**(20 052)**
- sale of previously consolidated company	-	-	(11 701)	(1 352)	(3 478)	**(16 531)**
- other decreases	(119)	(670)	(1 477)	(374)	(6 999)	**(9 639)**
Gross value of tangible fixed assets as at the end of the period: 31.12.2004	**1 692**	**355 603**	**344 931**	**48 405**	**198 272**	**948 903**
Accumulated depreciation as at the beginning of the period: 01.01.2004 r.	**(85)**	**(57 139)**	**(220 435)**	**(15 646)**	**(101 382)**	**(394 687)**
Depreciation for the period (due to)	**12**	**15 294**	**(2 656)**	**(2 964)**	**(5 815)**	**3 871**
- depreciation charge	-	(11 402)	(45 762)	(8 826)	(17 826)	**(83 816)**
- tax investment relief	-	(43)	-	-	-	**(43)**
- other increases	-	-	(667)	-	(11)	**(678)**
- sale	-	26 516	23 763	4 528	1 527	**56 334**
- liquidation	-	164	9 047	758	8 557	**18 526**
- sale of previously consolidated company	-	-	9 018	444	1 861	**11 323**
- other decreases	12	59	1 945	132	77	**2 225**
Accumulated depreciation as at the end of the period: 31.12.2004	**(73)**	**(41 845)**	**(223 091)**	**(18 610)**	**(107 197)**	**(390 816)**
Impairment losses as at the beginning of the period: 01.01.2004	**-**	**(47)**	**(564)**	**(104)**	**-**	**(715)**
- increase	(104)	(67 161)	(12 247)	(115)	(1 196)	**(80 823)**
- decrease	-	6	63	14	-	**83**
Impairment losses as at the end of the period: 31.12.2004	**(104)**	**(67 202)**	**(12 748)**	**(205)**	**(1 196)**	**(81 455)**
Net value of tangible fixed assets as at the end of the period: 31.12.2004	**1 515**	**246 556**	**109 092**	**29 590**	**89 879**	**476 632**

The 2004 write-offs for impairment relate mainly to the Bank's real estate property, one of the Bank's software system and goodwill arising on the acquisition of Bank Częstochowa and PBR.

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

27. Other Assets

	31.12.2005	31.12.2004
Assets taken over and held for resale	**14**	**43**
- fixed assets	-	-
- real estate	-	-
- other	14	43
Other, including:	**555 423**	**573 527**
- debtors	220 880	311 663
- receivables from income tax	24 231	16 258
- interbank balances	945	3 242
- other accruals	86 766	81 987
- accrued income	7 968	2 546
- inventories	143 680	121 761
- other	70 953	36 070
Total other assets	**555 437**	**573 570**

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28. Non-current assets held for sale

According to IFRS 5 „Non-current assets held for sale and discontinued operations", the carrying value of the Group's investment in PTE Skarbiec-Emerytura has been presented in the balance sheet as separate positions: "the non-current asset held for sale" and "liabilities held for sale".

Assets and liabilities of PTE Skarbiec-Emerytura as at 31 December 2005.

	31.12.2005
Assets held for sale including:	
Loans and advances to banks	4 342
Investment securities	35 250
Intangible assets (including goodwill)	240 215
Tangible fixed assets	300
Deferred income tax asset	7 719
Other assets	29 523
Total assets held for sale	**317 349**

	31.12.2005
Liabilities held for sale:	
Other liabilities	5 680
Provisions for deferred income tax	135
Provisions	1 024
Total liabilities held for sale	**6 839**

On 29 November 2005 BRE Bank, a holder of 100% of shares in PTE Skarbiec-Emerytura concluded with PZU Życie SA , a holder of 100% of shares in PTE PZU SA "The Agreement on the Merger of PTE Skarbiec-Emerytura and PTE PZU with an Obligation to Sell the Merger Issue Shares" ("Agreement"). The merger will take place through acquisition of assets of PTE Skarbiec-Emerytura by PTE PZU. The merger of both companies is subject to the approval by the Insurance and Pension Funds Supervisory Commission ("KNUiFE") and the Competition and Consumer Protection Office ("UOKiK"). After the merger the share of BRE Bank SA in the shareholders' equity and votes at the General Meeting of Shareholders of PTE PZU shall equal to 13.1% and PZU Życie SA to 86.9%. The Agreement also provides for call and put options, which oblige the Parties to buy (sell) all merger related issues of shares held by BRE Bank SA following the merger of both pension funds. The sale of shares following the acceptance of the offer and payment for shares shall be subject to the approval by the KNUiFE and the approval by the UOKiK. On 17 February 2006 the parties got the approval by the UOKiK.

The price for the merger issue shares to be held by BRE Bank SA was set at PLN 365 million subject to any approximate adjustments reflecting the percentage value change of net assets of Skarbiec-Emerytura in the period between 30 June 2005 and the date of the merger of both pension funds plus PLN 15 million. The minimum price shall stand at PLN 315 million and shall be binding if the merger takes place before 31 August 2006. If the merger does not occur by 31 August 2006, BRE Bank has the right to terminate the Agreement.

On 12 December 2005 the plan of merger was published in the Commercial and Law Gazette according to the commercial companies' code. The managements of companies, which are subject to merger, declared an intention of merger to the head of the UOKiK as at 13 December 2005 and after the General Meeting of Shareholders made the decision about the merger, they would present an motion about the approval of merger to the KNUiFE. On 16 January 2006 an expert gave an opinion that the merger plan was prepared correctly and the share exchange parity included in the plan was set up correctly.

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Both the planned merger of PTE PZU with PTE Skarbiec-Emerytura and the acquisition of shares by PZU Życie SA, which BRE Bank SA will have in joined company, are according to the strategy of PTE Skarbiec-Emerytura shareholder.

The information about the share of PTE Skarbiec-Emerytura (PTE) in the consolidated Profit and Loss Account before the elimination of the transactions within the Group is presented below.

Profit and loss of PTE from 01.01.2005 to 31.12.2005	
Net interest income	1 594
Net fee and commission income	15 639
Other operating income	1 045
Overhead costs	(7 368)
Amortization and depreciation	(258)
Other operating expenses	(160)
Net operating result	**10 492**
Profit before income tax	**10 492**
Income tax expense	(2 631)
Net profit (loss)	**7 861**

Moreover, according to IFRS 5 „Assets held for sale and discontinued operations" on the basis of the signed agreement, the Bank recognized the impairment on PTE shares up to the minimum price guaranteed in the agreement (PLN 315 million) taking into account estimated sale costs that the Bank would incur until the moment of realization of the transaction (PLN 4.5 million). The total impairment amount was PLN 36,109 thousand. Additionally, the Bank incurred costs related to sale transaction of PLN 828 thousand.

The total impact of events mentioned above on the Group's net profit in 2005 (consolidation of PTE, goodwill impairment and costs incurred in 2005 including tax effect) was negative and amounted to PLN 27,238 thousand.

29. Amounts due to Other Banks

	31.12.2005	**31.12.2004**
Payables to be settled	4 639	-
Current accounts	317 809	653 027
Term deposits	967 307	1 582 640
Loans and advances received	2 920 540	3 115 139
Repo / sell buy back transactions	15 080	-
Other liabilities (due to):	111 681	211 323
- liabilities in respect of cash collaterals	31 375	32 021
- other	80 306	179 302
Amounts due to other banks	**4 337 056**	**5 562 129**

Term deposits accepted from other banks are fixed interest rate deposits. One term deposit with variable rate maturing on 6 July 2007 is one exception.

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30. Amounts due to Customers

	31.12.2005	31.12.2004
Corporate customers:	**12 683 608**	**10 345 715**
Current accounts	6 804 971	4 696 418
Term deposits	3 608 745	3 289 910
Loans and advances received	325 615	244 995
Repo transactions	1 478 535	1 665 249
Other liabilities:	465 742	449 143
- liabilities in respect of cash collaterals	280 184	243 555
- other	185 558	205 588
Individual customers:	**7 587 453**	**6 418 558**
Current accounts	4 571 173	2 997 300
Term deposits	2 942 765	3 297 736
Other liabilities:	73 515	123 522
- liabilities in respect of cash collaterals	73 188	62 450
- other	327	61 072
Public sector customers:	**172 345**	**133 616**
Current accounts	36 171	83 467
Term deposits	60 186	23 505
Loans and advances received	75 983	26 624
Other liabilities:	5	20
- liabilities in respect of cash collaterals	-	-
- other	5	20
Total amounts due to customers	**20 443 406**	**16 897 889**

31. Debt Securities in Issue

As at 31 December 2005

Debt securities in issue by cathegory	Nominal value	Contractual interest rate	Guarantees/collaterals	Redemption date
Long-term issues				
- Deposit certificates (in PLN)	3.000.000	6,91%	no collateral	29-01-10
- Deposit certificates (in PLN)	3.000.000	5,90%	no collateral	14-08-06
- Deposit certificates (in PLN)	8.000.000	5,87%	no collateral	21-08-06
- Deposit certificates (in PLN)	3.000.000	5,91%	no collateral	27-08-08
- Deposit certificates (in PLN)	5.000.000	6,32%	no collateral	01-10-08
- Deposit certificates (in PLN)	10.000.000	5,94%	no collateral	13-10-06
- Deposit certificates (in PLN)	10.000.000	6,34%	no collateral	13-10-08
- Deposit certificates (in PLN)	20.000.000	fixed interest rate 6,73%	no collateral	12-04-06
- Deposit certificates (in PLN)	15.000.000	return 9,049%	no collateral	06-05-09
- Bonds (in PLN)	11.200.000	6,50%	no collateral	22-09-08
- Bonds (in PLN)	5.000.000	6,05%	no collateral	22-09-06
- Bonds (in EUR)	200.000.000	EURIBOR 3m + 0,35%	deposit	03-11-06
- Bonds (in EUR)	225.000.000	EURIBOR 3m + 0,20%	deposit	18-10-07
- Bonds (in EUR)	200.000.000	EURIBOR 3m + 0,20%	deposit	27-06-08
- Bonds (in USD)	10.000.000	step up coupon (3.25, 3.75, 4.25, 4.75, 5.25)	deposit	09-12-09
- Bonds (in PLN)	170.500.000	average return - 5,71%	letter of comfort	04/2007-07/2008
Short-term issues				
- Bonds (in PLN)	62.500.000	average return - 4,75%	letter of comfort	01/2006
Debt securities in issue (carrying value in PLN '000)				**2.731.157**

As at 31 December 2004

Debt securities in issue by cathegory	Nominal value	Interest rate	Guarantees/collaterals	Redemption date
Long-term issues				
- Deposit certificates (in PLN)	3 000 000	6.13%	no collateral	29-01-10
- Deposit certificates (in PLN)	3 000 000	7.20%	no collateral	14-08-06
- Deposit certificates (in PLN)	8 000 000	7.23%	no collateral	21-08-06
- Deposit certificates (in PLN)	3 000 000	7.24%	no collateral	27-08-08
- Deposit certificates (in PLN)	5 000 000	7.25%	no collateral	01-10-08
- Deposit certificates (in PLN)	10 000 000	7.50%	no collateral	13-10-06
- Deposit certificates (in PLN)	10 000 000	7.65%	no collateral	13-10-08
- Deposit certificates (in PLN)	20 000 000	fixed interest rate 6,73%	no collateral	12-04-06
- Deposit certificates (in PLN)	15 000 000	return 9,049%	no collateral	06-05-09
- Bonds (in PLN)	11 200 000	7.91%	no collateral	22-09-08
- Bonds (in PLN)	5 000 000	7.56%	no collateral	22-09-06
- Bonds (in PLN)	111 200 000	WIBOR 3M + 0,9%	no collateral	23-07-07
- Bonds (in EUR)	200 000 000	EURIBOR 3M + 0,35%	deposit	03-11-06
- Bonds (in EUR)	225 000 000	EURIBOR 3M + 0,2%	deposit	18-10-07
- Bonds (in USD)	10 000 000	step up coupon	deposit	09-12-09
- Bonds (in PLN)	111 200 000	WIBOR 3M + 0,9%	no collateral	23-07-07
Short-term issues				
- Deposit certificates (in PLN)	320 700 000	average return 6,53%	no collateral	od 11-01-05 do 05-07-05
- Bonds (in EUR)	200 000 000	EURIBOR 3m + 0,375%	deposit	09-06-05
- Bills of exchange	10 000 000	0.07	no collateral	31-03-05
- Bills of exchange	28 300 000	0.0705	no collateral	18-03-05
- Bills of exchange	21 000 000	0.071	no collateral	28-01-05
- Bills of exchange	20 000 000	0.0715	no collateral	28-01-05
- Bills of exchange	20 700 000	7.25%	no collateral	18-01-05
Debt securities in issue (carrying value in PLN '000)				**3 103 322**

Movement in Debt Securities in Issue

	31.12.2005	31.12.2004
As at the beginning of the period	**3 103 322**	**2 686 880**
Increase (due to):	**1 473 644**	**3 860 738**
- issuance	1 421 250	3 821 391
- adjustment of value (discount/premium/interest)	52 394	39 347
Decrease (due to):	**1 845 809**	**3 444 296**
- redemption	1 728 826	3 026 405
- adjustment of value (discount/premium/interest)	26 390	82 346
- foreign exchange differences	90 593	335 545
Debt securities in issue at the end of the period	**2 731 157**	**3 103 322**

32. Subordinated liabilities

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2005					
Subordinated liabilities					
- AT BRE COM LTD	200,000,000	EUR	3M EURIBOR+1,3%	27.03.2012	779,027
- AT BRE COM LTD	50,000,000	EUR	3M EURIBOR+1,3%	26.09.2012	194,507
- AT BRE COM LTD	100,000,000	EUR	3M EURIBOR+2,5%	nieokreślony	388,993
					1,362,528

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2004					
Subordinated liabilities					
- AT BRE COM LTD	200,000,000	EUR	3M EURIBOR+1,3%	27.03.2012	816,115
- AT BRE COM LTD	50,000,000	EUR	3M EURIBOR+1,3%	26.09.2012	204,029
-					
					1,020,144

As in 2004, the Group did not note any delays in repayments of principal or interest instalments and was not in default of any other contractual provisions related to its liabilities during the financial year.

Movement in Subordinated Liabilities

	31.12.2005	31.12.2004
As at the beginning of the period	**1 020 144**	**1 221 340**
Increase (due to:)	**444 412**	**67 889**
- subordinated loan raised	385 980	65 073
- interest on subordinated loan	58 432	2 816
Decrease (due to):	**102 028**	**269 085**
- capital repayment	-	71 325
- interest repayment	47 207	2 301
- foreign exchange differences	54 821	159 725
- other	-	35 734
Subordinated liabilities as at the end of the period	**1 362 528**	**1 020 144**

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33. Other Liabilities

	31.12.2005	31.12.2004
Special Fund	**23 821**	**24 895**
- Social Benefits Funds	23 821	24 895
Other liabilities	**539 199**	**315 871**
- tax liabilities	6 562	7 692
- interbank settlements	66 415	18 001
- creditors	167 593	105 989
- accrued expenses	67 966	48 819
- deferred income	105 893	28 490
- provisions for pension dismissals	8 687	8 806
- provisions for holiday equivalents	5 506	3 465
- provisions for other employee benefits	81 587	21 965
- other	28 990	72 644
Total special funds and other liabilities	**563 020**	**340 766**

34. Provisions

	31.12.2005	31.12.2004
For off-balance sheet contingent liabilities	63 920	3 593
For legal proceedings	7 926	10 292
Other	14 289	25 509
Total other provisions	**86 135**	**39 394**

The estimated cash flow due to created provisions for legal proceedings will realize within the period 1 year-2 years.

Movement in the provisions

	31.12.2005	31.12.2004
As at the beginning of the period (by type)	**91 497**	**31 455**
For off-balance sheet contingent liabilities	55 696	13 417
For legal proceedings	10 292	3 023
Other	25 509	15 015
Increase (due to)	**39 441**	**42 997**
- increase of provisions	39 282	37 559
- foreign exchange differences	159	5 438
Decrease (due to)	**(44 803)**	**(35 058)**
- charge-offs	(1 656)	(445)
- release of provisions	(31 779)	(25 583)
- foreign exchange differences	(520)	(253)
- utilization	(463)	(2 471)
- reclassification to other balance sheet positions	(10 385)	(6 306)
As at the end of the period (by type)	**86 135**	**39 394**
For off-balance sheet contingent liabilities	63 920	3 592
For legal proceedings	7 926	9 852
Other	14 289	25 950

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The above movements in provisions include changes for off-balance sheet contingent liabilities in 2005: created – PLN 23,161 thousand , released - PLN 12,937 thousand.

35. Deferred Income Tax

Deferred income tax is calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate, which will be in the year of arising of the tax liability (19% in 2004 and 2005).

Movement in the Deferred Income Tax

	31.12.2005	31.12.2004
As at the beginning of the period	**90 028**	**104 378**
Deferred income tax included in the financial result of the period	17 621	(11 397)
Deferred income tax included in equity	16 822	(2 953)
including:		
- valuation of securities available for sale	599	(3 205)
- changes in valuation due to first-time adoption of IFRS	17 309	-
- other	(1 086)	252
Deferred income tax of asset held for sale	(7 584)	-
As at the end of the period	**124 471**	**90 028**

Interest payable on bank deposits	1 474	2 768
Interest payable on customer deposits	7 598	8 938
Valuation of derivatives and futures	10 955	9 727
Valuation of financial instruments held for trading and other at fair value through Profit and Loss	864	7 496
Valuation of financial instruments available for sale	5 910	5 755
Valuation of financial instruments held to maturity	150	1 377
Provisions for impairment of loans and off-balance sheet exposures	76 990	75 660
Provisions for pensions, holiday equivalents, jubilee and other bonuses	16 484	6 141
Other provisions	842	1 767
Accruals and prepayments	14 313	2 176
Impairment of shares in associates	4 284	-
Tax loss to be settled in future periods	12 957	57 255
Other negative temporary differences	66 248	37 774
Interest receivable on loans and advances granted to banks	(6 265)	(3 854)
Interest receivable on loans granted to customers	(10 773)	(7 873)
Valuation of financial instruments held for trading and other at fair value through Profit and Loss	(12 490)	(11 063)
Valuation of financial instruments available for sale	(2 631)	(3 929)
Investment tax relief	(30 775)	(36 374)
Difference between the amortization and depreciation for tax and accounting purposes	(21 629)	(16 614)
Other positive temporary differences	(17 619)	(47 099)
Total net deferred income tax assets	**117 048**	**90 274**
Total net deferred income tax liabilities	**(161)**	**(246)**
Deferred income tax included in the profit and loss account		
Interest	(7 957)	(6 809)
Provisions for impairment of loans and guarantees determined individually	(1 527)	(9 926)
Valuation of derivatives and futures	1 228	11 231

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Valuation of financial instruments held for trading and other at fair value through Profit and Loss	(8 317)	(17 845)
Valuation of financial instruments available for sale	2 259	(393)
Valuation of financial instruments held to maturity	-	(1 123)
Investment tax relief	5 521	16 479
Tax losses carried forward	(37 387)	(30 614)
Provisions for pensions, holiday equivalents, jubilee and other bonuses	11 431	377
Other provisions	(619)	22
Accruals and prepayments	11 730	(2 718)
Impairment of shares in associates	1 686	-
Difference between the amortization and depreciation for tax and accounting purposes	(5 154)	(873)
Other temporary differences	44 727	30 795
Total deferred income tax included in the profit and loss account	**17 621**	**(11 397)**

* data as at the end of the period
** data for the period

Deferred income tax assets are recognized if it is likely that there will be a taxable income in the future.

The deferred tax assets calculation includes PLN 68,195 thousand of tax losses from previous years (PLN 301,337 thousand on 31 December 2004).

The Group (each Group member Company) may utilize its tax losses by 2008.

36. Contingent and Off-balance Sheet Liabilities and Commitments

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

As at 31 December 2005, the BRE Bank Group was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries whose value would be equal to or greater than 10% of the Group's equity. The total value of claims concerning liabilities of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2005 was PLN 337,201 thousand, equal to 17.25% of the issuer's equity. Below is a report on major proceedings concerning liabilities of the Bank or its subsidiaries.

1. In a case concerning claims filed on 30 August 1994 by ART-B Sp. z o.o. under liquidation against BRE Bank SA, the Court of the first instance adopted a decision in favour of the Bank on 26 June 2004. Pursuant to the decision, the original claims for PLN 99.1 million plus statutory interest accrued as of 1991 were dismissed by the Court as in the course of the proceedings the claimant withdrew the claims and presented a new calculation of losses and a new factual basis of the claims. The claims for PLN 17.4 million raised in the course of the proceedings were dismissed due to limitation and lack of sufficient evidence. On 4 July 2005, the Appeal Court in Warsaw dismissed the entire appeal of the claimant. Proceedings for the claims were also opened against BRE BANK SA in the Court of Jerusalem, Israel, and the value of the dispute is USD 43.4 M (PLN 141.5 M according to the mid exchange rate of the National Bank of Poland on 31 December 2005). In these proceedings, BRE Bank SA assists the main defendant, Bank Leumi Le Israel. BRE Bank SA's liability is under recourse, and depends on whether the court grants ART-B's claims against Bank Leumi. Only then will the court consider Bank Leumi's claims against BRE BANK SA. The Israeli proceedings are still at the pre-trial stage (prior to the first hearing). Bank Leumi and ART-B have come to an agreement concerning arbitration. For reasons of procedure, BRE BANK SA has joined the process, which does not imply its acceptance of the claims or readiness to make a settlement. The probability of dismissal of the claims against BRE Bank SA by the court in Israel has increased considerably in connection with the decision of the Polish court in favour of BRE BANK SA

2. The receiver of bankrupt Zakłady Mięsne POZMEAT with registered office in Poznań ("POZMEAT") brought the case against BRE Bank SA ("Bank") and Tele-Tech Investment Sp. z o.o. ("TTI") to court on 29 July 2005. A copy of the lawsuit was delivered on 16 August 2005. The value of the dispute amounted to PLN 100,000,000. The purpose was to cancel the agreements for sale of Pozmeat's shares in the share capital of Garbary Sp. to TTI and then to the Bank. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings, representing the only assets of Garbary Sp. z o.o. on the date

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of sale of Pozmeat's interest in Garbary Sp. z o.o. (19 July 2001). In the opinion of the Bank's legal counsellors in charge, there is a basis to assume that the accusation is illegitimate.

Bank BPH SA brought the case to court on 17 February 2005. A copy of the lawsuit was delivered on 7 September 2005. The value of the dispute was estimated at PLN 42,853,892.10. The purpose was to recognize actions related to the creation of Garbary Sp. z o.o. and the contribution in kind as ineffective. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings that Zakłady Mięsne POZMEAT with registered office in Poznań contributed in kind to Garbary Sp. z o.o. as payment for Pozmeat's share in the PLN 100,000,000 share capital of Garbary. In the opinion of the Bank's legal counsellors in charge, there is a basis to assume that the accusation is illegitimate.

3. On 31 January 2001, Katarzyna and Leonard Praśniewski filed claims for compensation against Dom Inwestycyjny BRE Banku SA (DI BRE) before the District Court of Warsaw. The value of the dispute is PLN 13.9 M. In 2003, the court of the first instance granted the plaintiffs' claims of PLN 13.9 M from DI BRE. Following an appeal filed by DI BRE, the court of the second instance in its decision of 29 April 2004 changed the original decision and dismissed the claims. The plaintiffs filed cassation against the decision of the court of the second instance. On 15 April 2005, the Supreme Court revoked the decision of the Appeal Court in Warsaw and referred the case back to the Appeal Court. On 29 December 2005 Appeal Court in Warsaw set aside point 1 of the sentence of District Court in Warsaw dated at 17 June 2003 and it adjudged to L. Praśniewski the amount of PLN 1.245.091 with statutory interest beginning from 6 November 2000 and the amount of PLN 202.689,92 with statutory interest beginning from 6 November 2000 to Katarzyna Praśniewska-Steggles. The other matters included in the judgement will be examined once again by the District Court in Warsaw. The District Court will also decide about the costs of the trial.

   As the Appeal Court has not yet justified the sentence, it is difficult currently to state whether the Bank will appeal against judgement.

   According to the Bank and its legal counsel, the sentence of the Appeal Court does not influence on the current risk estimation. Taking into account the amount adjudged to plaintiffs by the Appeal Court, the legal risk posed by the case is estimated at not more than PLN 1 million.

Bank did not create any provisions for proceedings described above, because there is no legal justification for it.

As at 31 December 2005, the BRE Bank Group was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the issuer or its subsidiaries whose value would be equal to or greater than 10% of the issuer's equity. The total value of claims concerning receivables of the issuer or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2005 was PLN 325,585 thousand equal to 16.66% of the issuer's equity. Below is a report on major proceedings concerning receivables of the issuer.

	Client	Disputed matter	Value of the dispute in PLN as at 30/06/2005	Type of proceedings	Proceedings opened on
1.	Stocznia Szczecińska Holding SA w upadłości	Loan	53,709,871.39	Bankruptcy	2002/07/29
2.	Kama Foods SA	Loan	45,355,381.73	Bankruptcy	2003/06/05
3.	Big-Carton SA	Loan	41,275,396.57	Bankruptcy	2001/07/12

The tax authorities have not carried out any full-scope tax audits at the Bank or its subsidiaries in 2005 or 2004.

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 Group's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Off-balance Sheet Liabilities

The following table presents the value of off-Balance Sheet liabilities:

	31.12.2005	31.12.2004

Contingent liabilities granted and received	**10.622.729**	**8.260.342**
Liabilities granted	**9.510.093**	**7.268.893**
- financing	7.769.140	5.628.898
- guarantees	1.740.953	1.639.995
Liabilities received	**1.112.636**	**991.449**
- financing	552.679	340.000
- guarantees	559.957	651.449
Liabilities arising from purchase/sale operations	**394.123.899**	**223.399.356**
Other liabilities	**1.373.322**	**1.133.670**
- factoring receivables	760.417	688.057
- factoring payables	334.242	131.477
- other	278.663	314.136
Total off-balance-sheet items	**406.119.950**	**232.793.368**

PLN 208,104,000 of commitments made by Polfactor had the largest effect on the amount of financial liabilities of other Group Companies (following elimination of mutual transactions).

In the process of consolidation, BRE BANK SA's guarantee commitments were adjusted (reduced), among other items, by PLN 2,444,988 thousand Eurobond redemption guarantee issued to the order of BRE Finance France SA, BRE BANK SA's subsidiary. Other material adjustments amounted to PLN 97,903 thousand concerning guarantees for subsidiaries: Skarbiec Asset Management Holding S.A – PLN 60 467 thousand and BRE Locum – PLN 36,000 thousand.

As at 31 December 2005, the list of issues covered by the guarantee of assumption by BRE BANK SA was as follows:

Issuer	Type of guaranteed securities	Amount of guarantee in PLN	Financial, organizational and personal relationships	Marketability
PKN ORLEN SA	Bonds	50,000,000	None	Marketable
ECHO Investment S.A.	Bonds	25,000,000	None	Marketable
Boryszew SA	Bonds	35,000,000	▪ 1 Supervisory Board member	Marketable
Prokom Software SA	Bonds	100,000,000	None	Marketable

The foregoing statement does not include agreements for one-time assumption of securities, which are still in effect with respect to the handling, recording and performing other responsibilities with respect to the securities.

No other member of the Group except BRE Bank SA issued any guarantee commitments.

Contingent Commitments

As at 31 December 2005, the Group had PLN 1,112,636 worth of contingent commitments received.

BRE Bank SA received PLN 396,295 thousand worth of commitments, including PLN 51,712 thousand worth of guarantees securing credits and guarantees issued and PLN 344,583 thousand worth of unused credits granted by foreign banks.

In addition to BRE Bank SA, BRE Leasing received PLN 616,284 thousand Polfactor PLN 62,933 thousand and Transfinance PLN 35,885 thousand worth of commitments from entities other than the Group member Companies.

Pledged Assets

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

31.12.2005 31.12.2004

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Pledged assets, including:	**1 516 212**	**1 781 725**
- Trading securities	1 493 725	1 750 225
- Investment securities	22 487	31 500
Liabilities arising from pledged assets, including:	**1 515 640**	**1 763 605**
- Sell-buy back transactions	1 493 725	1 750 225
- Funds guaranteed under BGF	21 915	13 380

Operating Lease Liabilities

If a Group Company is a lessee, the minimum future payments on the account of leasing under non-cancellable operating lease agreements for buildings are as follows:

	31.12.2005	31.12.2004
Operating lease commitments	**278 663**	**314 136**
- up to 1 year	23 066	23 142
- up to 5 years	90 629	91 768
- 5 years and over 5 years	164 968	199 226

37. Registered share capital

The total number of ordinary shares as at 31 December 2005 was 28,983,972 shares (vs. 28,713,125 as at 31 December 2004) with PLN 4 nominal value each (PLN 4 in 2004). All issued shares were fully paid.

REGISTERED SHARE CAPITAL								
Series / issue	Share type	Type of privilege	Type of limitation	Numebr of shares	Series / issue value	Paid up	Registered on	Dividend right since
11-12-86	ordinary bearer	-	-	9 966 500	39 866 000	fully paid up in cash	23-12-86	01-01-89
11-12-86	ordinary registered	-	-	33 500	134 000	fully paid up in cash	23-12-86	01-01-89
20-10-93	ordinary bearer	-	-	2 500 000	10 000 000	fully paid up in cash	04-03-94	01-01-94
18-10-94	ordinary bearer	-	-	2 000 000	8 000 000	fully paid up in cash	17-02-95	01-01-95
28-05-97	ordinary bearer	-	-	4 500 000	18 000 000	fully paid up in cash	10-10-97	10-10-97
27-05-98	ordinary bearer	-	-	3 800 000	15 200 000	fully paid up in cash	20-08-98	01-01-99
24-05-00	ordinary bearer	-	-	170 500	682 000	fully paid up in cash	15-09-00	01-01-01
21-04-04	ordinary bearer	-	-	5 742 625	22 970 500	fully paid up in cash	30-06-04	01-01-04
21-05-03	ordinary bearer	-	-	2 355	9 420	fully paid up in cash	05-07-05*	01-01-05
21-05-03	ordinary bearer	-	-	11 400	45 600	fully paid up in cash	27-07-05*	01-01-05
21-05-03	ordinary bearer	-	-	37 164	148 656	fully paid up in cash	11-08-05*	01-01-05
21-05-03	ordinary bearer	-	-	44 194	176 776	fully paid up in cash	09-09-05*	01-01-05
21-05-03	ordinary bearer	-	-	60 670	242 680	fully paid up in cash	18-10-05*	01-01-05
21-05-03	ordinary bearer	-	-	13 520	54 080	fully paid up in cash	12-10-05*	01-01-05
21-05-03	ordinary bearer	-	-	4 815	19 260	fully paid up in cash	14-11-05*	01-01-05
21-05-03	ordinary bearer	-	-	28 580	114 320	fully paid up in cash	14-11-05*	01-01-05
21-05-03	ordinary bearer	-	-	53 399	213 596	fully paid up in cash	08-12-05*	01-01-05
21-05-03	ordinary bearer	-	-	14 750	59 000	fully paid up in cash	08-12-05*	01-01-05
Total number of shares				**28 983 972**				
Total registered share capital					**115 935 888**			
Nominal value per share			4					

* date of registration of shares in National Securities Deposit (KDPW S.A.)

Commerzbank Auslandsbanken Holding AG is a shareholder holding over 5% of the share capital and votes at the General Meeting. As at 31 December 2005 Commerzbank Auslandsbanken Holding AG held 71,49% of the share capital and votes at the General Meeting of BRE Bank SA.

38. Share premium

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

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

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

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

Because the effect of the restatement:

- Represents 5.27% of the owners' equity of the Bank and 7.5% of share capital;
- Consists of re-allocation of funds between various items of the owners' equity, which has no effect on the equity as a whole;
- Has no material effect on the presented financial data, both as a whole and on line items basis;

the Management Board of the Bank believes that such restatement will have no material effect on the accuracy and fairness of the presentation of the Bank's financial position as at, and for the year ended 31 December 2005.

39. Other Capital and Reserves

The following table presents movements in other capital and reserves:

	31.12.2005	31.12.2004
Translation reserve		
As at the beginning of the period	2.793	5.332
Exchange differences	(4.716)	(2.539)
As at the end of the period	**(1.923)**	**2.793**
Revaluation reserve - available for sale securities		
As at the beginning of the period	1.712	(6.497)
Net gains / (losses) from changes in fair value	2.823	12.726
Net losses transferred to net profit on disposal and impairment	(5.865)	(1.312)
Deferred income tax	599	(3.205)
As at the end of the period	**(731)**	**1.712**
Revaluation reserve - valuation of cash flow hedges		
Currency swap		
As at the beginning of the period	(2.937)	(8.563)
Movements in reporting period	-	*5.626*
Gains/(losses) from changes in fair value	-	6.946
Deferred income tax	-	(1.320)
Transfer to profit and loss account	3.230	-
Deferred income tax	(614)	-
As at the end of the period	**(321)**	**(2.937)**
Revaluation of fixed assets		
As at the beginning of the period	-	7.979
Sale of fixed assets	-	(7.979)
As at the end of the period	**-**	**-**
Other capital and reserves	**(2.975)**	**1.568**

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The total amount of PLN 692 thousand representing the balance of increases/decreases of securities (bonds, treasury notes and stocks) sold in 2005 was charged off the revaluation capital and recognized in the Profit and Loss Account (2004: PLN 1 312 thousand).

40. Retained earnings

Retained earnings include: supplementary capital, other reserve capital, General Banking Risk Fund, profit (loss) from the previous year and profit (loss) for the current year.
Other supplementary capital, other reserve capital and General Banking Risk Fund are created from profit for the current year and their aim is described in the Status or in different law paragraphs.

	31.12.2005	**31.12.2004**
Other supplementary capital	-	8 303
Other reserve capital	(4 304)	206 049
General Banking Risk Fund	558 000	558 000
Profit (loss) from the previous year	(186 868)	(21 175)
Profit (loss) for the current year	247 543	(294 017)
Total retained earnings	**614 371**	**457 160**

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

In addition, the Group transfers some of its net profit to the General Banking Risk Fund to cover unexpected risks and future losses. The General Banking Risk Fund can be distributed only on consent of stockholders at a general meeting.

Share options

Share options are granted as motivation to members of the Management of BRE BANK SA BRE BANK SA will issue new shares to enable the use of such options.

The Bank operates two motivational programs related to share options.

Under the first program, started in May 2000, members of the Bank's Management were granted 479,500 options, of which 159,000 were reserved for members of the Management Board. BRE BANK SA will settle the program by issuing its shares. The issue price is PLN 135.8.

Because the share options were granted before 7 November 2002, the program is not subject to the regulations of IFRS 2 and it was not valued, as allowed under IFRS 1.

The process of assuming shares is three-phased. First, employee options are assumed based on Option Agreements. The price of an option represents 1% of the issue price of the shares covered by the Options Agreements. An employee of the Bank that signed an Option Agreement assumes the shares automatically. Employees assumed 1/3 of the options on each of the following dates: 30 June 2001, 30 June 2002 and 31 May 2003. Then, eligible individuals assume bonds (for PLN 0.01 each) and then exchanges the bonds for shares. Employees may exchange bonds for shares between 2 February 2004 and 30 June 2006.

The following table presents the number of stock options for each option group:

	31.12.2005	**31.12.2004**
As at 1 January	**479 500**	**479 500**
Granted	-	-

Realized	118 884	-
Expired	-	-
As at the end of the period	**360 616**	**479 500**
exercisable at the end of period	360 616	0

The price of exercising an option is the same for each options group presented in the foregoing table above and accounts for: PLN 135.8. The period remaining until the end of the contractual term for options existing as at 31 December 2005 is 6 months.

The other employee options program was valued in accordance with IFRS 2.

Employees pay 0.1% of the issue price for each share. The options are distributed in proportion: 20% each year in advance, starting from 15 October 2003 until 30 June 2007. October 15 is the first option distribution date. Each subsequent date is June 30 of the following year until (and including) 30 June 2007. Options that have already been assumed could not be exercised earlier than 1 June 2005 and not later than 30 June 2008. The options are non-transferable.

The following table presents the employee stock options program:

	31.12.2005	**31.12.2004**
As at 1 January	**15 340**	**6 654**
- value of services provided (Note 13)	4 536	8 686
- settlement of exercised options	(6 909)	-
As at 31 December	**12 967**	**15 340**

The following table presents changes in the number of issued share options:

	31.12.2005	**31.12.2004**
As at 1 January	**493 000**	**471 300**
Granted	7 000	21 700
Realized	151 963	-
Expired	-	-
As at the end of the period	**348 037**	**493 000**
exercisable at the end of period	348 037	0

471,300 share options of PLN 96.16 issue price each, were granted on 15 October 2003 and they expire on 1 July 2008. A further 21,700 options were granted on 31 July 2004. The options were fair-valued as at both these dates. The program stipulates that employees will assume 500,000 options (175,000 options for the Management Board and 325,000 options for other employees). As at 1 July 2005, a further 7,000 options were granted. 270 847 shares related to employee options programs were issued until 31 December 2005.
The fair value of options granted on 15 October 2003, determined using the Black-Scholes valuation model, amounted to PLN 45.57 per option. The fair value of options granted on 31 July 2004, established using the same model, amounted to PLN 40.15 per option. Conditions of the program and the fact that no dividend was planned for the previous year in 2003-2008 had an important effect on the choice of the valuation model. The variability of BRE BANK SA's shares is calculated by applying a standard deviation estimator to a sample of 252 quotations (one year retrospectively) and an interest rate based on zero coupon rates capitalized on continuous basis, as required by the Black-Scholes model, determined on the basis of the structure of interest rates in effect on the valuation date.

41. Dividend per Share

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BRE Bank SA did not distribute any dividend for 2004 and declared that will not distribute any dividend for 2005.

42. Cash and Cash Equivalents

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

	31.12.2005	31.12.2004
Cash and balances with Central Bank (Note 17)	1 778 457	734 691
Debt securities eligible for rediscounting at the Central Bank	37 464	52 832
Loans and advances to banks (Note 19)*	3 233 731	5 908 558
Trading securities (Note 20)	3 113 768	3 351 206
Total cash and cash equivalents	**8 163 420**	**10 047 287**

*Loans and advances to banks consist of PTE Skarbiec-Emerytura S.A. loans presented in „Non-current assets held for sale" (Note 28).

43. Transactions with Related Entities

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

All transactions with related entities exceeding the equivalent of EUR 500,000 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 values of transactions with related entities, i.e. balance sheet balances and related expenses and income as at 31 December 2005 were as follows:

Numerical data concerning transactions with affilaited entities (in thousand PLN) - 31 December 2005

No.	Company's name	Balance sheet		Income Statement				Off balance sheet		
		Receivables	Liabilities	Interest income	Interest expense	Commission income	Commission expense	Commitments granted	Commitments received	Purchase/Sale commitments
1	BRE Bank SA	792 022	2 802 940	34 654	76 860	7 067	2 869	2 777 719	0	911
2	BRE Corporate Finance SA	2 143	0	47	1	0	46	0	2 896	0
3	Dom Inwestycyjny BRE Bank SA	276 395	48 516	9 005	676	2 771	1 070	0	535	0
4	BRE International Finance B.V.	0	0	9 969	0	0	0	0	0	0
5	PTE Skarbiec Emerytura SA	4 341	0	156	0	0	0	0	0	0
6	Skarbiec Asset Management Holding SA	32 036	527	508	168	80	5 262	0	60 667	0
7	BRE Leasing Sp. z o.o.	47 755	301 424	878	6 727	0	20	0	0	911
8	Polfactor S.A.	1 476	162 512	0	8 794	0	343	0	232 376	0
9	Intermarket Bank AG	0	69 476	0	1 935	0	0	0	0	0
10	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	8 442	210	375	0	0	0	0	0	0
11	BRE Finance France SA	2 417 227	0	55 430	0	0	0	0	2 444 988	0
12	TV-Tech Investment 1 Sp. z .o.o.	796	0	78	8 426	0	0	0	0	0
13	Tele-Tech Investment Sp. z o.o.	1 271	47 140	4	3 118	0	0	0	5	0
14	Garbary Sp. z o.o.	2 317	1 201	91	0	0	0	0	0	0
15	BRE.locum Sp. z o.o.	1 971	38 807	199	2 662	0	285	0	36 000	0
16	ServicePoint Sp. z o.o.	433	0	1	0	0	2	0	0	0
17	FAMCO SA	2 411	0	33	0	0	2	0	0	0
18	BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	16	0	13	0	0	0	0	0	0
19	BRELIM Sp. z o.o.	37	0	0	0	0	0	0	0	0
20	BREL-MAR Sp. z o.o.	25	0	0	0	0	0	0	0	0
21	AMBRESA Sp. z o.o.	1 342	0	2	0	0	1	0	0	0
22	TV-Tech Investment 2 Sp. z .o.o.	31	0	0	0	0	1	0	0	0
23	EMFINANSE Sp. z o.o.	950	0	8	0	0	2	0	0	0
24	MKF Sp z o.o.	87	0	0	0	0	1	0	0	0
25	Xtrade SA	0	78	0	1	18	3	0	0	0
26	NOVITUS SA (dawniej Optimus IC SA)	239	0	0	0	0	20	0	252	0
27	BREL-RES Sp. z o.o.	886	95 870	14	1 596	0	1	0	0	0
28	BREL-AG Sp. z.o.o.	87	10 310	0	178	0	0	0	0	0
29	BREL-AL Sp. z o.o	92	15 951	0	372	0	7	0	0	0
30	BREL-FIN Sp. z o.o	42	0	0	0	0	0	0	0	0
31	BRELINVEST Sp. z o.o.	51	0	49	0	0	1	0	0	0
32	RAVENNA Katowice Sp. z o.o.	17	0	0	0	0	0	0	0	0
33	BMF Capital Sp. z o.o.	24	0	0	0	0	0	0	0	0
	Commerzbank AG Group	793 318	2 209 083	25 575	84 838	0	0	37 564	0	0

In order to reduce the impact of incidental one-off events recognised in the 4th quarter of the year 2004, negatively affecting the net performance of the Bank as at the end of the year 2004 (the impact of these events has been discussed in detail in the financial statement for the year 2004), on February 2, 2005 the BRE Bank has issued subordinated bonds with unspecified maturity term and has thus raised cash amounting to EUR 100,000,000 (PLN 405,830,000 at the middle exchange rate of the National Bank of Poland at the issuing date). The funds raised through this issue served to change the hitherto existing structure of owners' equity funds of the BRE Bank SA and to increase the proportion of the supplementary tier capital in that structure. The Bank obtained the consent of the Regulator (KNB - Banking Supervision Commission) to classify the amount originating from the above indicated issue as supplementary capital. The issue was acquired in full by a subsidiary entity of the Commerzbank AG, which is the main shareholder of the Bank. Moreover, there is the possibility within the scope of the agreement to take advantage of an additional limit for the issue of subordinated bonds up to the value of EUR 150 million, which provides the Bank with a basis for secure growth over the next years ahead.

On 31 May 2005, under an agreement between BRE Bank SA and TV-Tech Investment 1 Sp. z o.o. dated 5 November 2003, TV-Tech Investment 1 Sp. z o.o. paid BRE Bank SA USD 40,585,903.92 (PLN 135,009,009.39 according to the mid exchange rate of the National Bank of Poland on 31 May 2005). The payment was the return of an advance granted for the acquisition of shares of TVN Sp. z o.o. (currently TVN SA).

On 22 June 2005, BRE Bank SA as a guarantor of the redemption of euronotes and the company BRE Finance France SA (BFF), a subsidiary of BRE Bank SA, as an issuer of euronotes, and Commerzbank AG (a holding company of BRE Bank SA) as Lead Manager and Landesbank Hessen-Thüringen Girozentrale, Banca Nazionale del Lavoro S.p.A., Erste Bank Der Oesterreichischen Sparkassen AG, Lrp Landesbank Rheinland-Pfalz and Raiffeisen Zentralbank Oesterreich Aktiengesellschaft, as Managers, entered into an agreement whereby, on 27 June 2005, BRE Finance France SA issued notes at EUR 200,000,000 (PLN 809,460,000 according to the mid exchange rate of the National Bank of Poland on 22 June 2005).
The Lead Manager and the Managers acquired the issued notes on 27 June 2005. The value of the agreement is higher than 10% of the equity of BRE Bank SA. The Issue Managers' total compensation is EUR 200,000 (PLN 809,460 according to the mid exchange rate of the National Bank of Poland on 22 June 2005).

In addition, on 27 June 2005, BRE Bank SA and BFF entered into a cash deposit agreement whereby, on 27 June 2005, BFF placed with BRE Bank SA a cash deposit of EUR 199,764,000 (PLN 805,168,778.40 according to the mid exchange rate of the National Bank of Poland on 27 June 2005) as a security of a guarantee granted by BRE Bank SA.
Under the said agreement, the cash deposit will be the property of BRE Bank SA until the redemption of the notes in 2008. BFF who placed the cash deposit will receive quarterly interest based on a variable 3M EURIBOR and a redemption premium (EUR 236,000, i.e., PLN 951,221.60 according to the mid exchange rate of the National Bank of Poland on 27 June 2005).

On 27 December 2005 (in connection with the agreement signed on 23 September 2003 between BRE Bank SA ("Bank") and Tele-Tech Investment Sp. z o.o. ("TTI") regarding the sale to TTI 1,061 shares with a nominal value of PLN 500 each share in BRE,locum for a total sum of PLN 9,684,536. The Bank and TTI, a linked entity (affiliate), executed Annex 1 to the Agreement whereby the Bank or a person designated by the Bank shall be entitled to buy from TTI 11,082 shares in the Company ("Shares"), a subsidiary of the Bank, representing 20.01% of the share capital of the Company and giving 11,082 (20.01%) votes at the General Meeting of the Company.
The Bank designated a natural person as the person authorised to buy the Shares in the Company instead of the Bank.

Comparison of transactions with the Management of the Bank and subsidiaries is presented below:

	Directors and key management personel of Bank		Directors and key management personel in subsidiaries	
(in PLN '000)	**31.12.2005**	**31.12.2004**	**31.12.2005**	**31.12.2004**
Loans outstanding as at 31 December	1 279	1 364	505	146
Deposits received as at 31 December	2 709	2 172	108	132
Interest expense on deposits	56	40	4	5
Fee and commission income	12	7	4	1
Key management compensation	10 843	17 240	21 748	16 950

No provisions were created in connection with credits granted to related entities (none in 2004).

Management Board Compensation

Management Board of BRE Bank consists of six following persons:
1. Sławomir Lachowski – President of the Management Board, Director General of the Bank
2. Jerzy Jóźkowiak – Member of the Management Board, Bank Director in charge of Retail Banking
3. Bernd Loewen - Member of the Management Board, Bank Director in charge of Investment Banking
4. Rainer Ottenstein – Member of the Management Board, Bank Director in charge of Finance
5. Wiesław Thor – Member of the Management Board, Bank Director in charge of Risk Management.
6. Janusz Wojtas – Member of the Management Board, Bank Director in charge of Corporate Banking.

Information on Board members' remuneration paid and due as at 31 December 2005 is presented below. There are Board members that were the members at the end of 2005.

		Remuneration paid in 2005 (in PLN)	Bonus for 2005 to be paid in 2006 (in PLN)
1.	Sławomir Lachowski	1 269 559	2 810 547
2.	Jerzy Jóźkowiak	732 501	1 603 660
3.	Bernd Loewen	995 353	1 304 484
4.	Rainer Ottenstein	1 072 078	1 356 177
5.	Wiesław Thor	788 468	1 748 986
6.	Janusz Wojtas	552 023	1 240 806

Information on Board members' remuneration paid and due as at 31 December 2005 is presented below. There are Board members that ceased to be the members in 2005.

		Remuneration paid in 2005 (in PLN)
1.	Anton Burghardt	2 142 913
2.	Krzysztof Kokot	132 580

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The total compensation of members of the Management Board consists of: salary, bonuses, termination of agreement payment, prohibition of competitiveness payment, insurance costs and accommodation costs.
Additionally, in 2005 the members of the Bank's Management Board received in aggregate PLN 162 697 thousand as the compensation for their role as members of the management boards and supervisory boards of the Bank's related companies (in 2004: PLN 65 706 thousand).

Management Board members did not receive bonuses for 2004.

The total amount of remuneration received by Bank's Management Board members was PLN 7 848 17 in 2005.

Supervisory Board Compensation

The present composition of the Supervisory Board is as follows:

1. Maciej Leśny – Chairman of the Supervisory Board, Chairman of the Executive Committee
2. Martin Blessing – Vice-Chairman of the Supervisory Board, Vice-Chairman of the Executive Committee
3. Nicholas Teller – Member of the Supervisory Board, Member of the Executive Committee
4. Jan Szomburg – Member of the Supervisory Board, Member of the Executive Committee
5. Gromosław Czempiński – Member of the Supervisory Board
6. Renate Krümmer – Member of the Supervisory Board
7. Teresa Mokrysz – Member of the Supervisory Board
8. Michael Schmid – Member of the Supervisory Board
9. Krzysztof Szwarc– Member of the Supervisory Board.

Information on Supervisory members remuneration paid as at 31 December 2005 is presented below.

		Remuneration in 2005 (in PLN)
1.	Maciej Leśny	315 000
2.	Martin Blessing	214 500
3.	Nicholas Teller	229 000
4.	Jan Szomburg	222 750
5.	Gromosław Czempiński	132 000
6.	Renate Krummer	222 750
7.	Teresa Mokrysz	132 000
8.	Michael Schmid	198 000
9.	Krzysztof Szwarc	198 000

The total compensation of members of the Supervisory Board in 2005 amounted to PLN 1 864 000.

44. Acquisitions and Disposals

Acquisitions

There were no acquisition transactions in 2004 and 2005.

Disposals

On 28 December 2004, BRE Bank sold its shares in RHEINHYP-BRE Bank Hipoteczny, representing 100% of the share capital and votes in the General Meeting of Shareholders of the Company. Because the Bank held the Company in its portfolio in 2004, the Company's profit for 2004 was fully reflected in the Consolidated Profit and Loss Account. However, the Consolidated Balance Sheet of 31 December 2004 does not include the balance sheet items of RHEINHYP-BRE Bank Hipoteczny.

The subsidiary operated in the "Corporate Banking" segment and contributed PLN 21,221,000 profit on operating activities to the Group in the period between 1 January 2004 and 31 December 2004.

The following table presents details of fair values of purchased assets, liabilities and goodwill and disposed assets, liabilities and costs of disposal:

Disposal	31.12.2004 in thousand PLN
Cash and cash equivalents	2 650
Receivables from the financial sector	76 909
Receivables from the non-financial and public sector	1 870 854
Amounts due to the financial sector	554 854
Amounts due to the public and non-financial sector	131 817
Other liabilities	757
Net assets	**147 059**
Proceedings from sale (cash)	132 500
Deducted cash and cash equivalents in sold subsidiary	(2 650)
Net cash proceeds from sale	**129 850**

45. Reconciliation of differences between IFRS as adopted for use in the European Union and Polish GAAP

Reconciliation of differences between IFRS and Polish GAAP in the Consolidated Balance Sheet as at 1 January 2004

Item	Note	Polish GAAP 01/01/2004	Adjustment	IFRS 01/01/2004
ASSETS				
Cash and balances with Central Bank	a	503,317	5	503,322
Bills of exchange eligible for rediscounting with Central Bank		52,765		52,765
Receivables from banks	ą	4,324,770	(702,855)	3,621,915
Marketable securities	b	3,532,064	(1,253,026)	2,279,038
Derivative financial instruments		1,694,839		1,694,839
Other financial instruments fair-valued through Profit and Loss Account		-		-
Credit and loans granted to customers	c	16,317,246	33,819	16,351,065
Investment securities	ć	838,341	(60,238)	778,103
Non-current assets held for sale		-		-
Pledged assets	d	47,788	1,253,026	1,300,814
Investments in affiliates		13,446		13,446
Intangible assets	e	735,225	146,620	881,845
Tangible fixed assets	ę	979,629	(182,195)	797,434
Deferred income tax assets	f	701,913	(597 339)	104,574

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	Item	Note	Polish GAAP 01/01/2004	Adjustment	IFRS 01/01/2004
	Other assets	g	790,403	(286,031)	504,372
	Total assets		**30,531,746**	**(1,648,214)**	**28,883,532**
	EQUITY AND LIABILITIES				
	Liabilities to Central Bank		-		-
	Liabilities to other banks	h	6,469,132	(688,462)	5,780,670
	Other deposits		-		-
	Derivative financial instruments and other marketable liabilities		1,629,805		1,629,805
	Liabilities to customers	i	14,922,595	(21,877)	14,900,718
	Debt security liabilities		3,329,181		3,329,181
	Other borrowings		1,221,340		1,221,340
	Other liabilities	j	535,946	(222,336)	313,610
	Current income tax liability		267		267
	Provision for deferred income tax	k	596,637	(596,441)	196
	Provisions	l	136,796	(103,122)	33,674
	Total liabilities		**28,841,699**	**(1,632,238)**	**27,209,461**
	Equity				
	Capital and reserves attributable to the Company's equity holders				
	Share capital:		**836,202**		**836,202**
	- Registered share capital		91,882		91,882
	- Share premium		744,320		744,320
	Other capital and reserves	m	**(1,988)**	**239**	**(1,749)**
	Retained earnings:		**743,581**	**(15,556)**	**728,025**
	- Profit (loss) from the previous year	n	733,553	(2,190)	731,363
	- Net profit/(loss) for the current year	o	10,028	(13,366)	(3,338)
	Minority interests	p	112,252	(659)	111,593
	Total equity		**1,690,047**	**(15,976)**	**1,674,071**
	Total equity and liabilities		**30,531,746**	**(1,648,214)**	**28,883,532**
*	Change of the scope of consolidation as a result of BRE.locum consolidation				
(a)	*Cash and balances with Central Bank*				
(i)	Change of the scope of consolidation			5	
	Total effect: increase in cash and balances with Central Bank			5	
(a)	*Receivables from banks*				
(i)	Decrease in receivables under suspended interest			(14,393)	
(ii)	Decrease in receivables under swap interest			(688,462)	
	Total effect: decrease in receivables from banks			(702,855)	
(b)	*Trading securities*				
(i)	*Change of presentation of sell-buy-back transactions*			(1,253,026)	
	Total impact: decrease of Trading securities			(1,253,026)	
(c)	*Credit and loans granted to customers*				

IFRS Consolidated Financial Statements for 2005 (PLN 000's)

	Item	Note	Polish GAAP 01/01/2004	Adjustment	IFRS 01/01/2004
(i)	Decrease in receivables under suspended interest			(216,923)	
(ii)	Decrease in receivables under swap interest			(20,781)	
(iii)	Change of the scope of consolidation			(22,326)	
(iv)	Decrease in receivables under general risk provisions			(103,122)	
(v)	**Change of presentation of factoring portfolio**			396,971	
	Total effect: increase in receivables under credits and loans granted to customers			33,819	
(ć)	*Investment securities*				
(i)	Historical cost valuation of entities previously subject to equity accounting valuation			(12,774)	
(ii)	Change of the scope of consolidation			(47,464)	
	Total effect: decrease in investment securities			(60,238)	
(d)	*Pledged assets*				
(i)	*Change of presentation of sell-buy-back transactions*			1,253,026	
	Total impact: increase of Pledged assets			1,253,026	
(e)	*Intangibles*				
(i)	*Change of presentation of investments in intangibles*			146,620	
	Total impact: increase of Intangibles			146,620	
(ę)	*Tangible fixed assets*				
(i)	Change of depreciation policy for fixed assets valued at less than PLN 3,500			7,465	
(ii)	Presentation adjustment of perpetual usufruct of land reflecting different treatment under IFRS			(71,174)	
(iii)	Change of the scope of consolidation			28,134	
(iv)	Change of presentation of investments of intangibles			(146,620)	
	Total effect: decrease in tangible fixed assets			(182,195)	
(f)	*Deferred income tax assets*				
(i)	Change of the scope of consolidation			548	
(ii)	Netting of assets and liabilities related to deferred income tax			(597 887)	
	Total effect: decrease in deferred income tax assets			(597 339)	
(g)	*Other assets*				
(i)	Presentation adjustment of perpetual usufruct of land reflecting different treatment under IFRS			71,174	
(ii)	Amortization adjustment of perpetual usufruct of land reflecting different treatment under IFRS			2,212	
(iii)	Change of the scope of consolidation			37,554	
(iv)	**Change of presentation of factoring portfolio**			(396,971)	
	Total effect: decrease in other assets			(286,031)	
(h)	*Liabilities to other banks*				
(i)	Increase in swap interest liabilities			(688,462)	

IFRS Consolidated Financial Statements for 2005 (PLN 000's)

	Item	Note	Polish GAAP 01/01/2004	Adjustment	IFRS 01/01/2004
	Total effect: decrease in liabilities to other banks			(688,462)	
(i)	*Liabilities to customers*				
(i)	Decrease in swap interest liabilities			(20,781)	
(ii)	Change of the scope of consolidation			(1,096)	
	Total effect: decrease in liabilities to customers			(21,877)	
(j)	*Other liabilities*				
(i)	Decrease in receivables by suspended interest			(231,316)	
(ii)	Change of the scope of consolidation			8,980	
	Total effect: decrease in other liabilities			(222,336)	
(k)	*Provision for deferred income tax*				
(i)	Change of depreciation policy for fixed assets with small initial value			1,298	
(ii)	Change of the scope of consolidation			148	
(iii)	Netting of assets and liabilities related to deferred income tax			(597 887)	
	Total effect: decrease in provisions for deferred income tax			(596,441)	
(l)	*Provisions*				
(i)	Decrease in receivables under general risk provisions			(103,122)	
	Total effect: decrease in provisions			(103,122)	
(m)	*Other capital and reserves*				
(i)	Change of valuation policy for shares stated according to equity accounting to historical cost valuation			239	
	Total effect: increase in other capital and reserves			239	
(n)	*Profit(loss)from the previous year*				
(i)	Change of depreciation policy for fixed assets valued at less than PLN 3,500			5,519	
(ii)	Amortization adjustment of perpetual usufruct of land reflecting different treatment under IFRS			2,212	
(iii)	Change of valuation policy for shares stated according to equity accounting to historical cost valuation			(11,677)	
(iv)	Change of the scope of consolidation			(4,898)	
(v)	Recognition of cost of remuneration (management stock options) in net profit/(loss)			6,654	
	Total effect: decrease in profit(loss) from the previous year			(2,190)	
(o)	*Net profit/(loss) for the current year*				
(i)	Change of depreciation policy for fixed assets valued at less than PLN 3,500			648	
(ii)	Change of valuation policy for shares stated according to equity accounting to historical cost valuation			(1,336)	

IFRS Consolidated Financial Statements for 2005 (PLN 000's)

	Item	Note	Polish GAAP 01/01/2004	Adjustment	IFRS 01/01/2004
(iii)	Recognition of cost of remuneration (management stock options) in net profit/(loss)			(6,654)	
(iv)	Change of the scope of consolidation			(6,024)	
	Total effect: decrease in net profit/(loss) for the current year			(13,366)	
(p)	*Minority interest*				
(i)	Change of the scope of consolidation			(659)	
	Total effect: increase in minority interest			(659)	

Reconciliation of differences between IFRS and Polish GAAP in the Consolidated Balance Sheet as at 31 December 2004 and in Consolidated Profit and Loss Account for the period between 1 January 2004 and 31 December 2004

Item	Note	Polish GAAP 31/12/2004	Adjustment	IFRS 31/12/2004
ASSETS				
Cash and balances with Central Bank	a	734,690	1	734,691
Debt securities eligible for rediscounting at the Central Bank		52,832		52,832
Loans and advances to banks	ą	6,991,868	(1,817)	6,990,051
Trading securities	b	4,123,233	(1 750 225)	2,373,008
Derivative financial instruments		1,796,824		1,796,824
Other financial instruments at fair value through profit and loss account				
Loans and advances to customers	c	15,397,097	(1,066,713)	14,330,384
Investment securities	ć	685,871	(105,763)	580,108
Non-current assets held for sale		-		-
Pledged assets	d	31,500	1,750,225	1,781,725
Investments in associated undertaking		2,224		2,224
Intangible assets	e	660,462	4,308	664,770
Tangible fixed assets	f	529,087	(6,100)	522,987
Deferred income tax assets	g	772,461	(682,187)	90,274
Other assets	h	943,565	(369,995)	573,570
Total assets		**32,721,714**	**(2,228,266)**	**30,493,448**
EQUITY AND LIABILITIES				
Amounts due to Central Bank		-		-
Amounts due to other banks	i	5,382,828	179,301	5,562,129
Other deposits		-		-
Derivative financial instruments and other trading liabilities		1,620,708		1,620,708
Amounts due to customers	j	18,300,797	(1,402,908)	16,897,889
Debt securities in issue		3,103,327		3,103,327
Subordinated liabilities		1,020,144		1,020,144
Other liabilities	k	553,246	(212,480)	340,766
Current income tax liabilities		1,444		1,444
Provision for deferred income tax	l	686,943	(686,697)	246
Provisions	m	127,330	(87,936)	39,394
Liabilities held for sale		-		-
Total liabilities		**30,796,767**	**(2,210,720)**	**28,586,047**
Equity				

IFRS Consolidated Financial Statements for 2005 (PLN 000's)

Capital and reserves attributable to the Company's equity holders		**1,861,938**	**(17,193)**	**1,844,745**
Share capital:		**1,386,017**		**1,386,017**
- Registered share capital		114,853		114,853
- Share premium		1,271,164		1,271,164
Other capital and reserves	n	**2,891**	**(1,323)**	**1,568**
Retained earnings:		**473,030**	**(15,870)**	**457,160**
- Profit (loss) for the previous year	ń	751,460	(283)	751,177
- Net profit/(loss) for the current year	o	(278,430)	(15,587)	(294,017)
Minority interests	p	63,009	(353)	62,656
Total equity		**1,924,947**	**(17,546)**	**1,907,401**
Total equity and liabilities		**32,721,714**	**(2,228,266)**	**30,493,448**

Interest income	q	1,353,410	(4,737)	1,348,673
Interest expenses	r	(857,897)	(4,831)	(862,728)
Net interest income		495,513	(9,568)	485,945
Fee and commission income	s	434,664	89,664	524,328
Fee and commission expense	ś	(126,371)	(16,283)	(142,654)
Net fee and commission income		308,293	73,381	381,674
Dividend income		7,176		7,176
Net trading income	t	230,342	224	230,566
Gains less losses from investment securities	u	(223,548)	215,006	(8,542)
Other operating income	v	441,783	(47,549)	394,234
Impairment losses on loans and advances		(124,575)		(124,575)
Overhead costs	w	(738,678)	7,100	(731,578)
Amortisation of intangible assets and depreciation of tangible fixed assets	x	(150,583)	1,841	(148,742)
Other operating expenses	y	(469,422)	(254,033)	(723,455)
Operating profit		(223,699)	(13,598)	(237,297)
Share of profit/(loss) of associates		(35)		(35)
Profit/(loss) before income tax		(223,734)	(13,598)	(237,332)
Income tax expense	z	(41,656)	5,606	(36,050)
Net profit/(loss) excluding minority interest		(265,390)	(7,991)	(273,381)
Profit/(loss) attributable to minority interest	ż	13,040	7,596	20,636
Net profit/(loss)		(278,430)	(15,587)	(294,017)

*	Change of the scope of consolidation as a result of BRE.locum and Garbary consolidation	
(a)	*Cash and balances with Central Bank*	
(i)	Change of the scope of consolidation	1
	Total effect: increase in cash and balances with Central Bank	1
(a)	*Loans and advances to banks*	
(i)	Decrease in receivables under suspended interest	(1,817)
	Total effect: decrease in loans and advances to banks	(1,817)
(b)	*Trading securities*	
(i)	*Change of presentation of sell-buy-back transactions*	(1,750,225)
	Total impact: decrease of Trading securities	(1,750,225)

IFRS Consolidated Financial Statements for 2005 (PLN 000's)

(c)	*Loans and advances to customers*	
(i)	Decrease in receivables under suspended interest	(233,218)
(ii)	Decrease in receivables under swap interest	(1,215,349)
(iii)	Change of the scope of consolidation	(58,320)
(iv)	Decrease in receivables under general risk provisions	(103,122)
(v)	Change of presentation of factoring portfolio	543,296
	Total effect: decrease in loans and advances to customers	(1,066,713)
(ć)	*Investment securities*	
(i)	Historical cost valuation of entities previously subject to equity accounting valuation	(26,897)
(ii)	Change of the scope of consolidation	(78,866)
	Total effect: decrease in investment securities	(105,763)
(d)	*Pledged assets*	
(i)	*Change of presentation of sell-buy-back transactions*	1,750,225
	Total impact: increase of Pledged assets	1,750,225
(e)	*Intangible assets*	
(i)	Reversal of amortization of goodwill of subsidiaries	4,701
(ii)	Change of the scope of consolidation	(393)
	Total effect: increase in intangible assets	4,308
(f)	*Tangible fixed assets*	
(i)	Change of depreciation policy for fixed assets valued at less than PLN 3,500	7,603
(ii)	Presentation adjustment of perpetual usufruct of land reflecting different treatment under IFRS	(18,750)
(iii)	Change of the scope of consolidation	5,047
	Total effect: decrease in tangible fixed assets	(6,100)
(g)	*Deferred income tax assets*	
(i)	Change of the scope of consolidation	980
(ii)	Change of valuation policy for shares stated according to equity accounting to historical cost valuation	5,180
(iii)	Netting of assets and liabilities related to deferred income tax	(688 347)
	Total effect: decrease in deferred income tax assets	(682,187)
(h)	*Other assets*	
(i)	Presentation adjustment of perpetual usufruct of land reflecting different treatment under IFRS	18,750
(ii)	Amortization adjustment of perpetual usufruct of land reflecting different treatment under IFRS	2,142
(iii)	Change of the scope of consolidation	152,409
(iv)	Change of presentation of factoring portfolio	(543,296)
	Total effect: decrease in other assets	(369,995)
(i)	*Amounts due to other banks*	
(i)	Increase in swap interest liabilities	179,301
	Total effect: increase in amounts due to other banks	179,301

IFRS Consolidated Financial Statements for 2005 (PLN 000's)

(j)	*Amounts due to customers*	
(i)	Decrease in swap interest liabilities	(1,394,650)
(ii)	Change of the scope of consolidation	(8,258)
	Total effect: decrease in amounts due to customers	(1,402,908)
(k)	*Other liabilities*	
(i)	Decrease in receivables by suspended interest	(235,035)
(ii)	Change of the scope of consolidation	22,555
	Total effect: decrease in other liabilities	(212,480)
(l)	*Provision for deferred income tax*	
(i)	Change of depreciation policy for fixed assets with small initial value	1,393
(ii)	Change of the scope of consolidation	257
(iii)	Netting of assets and liabilities related to deferred income tax	(688 347)
	Total effect: decrease in provisions for deferred income tax	(686,697)
(m)	*Provisions*	
(i)	Decrease in receivables under general risk provisions	(103,122)
(ii)	Change of valuation policy for shares stated according to equity accounting to historical cost valuation	5,180
(iii)	Change of the scope of consolidation	10,006
	Total effect: decrease in provisions	(87,936)
(n)	*Other capital and reserves*	
(i)	Increase in own capital on issue of management stock options	(1,323)
	Total effect: decrease in other capital and reserves	(1,323)
(ń)	*Unappropriated profit (loss)*	
(i)	Change of depreciation policy for fixed assets valued at less than PLN 3,500	6,128
(ii)	Amortization adjustment of perpetual usufruct of land reflecting different treatment under IFRS	2,212
(iii)	Change of valuation policy for shares stated according to equity accounting to historical cost valuation	(13,788)
(iv)	Recognition of management compensation (options) in retained earnings	8,686
(v)	Change of the scope of consolidation	(3,521)
	Total effect: decrease in unappropriated profit (loss)	(283)
(o)	*Net profit/(loss) for the current year*	
(i)	Change of depreciation policy for fixed assets valued at less than PLN 3,500	82
(ii)	Amortization adjustment of perpetual usufruct of land reflecting different treatment under IFRS	(70)
(iii)	Change of valuation policy for shares stated according to equity accounting to historical cost valuation	(11,235)
(iv)	Provision for damages from insurer	

(v)	Recognition of cost of remuneration (management stock options) in net profit/(loss)	(8,686)
(vi)	Change of the scope of consolidation	(379)
(vii)	Change of depreciation policy for goodwill	4,701
	Total effect: decrease in net profit/(loss) for the current year	(15,587)
(p)	*Minority interest*	
(i)	Change of the scope of consolidation	(353)
	Total effect: decrease in minority interest	(353)
(q)	*Interest income*	
(i)	Change of the scope of consolidation	(4,737)
	Total effect: decrease in interest income	(4,737)
(r)	*Interest expenses*	
(i)	Change of the scope of consolidation	(4,607)
(ii)	Change of presentation of interest flows for derivative instruments. Presentation of net interest accrued on receivables and liabilities.	(224)
	Total effect: increase in interest expense	(4,831)
(s)	*Fee and commission income*	
(i)	Change of the scope of consolidation	89,664
	Total effect: increase in income from fees and commissions	89,664
(ś)	*Fee and commission expense*	
(i)	Change of the scope of consolidation	(16,283)
	Total effect: decrease in fee and commission expenses	(16,283)
(t)	*Net trading income*	
(i)	Change of presentation of interest flows for derivative instruments. Presentation of net interest accrued on receivables and liabilities.	224
	Total effect: increase in net trading income	224
(u)	*Gains less losses from investment securities*	
(i)	Change of valuation policy for shares stated according to equity accounting to historical cost valuation	(11,235)
(ii)	Change of the scope of consolidation	226,241
	Total effect: increase in gains less losses from investment securities	215,006
(v)	*Other operating income*	
(i)	Change of the scope of consolidation	(47,549)
	Total effect: decrease in other operating income	(47,549)
(w)	*Overhead costs*	
(i)	Amortization adjustment of perpetual usufruct of land reflecting different treatment under IFRS	(308)
(ii)	Recognition of cost of remuneration (management stock options) in net profit/(loss)	(8,686)
(iii)	Change of the scope of consolidation	16,094
	Total effect: increase in overhead costs	7,100

IFRS Consolidated Financial Statements for 2005 (PLN 000's)

(x)	*Amortisation of intangible assets and depreciation of tangible fixed assets*	
(i)	Change of the scope of consolidation	1,841
	Total effect: decrease in of amortization of intangible assets and depreciation of tangible fixed assets	1,841
(y)	*Other operating expenses*	
(i)	Change of the scope of consolidation	(253,969)
(ii)	Amortization adjustment of perpetual usufruct of land reflecting different treatment under IFRS	238
(iii)	Change of depreciation policy for fixed assets valued at less than PLN 3,500	177
(iv)	Change of depreciation policy for goodwill	4,701
(v)	Change of valuation policy for shares stated according to equity accounting to historical cost valuation	(5,180)
	Total effect: increase in other operating expenses	(254,033)
(z)	*Income tax expense*	
(i)	Change of depreciation policy for fixed assets valued at less than PLN 3,500	(95)
(ii)	Change of the scope of consolidation	521
(iii)	Change of valuation policy for shares stated according to equity accounting to historical cost valuation	5,180
	Total effect: decrease in income tax expense	5,606
(ż)	*Minority interest*	
(i)	Change of the scope of consolidation	7,596
	Total effect: increase in profit of minority shareholders	7,596

Reconciliation of adjustments recognized in the IFRS Consolidated Balance Sheet as at 1 January 2005 without translation of comparable data for previous accounting periods

Item	Note	IFRS 31/12/2004	Adjustment	IFRS 01/01/2005
ASSETS				
Cash and balances with Central Bank		734,691		734,691
Debt securities eligible for rediscounting at the Central Bank		52,832		52,832
Loans and advances to banks	a	6,990,051	(859)	6,989,192
Trading securities		2,373,008		2,373,008
Derivative financial instruments		1,796,824		1,796,824
Other financial instruments at fair value through profit and loss account	b	-	118,401	118,401
Loans and advances to customers	c	14,330,384	(2,786)	14,327,598
Investment securities	d	580,108	(118,401)	461,707
Non-current assets held for sale		-		-
Pledged assets		1,781,725		1,781,725
Investments in associated undertaking		2,224		2,224
Intangible assets		664,770		664,770
Tangible fixed assets		522,987		522,987
Deferred income tax assets	e	90,274	21,401	111,675
Other assets	f	573,570	(8,009)	565,561
Total assets		**30,493,448**	**9,747**	**30,503,195**

IFRS Consolidated Financial Statements for 2005 (PLN 000's)

EQUITY AND LIABILITIES				
Amounts due to Central Bank		-		-
Amounts due to other banks		5,562,129		5,562,129
Other deposits		-		-
Derivative financial instruments and other trading liabilities		1,620,708		1,620,708
Amounts due to customers		16,897,889		16,897,889
Debt securities in issue	g	3,103,327	(236)	3,103,091
Subordinated liabilities	h	1,020,144	6,287	1,026,431
Other liabilities	i	340,766	35,727	376,493
Current income tax liabilities		1,444		1,444
Provision for deferred income tax	j	246	5,552	5,798
Provisions	k	39,394	52,104	91,498
Liabilities held for sale		-		-
Total liabilities		**28,586,047**	**99,434**	**28,685,481**
Equity				
Capital and reserves attributable to the Company's equity holders		**1,844,745**		**1,844,745**
Share capital:		**1,386,017**		**1,386,017**
- Registered share capital		114,853		114,853
- Share premium		1,271,164		1,271,164
Other capital and reserves		**1,568**		**1,568**
Retained earnings:		**457,160**	**(86,879)**	**370,281**
- Profit (loss) for the previous year	l	751,177	(86,879)	664,298
- Net profit/(loss) for the current year		(294,017)		(294,017)
Minority interests	m	62,656	(2,808)	59,848
Total equity		**1,907,401**	**(89,687)**	**1,817,714**
Total equity and liabilities		**30,493,448**	**9,747**	**30,503,195**

(a)	*Loans and advances to banks*	
(i)	Adjustment of receivables for application of amortised cost valuation method	(859)
	Total effect: decrease in loans and advances to banks	(859)
(b)	*Other financial instruments at fair value through profit and loss account*	
(i)	Reclassification of trading investments to financial instruments at fair value trough profit and loss	118,401
	Total effect: increase in other financial instruments at fair value through profit and loss account	118,401
(c)	*Amounts due to customers*	
(i)	Adjustment of receivables for application of amortised cost valuation method	(21,181)
(ii)	Impairment charge due to application of the impairment model in the valuation of loans and advances	18,395
	Total effect: decrease in amounts due to customers	(2,786)

IFRS Consolidated Financial Statements for 2005 (PLN 000's)

(d)	*Investment securities*	
(i)	Reclassification of trading investments to financial instruments at fair value trough profit and loss	(118,401)
	Total effect: decrease in investment securities	(118,401)
(e)	*Deferred income tax assets*	
(i)	Increase in tax asset in connection with adjustment of the Bank's profit/(loss) carried forward, resulting from application of amortized cost valuation of certain financial instruments	11,696
(ii)	Impairment charge due to application of the impairment model in the valuation of loans and advances	7,754
(iii)	One-off recognition of the commission amortized in time under Polish Accounting Standards	1,951
	Total effect: increase in deferred income tax assets	21,401
(f)	*Other assets*	
(i)	Adjustment of receivables for application of amortised cost valuation method	2,262
(ii)	One-off recognition of the commission amortized in time under Polish Accounting Standards	(10,271)
	Total effect: decrease in other assets	(8,009)
(g)	*Debt securities in issue*	
(i)	Adjustment of liabilities for application of amortized cost depreciation method	(236)
	Total effect: decrease in debt securities in issue	(236)
(h)	*Subordinated liabilities*	
(i)	Adjustment of liabilities for application of amortized cost depreciation method	6,287
	Total effect: increase in subordinated liabilities	6,287
(i)	*Other liabilities*	
(i)	Adjustment of liabilities for application of amortized cost depreciation method	35,727
	Total effect: increase in other liabilities	35,727
(j)	*Provision for deferred income tax*	
(i)	Impairment charge due to application of the impairment model in the valuation of loans and advances	5,552
	Total effect: increase in provisions for deferred income tax	5,552
(k)	*Provisions*	
(i)	Impairment charge due to application of the impairment model in the valuation of loans and advances	52,104
	Total effect: increase in provisions	52,104

IFRS Consolidated Financial Statements for 2005 (PLN 000's)

(l)	*Profit (loss) for the previous year*	
(i)	Adjustment of the Bank's retained earnings for application of amortized cost valuation model for certain financial assets	(49,860)
(ii)	Impairment charge due to application of the impairment model in the valuation of loans and advances	(28,699)
(iii)	One-off recognition of the commission amortized in time under Polish Accounting Standards	(8,320)
	Total effect: decrease in profit (loss) for the previous year	(86,879)
(m)	*Minority interest*	
(i)	Impairment charge due to application of the impairment model in the valuation of loans and advances	(2,808)
	Total effect: decrease of minority interest	(2,808)

46. Information about the registered audit company

The registered audit company with whom BRE Bank SA signed the agreement is PricewaterhouseCoopers Sp. z o.o. (PwC). The agreement to conduct an audit of stand alone financial statements and consolidated financial statements was signed as at 29 September 2004 (the annex dated on 24 March 2005).

The total amount of PwC remuneration related to the audit and review of stand alone financial statements and consolidated financial statements of BRE Bank SA was PLN 3 129 thousand in 2005 (2004: PLN 3 294 thousand).

The total amount of PwC remuneration related to consulting services for BRE Bank SA was PLN 1 762 thousand in 2005 (2004: PLN 3 048 thousand).

47. Capital Adequacy Ratio

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

- Banking Act dated at 29 September 1997 (Dz.U. from the year 2002 No 72, pos. 665, with amendments),
- Resolution no 4/2004 of Banking Supervision Commission (KNB) dated at 8 September 2004 (Dz Urz. NBP from the year 2004 No 15 pos. 25),
- Resolution no 5/2004 of Banking Supervision Commission (KNB) dated at 8 September 2004 (Dz. Urz. NBP from the year 2004 No 15 pos. 26),
- Resolution no 6/2004 of Banking Supervision Commission (KNB) dated at 8 September 2004 (Dz. Urz. NBP from the year 2004 No 15 pos. 27).

The value of the own funds of the Group needed to calculate the capital adequacy ratio was PLN 2,283,009 thousand as at 31 December 2005 (PLN 1,960.804 thousand as at 31 December 2004).

48. Events after the Balance Sheet Date

- On 2 January 2006 BRE Bank SA bought from Atlas Vermögensverwaltungs GmbH – subsidiary of Commerzbank AG – 1,350,000 shares in BRE Bank Hipoteczny SA (“BBH”). Nominal value of each share amounts to PLN 100. Acquired shares of BBH constitute 100% of share capital and give right to execute 1,350,000 votes which amount to 100% of votes during the shareholder meetings BBH.The value of shares in the books of BRE Bank amounts to PLN 174,540,000. The Bank has financed this transaction from its own financial sources. The investment has a long-term character. Before the transaction Bank did not hold any shares of Company.

- On 17 January 2006 BRE Bank concluded a loan agreement with one of clients. Amount of this loan is EUR 49,000,000 (PLN 186,915,400 by average EUR/PLN NBP exchange rate on 17 January 2006). The interest rate of the loan is based on the 3M EURIBOR plus Bank's margin. The loan repayment should take place until March 31, 2011. The total amount of loan agreements concluded with the mentioned client and its subsidiaries during the last 12 months amounts to PLN 207,404,050 (equivalent translated from EUR and USD using average NBP exchange rates as of January 17, 2006.

49. Standards, interpretations and amendments to published standards

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2006 or later periods but which the Bank has not early adopted, as follows:

– *IAS 19 (Amendment), Employee benefits* (effective from 1 January 2006). As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts.

– *IAS 39 (Amendment), Cash flow hedge; Fair value hedge* (effective from 1 January 2006). The Group believes that these amendments should not have a significant impact on the consolidated financial statements.

– *IAS 39 and IFRS 4 (Amendment), Insurance contracts* (effective from 1 January 2006). This amendment changes accounting policy adopted for issued financial guarantees, other than those previously asserted by the entity. The Group believes that these amendments should not have a significant impact on the consolidated financial statements.

– *IFRS 7, Financial Instruments: Disclosures and amendments to IAS 1, Presentation of financial statements - Disclosures* (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that these amendments should not have a significant impact on the consolidated financial statements.

– *IFRS 1 (Amendment), First-time adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Mineral resources* (effective from 1 January 2006). These amendments are not relevant to the Group's operations.

– *IFRIC 4, Determining whether the Agreement contains a lease* (effective from 1 January 2006). Management is currently assessing the impact of IFRIC 4 on the Group's operations.

– *IFRIC 5, Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from 1 January 2006). IFRIC 5 is not relevant to the Group's operations.

– *IFRIC 6, Liabilities arising from participating in a specific market - waste electrical and electronic equipment* (effective from 1 December 2005). IFRIC 6 is not relevant to the Group's operations.

BRE BANK SA

REPORT
OF THE MANAGEMENT BOARD
ON THE BUSINESS ACTIVITIES
OF BRE BANK GROUP
IN 2005

WARSAW FEBRUARY 2006

Introduction

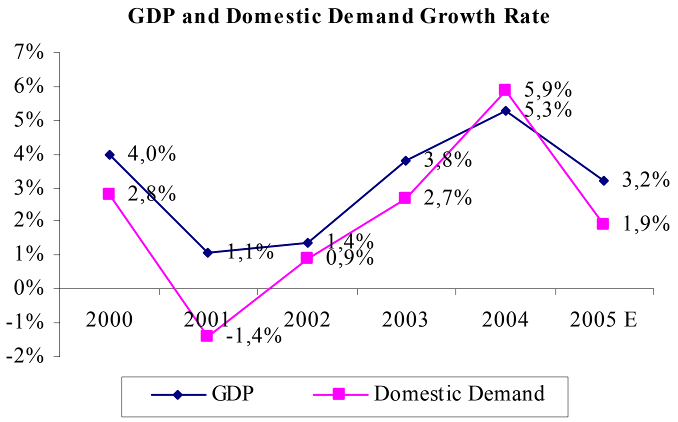
This report contains vital information on the operations of the BRE Bank Group and companies within the group in 2005 and presents their influence on the result generated last year. The analysis of the standalone results of BRE Bank, principles of the credit policy and other elements pertaining to the Bank only were presented in the standalone statement of BRE Bank, published with this consolidated statement.

External Conditions of BRE Bank's Business Operations

I. Macroeconomic Situation in 2005

I.1. Lower Rates of Economic Growth and Output, Higher Growth in Foreign Trade

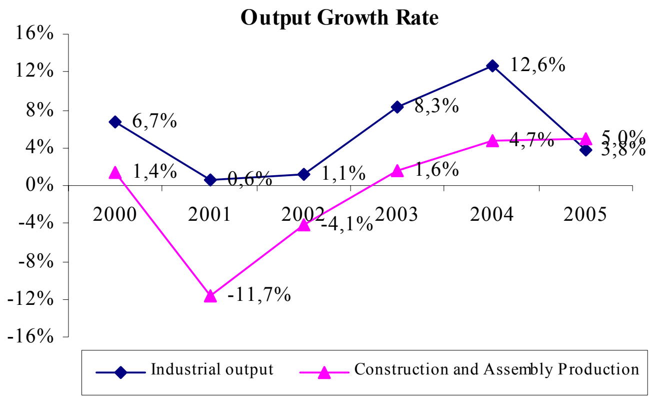
According to preliminary estimates from GUS, the GDP growth rate in 2005 reached 3.2% versus 5.3% in 2004. Gross domestic demand increased by 1.9%. Following a temporary slowdown in economic growth in the first quarter of 2005, attributable to the fading of the accession effect, the subsequent quarters saw faster development of the economy. An increase was reported in construction output and in industrial value added. External demand was the principal growth driver. The latter part of the year saw a marked increase in domestic demand resulting from recovery in the investment market.



Total consumption rose by 2.4%, with a 2.3% increase in private consumption, while gross spending on fixed assets increased by 6.2%. According to preliminary estimates from the Polish Information and Foreign Investment Agency, in 2005 Poland received nearly USD 10 billion in foreign investment. Investment in advanced technology was provided by companies such as LG, Philips, MAN, IBM and Hewlett-Packard. During 15 years of Poland's transformation, the international business community has invested about USD 85 billion in Poland.

Sold industrial output rose by **3.8%** in 2005 from the previous year and in enterprises with more than 9 employees by 4%. The highest output growth of 4.3% was reported in industrial processing sector. In the electricity, gas and water production and supply section, output grew by 3.8%, while mining suffered a slight decline (by 0.2%). Labour efficiency was 2.9% higher in 2005 than a year before, with a 1.1% increase in average employment.

Improvement was reported in construction. As estimated by GUS, in 2005 the growth rate in construction output reached about 5%. In housing construction, the number of residential units delivered for occupancy was 5.8% higher than in 2004.



Foreign trade showed a high rate of change, the growth in exports exceeding that in imports. According to NBP data, 2005 exports of goods amounted to EUR 76.7 billion, while imports totalled EUR 79.1 billion. Compared to the corresponding prior period, exports of goods rose by **16.6%** and imports grew by **12.3%.** Polish exports proved competitive, despite a strong zloty, mainly due to the restructuring of enterprises and cost reduction. The high rate of growth in exports also results from a growing share in exports of companies with foreign equity participation, as those companies benefit from supplies from their parent undertakings and are therefore less affected by foreign exchange movements and the zloty appreciation effect.

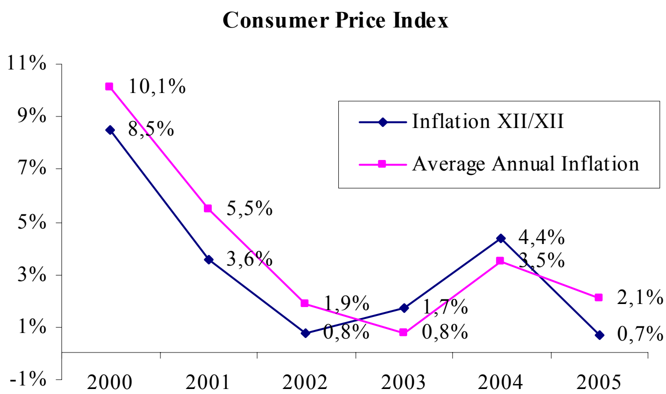
The reduction of the trade deficit in goods (from EUR 4.6 billion to EUR 2.3 billion) and increase in the surplus in services (from EUR 0.8 billion to EUR 1.7 billion) contributed to an improvement in the balance of the current account. Current deficit over 2005 amounted to EUR 3.9 billion against EUR 8.4 billion in 2004. Official assets' reserves increased by EUR 9.0 billion in 2005 and reached EUR 36.0 billion at the end of December 2005.

Favourable tendencies were seen in the labour market, with a growth in corporate segment employment and a gradual decline in the rate of unemployment. At the end of December 2005, the rate of unemployment stood at 17,6%, i.e. 1.4 pp less than a year before. The number of the registered unemployed amounted to 2,773,000, i.e. it was 7.6% lower than in the corresponding period of 2004.

I.2. Decline in Inflation and Interest Rates

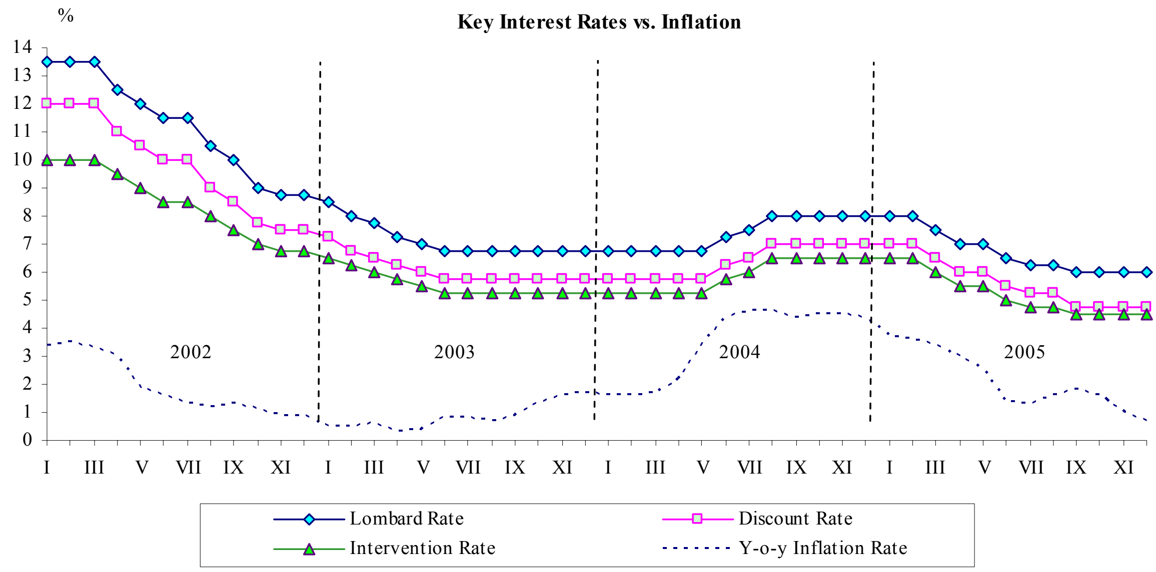
2005 saw a decline in inflation. The rate of growth in prices was lower than a year before both in consumer goods and in producer prices. Consumer prices were 0.7% higher in December 2005 than a year earlier.

The 2005 average annual inflation rate stood at 2.1% (against 3.5% in 2004) and it was 0.9 pp lower than provided for in the Budget Act.



Prices of industrial output sold in 2005 increased from the previous year by 0.7%, while construction output prices grew by 3.0%. In December 2005, producer prices in industry were 0.5% higher than a year earlier (against 5.2% in December 2004).

In 2005, the Monetary Policy Council **cut the base interest rates five times**. The reference rate, which is of key importance to the market, was cut by **2 percentage points** to 4.5% per year. The rediscount rate dropped from 7.0% to 4.75% and the Lombard rate from 8.0% to 6.0%. The last rate cut in 2005 was carried out on 1 September. Indication of a economic upturn held back further relaxation of monetary policy. It was only in 2006 that the Monetary Policy Council lowered the base interest rates from 1 February by 0.25 points, taking into account the law inflation level and a verified inflation projection for the years to come.



1.3. Appreciation of the Zloty

The year 2005 saw the strengthening of the zloty against the dollar and the euro. The main factors behind the appreciation of the zloty included interest rate levels that investors found attractive, inflow of foreign capital (portfolio and direct investments as well as EU funds), and the exchange of proceeds from the issue of debt in foreign markets by the Ministry of Finance.

The strong zloty was a major factor that alleviated inflationary pressure. According to the NBP, in 2005 the average annual exchange rate of the euro was 4.0254 PLN/EUR and it dropped by 11.2% from 2004. The 2005 average annual rate of the US dollar was 3.2348 PLN/USD, which meant 11.5% less than the 2004 average.

II. Capital Market

II. 1. 2005 – Best Year in the History of the Warsaw Stock Exchange

2005 was a record-breaking year for the Warsaw Stock Exchange. The economic pick-up and good financial performance of companies attracted foreign capital, which drove the main indices on the Warsaw Stock Exchange to the highest levels ever. The stock exchange saw the highest ever volumes of trading in shares per session, record capitalisation and highest dividends as well as record turnover on the forward market.

In 2005, the average volume of trading in shares per session was PLN 699 million compared with PLN 430 million in 2004. At the end of 2005, capitalisation of Polish listed companies amounted to PLN 308.4 billion, **43.9%** up from the previous year. Including foreign companies, at the end of 2005 stock-exchange capitalisation reached PLN 424.9 billion (45.7% up). The increase in capitalisation results from a greater number of listed companies and their growing value. In 2005, 35 were floated on the stock exchange, including 2 foreign companies (AmRest and SkyEurope). The value of offers in 2005 was nearly PLN 7 billion, of which more than PLN 5.2 billion consisted of funds derived by the companies from the increase of capital. The largest offering was for PGNiG shares (PLN 2.68 billion).

Companies paid record high dividends – the aggregate value of dividends paid by 77 companies reached PLN 7.9 billion.

The WIG index increased in 2005 by 33.7%, WIG20 by 35.4%, and MIDWIG by 27.6%.

The volume of trade in derivative instruments also reached record highs in 2005. New instruments were placed on the WSE over the year: Treasury bond futures and stock options for shares in individual companies. In addition, in 2005 the Stock Exchange Council admitted 7 remote members to operate on the WSE. Remote membership enables foreign brokers to directly access the WSE system without having to establish a physical presence in Poland or to use the services of local brokers.

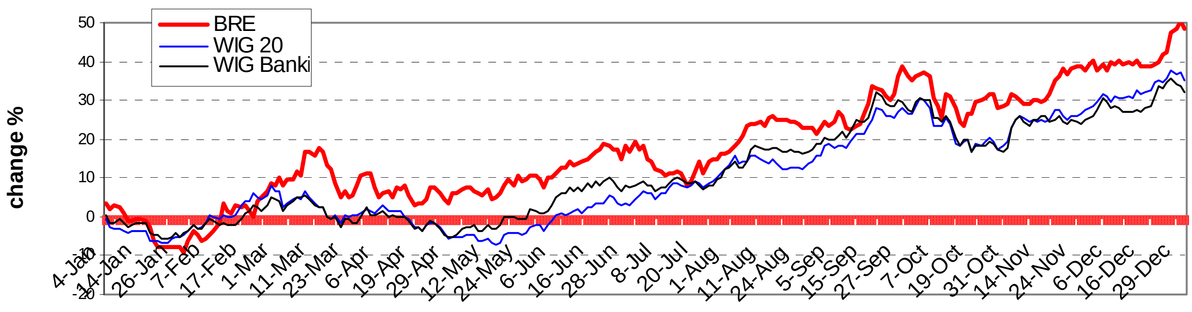
II. 2. Record Prices of BRE Bank Shares on WSE

2005 was also a year of record performance of BRE Bank shares. The share price followed the increasing trend and at session close on December 29th it reached a historical high of PLN 171.50 per share, compared with PLN 114 at the last session of 2004.

On a year-on-year basis, BRE shares performed better than the market. The price of shares in BRE Bank stood at PLN 169 as at 30 December 2005, 48.2% up from 2004 year-end, while over WIG 20 gained 35.3% and WIG Banki 32% over the same period. In 2005, BRE Bank enjoyed the highest rate of return of all banks included in WIG 20.

At December 31st 2005 the company's capitalisation reached PLN 4.89 billion, and was by 49.6% higher than a year before. The price-to-book-value ratio (P/BV) at the end of 2005 was 2.5 against 1.8 at the end of 2004.

BRE Bank shares quotations vs WIG 20 and WIG Banki in 2005
(per-cent changes in relation to Dec 31, 2004)



III. Situation of the Banking Sector in 2005

Following good performance of banks in 2004, their condition improved further in 2005. According to preliminary data from GINB, the net financial result of the sector was by 28.9% higher than 2004 result and reached PLN 9.2 billion. Gross result of the whole sector amounted to PLN 11.1 billion comparing PLN 7.9 billion in 2004.The average ROE ratio in the sector increased to 20.8% from 17.2 % at the end of 2004, while the average ROA rose to 1.7% from 1.4%.

The main factors behind the banks' better performance were the following:

- growth of income from the core business, mainly interest income and commission income,
- the balance of provisions/impairment losses lower than a year before attributable, among others, to a further improvement of customers' debt capacity and improvement in quality portfolio. Irregular receivables represented 11% of banks' portfolio at the end of 2005, compared with 14.9% at the end of 2004.

An increase in operating expenses, mainly personnel expenses, which grew at a higher rate than a year earlier, had an adverse effect on financial results of banks. This was due to pay rises at some banks and a growth in employment, especially at medium and small retail banks, due to business development. It should be noted that banks witnessed a much slower increase in costs than in income from core business, which was reflected by a further improvement in average cost effectiveness expressed by the C/I ratio.

At the end of September 2005, assets of the banking sector reached the value of PLN 583.7 billion, 8.4% more than at the end of 2004.

The volume of lending increased last year by 11.8%. As in the previous year, its growth was stimulated by demand for loans to households. The value of those loans increased during the year by 22.9%, and it was due to the improvement in the financial situation of that group of clients and to better availability of credit resulting, among others, from relaxation by banks of their credit policies. After the first half-year, loans to households reached the level of corporate loans, and at the end of the year their volume was already PLN 16 billion greater. The growth in loans to households was driven mainly by mortgage credit, but demand for consumer credit also remained high. Contrary to expectations, there was no significant increase in demand for loans from enterprises – their volume increased over the entire year by just 2.8%.

The value of deposits with banks increased during the past year by 9.3%. As in the previous year, this was mainly attributable to a growth in deposits from corporate clients (by 16.8%), while the value of household deposits went up by a mere 3.5%. Instead, households tended to put their savings in investment funds. Overall, in 2005 net assets of investment funds increased by PLN 23.6 billion, that is by 62.6%, to reach PLN 61.3 billion at the end of the year. The share of deposits in savings held by the Poles dropped from 51.3% to 46.5% over the past year.

Interest on deposits and loans was reduced by banks in response to cuts in the base interest rates; however, owing to keen competition in the market, banks were much more cautious in reducing interest on deposits than on loans. As can be seen from NBP data, weighted average rates on zloty time deposits dropped in the sector by 1 percentage point overall, while interest on zloty deposits dropped by 1.8 percentage points overall, with the most marked decline in rates on housing loans (by 2.1 pp) and the smallest on consumer loans (by 0.7 pp). The spread between interest on zloty loans and time deposits shrank over the year by 0.8 percentage points from 6.7% to 5.9%.

Activity of BRE Bank Group in 2005

I. Factors and events affecting BRE Bank Group's result in 2005

2005 was a breakthrough year for BRE Bank Group. At the beginning of 2005 the Management Board of BRE Bank, with new members, faced the need to regain market trust in further development and capacity of the Bank to generate stable profits.

The key objectives for 2005 included:

- recovery of sustainable profitability,
- restructuring and development of activities pursued by business divisions; the most important objectives in this area were connected with BREactivation strategy, namely restructuring of the corporate banking model and achieving the break-even point in retail banking,
- further reduction of the risk profile with retained profitability in investment banking,
- improvement of corporate transparency and better perception of BRE Bank in the market.

The objectives were achieved, as described in greater detail further on in this report. The Bank's (stand-alone) profit before income tax reached PLN 250.1 million against a PLN 305 million loss a year earlier, while consolidated profit of the BRE Bank Group amounted to PLN 338.0 million, compared with a loss of PLN 237.3 million in 2004.

Gross ROE was better than planned and reached **18.4%** for the Group compared with planned 14.2%. Solvency ratio reached **11.1%** and slightly exceeded the planned level of 11.0%. Cost to income ratio reached **69.3%** and was close to the planned 68.0%.

Such a considerable improvement in the financial situation of the Bank resulted from:

- significantly better results for all business areas,
- enhanced quality of the credit portfolio, resulting in smaller provisions for impairment losses on loans and advances,
- reduction in 2005 of charges affecting the Bank's P&L account in respect of depreciation and other operating expenses owing to one-off adjustments made in 2004,
- good results of BRE Bank Group companies.

Improvement in financial results was reported by main operating divisions of the BRE Bank Group. **Corporate Banking** achieved a gross profit of **PLN 175.0 million**, 38.8% more than in 2004 owing to better result on interest and lower provisions. **Investment Banking result (gross profit of PLN 199.2 million**) was 56.5% higher owing to sales profits and liquidation of companies from the own investment portfolio, lower provisions and activity of the treasury division. Retail Banking achieved a profit of **PLN 19.1 million** compared to a loss of PLN 36.6 million in the previous year.

The improvement in portfolio quality and effective management of credit risk resulted in net valuation adjustments lower than a year before. It was still negative (PLN 78.8 million), but in 2004 the amount reached PLN -124,6 million. In BRE Bank the share of irregular loans (according to NBP classification) in the whole balance portfolio dropped from 12.4% to 8.5% of the portfolio.

With the increased revenues, the achievement and often exceeding of sales plans by the employees, and the need to motivate the staff to undertake further effort, the Management Board of the Bank decided to set up a provision for motivational bonuses at PLN 80 million. Compared with 2004 the total administrative costs of the Group were 9.4% higher, mostly as a result of the provision. Material costs and amortisation and depreciation were lower than a year before.

Good results were also achieved by strategic companies, which contributed to the improvement of the result of the whole Group. **The total result of the companies** (before consolidation corrections) was approx. **PLN 110 million**, 1/3 of the gross profit of the Group. The value of leasing agreements in BRE Leasing went up by 38% and exceeded PLN 1.5 billion, and the gross profit reached PLN 21 million. Turnover of factoring companies of the Intermarket Bank Group went up by 15% in 2005, and the gross profit reached PLN 45,9 million. Dom Inwestycyjny BRE Banku also achieved very good results owing to the stock exchange boom; the company achieved PLN 15 million of gross profit.

Changes of the business model in the Corporate Banking along with the changes in the operating area and the organisation and handling of the credit process commonly named BREactivation were a most important event last year in the Bank. As the project was aimed at the significant improvement in Corporate Banking profitability, such an improvement should result in higher income, profitability and competitive advantage of the Bank in the forthcoming years. These changes have been discussed in the paragraph on the operations of the Bank in Corporate Banking.

Important events of 2005 included execution of the "Agreement of PTE Skarbiec-Emerytura and PTE PZU merger with the obligation to sell merger issue shares" with PZU Życie which is presented with a more details in section VI "Asset Management Segment". The merger of funds will take place after relevant decisions have been issued by the authorities of the Supervisory Commission for Insurance and Pension Funds (KNUiFE) and the Office for Competition and Consumer Protection (UOKiK), which is expected in the first half of 2006.

In February 2005, the Bank issued subordinated bonds with a nominal value of €100 million. With the consent from the Commission for Banking Supervision, the equivalent of the amount in PLN was accounted for in whole as part of the Bank's supplementary funds for the purposes of calculation of the capital adequacy ratio and contributed to its improvement. This strengthened the Bank's equity and improved its expansion potential.

The **repurchase of BRE Bank Hipoteczny** from a subsidiary of Commerzbank will have a major bearing on the Bank and the Group. The relevant agreement was made in 2005, but the transaction took effect in early January 2006, hence it will affect both the balance sheet and the income statement only in 2006.

II. Business areas of the BRE Bank Group

Certain modifications were made in 2005 as regards the separation of business areas in the Bank and in the Group as a whole. The existing five business areas as presented in the 2004 report:

- Corporate Banking,
- Investment Banking,
- Strategic Investment,
- Own Account Investment,
- Retail Banking including Private Banking,

were reduced to three:

- Corporate Banking,
- Investment Banking (which now includes Own Account Investment),
- Retail Banking (including Private Banking).

In terms of their business profile and the type of clients who they provide services to, the companies operating in the financial services sector were assigned to the different business areas, as shown in the summary below:

The Bank's own activities

Corporate Banking	**Investment Banking**	**Retail Banking**
Services to corporations (groups of companies)	Financial markets	mBank
Services to large enterprises	Treasury	MultiBank
Services to small and medium-sized enterprises	Project finance	Private Banking
Financing of foreign trade transactions	Financial institutions	
	Proprietary investment	

The Bank's strategic companies (included in the consolidation)

Corporate Banking	Investment Banking	Retail Banking
BRE Leasing Sp. z o.o.	Dom Inwestycyjny BRE Banku SA (DI BRE Banku)	emFinanse*/
Intermarket Group Intermarket Bank AG: Polfactor S.A. Transfince a.s. Magyar Factor Rt	BRE Corporate Finance SA (BCF)	
	BRE International Finance B.V. and BRE Finance France SA	
	Tele-Tech Investment Sp.z o.o.	
	TV-Tech Investment 1 Sp. zo.o.	
	Garbary Sp. z.o o.	

*/ new, non-consolidated company

In addition, **Skarbiec Asset Management Holding SA (SAMH)** and **PTE Skarbiec Emerytura S.A.** companies (previously included in the Stategic Investment area) were separated into the Asset Management segment, which is currently being restructured as provided by the agreement with PZU Życie to sell shares in PTE Skarbiec Emerytura S.A.

CERI Sp. z o.o. and BRE.locum companies were not included in any business area owing to the nature of their business and are shown under the "other" heading. BRE.locum and Garbary companies were included in the consolidation from the first quarter of 2005 following the adoption of the IFRS.

Under IFRS, all companies are consolidated by the full consolidation method.

III. Consolidated companies

In accordance with the requirements of the Accounting Act of September 29th 1994 (with amendments), the Group includes all subsidiaries vital for financial statements, other than entities purchased for resale only. According to the Ordinance of Minister of Finance of 12 December 2001 on preparing consolidated financial statements by the banks and consolidated financial statements of a financial holding, subsidiaries which meet classification criteria for banks, credit institution or financial institutions as defined by the Act on the Banking Law were included in the consolidated financial statement with the full method.

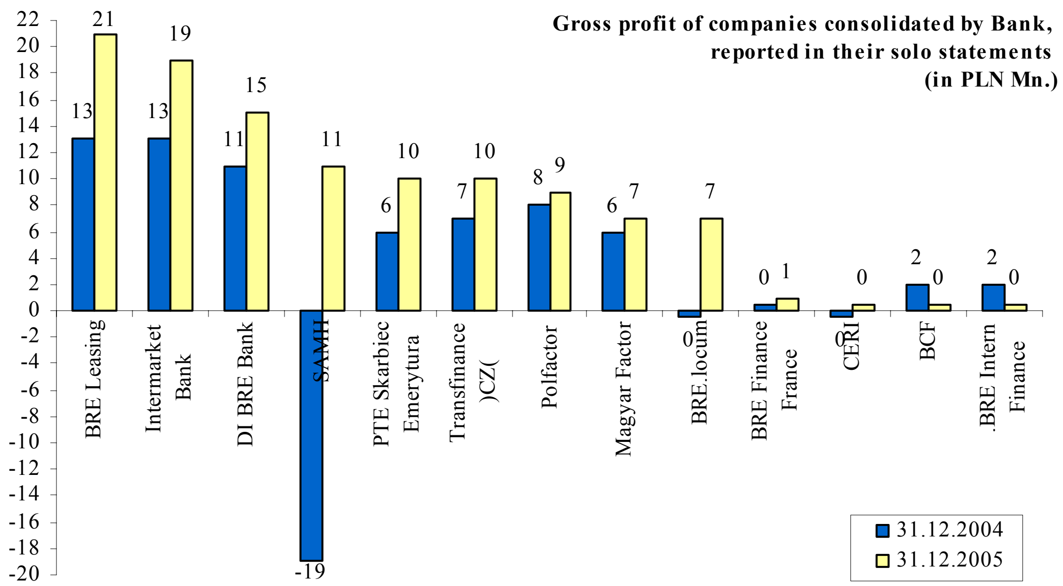
The list of consolidated companies with their basic financial figures is shown below:

PLN 000s

Company name	Operating area	Share of BRE Group in the company's equity	Equity	Standalone net profit/loss in 2005	Assets
1. BRE Bank SA	Bank		1 954 871	207 310	30 126 877
2. DI BRE Banku SA	Brokerage office	100%	43 912	11 608	385 018
3. BRE Corporate Finance SA	Advisory	100%	1 350	210	4 751
4. PTE Skarbiec-Emerytura SA	Pension fund	100%	106 104	7 861	112 943
5. BRE Leasing Sp. z o.o.	Leasing	50.004%	46 121	15 117	1 751 080
6. SKARBIEC Asset Management Holding S.A. (SAMH)	Asset management	100%	123 939	8 293	134 681
7. Intermarket Bank AG*)	Factoring	56.24%	97 966	14 802	673 412
8. Transfinace a.s.*)	Factoring	78.12%	32 216	6 087	385 173
9. Polfactor SA*)	Factoring	78.12%	23 952	7 642	269 678
10. Magyar Factor Rt*)	Factoring	78.12%	19 838	6 056	229 243

11. Centrum Rozliczeń i Informacji CERI Sp. z.o.o	Clearing services	100%	6 587	283	12 886
12. BRE International Finance BV*)	Financial vehicle	100%	217	140	295
13. BRE Finance France SA*)	Financial vehicle	99.97%	1 297	420	2 418 657
14. Tele-Tech Investment Sp. z o.o.	Financial vehicle	24.0%	994	-511	50 409
15. TV-Tech Investment 1 Sp. z o.o.	Financial vehicle	100%	796	760	797
16. BRE.locum Sp. z o.o.	Developer	57.19%	28 274	5 494	130 184
17. Garbary Sp .z o. o	Own real property management	100%	49 516	-1 919	52 093

*) equity and assets converted with NBP average exchange rates of 31 December 2005; net result converted with the average exchange rate



IV. Strong market position of the BRE Bank Group

BRE Bank remains one of the leading banks by assets, equities and operations. Rank of the Bank and its companies in the market of banking services and other financial services is shown below:

Type of activities	Rank	Share
Corporate banking		
Corporate loans		**5.8%**
Corporate deposits		**9.2%**
Leasing (assets leased in 2005)	**2**	**9.0%**
- leasing of movable items	3	7.5%
- real property leasing	3	17.4%
Factoring	**3**	**21,4**
Poland	3	21,4%*
Austria	1	55%
Hungary	1	25%
Czech Republic	2	25%

Retail Banking		
Loans *(mBank+MultiBank+PB)*		3.2%
Mortgage loans *(mBank+MultiBank)*		6.5%
Deposits *(mBank+MultiBank+PB)*		3.3%
Total retail accounts *(mBank+MultiBank)*	3	8.9%
Online accounts *(mBank+MultiBank)*	1	27%
Micro-firm accounts *(mBank+MultiBank)*	2	9.1%
Investment banking		
Non-treasury debentures (debt value)		
short-term debentures	3	13.5%
corporate bonds		12.1%
bank debentures	1	30.5%
municipal bonds	5	5.6%
Syndicated loans (extended in 2005, by exposure declared in the agreements)	9	2.9%
Brokerage		
trading in shares	8	4.1%
trading in bonds	9	1.6%
derivative transactions	3	12.0%
options	1	31.8%
Asset management		
OFE managed assets	9	2.9%
TFI managed assets	8	3.6%

Source: own calculations based on own data of BRE Bank, NBP, GPW, Fitch Polska, Association of Leasing Companies and press releases

*Share in total turnover of companies belonging to the Conference of Factoring Institutions

V. Corporate Banking

V.1. BREactivation Project – a New Business Model and Change of Operating Strategy

BREactivation was a key project undertaken by the Bank in 2005. The project was initiated due to external considerations, such as:

- increasing competition in the corporate area and decreasing margins,
- growing importance of customer relations management,
- growing role of small and medium-sized enterprises (SMEs) in the economy,
- new market opportunities: EU funds, customers' new needs and new products,

and internal considerations, namely:

- the need to ensure a sustainable growth in returns in corporate banking,
- the intention to shift the focus of corporate banking from support to sales,
- more complete and effective use of own resources, experience and other strengths.

The BREactivation Project comprised the following components: the Corporate Banking Project, the Operating Area Project and the Credit System Project.

The objective of the **BREactivation – Corporate Banking Project** was to:

- implement a new business model that enables the Bank to achieve competitive advantage in the market and implement the Bank's strategic plans,
- increase the number of the Bank's customers who show a high income potential,
- increase the effectiveness of activities pursued by the Bank, including prospecting activities
- strengthening of the Bank's market position.

In December 2005, the project was closed on completion of all tasks scheduled. The main changes implemented under the project include:

- changes in the customer segmentation area (elaborating the rules of resegmentation and the rules of customer profiling in 3 segments: K1 (capital groups with annual income exceeding PLN 1 billion), K2 (companies with income between PLN 30 million and PLN 1 billion), K3 (companies with income under PLN 30 million, which keep full accounts),
- designing and implementing a model of integrated multiple channel service, implementing product support rules, designing sales force tools,
- boosting the sales force potential by increasing the number of sales personnel (including the transfer of some of the employees from the back-office area) and streamlining of the sales support process for products of the Bank as well as the Group's Companies,
- changes in the organisation area - designing and implementing changes in the organisational structure of branches, transformation of branches independent in business terms and relieved of the back-office role, into corporate branches. Currently there are 23 branches independent in business terms that have replaced 11 regional branches and operating branches reporting to them, and back-office functions are centralised in 4 regional operating centres.

The objective of the **BREactivation Operating Area Project** was to:

- adjust the back-office area to business model changes,
- relieve branches of activities not related directly to sales,
- consolidate knowledge and resources,
- optimise branch operating costs.

The result of project activities in operational area is the centralisation of operational functions of settlements. Work was also in progress on the outsourcing of deposit boxes.

The objective of **the BREactivation Credit System** Project was to:

- optimise the credit process and adapt it to a new business model,
- ensure effective management of credit risk, taking into account the requirements of the New Capital Accord,
- improve the quality of the credit process, including the streamlining of credit services to SMEs.

In 2005, work focused on two main areas, i.e. the customer rating method and the improvement of credit processes. In December, preparation for the adoption of new rating rules was completed. Work was also completed on the preparation of changes in credit processes aimed to adjust the processes to the profiles of specific customer groups and the Bank's new organisational structure. The changes were reflected in the Credit Instructions and related orders. Both the new customer rating methodology and the new Credit Instructions became effective on 2 January 2006.

V.2. Corporate Banking Deposits and Lending

The share of BRE Bank's lending to enterprises (only state and private-owned companies and cooperatives) in the entire sector's lending was 5.8% in December 2005. The share in the enterprise deposit market was higher at 9.2%.

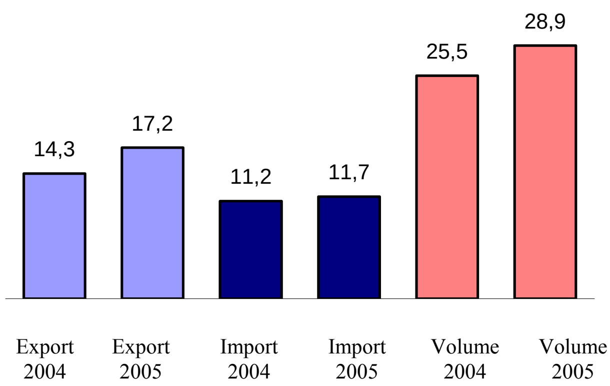
The changes in credits and deposits portfolio of corporate clients in 2005 compared with 2004 are presented in chapter VII.4. "Changes of the Bank's Main Balance Sheet Items".

V.3. International Payment Services

Over the 12 months of 2005, in BRE Bank a marked growth of nearly 14% was witnessed in the value of foreign payments relative to the comparable period of the previous year.

In particular, international payment services, which showed a YoY growth rate of more than 20%, strengthened the growth trend. The value of import payments also increased, albeit to a lesser extent, by nearly 5%.

Foreign trade volume handled by BRE Bank
(in USD billions)



According to the NBP data in 2005 cumulated export of goods reached EUR 76.7 billion, while import EUR 79.1 billion. In comparison with 2004, export of goods increased by 17.0%, while import by 12.4%. BRE Bank witnessed a greater rate of growth in exports and lower in import.

V.4. Development of the offer for corporate clients

In 2005, the offer for corporate was broadened by:

- in the packages offer for SME:
  - more attractive loan conditions in package EFEKT plus,
  - new package EFEKT Finansowy with wide range multiproduct offer of current activity financing with possibility to benefit from financial risk management instruments,
- advanced solutions in the area of the account consolidation (consolidation of balances many times during a day and multi-currency intra day limit),
- "regulated payments" - new form of settlements of trans-border payments in EUR accompanied by lower fees and optimalisation a process of servicing,
- additional functionalities of electronic distribution channels (longer time for accepting internal orders for the accounts in BRE Bank, mBank and MultiBank, the range of clients' disposals booked automatically was increased).

Additionally the new process of product innovations was implemented to improve Bank's ability to create and implement of innovations in Corporate Banking area.

V.5. Development of Packages Targeted at the SME Sector

2005 was the best year in terms of prospecting in three-year history of the EFEKT package line sales. Sales activity in 2005, measured by the number of packages sold exceeded sales for 2004 by 20.5%. The cumulative sales of the package offer since its launch totalled 3224 packages, of which 2190 (67%) were sold to new customers.

V.6. BRE Bank's Activities Relating to EU Funds

In 2005 the increase in sales of banking products related to EUfunds resulted from the opening of successive application rounds for measures under the different operational programmes, a vigorous information and training campaign conducted by the Bank and high activity of corporate banking advisers.

The value of promises, loans and guarantees related to EU funds, issued by BRE Bank between 1 January and 31 December 2005 amounted to PLN 465.4 million, which represents a growth of 29 % from 2004. It is also worth noting the effectiveness of BRE Bank's activities, measures as the proportion that the number of loan promises issued bears to the number of approved applications, which ranks among the highest in the market at 20.18%.

In addition, BRE Bank finances projects in the agro-food processing sector (under SPO AGR measure 1.5), with loans granted for more than PLN 50 million.

V.7. Corporate Banking companies

Intermarket Group

Companies of the **Intermarket Group** (i.e. Intermarket Bank AG, Transfinance a.s., Polfactor SA, Magyar Factor Rt., Transfactor Slovakia a.s.) maintained the growth in turnover and net profit, which has been seen for several years.

Both Intermarket Bank AG and Magyar Factor Rt sustained their leading positions in the local markets with the share of 55% in Austria and 25% in Hungary respectively, despite strong competition in the latter of the markets. Transfinance a.s. retained the second position with the share of 25%, closely following the leader of the Czech factoring market (the difference of one percent point). Polfactor SA (based on Q3 2005 data) increased its market share from 21% in 2004 to 22% (3rd position). Transfactor Slovakia share in the Slovakian market was slightly strengthened but it is still minor at 6%.

In 2005 the Intermarket Group achieved a total turnover of €4.2 billion (PLN 16.2 billion), which is 15% growth compared to 2004.

Transfactor Slovakia a.s. was the Group leader by turnover growth compared to 2004; the turnover achieved by the company is still insignificant (€53 million). Transfactor is followed by Magyar Factor with a turnover growth of 28%. The remaining Group companies achieved a turnover growth of 5% to 18%, with Polfactor SA turnover going up by 10% (from €571 million as on 31 December 2004 to €626 million as on 31 December 2005).

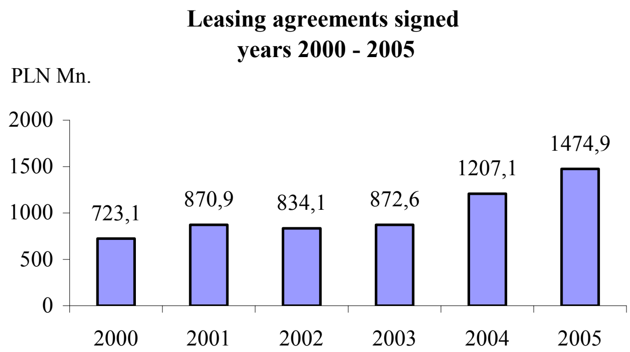
Decided leader as far as net profit growth is concerned is Intermarket Bank AG with net profit growth of 35% (from € 2.73 million to € 3.679 million). The remaining companies in the Group achieved a net profit growth of 14% to 21%, including Polfactor with a growth of 14%, from € 1.738 million as on December 31st 2004 up to € 1.980 million as on December 31st 2005.

In connection with the agreement of purchase of shares in Intermarket Bank AG of July 2000, on December 1st 2005 BRE Bank increased the share in equity and votes at the General Meeting of Shareholders from 54.84% to 56.24%. In connection with increase of stake in Intermarket Bank, BRE Bank Group's stake in Transfinane , Polfactor and Magyar Factor also increased. The transfer of additional 492 shares in favour of the Bank did not affect the stake purchase price; however it increased the income of the Bank by PLN 1,874,000, which constituted transaction badwill.

BRE Leasing Sp. z o.o.

In 2005 the company signed leasing agreements worth PLN 1.5 billion, 22.5% more than a year before. The company ranked second in the Polish market with 10.6% share (compared to 8.5% a year before). It should be mentioned that the whole leasing market grew at 12% rate in 2005, much slower than in 2003 and 2004 when the growth amounted to 40% and 30% respectively. This is a result of unfavourable regulatory solutions (VAT rules, influx of second-hand cars from the Western Europe, legal regulations on the use of community funds which are unfavourable to leasing).

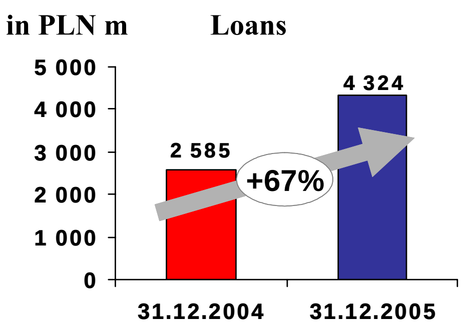
71% of the agreements involved leasing of movable items (primarily means of transport and industrial machines and equipment), 29% involved real property leasing. In 2005 the company focused on developing the offer addressed to SME sector. This was reflected by the growing share of standardized products, which reached 50% worth of the agreements signed in 2005.

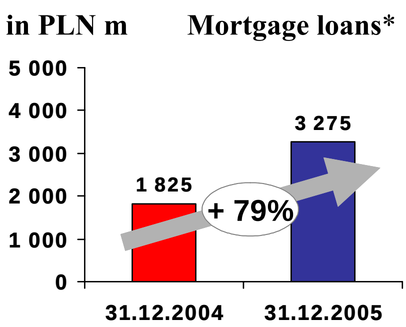


Last year BRE Leasing earned a gross profit of PLN 20.5 million and net profit of PLN 15.2 million, which was a 50% growth compared to PLN 10.1 million in 2004.

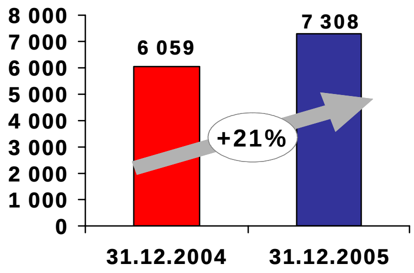
VI. Retail Banking

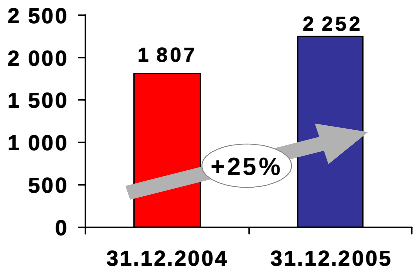
In 2005, Retail Banking was the fastest-growing business area at BRE Bank. This is testified both by the rate of growth in the number of the customers served from 950 thousands to 1 278 thousands (up 34.5%), and key statistics, such as loans, deposits or assets under management, as shown in the charts below:





*for mBank and MultiBank only





in PLN m Deposits **in PLN m Assets under management**

It should be noted that the rate of growth in loans and deposits was much higher than for the market as a whole. Last year, loans to households (according to NBP data) increased by 22.9%, while deposits were only 3.5% greater.

VI.1. mBank

Customers

At the end of December 2005, mBank served **1 015 300 customers**. 256.7 thousands customers had been acquired from the beginning of the year.

Deposits

At the end of December, the volume of deposits totalled **PLN 4,035 million** (with an increment of PLN 983 million over Jan-Dec).

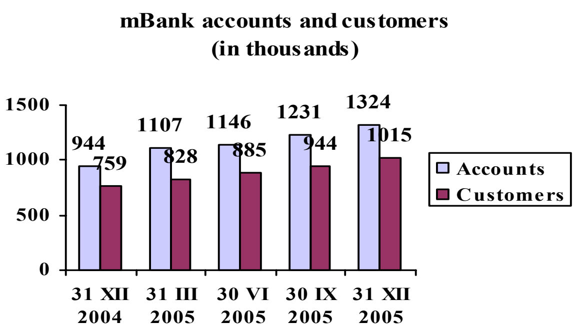
Investment Funds Supermarket (SFI)

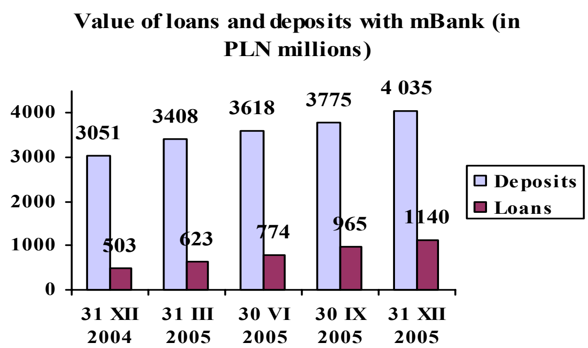
Funds held by customers in investment funds through the SFI platform increased from PLN 378.6 million at the end of 2004 to **PLN 572 million** at the end of December 2005. From the beginning of the year, SFI assets (including SFI IKE) increased by PLN 193.4 million. The increase was attributable to:

- adding to the offer a new TFI (investment fund company) with established reputation and sound performance – Union Investment TFI,
- adding broker services to the investment product offer and achieving a synergy effect,
- successful participation in PGNiG privatisation and effort to retain privatisation proceeds with mBank.

Loans

The value of loans at the end of December was **PLN 1,140.2 million**, of which PLN 883.3 million were mortgage loans. The increase from the beginning of the year amounted to PLN 636.8 m. Mortgage loans for individual customers totalled PLN 880 million (88.2% of the carrying value consisted of foreign currency loans – mainly in CHF). Mortgage loans to micro-firms amounted to PLN 3.2 million (56.4% of the carrying value consisted of foreign currency loans).





Offer development in 2005

- eMakler – brokerage service,
- LeoLife – life insurance offered together with Generali,
- motorvehicle insurance,
- credit card with Compensa,
- prepaid phone recharge in the transactional system.

Development of distribution network and electronic distribution channels

- following completion of work on the modification of the mKIOSK model, new kiosks are already compliant to the functional and architectural concept developed in the course of the project. At the end of December 2005 there were **40 mKIOSKs** already in operation,
- development of the network of Financial Centres – at the end of December 2005 there **were 14 Financial Centres** operating in Poland's largest cities (compared with 2 FCs at the end of 2004).

Awards

Portfolio of the Year - mBank received the Portfolio of the Year 2005 award for its mortgage mPLAN denominated in Swiss francs. In addition, experts recognised KREDYT ratalny plus (instalment consumer loan) as one of the best consumer loans in the market.

Entrepreneur Friendly Bank - mBIZNES – mBank's offer for micro-firms was awarded with the Promotion Title of Entrepreneur Friendly Bank.

National Banking Services Olympics - mBank was ranked first in the 5th National Banking Services Olympics as the most customer friendly Bank.

VI.2. MultiBank

Customers

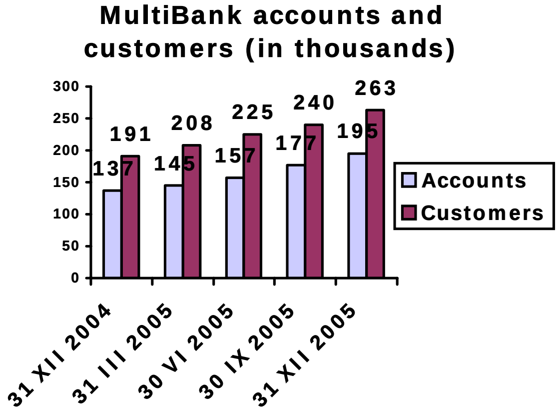
At the end of December 2005, the number of customers was close to **263 thousands**. Compared with the previous year, the number of customers increased by 38% (71,900)

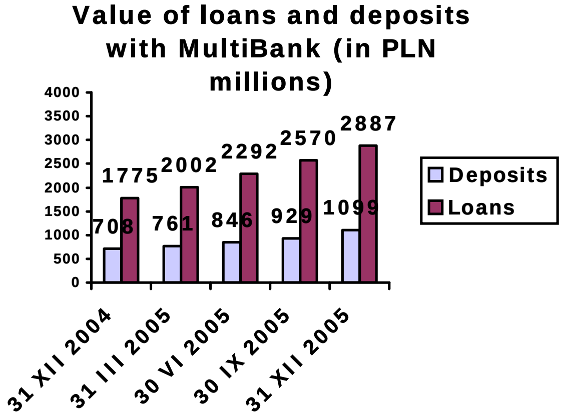
Deposits

In 2005, MultiBank acquired PLN 390.6 million in deposits, which totalled **PLN 1,099 million** at the end of December. Compared with the previous year, the value of deposits increased by 56%.

Loans

As at 31 December 2005, the balance of the loan portfolio reached **PLN 2,887 million** and increased by more than PLN 1.1 billion over the year. Mortgage loans for individual customers totalled PLN 2,16 billion (80,0% of the carrying value consisted of foreign currency loans – mainly in CHF). Compared with the end of 2004, the value of loans increased by about 63%. At the end of December, the value of mortgage loans reached PLN 2,392 billion.





Network development

At the end of December, MultiBank operated a total of 72 outlets throughout the country, including 34 Financial Services Centres (CUFs), 4 mini-CUFs and 34 partner outlets (by comparison, at the end of 2004 there were 46 outlets: 33 CUFs and 13 partner outlets).

Development of product offer and transaction service

The following are some of the products and modifications added to MultiBank's offer in 2005:

- BRE Emisja loan for Puławy shares,
- negotiated foreign currency deposits for customers of the Aquarius Club,
- handling of foreign pensions,
- BRE Emisja loan for PGNiG shares – PLN 41 million in loans granted,
- indexed investment loans for businesses,
- improvement of Internet transaction safety,
- expansion of the offer of the Savings Centre (Centrum Oszczędzania) by adding a new investment fund company – Union Investment (with 9 funds)
- insurance certificates,
- add the Visa Wola park co-brand card to the credit card offer,
- MBA loan,
- concierge service for credit cards,
- Merill Lynch Protected Global Index Fund subscription,
- Multipodróżnik insurance.

Honours:

- Best Retail Bank in Poland - Forbes Magazine,
- Friendly Bank (ranked 3rd) – Newsweek,
- Business Week – 1st in a mortgage credit ranking,
- Expander – 2nd in the ranking "Best Loan for customers whose income is based on specific work contracts or contracts of mandate" and "Best Loan for customers with no equity contribution".

VI.3. Private Banking (PB)

Customers

As at the end of December 2005, Private Banking services were provided to **8,080 customers**, with 821 new ones acquired from the beginning of the year. Relationship with 1,682 customers was terminated as part of customer base restructuring.

Customer Funds

At the end of December 2005, customer funds totalled **PLN 3, 686.6 million**. The increase in PB customers' funds from the end of December 2004 amounted to PLN 193.7 million (+5.5%).

Banking Products

At the end of 2005, PB customer funds held in bank accounts reached **PLN 2,174.4 million**. The decrease from the end of December 2004 amounted to PLN 117.5 million (-5.1%) and it was PLN 16 million smaller than planned. The decline resulted from the market tendency to modify the savings structure and transfer a part of funds from deposits to capital market products.

Asset Management Products

Asset Management products were the most dynamically growing business line of Private Banking in 2005. The annual increase in funds reached 65.4%, i.e. PLN 408.0 million. At the end of December 2005, the balance of funds in the Asset Management Products line reached **PLN 1,032.4 million**, compared with PLN 624 million at the end of 2004. The steepest increase was reported in funds invested in investment fund units (YoY increase of 62.5%, i.e. PLN 223.0 million) and combined capital/insurance products (YoY increase of 286.8%, i.e. PLN 139.9 million). The increase in this business line resulted from customers' great interest in capital market products, which emerged in the wake of a decline in interest rates, lower returns on customer deposits and a bull capital market.

Financial Market Products

In the Financial Market Products, the balance of funds at the end of December 2005 was **PLN 480.2 million**. The decline from the end of December 2004 totalled PLN 96.8 million (-16.8%). The main barriers to the development of this business line consists are adverse conditions of taxation of securities acquired in the secondary market (taxation of the whole amount of interest coupon without deducting the interest paid on acquisition of the security) and adverse rules for determining taxable income on securities.

Credit Products

Credit exposure in the PB segment at the end of 2005 reached **PLN 297.7 million** against PLN 278.5 million at the end of 2004 (annual increase of 6.9%).

In 2005, sales activity in the credit area focused mainly on BRE Emisja short-term brokerage loans for the purchase of shares in the primary market, which do not translate into a lasting increase in debt. In aggregate, 1,324 BRE Emisja loans were granted from the beginning of the year for PLN 1,612.5 million.

Major new products and projects in 2005:

- in February, subscription was held for the first foreign fund to operate on the Polish market under the Luxembourg law - Merill Lynch Protected Global Index Fund,
- also in February, the PB offer was expanded by adding the open-end investment funds SKARBIEC-TOP Funduszy Akcji SFIO and SKARBIEC-TOP Funduszy Stabilnych SFIO,
- in the 4th quarter, a 2-year guaranteed strategy in USD and PLN was put on offer among other equity/insurance products. By the end of December, sales reached PLN 16.7 million,
- 8 editions of BRE Emisja loans were launched for the purchase of securities in the primary market – in total, 1,324 loans were granted for PLN 1,612.5 million,
- 12 new investment products were made available during 2005. The customers invested PLN 20 million in those products,
- in November, the first structured bonds were put on the PB offer. Those were USD denominated instruments based on a basket of shares. The total amount of subscriptions ranged at PLN 2.7 million,
- in May, a loyalty programme was launched for PB customers using credit cards. From September, customers who hold Private Banking credit cards can use the Concierge Service package,
- intranet system of essential back-up of PAM sales was expanded about product recommendations prepared by Wydział Wsparcia Sprzedaży and analyses prepared by DI BRE, SIM , Commerzbank and Templeton,
- in the middle of the year a survey was conducted by Ipsos on BRE Bank brand image, which showed a high level of general customer satisfaction with Private Banking services and the intention to use them in future (rated 4.6 on a 5-point scale),
- in October and November during two months brand campaign advertisements of PB were published in economic and hobbyist newspapers, i.e.: Manager Magazine, Harvard Business Review, Golf&Life, National Geographic, Extremum,
- in 2005 development of Globus took place for service of Private Banking clients. Starting from April further migration of PB clients into new system has been undertaken.

VII. Investment Banking

This business area is relatively diversified, as it encompasses activities in the money, FX and equity markets, trading in derivatives, management of debt security issues, cooperation with financial institutions and project finance.

In 2005, major changes took place in Investment Banking – the risk profile was changed by shifting the focus to operations performed on the customer's order, while maintaining a high rate of return and a leading position in the market. Own-account investment portfolio was restructured and reduced by 37.3%.

VII.1. Financial Markets

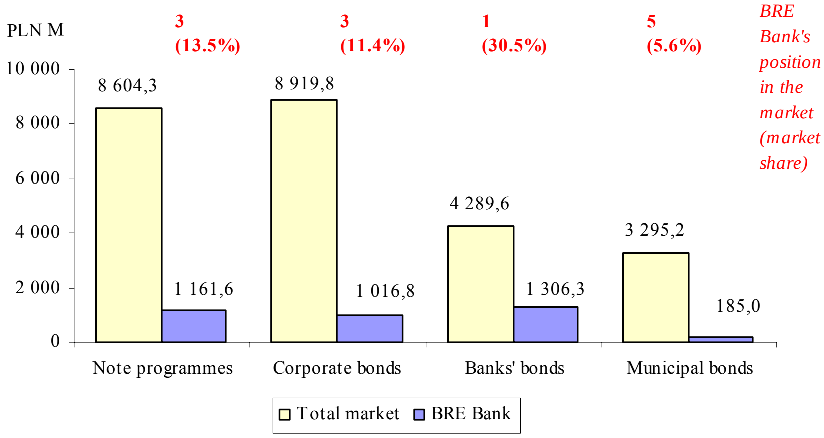
As regards activities in the financial markets, customers invariably showed great interest in derivative instruments (hedging currency and interest rate risk). In the FX and interest rate markets, activity focused on active market making.

Major business activities in financial markets in 2005 include:

- issues of medium-term debt securities – bonds of Getin Bank, AIG Bank, VW Bank and issue of mortgage bonds for BRE Bank Hipoteczny,
- issues of short-term debt securities, which made it possible to maintain a significant share in the short-term paper market –13.5% (as at the end of December 2005),
- issue by a subsidiary of BRE Bank SA (BRE Finance France SA) of eurobonds of the total nominal value of EUR 200,000,000,
- commodity Swap transactions,
- maintaining high activity in the following markets: interest rate derivatives, Treasury bonds and bills, FX spot and forward contracts and stock-market index options (another award of the President of the Warsaw Stock Exchange for the BRE Bank Group in recognition of the activity on the options market),
- maintaining the status of Treasury Securities Dealer.

According to Fitch Polska as at 31 December 2005 BRE Bank ranked first in the issue of bank debt securities (with a market share of 30.5%) and third in two categories: issue of short-term debt securities (with a market share of 13.5%) and the issue of corporate bonds with maturities over 1 year (11.4%).

BRE Bank vs the non-Treasury debt market as at 31.12.2005



In its operations in financial markets in 2006, the Bank is expected to:

- maintain a leading position in the above market segments,
- carry on work on the development of structured products and expand the range of the products offered,
- expand the customer base,
- implement new IT systems supporting the business pursued.

VII.2. Treasury Activities

In this context, Investment Banking includes **liquidity management** for the Bank. The year 2005 was characterised by:

- high level of current liquidity,
- increase in customer deposits higher than increase in loans,
- surplus of short-term funds invested in the interbank market over those received from the market,
- gradual reduction of the volume of issues of CDs and non-public bonds in PLN,
- own issues denominated in foreign currencies at a fixed level,
- increase in the balance of loans received from foreign banks by PLN 30 million and by CHF 20 million,
- liquidity portfolio maintained at a level necessary to ensure security of the Bank,
- high activity in the money market (investment/deposit and fx swap transactions made on the Polish and foreign interbank market, participation in open-market operations).

In compliance with NBP recommendations, the Bank manages its current liquidity within the framework of internally set limits and control numbers. This activity involved maintaining:

- mandatory reserve in compliance with NBP requirements,
- specific funds on NOSTRO accounts of the Bank in order to ensure their optimum use and to enable all types of cash and non-cash clearing and settlements to be performed,
- liquidity of the debt paper portfolio both in PLN and in foreign currencies.

In 2005, BRE Bank opened a NOSTRO for EUR with NBP. This was related to the Bank's accession to the EUROELIXIR clearing and settlement system offered through NBP.

In 2005, NBP again rated banks on the basis of the Dealer Activity Index. In many of the categories BRE Bank ranked in the lead, e.g. 1st in activity on the interbank market for deposits, 1st in activity on the Overnight Index Swap (OIS) market. Overall, BRE Bank ranked 2nd among banks seeking to act as Monetary Market Dealer, which enabled it to again sign an annual agreement with NBP and hence to directly participate in open market operations.

The following measures undertaken in 2005 in current and long-term liquidity management are planned to be continued **in 2006**:

- maintaining liquidity portfolios of Treasury and commercial debt securities within internal credit limits granted,
- participating in the interbank money market in order to regulate the Bank's current liquidity,
- using fx swap transactions to manage current liquidity in different currencies,
- acquiring, depending on the planned demand for additional funds, long-term financing based on the instruments available (issue of own debt securities, foreign currency interbank credit and loans from financial institutions).

In view of an increase in CHF-denominated loans, the Bank intends to intensify its activities in order to acquire long-term financing in that currency.

VII.3. Project Finance and Syndicated Loans

The balance of syndicated loans, project finance and structured loans as at the end of December 2005 reached PLN 1,557.6 million and it was 16.7% lower than at the end of 2004.

During 2005, loan agreements were made, under which PLN 760 million was granted in new loans. They included two project finance loans insured by KUKE (Polish State Export Credit Insurance Corporation) (risk weight for such loans being "0") granted to Russian entities. Those were the first transactions of the kind finalised on the market in Poland. Currently work is in progress on further projects of this type, with the involvement of Polish exporters, for companies in Russia, Ukraine and Indonesia.

Under the credit facilities granted, syndicates are arranged by BRE Bank, among other things, with other banks to finance large projects. Under a power project worth PLN 1,022.3 million in terms of credit facilities, the Bank's share amounted to EUR 40 million (PLN 164.4 million) in investment loan, while BRE Bank's share in the revolving loan amounted to PLN 35 million. The Bank was also involved in the financing of a shopping centre project (the total syndicated amount being PLN 337 million), consisting of a construction loan and a VAT loan.

VII.4. Transactions with Financial Institutions

As at December 31st 2005, BRE Bank had Swift keys exchanged with 1803 correspondent banks, of which 45 were exchanged in 2005. The Bank maintained 39 *nostro* accounts with 33 banks. The number of *loro* accounts of other banks maintained on the Bank's books was 109, which included 100 zloty accounts.

At the end of 2005, BRE Bank had one credit line at its disposal, granted by a foreign bank, subject to guarantee ceilings of insurance institutions, as well as one credit line from KfW (Frankfurt) and lines from the European Investment Bank (EIB) for the financing of investment contracts of small and medium-sized enterprises.

BRE Bank is a valued specialist in financing foreign trade transactions. The Bank's leading position in that market and the developed network of correspondent banks enables it to actively promote Polish exporters and offer them a broad range of settlement/clearing services, from short-term financing of export transactions to grating long-term loans insured by KUKE (Polish State Export Credit Insurance Corporation) to the buyers' banks. In 2005, the financing of export transactions mainly involved export of household appliances and construction services (Russia), pharmaceuticals (Kazakhstan and Belarus), as well as plant and machinery for the agro-food processing industry (Belarus).

Seeking to expand relations with international financial institutions, BRE Bank participates in syndicated loans arranged for banks e.g. from Russia, Kazakhstan, Ukraine and Turkey. The Bank also actively enters the Bulgarian market by participating in syndicated loans, as well as directly, as party to bilateral loan agreements.

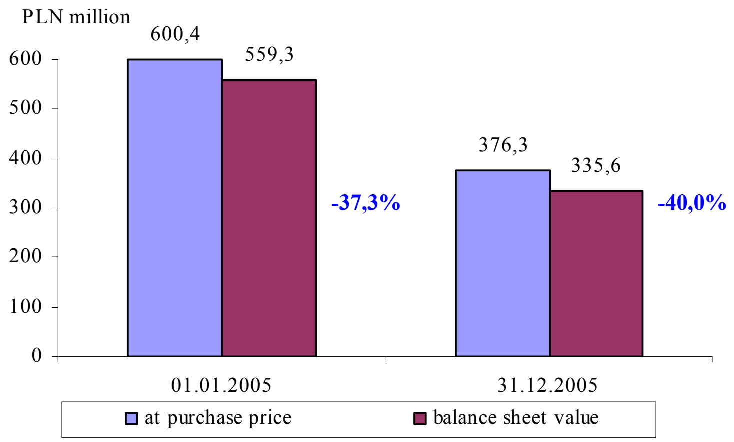
At the end of 2005, the Bank's portfolio contained 104 short and long-term loans granted by BRE Bank to other banks for a total equivalent of PLN 992 million, which were earmarked to a large extent for the financing of Polish exports.

VII.5. Proprietary Investment

At the end of 2005, the total value of the portfolio amounted to PLN 376.3 million at purchase price (down by PLN 224.1 million from the 2005 opening balance). The difference in the portfolio value at purchase price relative to the opening balance was mainly due to:

- decreases resulting from the sale of securities for the total amount of PLN 430 million,
- increases resulting from the acquisition of securities for the total amount of PLN 180 million ,
- increases arising from exchange differences for the total amount of PLN 27 million.

Changes in proprietary investment portfolio



Major transactions completed in 2005:

- disposal of 75.12% of shares in **Novitus SA** by public offering; the total return on that transaction was **PLN 32.4 million**,
- disposal of the entire holding of **TVN**,
- conversion of receivables and mutual exposures with NFIs, resulting in a simplified structure of exposures by taking up **shares in Vectra** (the second largest cable TV operator in the Polish market), with **PLN 2.9 million** of profit before tax.

VII.6. Investment Banking companies

Dom Inwestycyjny BRE Banku (DI BRE Banku)

WSE boom and active participation of DI BRE Banku in the primary market (DI offered shares of the Lotos Group, Ambra and Polmos Lublin) were reflected by excellent results of the company. In 2005 DI BRE Banku earned PLN 14.6 million of gross profit and PLN 11.6 million of net profit.

DI BRE Banku's market share in 2005 was as follows: 4.1% in trading shares on the WSE, 1.6% in trading bonds, 12.0% in derivatives and 31.8% in options.

In 2005 the company paid the second highest from 2000 dividend by value and amount at PLN 7.6 million.

Parkiet newspaper (Parkiet of 10/11 September 2005), which evaluated 19 brokerage offices operating in the Polish market, ranked DI BRE Banku first and was chosen **the best brokerage office in 2005** with a total of 61.5 points, more than a dozen points ahead of the runners-up. The ranking considered the level of fees and commissions, range of products including international investment possibilities, online account access and the number of customer service centres.

BRE Corporate Finance

In 2005 BRE CF provided the following advisory services:

- advisor to Nafta Polska S.A. in the process of LOTOS Group consolidation and privatisation, the second to PKN Orlen largest refinery in Poland,
- advisor to the Ministry of the Treasury on privatisation of Jastrzębska Spółka Węglowa S.A.,
- advisor to Lafarge Gips Polska Sp. z o.o. and Atlas Gips Sp. z o.o. in negotiations with the Ministry of the Treasury on the acquisition of minority share of Dolina Nidy S.A.; in September 2005 customers of BRE CF purchased 3.81% of the shares,

- advisor to American Ladish Co Inc. in the process of purchase of shares in HSW-Zakład Kuźnia Matrycowa Sp. z o.o. from Huta Stalowa Wola SA and HSW - Fundusz Kapitałowy Sp. z o.o.,
- advisor to the Italian insurer Toro Assicurazioni SpA in the process of sale of shares in Polish insurance companies Benefia Towarzystwo Ubezpieczeń Majątkowych SA and Benefia Towarzystwo Ubezpieczeń na Życie SA.

Company's gross profit for 2005 reached PLN 339,000 compared to PLN 1.6 million in 2004. The net profit was PLN 210,000 compared to PLN 1.3 million for 2004. Worse results compared to the previous year follow failure to complete several projects planned for 2005 and closing of transactions with revenues much lower than budgeted for 2005 (privatisations, failed IPOs and sales transactions).

BRE International Finance B.V. and BRE Finance France S.A.

In 2005 both BRE International Finance B.V. and BRE Finance France SA continued the Euro Medium-Term Note (EMTN) Issue Programme up to the total of € 1.5 billion.

In June 2005 BRE International Finance B.V. redeemed the last tranche of eurobonds at €200 million. In performing the decision of the Management Board of the Bank of 6 October 2005, BRE Bank, as the sole shareholder, on December 15th 2005 passed a resolution **to wind up BRE International Finance B.V.**. The process of winding up the company will be completed in Q1 2006. The decision on winding-up resulted from the change of fiscal provisions in the Netherlands which introduced the withholding tax, making further acquisition of financing through that company ineffective to BRE Bank.

Under the same Programme, further financing will be acquired through BRE Finance France SA.

In June 2005 BRE Finance France SA issued the fourth tranche of eurobonds at €200M maturing in 2008. Three previous tranches were issued:

- in 2003 – €200 million maturing in 2006;
- in 2004 – €225 million maturing in 2007;
  $10 million maturing in 2009.

VIII. Asset Management Segment

Asset Management in the BRE Bank Group covers activities of two companies: Skarbiec Asset Management Holding S.A. and PTE Skarbiec Emerytura.

Skarbiec Asset Management Holding S.A. (SAMH)

At the end of 2005 Skarbiec Asset Management Holding (SAMH) consisted of Skarbiec TFI, Skarbiec Investment Management and BRE Agent Transferowy. The fourth company, Skarbiec Serwis Finansowy merged with SAMH in 2005 and was deleted off the register. Two first companies manage assets entrusted by the Customers. BRE Agent Transferowy keeps and handles registers of members of pension and investment funds and handles employee pension plans.

SAMH Capital Group recorded a gross profit of PLN 10.7 million for 2005 compared to a gross loss of PLN 18.7 million in 2004. The net profit of the Group amounted to PLN 8.3 million compared to a net loss of PLN 15.4 million in 2004.

Skarbiec TFI

At the end of 2005 assets of Skarbiec TFI rose to PLN 2,199 million, a growth by PLN 396 million compared to the end of 2004, namely by 22%. In particular, share fund assets went up (establishment of a new fund, Skarbiec TOP Funduszy Akcji), bond fund assets and other assets (establishment of a new fund, Skarbiec TOP Funduszy Stabilnych). By annual rate of return, the share fund ranked fourth in the market. The same rank was achieved by Skarbiec-Depozytowy. Skarbiec-Gotówkowy ranked fifth. Participation of Skarbiec in the investment fund market dropped from 4.8% in December 2004 to 3.6% in December 2005

Skarbiec Investment Management

In 2005 assets managed by the company fell from PLN 708 million to 433 million, as a result of withdrawal of the funds by the Foundation for Polish Science at approx. PLN 200 million.

Powszechne Towarzystwo Emerytalne Skarbiec-Emerytura (PTE)

At the end of 2005 assets of PTE pension fund reached PLN 2,456.7 million and went up during the year by PLN 427.2 million. The number of members at the end of 2005 was 461,802. The value of a settlement unit increased in 2005 by 14.35% (7 position among 15 funds).

In 2005 PTE achieved a gross profit of PLN 10.5 million compared with PLN 6.4 million in 2004. The profit was PLN 7.9 million compared to the net profit of PLN 5.2 million earned a year before.

On November 29th 2005 BRE Bank entered into the "Agreement of PTE Skarbiec-Emerytura and PTE PZU merger with the obligation to sell merger issue shares" with PZU Życie. The merger will be finalised by taking over the assets of PTE Skarbiec-Emerytura by PTE PZU. The share of BRE Bank SA in the share capital of PTE PZU after the merger will be 13.1%, and the share of PZU Życie S.A. will be 86.9%. The price for merger issue shares acquired by BRE Bank was fixed at PLN 365 million, subject to correction of the amount with the percent change of the net assets of Skarbiec-Emerytura Open-End Fund from June 30th 2005 to the day of merger of the pension funds plus PLN 15 million. The minimum price is PLN 315 million and is valid provided that the merger is effective by 31 August 2006. The maximum price for merger issue shares owned by BRE Bank S.A will be PLN 365M. If the merger is not effective by 31 August 2006, BRE Bank may withdraw from the Agreement.

The funds will be merged when the relevant decisions are issued by the Insurance and Pension Funds Supervisory Commission (KNUiFE) and the Office for Competition and Consumer Protection (UOKiK), which are expected in the first half of 2006.

VII. Companies not ascribed to segments

BRE.locum Sp.z o.o

BRE.locum Sp. z o.o. is a developer company. The company has been consolidated with the BRE Bank Group using the full method since January 1st 2005. The company ended 2005 with a gross profit of PLN 6.8 million and a net profit of PLN 5.5 million.

BRE.locum primarily invests in housing projects, in particular residential buildings, but is also involved in construction of residential houses and provides services of real property management. The company has been operating since 2001 and been present in Łódź, Wrocław and Kraków. Last year the company entered the Warsaw market (investments in Pole Mokotowskie). The company has been expanding its presence in the Warsaw market and has purchased land for own new investments.

On December 27th 2005 a sale agreement of 20.01% stake in BRE.locum Sp.z o.o. by Tele-Tech Investment (associate) in favour of the Board President of BRE.locum was made. After the purchase of shares by the Board President of BRE.locum shareholders of the Company include BRE Bank (49.99%), Tele-Tech Investment (30.00%) and Mr Krzysztof Suskiewicz (20.01%).

Centrum Rozliczeń i Informacji CERI Sp. z o.o. (CERI)

The Company provides clearing and archiving services, in particular electronic archives, hardcopy archives, identification of mass payments, system of payment identification, data entry and mass correspondence.

In 2005 the most important operations of the Company included:

- development of cooperation with new external customers (including: financial agencies),
- considerable expansion of the operating scope in retail banking,
- cooperation with BRE Bank on the take-over of selected corporate banking services,
- rationalisation of processes related to hardcopy documentation processing.

The net profit of the company in 2005 reached PLN 0.3 million, and the gross profit was PLN 0.5 million.

X. Financial Condition of the BRE Bank Group in 2005

X.1. Financial Results of the BRE Bank Group by business area

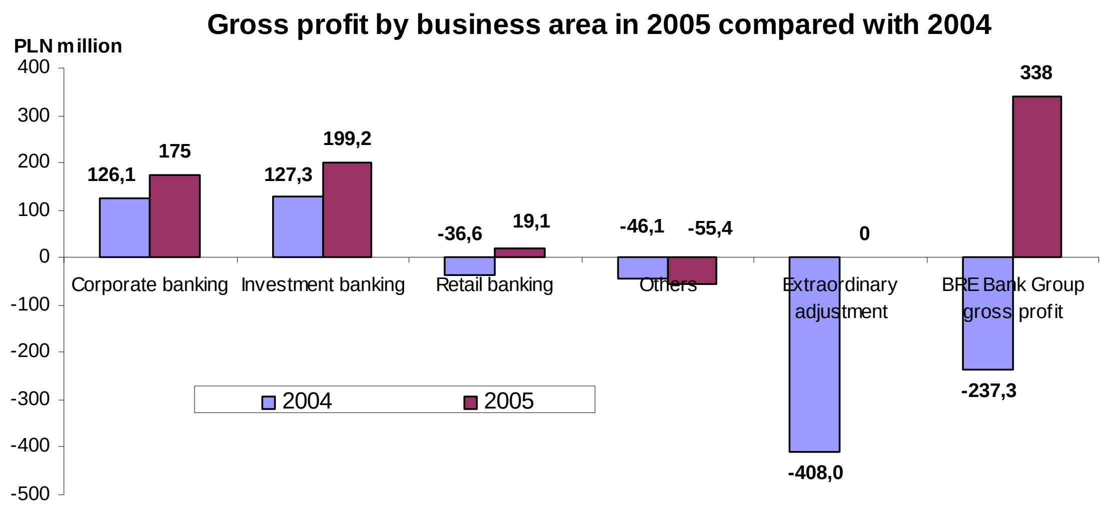
The following statement presents the share in gross result by business areas of the BRE Bank Group. For more detailed data, please see “Reporting by business areas of the BRE Bank Group” in “Additional notes” in point 40.

Full cost allocation was performed for the areas, both direct and indirect (such as ‘cost’ department, management costs) including the equity cost and cost of provisions set up in the area. One-time corrections performed in 2004 were presented separately and did not encumber any of the areas. The division was performed at the gross result level, taking into account results of companies ascribed to certain areas in business lines, according to the chart presented in chapter III.

It should be noted that the results of the business areas were also affected in 2005 by provisions for **incentive bonuses**. As gross profit planned for 2005 was substantially exceeded, the amount provisions for bonuses was increased to PLN 80 million (from the budgeted PLN 51.5 million). The overall cost of the provision was split between the business areas as follows:

Corporate Banking	PLN 45.1 million
Investment Banking	PLN 18.7 million
Retail Banking (including PB)	PLN 15.0 million
Other	PLN 1.2 million.

The amounts allocated to costs of the areas concerned reduce their gross profit or loss, but, on the other hand, they represent recognition of employees’ effort, without which it would not have been possible to generate favourable business and financial results, and they provide an incentive for further efforts.



As shown in the chart above, in 2005 all business areas of the BRE Bank Group reported a significant improvement in performance. The main part of gross profit was generated by the **Investment Banking, which improved its result by 56.5%**. Very good results were achieved owing to good performance in trading and substantial profits on equity investments. Above-average profits in regular business resulted from transactions on the FX and money markets, as well as those involving the liquidity portfolio and customer transactions. Main gains on equity investments in Q4 2005 were attributable to the sale of shares in Novitus S.A. (PLN +32.4 million) and liquidation of Brelinvest Fly1 and Ambressa-Brella – liquidation of assets and removal of partnership contributions (PLN +25.8 million). Standalone gross profit of Dom Inwestycyjny reached PLN 14.7 million, but after excluding mutual transactions, its share in the consolidated profit amounted to PLN 4.2 million. TV-Tech Investment 1 made a considerable contribution into the profit area (PLN 22.6 million).

Gross profit reported by **Corporate Banking was 38.8%** higher. It should be stressed that in 2004 the result for this area included mortgage bank result, then named RHEINHYP BRE Bank Hipoteczny (currently BRE Bank Hipoteczny). In 2005 the bank was outside the Group and was not included in the income statement, therefore the data are not fully comparable. The better result of 2005 stemmed from stabilisation of interest earnings and much lower net provisions. It is worth stressing that corporate banking companies from the Intermarket Group and BRE Leasing had a considerable share of nearly 20% in the whole consolidated result of the Group.

Retail Banking generated a gross profit of PLN 19.1M for the first time, while a year before it still showed a loss of PLN 36.6M. Budgeted gross profit for 2005 for this line was PLN 31M. The difference follows the fact that while striving for transparency of Bank results, bonuses were posted directly to business lines (the bonus fund for retail reached PLN 15M), while the 2005 budget defined them as "other".

The "**Other**" category, under which the loss of PLN -55.4 million was recorded in 2005, accounts for the loss in Asset Management segment of PLN 40 million and PLN -11.6 million of unsettled positions of the income statement of the Bank, not ascribed to any of the areas and PLN -3.9 million of consolidation exclusions/corrections.

What substantially contributed to a dramatic improvement in the gross profit of the Bank as a whole in 2005, compared with 2004, was a lack of one-off adjustments, which had been made in 2004 (PLN 408.0 million when translated according to the rules applicable in 2005).

X.2. Financial results of the Group for 2005

Financial data presented in this report as of 2004 differ from those presented in statement for 2004 published in February 2005. Calculation of differences between IRFS and Polish Accounting

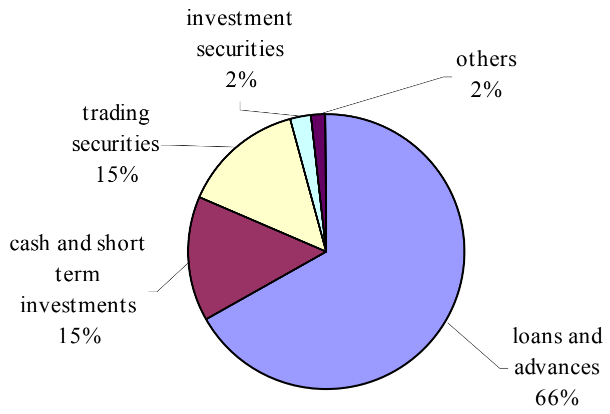
Standards in consolidated balance sheet as of December 31st 2004 and consolidated income statement as of December 31st 2004 are presented in detail in the point 47 to "Consolidated financial statement according to IRFS for 2005".

When performing comparisons, a slightly different composition of the BRE Bank Capital Group should be considered since the consolidated income statement for 2004 included RHEINHYP BRE Bank Hipoteczny S.A. In 2005 the company was outside the Group and not consolidated; on the other hand BRE.locum and Garbary became consolidated companies, as reflected by comparative data of the consolidated financial statement.

Consolidated income statement (PLN 000s)	**2005**	**2004**	Growth rate 2004=100%
Interest income	1 540 005	1 348 673	114.2%
Interest expenses	(918 277)	(862 728)	106.4%
Net interest income	**621 728**	**485 945**	127.9%
Fee and commissions income	543 217	524 328	103.6%
Fees and commissions expenses	(149 608)	(142 654)	104.9%
Net fee and commission income	**393 609**	**381 674**	103.1%
Dividend income	47 033	7 176	655.4%
Net trading income:	265 110	230 566	115.0%
Foreign exchange result	*212 182*	*219 365*	*96.7%*
Other trading incomet	*52 928*	*11 201*	*472.5%*
Gains less losses from investment securities	43 145	(8 542)	
Other operating income	131 072	394 234	33.2%
Impairment losses and on loans and advances	(78 841)	(124 575)	63.3%
Overhead costs	(800 348)	(731 578)	109.4%
Depreciation and amortisation	(139 615)	(148 742)	93.9%
Other operating expenses	(149 564)	(723 455)	20.7%
Operating profit	**338 433**	**(237 297)**	
Share of profit of associates	(469)	(35)	1340.0%
Profit before income tax	**337 964**	**(237 332)**	
Income tax	(70 059)	(36 050)	194.3%
Net profit (loss) including minority interest	267 905	(273 381)	
Minority interest profit (loss)	20 362	20 636	98.7%
Net profit	**247 543**	**(294 017)**	

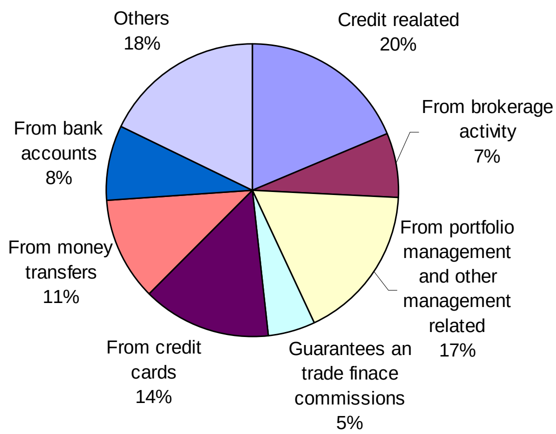
The main income position in 2005 was the **result on interest**, nearly 28% higher than a year before. The highest interest income was generated by the Bank (PLN 551.7 million after consolidation exclusions). Companies whose result on interest considerably improves the Group result include, as usual, BRE Leasing (approx. PLN 71.1 million), Intermarket Bank AG (PLN 24.6 million) and Polfactor (PLN 15.1 million). BRE Finance France paid considerable interest to investors (PLN -54.6 million), which affected the result on interest of the Group.

Interest income structure



Result on **fees and commissions** of PLN 393.6 million was 3.1% higher than a year before. This amount mainly included the result of the Bank (PLN 232.9 million after consolidation exclusions), with considerable contributions from SAMH (PLN 37.5 million) and PTE Skarbiec Emerytura (PLN 23.2 million), which primarily included asset management fees. Dom Inwestycyjny also earned a considerable revenue on fees and commissions (PLN 28.4 million). The structure of revenue on fees and commissions is shown below:

Fee and commission income structure



In 2005 **dividend** revenues accounted for a large portion of consolidated results. PLN 47 million included dividends paid by non-consolidated companies (such as Novitus or PZU) and PLN 25.8 million booked as a dividend and coming from liquidation of Ambressa-Brella and Brelinvest Fly 1.

The **result on sales** at **PLN 265.1 million** mainly included the result on exchange at PLN 257.9 million and other sales at PLN 7.2 million. The result on sales is generated primarily in the Bank (PLN 243.9 million), with contributions from TV-Tech Sp. z o.o. at PLN 13 million and BRE Leasing (PLN 7.5 million).

Group income was reduced by **a negative balance of provisions for impairment losses on loans and advances.** In 2005 this was PLN -78.8 million, a year ago this amount was considerably higher (PLN -124.6 million). Besides the Bank where the balance of provisions was PLN -53.4. million, other considerable amounts included provisions set up by BRE Leasing (PLN -16.8 million) and factoring companies.

Last year **general administrative costs** of the Group increased by 9.4%. This followed setting up of the provision for incentive bonus in BRE Bank, which resulted in employee costs reaching PLN 423.7 million, 21.1% more than a year before. It should be noticed that this is elastic construction, dependable only on Bank's results. Material costs were 1.4% lower than a year before, amortisation and depreciation was 6.1% lower.

Besides BRE Bank considerable general administrative costs were reported by BRE Leasing (PLN 36.2 million, SAMH (PLN 30.6 million), Intermarket Bank (PLN 27.4 million) and DI BRE Banku (PLN 27.1 million).

Gross profit for the BRE Bank Group was PLN 338.0 million, with the biggest contribution of BRE Bank, amounting to PLN 292 million. Net profit reached **PLN 247.5 million.**

X.3. Key Performance Ratios of the Bank and the Group

Key Performance Ratios at the end of 2005:

	Bank	Group
• **Solvency ratio**	12,9%	11,1%
• **Gross ROE** gross profit (with minority interest)/ equity (with minority interest) less current year net profit	14,3%	18,4%
• **Net ROE** net profit (with minority interest) / equity (with minority interest) less current year net profit	11,9%	14,6 %
• **ROA** net profit (with minority interest)/ assets	0,7%	0,8%
• **Cost/ income ratio** overhead costs + depreciation/ income(including balance of other operating income and costs)	71,3%	69,3%
• **Interest margin** (net interest income/ average assets	1,8 %	2,0%

It should be stressed that both gross profit and Group ratios were better or closed to budgeted for 2005. Initially, gross profit for the Group was to reach PLN 290 million, and after Q3 figures, the forecast was raised to PLN 330 million. Gross ROE for the Group was to reach 14.2%, the solvency ratio 11% and the cost/income ratio was to reach 68%.

X.4. Changes in BRE Bank Group's balance sheet positions

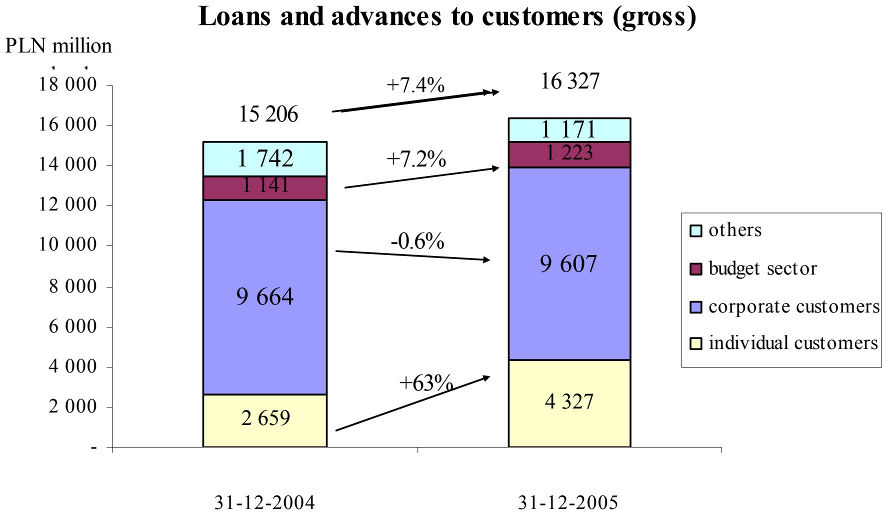
Assets

As at the end of December 2005 compared to a year before, BRE Bank Group's assets were **7.6% higher**. There was a considerable drop (by approx. 1/3) in **receivables from banks**, (which were extremely low at the end of December 2004) mostly as a result of movement of funds into **marketable securities**, which were twice as high at the end of 2005. BRE Bank deposits placed in NBP were also higher, as seen in "operations with the Central Bank" position.

ASSETS	31.12.2005		31.12.2004		2004=100%
	PLN th.	%	PLN th..	%	
Cash and balances with Central Bank	1 778 457	5,4%	734 691	2,4%	242,1%
Debt securities eligible for rediscounting at the Central Bank	37 464	0,1%	52 832	0,2%	70.9%
Loans and advances to banks	**4 668 474**	**14,2%**	**6 990 051**	**22,9%**	**66,8%**
Trading securities	5 011 960	15,3%	2 373 008	7,8%	211,2%
Derivative financial instruments	1 255 232	3,8%	1 796 824	5,9%	69,9%
Loans and advances for customers	**15 463 514**	**47,1%**	**14 330 384**	**47,0%**	**107,9%**

Investment securities	1 124 832	3,4%	580 108	1,9%	193,9%
- Available for sale	1 124 832	3,4%	564 785	1,9%	199,2%
- Held to maturity	-	0,0%	15 323	0,1%	0,0%
Assets for sale	317 349	1,0%	-	-	-
Pledged assets	1 516 212	4,6%	1 781 725	5,8%	85,1%
Investments in associated undertakings	6 477	0,0%	2 224	0,0%	291,3%
Intangible assets	406 380	1,2%	664 770	2,2 %	61,1%
Tangible fixed assets	558 535	1,7%	522 987	1,7%	106,8%
Deferred income tax assets	117 048	0,4%	90 274	0,3%	129,7%
Other assets	555 437	1,7%	573 570	1,9 %	96,8%
Total assets	**32 817 371**	100,0%	**30 493 448**	100,0%	**107,6%**

Loans and advances extended to customers (net) were 7.9% higher in the Group. Since the growth was on a scale similar to the growth rate of all the assets, the share of loans in assets slightly grew from 47.0 % to 47.1%. The driving force behind the growth was retail loans in BRE Bank (growth by 63%), as shown below:



Provisions set up for receivables from customers changed from PLN -875.2 million to PLN 863.3 million.

The drop in **intangible assets** follows the movement of intangible assets related to PTE Skarbiec Emerytura to the separate position "Assets for sale". The sale agreement for the company was described in the chapter on asset management.

Tangible assets grew by 6.8% in connection with the expansion of activities of the Bank and its companies.

Liabilities

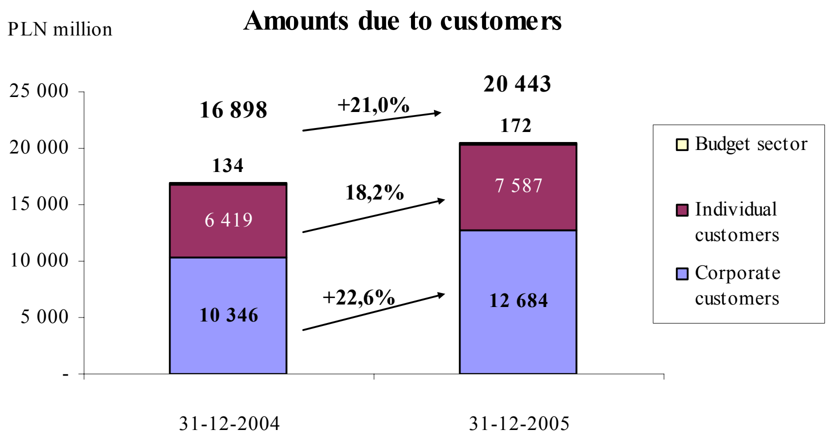
The main source of financing operations of the Group, which at the end of 2005 accounted for 62.3% of liabilities, were **liabilities to customers**. They were 21.0% higher than a year before. The second largest source of financing operations, namely **liabilities to other banks** fell by 22.0 %, and their share in liabilities dropped from 18.2% to 13.2%.

EQUITY AND LIABILITIES	31.12.2005		31.12.2004		2004=100%
	PLN th.	%	PLN th..	%	
Amounts due to other banks	4 337 056	13,2%	5 562 129	18,2%	78,0%
Derivative financial instruments and other trading liabilities	1 175 070	3,6%	1 620 713	5,3%	72,5%
Amounts due to customers	20 443 406	62,3%	16 897 889	55,4%	121,0%
Debt securities in issues	2 731 157	8,3 %	3 103 322	10,2%	88,0%
Subordinated liabilities	1 362 528	4,2 %	1 020 144	3,3%	133,6%
Other liabilities	563 020	1,7%	340 766	1,1%	165,2%
Current income tax liabilities	3 529	0,0%	1 444	0,0%	244,4%
Provisions for deferred income tax	161	0,0%	246	2,2%	65,4%
Provisions	86 135	0,3%	39 394	0,1%	218,6%
Liabilities held for sale	6 839	0,0%	-	0,0%	
Total liabilities	**30 708 901**	**93,6%**	**28 586 048**	**93,7%**	**107,4%**
Total equity	**2 108 470**	**6,4%**	**1 907 401**	**6,3%**	**110,5%**
Total liabilities and equity	**32 817 371**	**100,0%**	**30 493 448**	**100,0%**	**107,6%**

Since the customer assets grew fast, the Bank started to reduce its own issues, in particular in the domestic market. Currently, the majority of the liabilities from the issue of debentures account for eurobonds issued by BRE Finance France financial vehicle for the total amount of €625M and $10M. In June 2005 the company floated the fourth issue at €200M, which replaced the tranche at the same amount redeemed by BRE International Finance. Operations of both companies are presented in chapter VII.6.

Subordinated liabilities were subordinated loans. In 2005 this position went up following the issue of a new loan at €100 million in February by BRE Bank. With the consent of the Commission for Banking Supervision, the equivalent of that amount was fully posted to supplementary funds of the Bank, which strengthened the Bank, enhanced its expansion potential and improved the solvency ratio.

The following graph shows changes in the main position of liabilities, **liabilities to customers**. Where the individual loans were the driving force behind the growth in loans, the funds of corporate and individual customers grew at a similar, 20% rate in deposits.



At the end of 2005 **equities** of the BRE Bank Group (in the balance sheet aspect) were 10.5% higher than a year before, mostly as a result of the good result in 2005.

In 2005 **the change of BRE Bank's strategic shareholder** took place**.** Commerzbank AG (CB) announced that on November 7th 2005 it had transferred all the shares held in BRE Bank to Commerzbank Auslandsbanken Holding AG as non-cash contribution to the company. The company is a wholly-owned subsidiary of CB. The transfer of shares was an organisational measure, aimed to group together CB's foreign exposures in a holding company responsible for such exposures. At the end of 2005, the company held 20,719,692 shares. The share of Commerzbank Auslandsbanken Holding AG in the share capital and voting rights at the General Meeting of BRE Bank was 71.49%. As of December 31st 2005, it was the only shareholder holding more than 5% of the share capital.

XI. Main Risks to BRE Bank Group Business

BRE Bank attaches great importance to reducing and monitoring the risks inherent in its business activities. Those tasks are performed on an ongoing basis by the relevant business units of the Bank, such as the Financial Risk Department, Credit Department, Credit Administration Department, Treasury Department (liquidity monitoring), Financial Operation Control Bureau. Relevant committees were also set up for this purpose, composed of representatives of the Management Board and the managerial staff. At the end of December 2005, the following Credit Committees dealt with the different risk areas: the Bank Credit Committee as well as Credit Committees attached to the Management Board, Credit Department, Retail Banking, Private Banking, the Assets and Liabilities Management Committee of the BRE Bank Group and the Financial Risk Committee. A Risk Committee operates at the Supervisory Board level.

A detailed description of the risks inherent in the business activities of BRE Bank and risk measurements are contained in Section 3. "Financial Risk Management" of the Financial Statements of BRE Bank for 2005 based on the International Financial Reporting Standards.

They include:

- credit risk,
- liquidity risk,
- trading book market risk and banking book interest rate risk.

Operational risk is also monitored.

XI.1. Credit Risk

The system of credit decisions taken by relevant decision-making bodies is one of the methods of credit risk control. The criterion that qualifies a given case for examination by the competent decision-making body is the exposure amount and the level of risk attached to the customer and to the transaction concerned. In addition, BRE Bank controls credit risk through diversification of the credit portfolio. This purpose is served, among other things, by the analysis of the Bank's portfolio structure and the resulting conclusions, guidelines and recommendations concerning the Bank's exposure to selected sectors and markets.

The credit risk assessment procedures used by the companies forming the Group are agreed with the Head Office of the Bank.

To measure credit portfolio risk, the Bank uses methods involving the assessment of expected loss and the credit value at risk based on the CreditRisk+ model widely used in banking both in Poland and abroad. Daily monitoring of credit risk involves the verification of internal ratings and events of default as defined by the Basel II accord and the IFRS.

Work is in progress under the BREactivation Credit System Project, concerning, among other things, the improvement of credit management effectiveness, also in the context of full conformity with the New Capital Accord. The work is carried on in collaboration with Commerzbank. A new rating system for corporations was implemented at the Bank during 2005 and it was put into operational use as of the beginning of 2006. The implemented new rating system is a state-of-the-art solution in terms of both the concept and the methodology, based on statistical modelling of financial ratios and qualitative variables. The implementation of the new rating system will lead to a significant improvement in predictability (discrimination power) of ratings confirmed by tests on the Bank's empirical data.

In 2006, the development of credit risk assessment tools is planned to be continued at the Bank.

XI.2. Liquidity Risk

The purpose of liquidity risk management is to ensure and maintain the Bank's ability to meet its current as well as future liabilities, taking into account the cost of liquidity. BRE Bank monitors financial liquidity on a daily basis, utilising methods based on cash flow analysis. Liquidity risk measurement is based on an internal model, which was built on the basis of analyses of the Bank's specific characteristics, variability of the deposit base, and concentration of financing and planned development of the different positions. Daily monitoring concerns: mismatch for defined time intervals (gap), the level of the Bank's liquidity provisions and the degree of utilisation of internal liquidity limits.

In liquidity risk measurement, the Bank uses methods based on the estimation of cash flow mismatch. Among other things, monitoring concerns liquidity ratios, including the short-term liquidity ratio, which describes cash flow mismatch over a period of up to one month. Apart from liquidity ratios, the Bank monitors the deposit concentration level and liquidity provision coverage, estimated amounts of deposit outflows under defined scenarios. In 2005, the Bank's liquidity remained at a safe and stable level.

The Bank has emergency procedures in place applicable both in the event of an increase in liquidity risk level and in the event of substantial deterioration of the Bank's financial liquidity.

XI.3. Market Risk

In its business activities, the Bank is exposed to market risks, i.e. interest rate risk, currency risk and security price risk as well as other risk types, resulting from changes of market parameters. The market risk level is quantified by measuring the value at risk (VaR) and carrying out stress tests. In order to mitigate market risk, value at risk limits and stress test limits (control numbers) are set by decision of the Financial Risk Committee.

In 2005, trade book market risk, measured by the value at risk (VaR), remained at a safe and low level in relation to market risk limits and control numbers. In stress tests conducted at regular intervals, the level of trade book market risk also remained safe below the limit.

To estimate banking book interest rate risk, and hence sensitivity to interest rate changes, the Bank uses methods based on an analysis of mismatch of the dates of revaluation of banking book items. One of the synthetic measures is EaR (Earnings at Risk). It determines the potential loss (decrease of interest income), which may arise from unfavourable changes in the value of interest rates, given that the portfolio remains unchanged for a year. The degree of utilisation of internal limits of banking book interest rate risk is monitored on a daily basis.

In 2005, the interest rate level was moderate for positions in PLN, low for positions in USD and EUR owing to a relatively small mismatch of interest rate positions in those currencies.

XI.4. Operational Risk

As from July 2003, each business unit of the Bank is required to identify and register its operating losses in a central database set up and supervised by the Financial Risk Department. The main objective is to establish a sufficiently long record of historical data on loss events occurring at the Bank in order to analyse, monitor and control operating events and losses which arise in the different business areas of the Bank. This is consistent with the requirements of the New Capital Accord (NCA).

Depending on the value of losses related to a given loss event, the4 Bank's business units that were involved in the occurrence of the loss event are required to define measures to prevent the arising of such losses in future. Depending on the amount of loss, the measures include defining control mechanisms aimed to prevent similar events in future, by establishing new operating procedures and conducting an independent audit of processes at the business unit by the Internal Audit Department.

BRE Bank has implemented the process of self-assessment of operational risk, which is carried out in all business units of the Bank once or twice a year.

XII. Financial Rating of BRE Bank and Group Companies

Fitch Ratings

At the end of December 2005 r. BRE Bank was rated as follows:

- long-term rating BBB+ (4th from the top on a 12-grade scale),
- short-term rating F2 (2nd from the top on a 6-grade scale),
- individual rating D/E (grade 8 on a 9-grade scale),
- support rating 2 (2nd from the top on a 5-grade scale),
- long-term rating outlook for BRE Bank - positive.

BRE Leasing is also rated by Fitch as follows: long-term rating BBB+, short-term F2, positive outlook and support rating 2.

Ratings of Moody's Investors Service

At the end of December 2005, BRE Bank was rated by the agency as follows:

- long-term rating of deposits and indebtedness A3 (grade 7 on a 21-grade scale),
- indebtedness rating (short-term deposits) P-2 (second grade from the top on a four-grade scale) with a stable outlook,
- financial strength rating expressed by grade D- (on a scale from A to E) with a stable outlook.

Also the following companies of BRE Bank are rated by Moody's:

BRE Finance France SA – Eurobonds issued by BRE Finance France received rating. A3.

Intermarket Bank AG: A3 for long-term deposits, P-2 for short-term deposits and C for financial power.

XIII. Plans of the BRE Bank Group for 2006

Contrary to the year 2005, which was a period of breakthrough changes and thorough reorganisation within business areas, 2006 will be a year of intense and systematic work, focused mainly on business development.

2006 will be another stage of implementation of medium-term goals for the BRE Bank Group, which intends to achieve and maintain gross ROE of at least 20% starting in 2007.

The following indicators will measure the development of the BRE Bank Group in 2006:

- increasing gross profit of the BRE Bank Group to PLN 380 million,
- maintaining high profitability, measured by the gross ROE ratio – at least at the level of 18%,
- reduction of the C/I ratio to 66.5%,
- solvency ratio at the level of 10.4%.

To achieve this, it is necessary to take advantage of the changes adopted in corporate banking in 2005 with a view to acquiring new customers and expanding relations with the existing ones. The same goal is the key to success in retail and investment banking.

In Corporate Banking, the activities in 2006 will focus on:

- increasing the share of results generated by doing business with SMEs in the overall result of corporate banking to 20%,
- increasing the percentage of customers indicating BRE as the Bank of first choice to 41% in K2 and 46% in K3 – through professional consulting, a comprehensive offer of modern products drawing more extensively on the products available from the BRE Group, engagement of consultants, quality of service, availability of resources, knowledge, timeliness and the use of custom solutions tailored to customers' needs,
- increasing the number of corporate customers with a high income potential by 1,600, by improving the effectiveness of acquisition activities of advisers resulting from the deployment of a dedicated sales force, focusing on sales activities, improving and centralising sales support processes,
- introducing product innovations, including multiple product and multiple currency lines and ongoing improvement of the new product development process,
- improving the decision-making process through wider use of the mechanism of global limits for customers,
- increasing the scale of financial involvement in projects co-financed with EU funds.

Consolidation, due to start in Q1 2006, of BRE Bank Hipoteczny, acquired by BRE Bank in January from a subsidiary of Commerzbank, will be a major change in Corporate Banking. The integration of BBH into the BRE Bank Group will strengthen the existing synergies and have a favourable effect on the Group's financial performance. It is worth noting that BBH has a strong position in the property financing market and is a leader in the mortgage bond market in Poland.

In **Investment Banking**, the plans for 2006 provide for:

- completion of the upgrading of the front office system and starting work on the automation of back office processes (Straight Through Processing),
- 10%-20% increase in project and credit financing for the financial sector,
- pilot testing of structured investment products for retail customers in mid-2006,
- testing structured products (interest rate and FX) intended for corporate and institutional customers,
- increasing the volume of new products launched in 2005 (eMakler, Commodity Swaps),
- extension of the customer base,
- taking advantage, in partnership with Commerzbank, of foreign customers' interest in holding PLN-denominated assets.

The business targets of the **Retail Banking** for 2006 include:

- acquisition of approx. 300,000 new customers, which will result in an increase of their total number to 1.6 million (23% more),
- enlarging the loan portfolio by over 60%, to PLN 6.5 billion, including the mortgage loan portfolio to PLN 5.1 billion (by over 50%),
- acquisition of nearly PLN 1.6 billion in deposits, increasing their value by over 30%, to PLN 6.7 billion,
- expansion of business in the micro-firm segment – the target is to serve more than 180,000 customers in the segment, which should result in an increase in the market share to 12%.

The Bank intends to achieve those targets by expanding its product range on offer, catering more effectively for credit needs of mBank business customers. Also for Multibank emphasis will be placed on credit products, especially the advanced Business Financing Plan, which combines the current account function with the advantages of a large credit line with a long maturity (up to 15 years).

mBank's plans for 2006:

1. **Maintain high awareness of the mBank brand:**

Create an image of a modern and innovative bank, offering a comprehensive range of online banking and financial services unique in Polish market, at top quality and competitive price. mBank is a bank that takes great care of costs and shares the resulting benefits with its customers.

2. **Build a new strategy for micro-firms:**

Evolve towards a universal bank, which can better satisfy the borrowing needs of business customers. Increase income from the micro-firm sector by expanding the product offer and increasing the market share.

3. **Expand the product offer:**

- introduce foreign currency accounts,
- expand the consumer loan offer for individual customers,
- expand the credit and payment offer for micro-firms,
- expand the distribution network,
- expand the online open-end pension fund (OFE) services,
- expand the insurance range offered,
- develop investment advisory services,
- dynamically develop the eCommerce platform.

MultiBank's Plans for 2006:

1. **Brand image:**

- focus the activities on the major business units, based on the optimisation of advertising and sales effects. Support the development MultiBank's image by communication that presents both the brand and its positioning, especially those related to product characteristics, high quality of customer service and adjustment to the needs of demanding customers. Such activity will enable the MultiBank to establish a more distinct presence in a highly competitive market.

2. **Banking products:**

- expand the deposit offer,
- upgrade the offer for mortgage loan refinancing,
- enhance the credit card functionality,
- expand the corporate account offer,
- further expand of the functionality of the Internet front office system to increase customers' convenience.

3. **Non-banking products:**

- expand the investment fund offer, being open to partnering with all Investment Fund Companies,
- implement a broker service that enables MultiBank's customers to buy shares and bonds on WSE and CeTO,
- add new products to the savings offer,
- include life and non-life insurance in the offer.

4. **Outlets**

- further expand the outlet network (open at least 8 Partner Outlets and 2 Financial Services Centres).

Private Banking plans for 2006 provide following:

- introduction of Wealth Management service in cooperation with assets management company,
- maintain its share in PB segment,
- sales dynamics:
  - 12.9% in assets under management,
  - 16.5% in credits,
- concentration on sales of investment products: widening of investment funds offer and structured products,
- in the field of credits – concentration on sales of BRE Emisja credits – short term credits for shares purchase in the primary market and development of non-standard credits aimed on investment financing,
- continuing of restructuring of clients' portfolio together with supporting activities: introduction of new fees and increase of minimal entrance barrier for clients up to PLN 500 thousands.

emFinanse, an intermediary set up to offer banking and insurance products, is another challenge for Retail. The company was established in 2005 and is a new institution in the financial services market. It was formed to provide intermediary services related to the sale of banking and insurance products, and it complements the presence of MultiBank and mBank in the individual customer sector. The insurance partner of emFinanse is the COMPENSA Group, and another insurer will join the project in 2006.

In the **Asset Management segment**, PTE Skarbiec–Emerytura will be divested under the sale agreements already made as described in the Report. Furthermore the Bank will continue the efforts to restructure the remaining part of the segment, i.e. the companies comprising Skarbiec Asset Management Holding. The Bank considers the possibility of the sale of the stake in the holding or selected companies of the holding to a strategic investor.

In the group of **remaining strategic investments** (leasing, factoring, mortgage bank, companies acting in Retail Banking and Investment Banking) the Bank will strive to use the synergy and achieve a high return on equity.

BRE Bank will seek to ensure that financial objectives are pursued in parallel with continuous improvement of the quality of service, consulting and modern products offered to its customers. It is also the Bank's objective to ensure full transparency of its business activities, which, combined with plans for high returns, will enable BRE Bank in near future to be recognised as the best financial institution for demanding customers.

XIX. Information concerning choosing the auditor

With the resolution no. 26 XVIII, the Annual General Shareholders' Meeting of BRE Bank SA of March 22nd 2005 chose, in compliance with the recommendation of the Supervisory Board of BRE Bank SA – company PricewaterhouseCoopers Sp. z o.o. to act as an auditor for examination of financial statement of BRE Bank SA and for consolidated financial statement of BRE Bank Group for 2005. Company PricewaterhouseCoopers is also the auditor for BRE Bank's strategic investor's financial statements. According to BRE Bank's comments to rule 42 of "Best Practices in Public Companies ", change of auditor for financial statements examination depends on possible change of auditor, which is examining financial statements of Bank's strategic investor.

XX. Declarations by the Management Board

Accuracy and reliability of the reports presented

The members of the Management Board of BRE Bank SA warrant and represent that, to the very best of their knowledge:

- the stand-alone annual financial statements and comparable data have been drawn up in accordance with the applicable accounting principles and give a true and fair view of the economic and financial position of BRE Bank and of the results of its operations,
- the report of the Management Board on the business activities of BRE Bank in 2005 contains a true views of the development, achievements and position of BRE Bank, including a description of main risks and threats.

Appointment of the entity qualified to audit financial statements

The entity qualified to audit financial statements has been appointed to review the annual financial statements of BRE Bank SA in compliance with the applicable laws and regulations. The entity and the auditors have met the prerequisites for giving an impartial and independent opinion on the audit in accordance with the applicable provisions of the national law.

Signatures of Members of the Management Board of BRE Banku SA

Date	**First name and surname**	**Position**	**Signature**
27.02.2006	Sławomir Lachowski	President of the Management Board, CEO	
27.02.2006	Jerzy Jóźkowiak	Member of the Management Board, Head of Retail Banking	
27.02.2006	Bernd Loewen	Member of the Management Board, Head of Investment Banking	
27.02.2006	Rainer Ottenstein	Member of the Management Board, CFO	
27.02.2006	Wiesław Thor	Member of the Management Board, Head of Risk Management	
27.02.2006	Janusz Wojtas	Member of the Management Board, Head of Corporate Banking	